

# ECONOMIC DEVELOPMENT IN HCMC IN RECENT YEARS

## FAVORABLE AND UNFAVORABLE FACTORS

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1. Economic development in HCMC in recent years

HCMC economy rose strongly in the years 1991 - 95, reached its peak in 1995, fell slightly in

dustries have played important roles in the HCMC economic development as shown in the Table 3 (next page)

Table 1: Basic data about HCMC economy in comparison with the whole country

Indicator	HCMC	Vietnam	HCMC/Vietnam (%)
Population	4,989,703	76,709,000	6.5
Area (km <sup>2</sup> )	2,093.7	330,991	0.63
GDP (VND bil.)	55,068	295,696	18.62
Growth rate (%)	12.1	8.8	-
Budget income (VND bil.)	20.82	-	32
Export value (US\$ bil.)	4.23	8.9	47.53
Import value (US\$ bil.)	3.95	11.3	34.95
Industrial output (VND bil.)	53.29	133.68	39.86
Foreign-invested company	677	1,868	36.24
State company	719	6,000	11.98
Privately-run company	9,077	32,000	28.37

Source: Niên giám Thống kê TP.HCM 1997 and Niên giám Thống kê Việt Nam 1997

These data show how important HCMC is to the national economy. Up to 1997, HCMC represented 6.5% of population and 0.63% of area but it accounted for 18.62% of GDP and one third of the budget domestic income. HCMC is also an important economic center that attract and employ both domestic and foreign resources. The Table 2 provides us with some data about this fact.

1996 - 1997 and strongly in 1998, in our opinion, because of the Asian economic crisis. To study its development, we had better pay attention to the following aspects:

- + Changes in structure of industry and economic sector.
- + Contributions by economic sectors to HCMC gross output.
- + Development of manufacturing and service industries in HCMC.

Manufacturing and service in-

Table 2: HCMC growth rate in the years 1991-98

Year	1991	1992	1993	1994	1995	1996	1997	1998 (est.)
Gross output (VND bil. - 1994 prices)			24,668	32,596	32,597	37,450	41,910	45,875
Growth rate (%)	9.1	11.7	12.5	14.6	15.3	14.6	12.1	9.1

Source: Niên giám Thống kê TP. HCM 1994, 1997.

Thus, manufacturing and service industries have shown signs of decline since 1997 resulting in the general fall in HCMC growth rate. The following table provides information about development of different sectors.

(see Table 4 next page)

High growth rates in HCMC in recent years originated from great contribution from non-state and foreign sectors. Both foreign sector (engaging mainly in the manufacturing industry) and non-state sectors (mainly in the service industry) grew faster than the public sector causing the structure of industry to change in which the foreign sector grew fastest while the public sector showed signs of decline.

(see Table 5 next page)

### 2. Development of economic sectors in HCMC

The development of economic sectors could be studied from the following aspects:

+ Fast increases in companies of all kinds in HCMC.

+ Growth of sectors and their contribution to the HCMC economic growth.

+ Changes in the structure of industry caused by the development of economic sectors.

a. Companies in HCMC could be divided into the following kinds:

- Public sector includes state-run companies formed and operated under the State Companies Law.

- Private sector includes family businesses engaging in handicraft, small manufacturing and trading registered according to Decree 66/HDBT; cooperatives and guilds operated under the Cooperatives Law; private companies, limited companies and joint stock companies



**Table 3: HCMC gross output by Industries**

	1993	1994	1995	1996	1997	1998 (1 <sup>st</sup> half)
Gross output	12.5	14.6	15.3	14.7	12.1	9.1
Agriculture	2.4	8.6	8.4	2.3	2.6	2.0
Manufacturing	18.0	17.9	17.5	17.8	14.3	12.7
Service	10.0	12.9	14.3	13.4	11.1	6.7

Source: *Niên giám Thống kê TP. HCM 1994 - 1997.*

**Table 4: HCMC growth by sectors (%)**

	1992	1993	1994	1995	1996	1997
Growth rate	11.7	12.5	14.6	15.3	14.7	12.1
Public sector	9.0	9.4	13.4	10.7	11.6	10.2
Non-public sector	10.0	10.1	13.4	12.9	10.2	10.5
Foreign sector	85.6	65.5	29.6	55.7	44.5	23.3

