

# AN ESTIMATE OF SITUATION AND POTENTIAL FOR DEVELOPMENT OF THE HCMC PRIVATE SECTOR

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## 1. An overview of kinds and sizes of HCMC companies

The VCP 6<sup>th</sup> National Congress in 1986 introduced the economic reform policy and affirmed that the development of a mixed economy in Vietnam has a strategic and long-standing meaning. This policy was materialized by many laws and decrees, such as the decrees 27, 28 and 29 issued in 1998 about sectors in Vietnam's mixed economy, the Foreign Investment Law issued in 1987, and Private Companies Law and Companies Act promulgated in 1990. Thus, in HCMC, and in Vietnam in general, there are all kinds of companies run by private persons, both domestic and foreign, besides state-owned companies in the public sector.

In HCMC, there are the following sectors:

-The public sector: in this sector, state-owned companies are formed and operate according to the State-Owned Companies Law.

-The personal sector: this sector includes family businesses taking part in all industries and having their businesses registered as required by the Decree 66/HDBT.

-The collective sector: this sector includes cooperatives and guilds that operate according to the Decree 66/HDBT and the Cooperatives Law.

-The private sector: this sector is owned and operated by private enterprises (private companies, limited companies and joint stock companies) under the Companies Act.

-The corporate sector: this sector includes enterprises under joint ownership (joint ventures between the state and private persons or private companies, both local and foreign ones; and foreign-owned companies). Their operation is regulated by the Decree 28/HDBT and the Foreign Investment Law.

From 1988 to 1996, these sectors developed differently as shown in the Table 1.

A survey of capital, labor force and sales of HCMC-based companies conducted in 1993 by the HCMC Economics Institute revealed the following results: (next page)

From this table, we see that:

-Most state-owned and foreign-invested companies are of medium and large sizes.

-Most private companies are of small and medium sizes and all cooperatives, guilds and family businesses are very small.

Thus, all small and medium companies are in the private sector which will be studied in the following part.

## 2. The development of HCMC private sector

The development of HCMC private sector could be examined from the following aspects:

- The growth rate.
- Size of investments, labor force and tax payments
- Changes in amounts of companies.

Table 1: Development of HCMC-based companies (1988-1996)

Kinds of companies Industry	1988						1996				
	State company	Foreign-invested company	Private company	Cooperative	Guild	Family business	State company	Foreign-invested company	Private company	Cooperative	Guild & Family business
Manufacturing	530	3	22	677	2,566	16,982	306	286	1,233	74	29,840
Service and trading					2,992	50,000	296	144	5,401	93	118,967
Building and transportation	959	2		150			90	55	584	71	14,155
Agriculture				188			31	13	0	-	(*)
Others							42	7	52	-	
	1,489	5	22	4,007	2,566	66,982	765	505	7,260	238	162,962

(\*) not including some 120,000 farmer families in suburbs.

Source: HCMC Statistics Department and HCMC Economics Institute



**Table 2: Capital, labor force and sales of HCMC-based companies in 1993**

Kind	Capital (VND bil.)			Labor force (person)			Sales (VND bil.)		
	Small	Medium	Big	Small	Medium	Big	Small	Medium	Big
State company	5	15-20	>30	100	500	>2,000	10	25	>50
Foreign-invested company	11	100	>120	30	200	>500	15	30	>100
Private company	0.3	1.2	>2	30	50	>500	0.5	1.8	>5
Cooperative	0.1	0.175	0.6	5	50	90	0.2	1.5	>2
Guild	0.01	0.10	0.3	15	40	60	0.05	0.6	>1.2
Family business	0.005	0.01	0.02	1	2	5	0.015	0.05	0.2

After the promulgation of Private Companies Law and Companies Act in 1990, the private sector in HCMC has developed incessantly: its gross output increased by 8.2 in 1991, 8.9% in 1992, 10% in 1993, 13.4% in 1994, 12.9% in 1995 and 8.9% in 1996. Its average growth rate in the years 1992-96 was 12.12% a year. Particularly, the private sector obtained a growth rate higher than the public sector did in 1995 (12.9% compared with 10.7%). The table 3 presents shares contributed by each sector to budget income, the GDP and employment.

