

The Private Sector's Great Contributions to Vietnam's Socioeconomic Development Over the Past Years

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Over the past years, due to the Government and the Party's policies on the development of multisectoral economy, the private sector has been re-established and developed strongly into an inevitable component of the national economy. Especially since the new Companies Law took effect in 2000, this sector has indicated a much higher growth as compared to the 1991-1999 period. According to the Ministry of Planning and Investment, until September 2003, the country had more than 2.5 million non-farm business families and over 10 million families involved in agriculture, forestry and fishery. In the four years from 2000 to September 2003, there were 72,601 private start-ups, bringing total number of private businesses to 120,000, up more than three times as compared to the figure in late 1999. The annual average of registered enterprises in this period was equivalent to 375% of the figure in the 1991-1999 period.

The survey showed the private sector has made great contributions to the country's social-economic

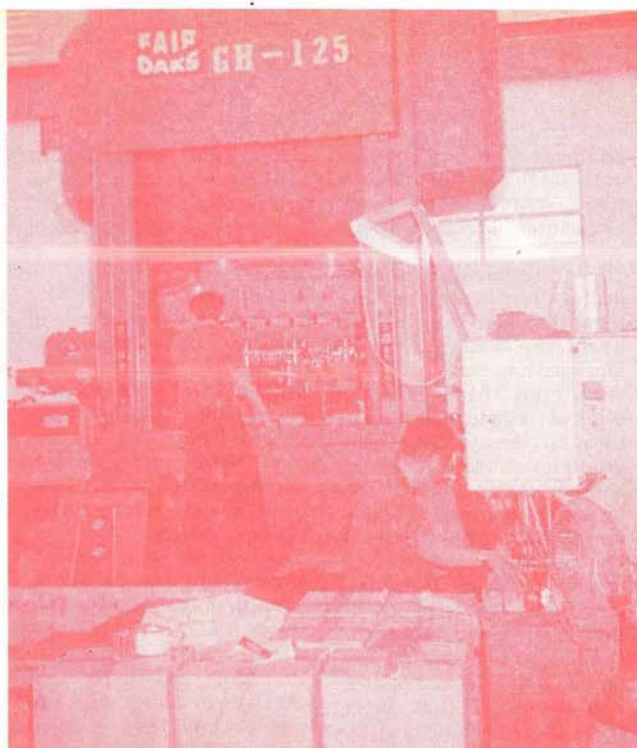
development over the past years as follows:

First, it has mobilized increasingly capital flows from the people for socio-economic development.

From 1990 to 2003, the people's investment capital for business and production saw a steady increase. In 1990 it was only VND3,544 billion but soared to VND21,000 billion in 1999, up more than six times as compared with 1990. Especially from 2000 until July 2003, the newly registered and supplemented investment capital of the private sector reached VND145,000 billion (or US\$9.5 billion) higher than foreign investment capital registered in the same period.

From 2000 to 2003, the percentage of private investment in the total country's investment rose strongly: 20% in 2000; 23% in 2001, and 27% in 2003. (1). This investment ratio surpassed that of state-owned enterprises. (See Table 1).

The private investment capital plays an important role, even becomes a major source for provinces' economic development. HCMC, for example, is a city attracting huge for-



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eign capital flows (accounting for 34.6% of total projects and 27.2% total foreign investment by the end of 2002), however, the investment capital in the private sector remained a high percentage over the city's total investment: representing 19.2% in 1996, 24.1% in 1997, 28.5% in 1998, 28% in 1999, and 29.6% in 2000 (2). Especially from 2001 until now, while the foreign investment rises slowly, the private investment capital in HCMC indicates a significant growth, accounting for 38.5% of the city's total investment, higher than investment capital from the state sector. (3).

It is noteworthy that if foreign capital only flows into provinces and cities having favorable conditions like Hà Nội, HCMC, Đồng Nai, Bình Dương, etc., private investment is implemented across the

country including remote areas, border land, islands with challenging conditions.

Second, the private sector's booming has generated a lot of jobs for workers, increased their income and living conditions and thus made significant contributions to local programs of hunger eradication and poverty alleviation.

By 2000, the private non-farm businesses had employed 4,643,844 workers, increasing 20.12% as compared to 1996, or 4.5% per year. In the 1997-2000 period alone, this sector created more jobs to 977,019 laborers, six times higher than that of the state sector and seeing annual growth: up 10.2% in 1998, 23.8% in 1999, and 56% in 2000 (4). From 2000 to December 2003, the private non-farm sector had offered 2 million new jobs, bringing the

Table 1: Private and state sectors' investment capital over the country's total from 2000 to 2003 (%)

| | 2000 | 2001 | 2002 | 2003 (est.) |
|----------------|-------|------|-------|-------------|
| State sector | 18.25 | 19.3 | 16.87 | 17.74 |
| Private sector | 19.15 | 23.5 | 25.3 | 26.73 |

number of employees in businesses of this sector to 6 million, representing 16% of the country's working population. (1).