Source: *Niên giám Thống kê TP. HCM 1994 - 1997.*

**Table 5: Changes in the structure of Industry and contributions from sectors**

	1993	1994	1995	1996	1997
GDP (current prices- VND bil.)	23,722	28,271	38,810	47,242	55,068
By sector (%)	100.0	100.0	100.0	100.0	100.0
Public	52.2	51.3	49.2	47.9	46.9
Non-state	40.4	40.5	39.7	38.8	37.3
Foreign	7.4	8.2	11.1	13.3	15.7
By industry (%)	100.0	100.0	100.0	100.0	100.0
Agriculture	3.3	3.8	3.0	2.6	2.5
Manufacturing	40.0	41.0	41.2	42.3	42.1
Service	56.7	55.8	55.7	55.2	55.4

Source: *Niên giám Thống kê TP. HCM 1994 - 1997*

**Table 6: Increases in amount of companies in HCMC**

Industry	1988						December 1997				
	State company	Foreign-invested company	Privately-run company	Cooperative	Guild	Family business	State company	Foreign-invested company	Privately-run company	Cooperative	Family business and guild
Manufacturing and construction	530	3	22	677	2,566	16,982	306	460	1,703	74	29,840
Trading and service	959			2,992		50,000	296	155	7,112	93	118,967
Transportation	959	2		150			62	37	91	71	14,155
Agriculture				188			31	9	149		96,339
Finance and Banking							24	16	22		
	1,489	5	22	4,007	2,566	66,982	719	677	9,077	238	259,271

Source: HCMC Statistics Department and HCMC Economics Institute

operated under the Private Businesses Law and Companies Law.

- Foreign sector includes joint ventures formed by the State or local privately-run companies and foreign partners, and foreign-owned companies operated under the Foreign Investment Law.

The Table 6 shows the development of companies of all kinds in HCMC.

The Table 6 shows that privately-run companies are on the increase while the amount of state companies and cooperatives decrease. The development of privately-run companies not only contributes a lot to the HCMC economic growth and municipal budget income, but also helps to reduce the unemployment rate.

In the public sector, main causes of the decrease in amount of state companies are: certain companies run by district authorities are too small and weak to survive the competition under market mechanism; many others, separated from unions of companies which they formerly belonged to, were merged together again after the State Companies Law was promulgated. In spite of the decrease in the amount of state companies, the public sector still holds some 70% of real assets and working capital of the HCMC economy. The Table 7 below will describe the relative importance of each sector in HCMC.

Thus, private and foreign sectors, up to 1997, have become larger, accounting for over 50% of the HCMC gross output and employing some 77% of the HCMC labor force. Their contribution to the HCMC internal revenue equaled 82% of what the public sector contributed.

Agriculture, mainly run by the private sector, plays a minor role in the HCMC economy and produces

**Table 7: Importance of each sector to the HCMC economy (%)**

	1993	1994	1995	1996	1997
Indicator					
1. Gross output	100.0	100.0	100.0	100.0	100.0
Public sector	52.2	51.3	49.2	47.9	46.9
Private sector	40.4	40.5	39.7	38.8	37.3
Foreign sector	7.4	8.2	11.1	13.3	15.7
2. Municipal budget income	100.0	100.0	100.0	100.0	100.0
Internal revenue	64.3	64.1	60.0	61.6	64.9
Public sector	42.9	37.6	29.5	27.0	25.6
Private sector	8.2	8.4	8.9	10.78	11.1
Foreign sector	1.8	4.8	7.5	9.5	9.2
3. Labor employed	100.0	100.0	100.0	100.0	100.0
Public sector	21.7	21.9	24.1	22.8	23.11
Private and foreign sectors	78.3	78.1	75.9	77.2	76.89

Source: *Niên giám Thống kê TP.HCM 1996 - 1997*

**Table 8: HCMC Industrial output**

Indicator	1994	1995	1996	1997	1998 (est.)
Growth rate (%)	17.9	19.1	17.8	13.7	12.9
Value of industrial output (VND bil.)	25,927.6	35,127.0	45,341.1	53,290.7	
Public sector(%)	63.3	60.0	57.3	54.2	
Private sector(%)	25.1	23.8	23.3	22.0	
Foreign sector(%)	11.6	16.2	19.4	23.8	

Source: HCMC Statistics Department

almost no effect on the growth rate so we can leave it aside here and full attention will be paid to manufacturing and service indus-

tries.