We see that in the past few

services, and housekeeping. Particularly, in the service and trading industry that represents 47% of sale, the private sector controls over 80% of retail sales. The development of the private sector has helped to increase the growth rate of HCMC economy. If the centrally-managed state companies are put aside, we see that in HCMC the private sector gains a higher growth rate than the public sector (the locally-managed state companies grow by some 10% a year and represent some 19% of the HCMC gross output).

**a. Investment and labor employed**

**Table 3: Contributions (%) made by the HCMC private sector to the GDP and budget income**

Indicators	1993	1994	1995	1996
1. GDP	100.0	100.0	100.0	100.0
Public sector	52.2	51.3	49.2	48.0
Private sector	40.4	40.5	39.7	38.2
Foreign-invested sector	7.4	8.2	11.1	13.8
2. Budget income	100.0	100.0	100.0	100.0
Total domestic income	64.3	64.1	61.1	64.3
From public sector	42.9	37.6	32.1	31.0
From private sector	8.2	8.4	9.4	11.8
From foreign-invested sector	1.8	4.8	6.8	7.4
3. Labor employed	100.0	100.0	100.0	100.0
Public sector	21.7	21.9	24.1	22.8
Non-public sectors	78.3	78.1	75.9	77.2

Source: HCMC Statistics Yearbook 1996.

years the share in the GDP from the public sector tended to decrease whereas the share from other sector increased.

According to the Vietnam General Department of Statistics, of 20 industries of class 1, the private sector is predominant in 8 industries. They are: agriculture, forestry, mariculture, hotel and restaurant, real estate, sport and show business, consumer and professional

According to many surveys, investment in the private sector increases by 35-40% a year on average, the fixed investment in the last four years increased by 23.8% a year. This effort has increased the private investment in HCMC. In the fixed investment, the private sector represented 25.89% in 1991 and this percentage increased to 39% in 1995.

The private sector also helps to

reduce the unemployment rate. Its labor force increased by 9.2% annually in the last four years. In 1990 the public sector employed 36% of the labor population in HCMC and this percentage reduced to 25% in 1997, that is, 75% of working population in HCMC (around 1.2 laborers) is employed by the private sector.

**b. Contribution to local budget**

In the HCMC budget income, the contribution from the private sector is rather modest: equaling 11.89% of the local budget income and 18.35% of the total domestic income. However, it has made remarkable increases from a percentage of 8.2% in 1993.

**c. Development of the non-public sectors**

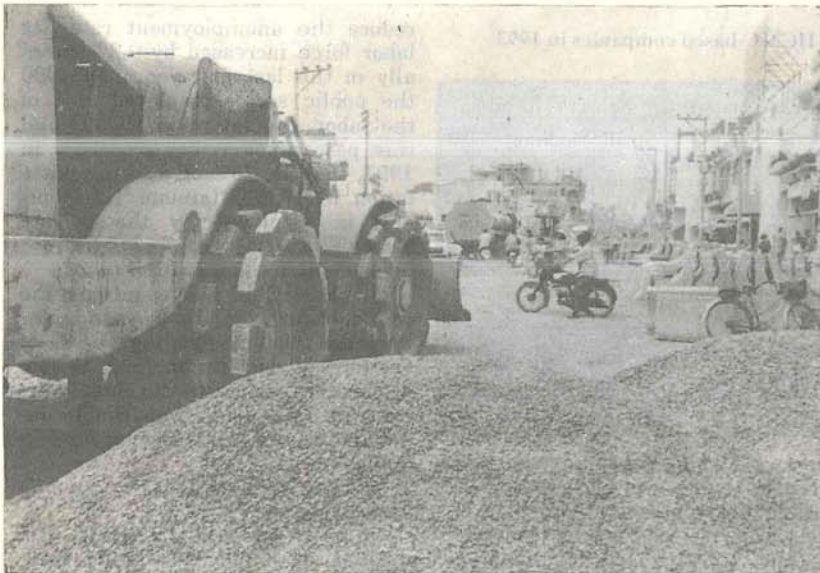
-Family business and guild: The amount of handicraft family businesses and guilds increased from 19,548 in 1988 to 29,840 in 1996 and the amount of family businesses and guilds supplying services increased from 50,000 in 1986 to 118,967 in 1996.

