

DEVELOPING THE PRIVATE SECTOR AND RESTRUCTURING THE PUBLIC SECTOR IN THE TRANSITIONAL PERIOD

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1. Economic development under the reform policy

After the VCP 6th Congress in 1986, Vietnamese economic policy underwent a complete change. The new economic policy aims at changing the centrally-planned economy into a mixed one based on the market mechanism. From then on the private sector has developed well. After 1986, especially since 1991, the economic reform and transition to a market-oriented economy led to improvement in the GDP, public finance and employment patterns. In the years 1990-1997, the GDP rose by 8.5% a year on average and the GDP structure changed in terms of economic activities and ownership forms. The economic structure becomes more industrialized. The share of the primary sector (agriculture and mining) in the GDP went down from 40.5% in 1991 to 26.2% in 1997 while the share of the secondary sector (manufacturing and construction) rose from 23.8% to 31.24% and the tertiary sector (service) from 35.7% to 42.56% during the same period.

The new economic policy has also established legal infrastructure for the development of business.

The Foreign Investment Law (promulgated on Dec.29,1989, amended for the first time in June 1990, the second time in December 1992 and the third time in 1996) stipulated basic principles concerning direct investment of foreign investors in Vietnam. According to the Law, foreign investors can choose from the following investment forms:

- + Contract of business cooperation;
- + Joint venture with local partner;
- + Foreign-owned company;
- + Company in EPZ; and
- + BOT project.

In the process of reforming the management mechanism, state-run companies have been given many-sided autonomy. As allowed by Decision 217-HĐBT (November 1987) and directives from different ministries, state-run companies now

enjoy autonomy in many aspects: making business plans, securing materials and techniques, pricing and marketing their products, and deciding on finance management; labor cost and other financial matters. Regarding financial aspect, Decision 217-HĐBT and recent regulations allowed state-run companies to be financially autonomous. In addition to the starting capital granted by the State, state-run companies can raise their own capital from retained profit or borrowings from home and abroad. Since 1992, the Vietnamese Government made plan to carry out a reform program for state-run companies, including privatization, corporatization and liquidation of a number of state-run companies. This program is part of a master program to shift the economy from the centrally-planned mechanism to the market one. The State Companies Law promulgated in 1995 distinguishes between state companies supplying public services and ones operating on a commercial basis in the market economy. It also provides the legal framework for the establishment of state corporations. Initial results from the pilot corporatization and equitization program were positive, and a review of the pilot phase is being undertaken in order to set up institutions and necessary conditions for introducing this program on a larger scale.

Regarding the private sector, the Government has promulgated the Private Businesses and Companies Laws and introduced regulations allowing private businesses to develop "without limitation in terms of scope and type of business, in sectors and occupations that are not forbidden by law". Private companies, limited companies or joint-stock companies are operating according to the Private Businesses and Companies Laws. They are of medium and small size. In the private sector, there are simpler forms of business. The first is business owned by an individual. This form of business can be called a sole proprietorship or family business. The second is business owned

by a group of individuals, which can be called a partnership or collective. Sole proprietorship and partnership businesses are very useful in assisting individuals of limited means to start a business of their own. All of them are small businesses employing less than VND25 million and 20 workers. In this case, we can call them micro-enterprises. They are formed and operate according to the Decree 66/HĐBT.

Policies granting farmers full autonomy in making production decisions, combined with policies granting long-term rights to use farm land, have produced positive impacts on production and farmers' living standard, and promoted the renovation process among agricultural cooperatives and the establishment of new types of cooperatives.

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

- Fast increase in the amount of companies of all kinds;
- Growth of sectors and their contribution to the economic growth;
- Changes in the structure of industry caused by the development of economic sectors.

The existing companies in Vietnam belong to the following sectors:

- The public sector includes state-run companies being formed and operating according to the State Companies Law.
- The private sector includes family businesses engaging in handicraft manufacturing and trading at small scale registered according to Decree 66/HĐBT; cooperatives operating according to the Cooperatives Law; private companies, limited companies and joint stock companies formed according to the Private Businesses and Companies Laws.

- The foreign sector includes joint ventures formed by foreign partners and local ones (state or private companies); and foreign-owned companies operating according to the Foreign Investment Law.

Current statistics show that the amount of private companies is on the increase while that of state ones decrease (from some 15,000

at the end of 1991 to some 6,000 now). All forms of business in the private sector have developed well, from some thousands of family businesses at the beginning of the reform process to more than 600,000 micro-enterprises, over 30,000 private businesses and limited companies.