(see Table 8)

In the manufacturing industry, the public sector is still the biggest, however, its importance has decreased, from 63.3% in 1994 to 54.2% in 1997 while the foreign sector grew year after year and accounted for some 24% of HCMC industrial output in 1997.

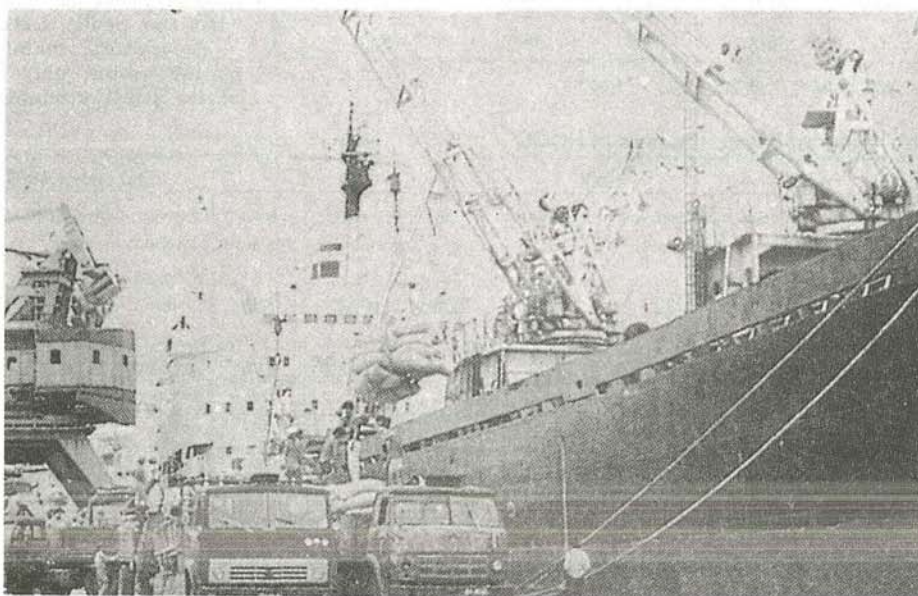
More intensive studies show that the HCMC industrial growth rate tended to slow down because of decline in public and private sectors. Growth rate of publicly-run industries decreased from 11% in 1996 to 5.5% in 1997 (growth rate of centrally-run industries decreased from 12.2% in 1996 to 4.1% in 1997) while growth rate of privately-run industries decreased from 15.6% in 1996 to 8.3% in 1997 (although the growth rate of the private sector increased from 10.2% in 1996 to 10.5% in 1997 -see Table 4- because the trading business of this sector kept on growing in 1997).

In the meantime, the industrial output by the foreign sector decreased slightly, from 45.6% in 1996 to 43.6% in 1997. This means that the decrease in gross output made by the foreign sector came from a decline in foreign-invested service industry.

In short, decreases in the HCMC industrial output in recent years originated from decline in public and private sectors.

As for the development of trading, the situation is shown in the Table 9.

The above data show that the private sector is taking over the trading business: it controlled 62.2%





**Table 9: Development of the HCMC trading (%)**

	1993	1994	1995	1996	1997	1998 (1 <sup>st</sup> half)
1. Growth rate of total sales (%)	33.8	36.3	43.4	23.0	6.6	10.3
Public sector	53.7	49.7	42.9	40.2	37.0	
Private sector	45.6	49.6	56.2	59.0	62.2	
Foreign sector	0.7	0.7	0.9	0.8	0.8	
2. Growth rate of retail sales (%)	35.9	37.7	41.3	18.6	7.0	7.8
Public sector	27.8	25.3	21.7	18.0	17.7	
Private sector	70.5	73.1	76.1	79.8	80.4	
Foreign sector	1.7	1.6	2.2	2.2	1.9	
3. Export	6.8	9.3	44.3	47.4	10.5	- 0.6
4. Import	52.8	35.5	33.3	32.5	2.6	- 0.6

