

REAL SITUATION OF SMALL AND MEDIUM BUSINESSES IN HCMC

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Regarding capital, workforce, output or sales, most companies in HCMC, in both public and non-public sectors, could be classified as small and medium business (SMB).

Up to the end of 1996, after many rearrangements, the number of state-run businesses reduced to some 700, representing 11% of total number of state-run businesses of the country. Of this amount, 42% are controlled by the central government, 58% by municipal government (36% by municipal authorities and 22% by district authorities). Statistics show that 38.3% of state-run businesses in HCMC engaged in manufacturing industry; 25% in commerce; 12% in construction; 6% in agriculture, post and transportation; and 3% in tourism, finance and banking. Most businesses controlled by the central governments engaged in manufacturing, trading, transportation and postal businesses. Locally-controlled businesses involved in all 13 operations but most of them were in manufacturing industry, commerce, transportation and construction.

Up to the end of 1996, 7,260 private-owned companies have been licenced by the HCMC People's Committee. Of this amount, 83 are joint-stock companies, 3,932 are limited companies and 3,245 are private companies.

I. AN OUTLINE OF OPERATION AND DEVELOPMENT OF SMBS IN HCMC IN THE LAST 10 YEARS

1. State-run businesses

a. Achievements

State-run businesses in HCMC still play an important role in the socio-economic development. They employ over 257,000 laborers, or 15% of the labor force in HCMC. Their working capital reached VNĐ14,000 billion, or 44% of total

working capital employed in HCMC. They provided 49% of total output of HCMC and 52% of HCMC budget income (this contribution will reach 70% if payments for customs duties are included). Their contribution represented some 30% of what all state-run businesses of the country paid to the Treasury. The added value made by them increases by 15% annually.

State businesses run by the central government supplied job to 52.6% of the HCMC labor force, other 36% worked for state businesses controlled by municipal authorities and 11% worked for businesses run district governments. Nearly three-fourth of the HCMC labor force worked in manufacturing and trading industries. The following table presents the distribution of labor force among state-run businesses:

Table 1: Distribution of the labor force among state-run businesses in HCMC

N ^o	Industry	Total	Under central government	Under municipal authorities	Under district authorities
1	Manufacturing	54.0	64.8	46.0	28.3
2	Trading and hotel	20.2	13.2	21.8	48.3
3	Construction	15.0	9.0	9.4	9.8
4	Transportation and Post	9.0	7.0	11.8	9.6
5	Agriculture	1.5	1.2	2.3	1.0
6	Others	6.0	4.8	8.7	3.0

Source: HCMC Statistics Agency, 1996.

State-run companies kept on playing the leading role and making big profits. Central-government-run companies earned a total profit of VNĐ1,966.5 billion (or 75% of profit earned by all state-run companies in HCMC); municipal-gov-

ernment-run ones earned some VNĐ516 billion (or 20%) and district-government-run ones earned about 5%. The manufacturing industry was the most profitable. It supplied 44.8% of total profit, the next were commerce-hotel (21%), transportation-post (15.8%).

Many products made by state-run companies were sought after by both local and foreign buyers.

b. Shortcomings

Besides achievements, there were many shortcomings in the business performance of state-run companies in HCMC.

Most state-run businesses suffered a shortage of capital and they had to borrow from banks or delay payments made to other companies. Many investments were made recklessly with the result that they couldn't work at full capacity or suffered waste of money. Most of their production lines were obsolete, three or four generations older than what were used in surrounding

countries. Many local-government-run companies still use machines which were made in the 1950s, therefore their products were of low quality and less competitive. Their percentage profit was very low (4.9% in central-government-run businesses and 2.4% in local ones). This profit is much smaller than the



inflation rate in HCMC in 1996. Contributions from state-run businesses to the Treasury aren't proportional to investments put in by the government and to resources available for them.

From 85% to 90% of state-run businesses in HCMC are of small and medium scales and they weren't distributed reasonable in different industries. There is no governmental body which can control them or make them cooperate with one another, and as a result, they compete against one another unnecessarily.

In HCMC, many state-run factories were located in residential areas and their obsolete production lines caused a lot of damage to the environment.

2. Non-state businesses

a. Achievements

These businesses could be formed easily because they require small investments only. They can cope rapidly and effectively with changes in the market. It's easy to control them because of their small size, so modern technology can be applied from the first day of their operation in order to produce goods appropriate to consumers' taste. They could be located in residential areas, especially in suburbs, with a view to stopping the flow of migrants coming to big cities and industrializing rural areas.

In the past 10 years, 7,260 non-state businesses have been established, however, according to statistics, 30% of them didn't come into operation. Thus, some 5,000 private businesses are operational now. They employed about 135,000 laborers and accumulated a working capital of over VND23,000 billion. In

1996, their sales reached VND50,000 billion plus US\$250 million earned from exportation. They made a total profit of VND529 billion and contributed VND1,165 billion to the Treasury.

These businesses have developed well and made meaningful contribution to the socio-economic development in HCMC. This sector acts as a competitor who forces state-run businesses to renovate themselves, forming both competitive and cooperative relations with the aim of establishing a reasonable economic structure under the management of the government at macroeconomic level.

Non-state sector has been a dynamic of the economic development in HCMC. It helped to increase the HCMC gross output, supply jobs to laborers, maintain some traditional trades, raise the living standard and reduce social evils.