In the foreign sector, up to the end of 1997, 2,208 FDI projects with a total registered capital of US\$31.4 billion were licensed.

The main causes of the decrease in the 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 after being separated from unions of companies to which they belong, were merged together again after the State Companies Law was promulgated; and some others changed into companies under mixed ownership. The following tables present changes in the number of companies in Vietnam over years.

The non-state businesses up to the end of 1997 accounted for 61.2% of the GDP, 97.1% of the gross agricultural output, 31.2% of the gross industrial output and 54.1% of the value of services supplied. As a result, non-state sectors create over one million new jobs a year.

The Government makes it a priority to support the development of the private sector by allowing it full autonomy in doing business and providing it with loans. This sector is playing the leading role in job creation in Vietnam and thus helping reduce the unemployment rate, the poverty and the income gap between social groups.

2. Equitization as the main measure to restructure the system of state companies

The equitization of state companies was introduced by Decision 143/HĐBT by the Council of Ministers in early 1990. On June 8, 1992, the Chairman of the Council of Ministers made Decision 202/CT concerning the pilot scheme to equitize some state companies. On April 3, 1993, Decree 84/TTg was issued to accelerate the pilot scheme and advocate diversifying the ownership of state companies. According to these documents, shares issued by state companies would be sold only to the Vietnamese, and certain measures would be taken to help workers of these companies:

- Funds for benefit or bonus of

these companies will be divided among workers in order to help them buy shares;

- The Government will supply interest-free loans to workers. These loans are from VND3 to 5 million and will become due after five years;

As for workers who can buy shares with their own money, they can borrow the same amount from state banks with preferential rate of interest (4.7% a year) in a period of five years.

Up to the end of 1996, some 30 state-run companies have been equitized and the pilot equitization scheme came to an end. On June 29, 1998, the Government issued Decree 44/CP to promote the equitization process. According to this Decree, the equitization program is extended to a bigger scale and

still holds the decision-making power because it holds from 30% to 50% of the share capital.

- In comparison with the period before the equitization, the value of capital increases by 299%, revenues by 237%, after-tax profit by 305% and contribution to the National Budget by 260%.

In spite of the above-mentioned achievements, the equitization program in Vietnam still meets some difficulties. First, the equitization procedures are too complicated and require seals of approval by many governmental bodies. Second, an exact method of evaluating company's assets isn't available because the existing one pays attention only to tangible assets. Thirdly, when there is no stock market, shareholders find it difficult to sell or buy their shares.

Table 1: Local Companies to the end of 1995

Type of companies	Number		Capital (VND mil.)	
	Total	In HCMC	Total	In HCMC
Total	33,536	5,425 (7,260)	89,865,817	(22,996,000)
State company	6,310	828	77,656,339	10,559,836
Private company	18,243	1,833 (3,245)	3,071,541	373,031 (1,199,000)
Limited company	7,346	(3,932)	5,693,789	(16,193,000)
Joint-stock company	165	(83)	1,704,504	(5,604)
Rep office	1,111	700	-	-
Company of civic organization	337	200	1,706,203	-

Note: figures in bracket were gathered in 1996.

Source: General Department of Statistics, *Statistical Yearbook 1996*, Hà Nội, 1996; and *HCMC Yearbook 1997*.

shares could be sold to foreigners. To the end of 1998, 116 state-run companies were equitized, shares from two of them were sold to foreigners. The Government plans to have some 400 companies more equitized in 1999. Studying the business performance of 20 equitized companies one year after the equitization we could see that:

- The State

Table 2: Licensed FDI Projects

Year	Number		Capital (US\$ mil.)	
	Total	In HCMC	Total	In HCMC
1988	37	16	371.8	69.0
1989	68	26	582.5	376.0
1990	108	46	839.0	531.0
1991	151	73	1,322.3	612.0
1992	197	86	2,165.0	707.0
1993	268	102	2,900.0	1,566.0
1994	343	125	3,765.0	1,551.0
1995	370	155	6,530.8	2,317.0
1996	325	112	8,497.3	2,290.0
1997	340	90	4,462.5	1,174.0
Total	2,208	831	31,436.8	11,193.0

Source: General Department of Statistics, *Statistical Yearbook 1996*, Hà Nội, 1996; and *HCMC Yearbook 1997*.