The agricultural production has attracted 33,866,300 laborers, 97.45% of which are individual and family businesses and 2.22% work in agriculture, forestry and fishery farms.

It's noteworthy that the private sector's ratio of employment over capital is usually higher than that of other sectors. For example, it is 165 workers/VND1 billion for family businesses; 20/1 billion for private companies, 11.5/1 billion for state-owned enterprises, 1.7/1 billion for foreign-invested company. (5). According to a report of the National Economic Management Institution, in the four years from 2000 to 2003, one private business used from VND70 to 100 million to create a job while the cost was VND210 to 280 million in a state company (three times as compared to private company).

To offer more jobs solves not only social problems but also basic problems of the country's economic development in the current situation. Additional employment in non-farm businesses has created opportunities for agricultural evolution, market expansion, economic restructuring, increasing equality in income distribution, improving the people's living conditions, and hunger eradication and poverty alleviation in both rural and urban areas. In addition to job generation, most private businesses also have to enhance skill of their workers. They may use various forms of training such as on-the-job training or sending workers to vocational schools. Because most of workers in the private sector come from agriculture and rural areas, businesses must guide them in changing life and working style in

accordance with the modern pattern of production. Furthermore, to survive firmly in the harsh competition, private enterprises are required to find how to organize and manage employees most effectively, so the working discipline must be strictly respected. This has helped build human resources for the national industrialization and modernization.

Third, the private sector has really become a locomotive for economic growth and restructuring.

This effect is proved by increasing investment capital, job creation, fully utilization of skill and creativity of various strata in production and business.

For example, in the industrial production alone

of re-establishment and development, the private sector's growth is rather fast and sustainable, making a significant contribution to the national economy.

The private sector's robust development has helped restructure the national economy in the world's common trend.

With respect to the sectoral structure, the agricultural share went down from 38.06% in 1986 to 24.53% in 2000 and 22.99% in 2002. In the meantime, the share of the manufacturing and construction sectors climbed from 28.88% in 1986 to 36.73% in 2000 and 38.55% in 2002, service up from 33% in 1986 to 38.63% in 2000 and 38.46% in 2002 (5).

ery; production of porcelain and garment or retail trading..

The agriculture and rural areas have experienced better alteration in the trend of using comparative advantages of ecological regions, establishing large-scale production regions in connection with manufacturing and export industries. In rural areas, the ratio of farming decreases and that of other occupations increases. In agriculture, the share of planting goes down and that of breeding up (aquaculture share rises from 10.9% in 1990 to 13.4% in 1995 and 18.7% in 2000).

Fourth, the private sector has made significant contribution to the state budget.

According to the Gen-

Table 2: Vietnamese GDP by sector

| | 1995 | | 2000 | | 2002 | |
|-----------------------------|----------|-------|----------|-------|----------|-------|
| | VND bil. | % | VND bil. | % | VND bil. | % |
| GDP | 228,820 | 100 | 414,646 | 100 | 536,098 | 100 |
| - State sector | 91,997 | 40.18 | 170,141 | 38.53 | 205,379 | 38.31 |
| - Collective sector | 23,020 | 10.06 | 37,907 | 8.58 | 42,807 | 7.98 |
| - Private capitalist sector | 7,134 | 3.12 | 14,943 | 3.38 | 21,098 | 3.93 |
| - Individual sector | 82,447 | 36.02 | 142,706 | 32.31 | 168,426 | 31.24 |
| - Mixed sector | 9,881 | 4.32 | 17,324 | 3.92 | 23,879 | 4.45 |
| - Foreign-invested sector | 14,428 | 6.3 | 58,626 | 13.28 | 74,518 | 13.91 |

Source: General Department of Statistics, 2002 Statistics Yearbook.

from 1999 to 2003, the private sector's annual performance saw a steady growth: up 10.9% in 1999; 18.3% in 2000; 20.3% in 2001; 19.2% in 2002 and 18.4% in 2003 higher than that of the foreign-invested sector (18.3%) and state sector (12.4%). Until the end of 2003, the private manufacturing sector had accounted for 26.5% of the country's total value of industrial production, besides, its growth was much higher in some sectors including aquaculture products processing and beer production, up to 50% and textile and garment 30% (1). In its early stage

Meanwhile, economic sectors have also changed positively and made great contributions to the national economy.

The above table shows in the GDP structure, the state and collective sectors' share steadily dropped while the private and foreign-invested sectors' contribution increased over time.