-Cooperatives: The amount of cooperatives reduced remarkably in the period between 1988 and 1996. At present, there are only 74 handicraft and producers' cooperatives. The amount of retail cooperatives reduced from 2,992 in 1988 to 93 in 1996. And there is almost no agricultural cooperatives now. The amount of cooperatives reduced because many of them made losses and were dissolved; and some others were changed into private companies or limited companies. Of existing cooperatives, most of them exist in name only and in fact, they are like private or joint stock companies because they aren't owned by cooperative members and their laborers are wage-earners.

-Private companies: This kind of companies, especially limited ones, has increased fast since the Private Companies Law and the Companies Act were promulgated in 1990. Up to August 1996, there were 7,260 private concerns (private companies, limited and joint stock companies) with total capital of VNĐ4,263 billion (that is, around 1,000 companies came into being every year).

At present, there are 3,932 limited companies with total capital of VNĐ2,736 billion, representing 54.18% of the amount of private concerns and 64.18% of their total registered capital; 3,245 private companies with total capital of VNĐ725 billion, representing 44.7% of the amount and 17% of the total





registered capita; and 83 joint stock companies with total capital of VNĐ802 billion representing 1.14% of the amount and 18.81% of the registered capital.

Of this amount, 5,183 concerns (representing 71.39%) with total capital of VNĐ1,700 billion (39.88%) are in service and trading field; 1,223 concerns (16.85%) with total capital of VNĐ1,284 billion (30.12%) are in manufacturing sector.

### 3. Development trend in the private sector

The statistics authorities divide the manufacturing sector into 19 industries. The manufacturing output from the HCMC private sector increased by 6% in the years 1986-90, by 16.4% in 1991-92, 13.8% in 1993-94 and 15% in 1995-96 while the growth rate of manufacturing output of the HCMC public sector was 7.2% in 1986-90 and 14% in 1992-96. Thus the growth rate of manufacturing output of the private sector is higher than that of the public sector (but lower than that of centrally-managed manufacturing sector). The private manufacturing sector in HCMC attracted 34.3% of private investment and 33.7% of the working population.

Private manufacturing industries employing big labor force are clothing (15.16%), textile (14.42%), food processing (12.63%) and chemicals and rubber (12.22%).

There are some 100 big privately-managed garment companies but 35% of them do work subcontracted by state-owned export companies and none of them has right to export directly.

Generally, regarding output, la-

bor force and size, the best developed industries in the private sector are clothing and textile, chemicals, rubber, food processing, engineering, leather and leatherette, wood processing and metalwork.

The privately-run trading business developed well in the last three years. Its sales increased by 33.93% in 1993-96. Its share in the total sales in HCMC increased from 33.6% in 1990 to 47.5% in 1996.

Of the total sales, the non-public sector (including private concerns and cooperatives) is predominant in retail sales. In 1996, it controlled over 80% of the total retail sales.

At present, the privately-run service and trading sector is second only to the manufacturing sector in attracting investment (40%) and la-

bor (20%). According to a recent survey, the private trading business represented 65% of families doing service and trading, 84% of total sales and 53.5% of private investment. The most developed are concerns trading in food (28% of the total private trading concerns), in garments and household goods (10%), in woodwork and building materials (5%). Second to the trading business in attracting family businesses is the food service (around 15%), the next are service supply and jewelry trading. But regarding total sales, the jewelry trading ranks second, and then, food service and service supply.

As for the transportation and construction sector, up to August 1996, it included 584 privately-run companies and most of them do building business or road and waterway transport.