Source: *Niên giám Thống kê TP.HCM 1997*. Data about the first half of 1998 are provided by the HCMC Statistics Department.

of total sales and 80.4% of retail sales realized in HCMC in 1997. That is why its relative importance to the HCMC economy is stable in spite of decreases in its industrial output in recent years. The following Table 10 will allow us to have a closer look at contribution by each sector to the HCMC growth rate.

Our calculations show that in the years 1994-97, the HCMC growth rate would stayed at some 5% if there had been no private and foreign sectors. This helps us see how important the foreign and private sectors are to the HCMC economy.

### 3. Favorable and unfavorable fac-

#### tors to the HCMC economic development

In our opinion, factors favorable to the HCMC economic development are as follows:

**Table 10: Share of each sector as % of the HCMC growth rate 1994-97**

	1994	1995	1996	1997
HCMC growth rate	14.6	15.3	14.7	12.1
Public sector	6.94	5.48	5.70	4.86
Private sector	5.50	5.24	4.05	3.99
Foreign sector	2.16	4.58	4.95	3.25

Source: Calculated based on data from the *Niên giám Thống kê TP.HCM 1996 - 1997*

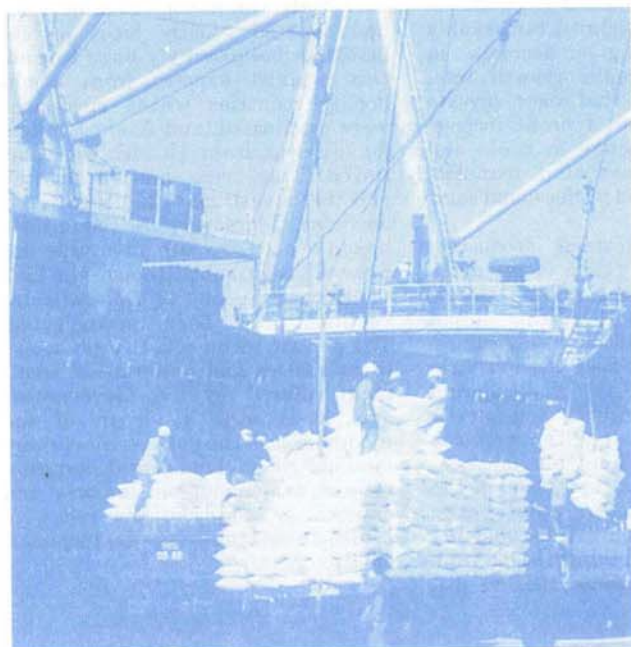
Firstly, investment from foreign and private sectors has helped HCMC manufacturing and service industries develop in recent years. The foreign sector, particularly, has made HCMC industrial output increase in the same way the private sector made to the service industry.

Secondly, HCMC has many conditions favorable for foreign investment and foreign trade. In years with high economic growth rates the export and import values were always high. Generally, increases in foreign trade, especially in export, cause the aggregate demand and industrial production in HCMC to rise.

And factors unfavorable to the HCMC economic development are:

+ The economic crisis has reduced Vietnam's exports, especially to Northeast Asian countries (the growth rate of export reduced from 47.4% in 1996 to 10.5% in 1997 and 0.6% in the first half of 1998) causing the industrial production to fall remarkably.

+ The spending power has shown signs of decline for the last two years. The Table 11 recorded falls in both public expenditure and per-





sonal consumption. With inflation rates left aside, the personal consumption increased only by 5.5% in 1997 in comparison with 8% in 1996 and 10% in 1995.

etnam. Many investment projects are postponed, some of them have just come into operation and couldn't make good progress.

As for the private sector, it is

vately-run factories have been running down. Their growth rate decreased to 8.3% in 1997 from 17.4% in 1994 and 15.4% in 1995-96 while their foreign-invested counterparts still make good progress. Moreover, other changes have also narrowed the market for local manufacturing goods: farmers' income lowered because of natural disasters and falls in prices of agricultural products for export, contraband goods flooded the market, etc.