At present, in addition to several state-monopolized industries, private businesses are involved in most of remaining businesses, including those with private dominant share such as agriculture, forestry and fish-

eral Department of Taxation, the private sector contributed VND11,003 billion to the state revenue, accounting for 16.1% of total state budget in 2000. In 2001, this figure climbed to VND11,075 billion, up 0.64% as compared to 2000 and making up 14.08% of total state revenue. (6).

The contribution of private businesses operating in compliance with the Companies Law is though modest but tends to increase. It was 6.4% in 2001, and 7% in 2002 while the share of foreign-invested companies was 5.2% and 6% and state-

owned enterprises 21.6% and 23.4% respectively). The tax paid by non-state production, trading and service businesses reached 103% of the planned target and up 13% over 2002. This figure represented 11% of total tax amount in the first quarter of 2003, up 28.7% year-on-year and fulfilled 26.8% of the National Assembly's plan for 2003 (1).

In comparison with the central budget, private businesses' contribution to the local revenue was much higher, for example, 15% in HCMC, 24% in Tiền Giang, 16% in Đồng Tháp, 22% in Gia Lai, 19% in Ninh Bình, 16% in Yên Bái, 17% in Thái Nguyên, 22% in Quảng Nam, 33% in Bình Định, etc..(1)

Fifth, the private sector has helped promote the country's foreign economic relations, expand export markets and attract foreign investment flows into Vietnam.

With respect to the domestic market, the private sector's robust development has increased the people's income, thus their purchasing power and aggregate demand for commodities, thereby boost up production.

Regarding foreign markets, private businesses have made important contributions to the rise in export-import value of goods. According to statistics in 2003, they ac-

counted for 48% of total export value of the country, in which such items as farm-forestry-fishery products, fine art handicrafts, garments, leather were represented more than 50%. There was one of private exporter ranked in the topten list of highest incomers in the industry, for example, Kim Anh Company Ltd. (located in Sóc Trăng Province) earned US\$100 million, ranking first among Vietnamese aquaproducer exporters in 2002.

The private sector progress is one of important connections to attract foreign capital and technologies into Vietnam. Overseas Vietnamese funds also have flowed into Vietnam via remittances or investment projects (the remittance registered some US\$2.7 billion in 2003 and more than 600 enterprises and rep offices of overseas Vietnamese invested in Vietnam).

At the same time, the sector's evolution also builds appropriate production relations and forces and favorable conditions for the democracy.

The sector's evolution has diversified ownership relations in the economy. Vietnam formerly had only state and collective ownership, but now its legal system recognizes various forms of ownership including: individual ownership, private capitalist owner-

ship, collective ownership, state ownership and mixed ownership under forms of state capitalism.

The development and transformation of ownership relations has led to change in relations of management and distribution. It makes the production relation become flexible and suitable to the country's development level of production forces which remains low and grows unevenly among regions and industries across the country. As a result, it has given rise to and makes the best advantage of potentials in capital, labor, land, production experience of all social strata in the national cause of industrialization and modernization.

The escalating appearance of private businesses in all industries of the national economy has removed monopoly of many state-owned enterprises, enhanced competition, and improved labor division. This has helped intensify production, expand market shares, utilize good effects of the market economy, and step by step abolish the subsidization system in the economy, especially in the state sector.

Thanks to the private sector's expansion, the people's rights are strengthened because once their economic rights are extended, their powers in culture, politics and society

will be improved. In the meanwhile, this also poses objective requirements for the national administrative reform with a view to building a state of the people, from the people, and for the people clean and strong. In such a situation, the Party as well as political and social organizations are also required to renew and strengthen their role and operation in order to create favorable conditions for the market economy to grow and implement the national target of "wealthy people, strong nation and equal, democratic and civilized society."

The private sector involves all social strata including: farmers, craftspeople, traders, and entrepreneurs. Some of them may be members of the Party. This sector also attracts not only local residents but also overseas Vietnamese. As a result, it plays an increasingly important role in the national economy. This sector together with the state, collective and foreign-invested sectors will build an economic foundation in the country's transition period to socialism.■

NOTES:

(1) The Ministry of Planning and Investment's Report on the Execution of the Companies Law, October 2003.

(2) Source: The HCMC Statistics Bureau.

(3) Thanh Niên Newspaper, No. 307, November 2003.

(4) Nguyễn Hữu Đạt, The Vietnamese Private Sector's Development in the 1990-2000 Period, *Nghiên Cứu Kinh Tế Journal*, No. 262, March 2000, p. 19-20.

(5) Thời Báo Kinh Tế Việt Nam, 2002-2003, p. 54.

(6) Documents for Studying the Party Central Committee's Resolution 5 (Term IX), Chính Trị Quốc Gia Publisher, Hà Nội 2002, p.34.