In this sector, there exist 71 cooperatives and most of them supply transport service, especially road transport. Half of these cooperatives are of large size. In nature, these cooperatives have the same organization as limited or joint stock companies. A lot of family businesses also take part in the road transport service: at present, some 15,000 family businesses with 50,000 means of transport are employing around 50,000 laborers. In addition, there are 2,000 means of waterway transport carrying mainly goods. In 1992, total private investment in transportation business was VNĐ200 billion, and in construction business was VNĐ150 billion, and those two businesses are employing some 200,000 laborers. Regarding the size of investment and labor





force, this sector ranks third, after manufacturing and service-trading sectors. It employs 16% of private investment and 19% of the working population.

In financial service, there have been 218 private concerns (they are finance companies, banks or credit organizations) up to now, and their presence has produced good effects on the formation and development of the money market in HCMC and helps HCMC become an important finance center of the country.

In short, in recent years, the non-public sector, especially the private one, in HCMC has developed fast. The amount of private concerns (private companies, limited and joint stock companies, and family businesses) has increased remarkably, especially in trading service.

The privately-run manufacturing sector has kept on increasing its output, number of concerns and investment, however, it tended to grow slower than other sectors. This sector employed a big labor force but the investment per laborer was rather low. Industries that increased their output fast are food processing, textile, leather and leatherette, chemicals and rubber. Two industries that increased fastest their output, labor force and number of concerns are textile and chemicals.

The private transportation and construction service has also developed well although it generated smaller value than what other sectors did. In recent years, the number of private companies supplying transport service has increased fast. In road transport, there were all kinds of concerns (private companies, cooperatives and family businesses). In construction service, most concerns took form of private companies. And the family business is predominant in waterway transport service.

#### 4. Shortcomings in the development of the HCMC private sector

Although many laws relating to private investment and private sector in general have been promulgated recently, such as Private Companies Laws, Companies Act, Domestic Investment Encouragement Law, and Bankruptcy Act, but both local and foreign investors didn't feel sure of doing business because of a lack of many other laws dealing with stock market, finance market, private ownership, or struggle against monopoly. Moreover, a legal entity doing business in Viet-

nam is regulated by different laws and this situation can lead to different treatment to companies of different ownership, that is, it can lead to inequality before law.

A problem causing a lot of worries to private investors is the land using right and land price. A private company, unlike a state-owned one, is never granted land by the Government. It has to buy land from state-owned companies or private persons and has to pay fees for the land using right. If it rents land from a state-owned company, it is forced to pay a rent that is much higher than what the state-owned company pays to the state. This inequality has, in fact, led to corruption and bribery, and losses to the budget income.

As for taxation in the private sector, two problems that need to be solved are tax evasion and income tax rate. According to the Amended Income Tax Law, local investors are given less preferential treatment than foreign investors because they have to pay higher income tax and seldom enjoy tax exemption or deduction. In addition, if the after-tax income of a Vietnamese citizen is bigger than 10 million a month, an additional income tax rate of 25% will be imposed on it. This situation can prevent private persons from making new investments, and as a result, private companies usually try to evade taxes because most of their payments are made outside the banking system.

#### 5. Measures to control and develop the private sector

We want to suggest here some

measures to deal with above-mentioned shortcomings and help the private sector develop.

Firstly, the law system must be perfected and this system must be applied to all economic sectors without discrimination. A stock market must be formed and a law on stock and securities trade must be made with a view to helping joint stock companies attract dead money from the public.

Secondly, procedures for getting land grant and land use right must be simplified, and the official land rent will be charged on all economic sectors.

Thirdly, the Government must encourage private persons to invest in manufacturing sector and encourage modernization of production by supplying long- and medium-term loans, giving tax deduction, finding new markets for locally-made goods, etc.

Fourthly, it's necessary to reform procedures for getting business licenses and reduce tax evasion by forcing all private companies to make payments through banks.

Fifthly, the Government had better establish institutions needed for developing the private sector, such as a fund for development of small and medium businesses, a bank for small and medium businesses and an association of small and medium businesses.

Sixthly, the equitization program must be accelerated with the aim of restructuring the public sector and encouraging laborers to make financial investment. ■