Thirdly, increases in taxes have also caused difficulties to the private sector. While the growth rate of industrial production in the private sector has been 2-3% lower than the average, the total tax payment from this sector was always higher. In 1994 for example, tax take in HCMC as a whole increased by 65.3%, the tax revenue from the private sector increased by 70.6%. These increases were 25.3% and 42.1% in 1995; and 22.4% and 42.7% in 1996 respectively. Growth of tax revenue which was much higher than the economic growth rate has become a burden to the private sector for years. Heavy taxation has discouraged production in the private sector, and then, reduced the tax take itself. This was what happened in 1997.

Fourthly, badly planned investment in the private sector is also a cause of decline in the HCMC growth rate. Up to 1997, increase in total fixed investment made by this sector has been always higher than the average but the growth rate made by this sector was lower than the average rate.

Fifthly, the Asian economic crisis has affected greatly local private investors because they have to compete against exports from neighboring countries whose currencies were devaluated, and Asian markets for exports from HCMC was narrowed. This crisis has caused the private investment in HCMC to decrease. Moreover, the conditions haven't been so far favorable for private investment although the Law on Encouragement to Domestic Investment has been promulgated. The private sector couldn't get access to incentives and preferential treatment offered by the Government and it is still a victim of the inequalities of the policies concerning land use rights, land rental, company income tax, quota on imports and exports. In addition, the red tape is also an obstacle to the development of this sector.

Table 11: Consumption

	1994	1995	1996	1997
Final consumption (VND bil.)	19,488	25,066	30,003	32,917
Growth rate (%)	41.3	28.6	19.7	9.7
Personal consumption (VND bil.)	17,562	22,579	27,019	29,335
Growth rate (%)	-	28.9	19.6	8.6
Public expenditure (VND bil.)	1,962	2,468	2,983	3,582
Growth rate (%)	-	25.8	20.1	20.0

From a report made in December 1997 by the HCMC Statistics Department

Falls in personal consumption have affected badly the total sales and retail sales.

+ The gross investment in HCMC also started to fall when the total sales decreased in 1996 as shown in the Table 12.

running down, in our opinion, because of the following factors, besides common bad effects on all HCMC economic sectors.

Firstly, the private sector concentrated mainly in service and construction businesses. In 1997, the service businesses (such as trading, hotel, restaurant, transport, etc.) accounted for 61.1%, and con-

Table 12: Investment in HCMC

	1994	1995	1996	1997
Gross investment (VND bil.)	9,557	12,713	18,645	22,969
Growth rate (% with inflation left aside)	31	33	47	23

Although the GDP started to fall in 1996, the gross investment began to slow down in 1997, because as we know under the multiplier and accelerator effects, a fall in national income and consumption discourages private investment, and thereby, leading to a multiplied fall in national income and consumption. Thus the gross investment decreased, in this case, one year after a decrease in national income and consumption.

+ Falls in the HCMC growth rate in 1997 and the first half of 1998 also originated from lower growth rates of foreign and private sectors, and more exactly, of manufacturing and service industry.

The public sector in recent years has proved to be inefficient: holding 70% of capital and assets, this sector could only contribute some 47% of the gross output, therefore this sector need more reforms.

The economic crisis has reduced flows of foreign investment to Vi-

struction business 7.5%, of its gross output. In an economic slump, these businesses are affected first, therefore this sector declined remarkably in 1997 entailing a decrease in the HCMC economic growth rate. This fact proves that most private investors, because of profit motive, tended to put money in trade and construction instead of in manufacturing industry and professional services.

Secondly, industrial production accounted for only 25% of the gross output made by the private sector, but the better part of this output came from traditional industries, such as processed food and beverage (17.9%), textile (9.1%), clothing and footwear (20%), rubber and plastic products (14.4%) and iron products (8.5%). Most of them are labor-intensive industries and aim at the domestic market. In recent years, when the domestic market demand is satisfied and competition from foreign sector become fiercer, pri-