These achievements show that the policy to develop a multi-sector economy adopted by the Party and Government is right. This policy proved to be able to tap potential resources in order to develop the economy.

b. Shortcomings

Generally, non-state businesses are of small size, unevenly distributed and some 30% of them, after establishment, didn't come into operation or showed a poor performance. Some 77% of them engaged in trading business. Many companies were licenced to do manufacturing business but put the better part of their working capital in commerce. Over 42% of business owners had no degree in business administration, so they failed to run their busi-

nesses effectively, some of them even violated law or evaded taxes (over 27% of these businesses have suffered losses, gone bankrupt or stayed in the doldrums).

Another problem is the shortage of information about market, technology, required standard and quality of products, taste of foreign customers, etc.

Most technology used by these businesses is obsolete. Many machines and equipment are made locally, manual labor still plays an important role in their production.

The shortage of capital has become the biggest difficulty that they meet with when they form and run businesses because it's hard for a non-state company to secure loans from banks or credit unions.

The non-state sector has received almost no help from governmental bodies. Up to now, the government hasn't been able to take effective measure to protect domestic industries and stop the flow of contraband goods. For a long time, the role and impact of the non-state sector have never been held in proper regard and there haven't been proper measures to encourage and develop this sector.

In short, after the introduction of *đổi mới* policy although many non-state businesses have been licenced and come into operation, but the non-state sector hasn't developed to the best of their ability. The government had better take consistent measures to solve this problem because foreign investors in Vietnam are increasingly seeking for partners in this sector.

The non-state sector is certainly an important part that will

contribute considerably to the socio-economic development in HCMC.

III. SOME SUGGESTIONS ABOUT MEASURES TO DEVELOP SMBs IN HCMC

In the transition from the centrally-planned economy to the market mechanism, the task of rearranging, strengthening and managing the public sector is a matter of great urgency. State-run businesses in HCMC have played the leading role in developing the local economy. However, quite a lot of state-run companies are of small size, less competitive and show a poor business performance leading to damaging consequences, so the government should be determined to rearrange them and equitize companies in certain inessential industries in order to make the public sector strong enough to play the leading role in the economy and act as equal partners in joint ventures with foreign investors.

As for the non-state sector, the Prime Minister on Sep.13, 1996 issued the Directive 657/TTg on the control over non-state businesses. Ministries of Trade, Finance, Planning and Investment, Justice, together with the General Department of Statistics issued the Interministerial Circular 16 TT/LB on Oct.25, 1995 providing guidelines on the register of non-state businesses and this Circular came into effect as of Jan.1, 1997. On March 30, 1996 the HCMC People's Committee also issued the Decision 1679/QĐ-UBND on the delegation of control over non-state businesses to local authorities.

However, these are measures and policies on paper only. A machinery is needed to carry out exactly these measures and policies. Local governments, in cooperation with functional agencies (planning, statistics, tax, market control, police, product quality control, etc.) should carry out regular inspection and supervision with a view to ensuring the realization of these policies.

a. Existing businesses can't be rearranged and classified according to the amount of labor or capital employed as done by other countries. We had better set forth a system of standards and methods of our own to define which ones are SMBs. We suggest the following system of standards:

- Capital and capital accumulation.
- Workforce.
- Sales or output value.

- Technological level or business size.

- Net profit.

- Contribution to the Treasury.

Based on these standards and studying experience from countries in the region and the world as well, we can find out classifying methods appropriate to each kind of companies and each sector.

b. The Government had better adopt policies giving equal treatment to all kinds of businesses and all sectors. These policies must be feasible and applicable with the aim of helping all SMBs develop, for example: helping them get loans from foreign institutions, supplying soft loans needed for intensive investment or increasing their working capital, giving tax incentive to businesses importing new technology or investing in agricultural production, giving preferential treatment to companies making capital investment, helping SMBs rent land or get loans from banks, etc.

c. The government had better keep itself from intervening in the operation of SMBs, but use macroeconomic instruments and laws to control them.

d. It's necessary to help SMBs establish trading and cooperative relations with foreign companies. Unnecessary and complicated administrative procedures must be removed.

e. SMBs need technical assistance so they can improve their product quality and technology applied in order to keep pace with their counterparts in foreign countries, and become more competitive in both foreign and domestic markets. This requires different governmental bodies to take measures to enhance research and development

activities and evaluate imported technology and production lines needed for each industry and company.

f. The formation of associations of SMBs is also a necessary matter. Joining these associations, SMBs could help one another to find new markets, new technology, business opportunities, information or finance resources, that is, many things they are badly in need of.

- The system of laws relating to SMBs must be perfected: such acts as Companies Act, Cooperatives Act, State-owned Companies Act, Bankruptcy Act... must be made.

- The Government should perfect the strategy for socio-economic development for the period from now until 2010, perfect policies to develop and control SMBs with a view to making them appropriate to development plans of each industry and economic zone. Besides making policies, the government has to point out necessary measures to realize them. These policies must be consistent and provide equal opportunities to all sectors.

In existing conditions in Vietnam, and in HCMC to be precise, many problems must be solved in parallel: industrialization and environment protection; urbanization and infrastructure, migrants and social evils in big cities... With the rapid development of science and technology at present, SMBs will be able to absorb and apply modern technology. The development of SMBs all over the country could help us solve these problems.

In conclusion, we can say that one of strategies to industrialize and modernize the HCMC economy is to develop SMBs by applying new and appropriate technology.