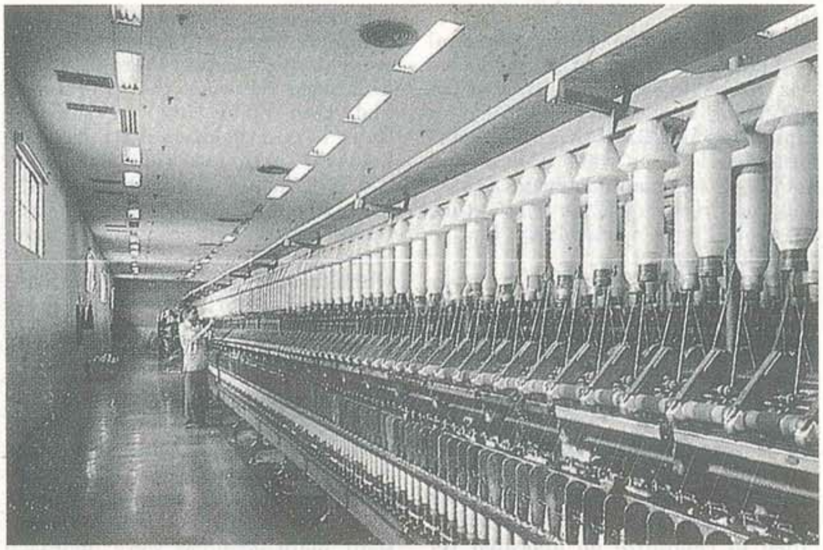

AN ESTIMATE OF THE PUBLIC SECTOR OF THE HCMC ECONOMY

by Prof. Dr. NGUYỄN THỊ CÀNH

I.SIZE OF THE PUBLIC SECTOR IN HCMC AND ITS ALLOCATION OF RESOURCES

1.An outline of the public sector in HCMC

The public sector includes economic concerns owned and operated by government authorities. Under the Vietnam Constitution, the Vietnam government is the owner of state-run companies, state-owned stake in joint ventures with foreign or domestic investors and all natural resources, including land, forest, and territorial waters. In addition, the system of government authorities is in charge of a large amount of public assets, such as houses and buildings, roads and bridges, and many other public works. In short, the public sector is the part of the economy that includes natural resources, infrastructure, national budget and state-run companies being owned and operated by government authorities.

HCMC is one of the biggest cities of the country. Unlike other provinces and cities, the public sector in HCMC includes many infrastructure works, land and warehouses, tangible assets of state-run companies and governmental bodies.

2.Allocation of resources in HCMC

Under the current mechanism, there are management authorities at central and local levels in HCMC. At the central level, there are governmental bodies responsible to ministries. At central level, there are governmental bodies at municipal, district and ward levels. The resource allocation is as follows:

a.Land: 56.28% of the public land in HCMC is employed by state-run companies, and 47.72% by governmental offices and public organizations.

b.Warehouse: Leaving aside warehouses controlled by centrally-run companies and organizations, the total area of warehouses under the municipal management is 2,287,616 sq. m., 15.6% of which (or 357,014 sq. m.) is employed by the HCMC Warehouse Company, and 84.4% by 255 locally-run companies and organizations.

c.State-run companies: Of 852 state-run companies that have registered as required by the Decree 388/HĐBT, 329 companies (or 38.6%) are run by central governmental bodies; 523 ones, or 61.4%, by local authorities (189 of which are controlled by district governments).

Although the better part of resources is controlled by the public sector but the division of these resources among too many management bodies and the lack of effective policies and mechanism for employing these resources have led to great waste and inefficiency. To estimate the efficiency of resource employment, we can examine certain indicators, such as contributions to the GDP and the budget income, investment from retained profit or the way of making use of existing resources to develop and create more jobs. In doing so, we see that the public sector has higher indicators in comparison with non-state sectors, except for the indicator of job creation.

The *HCMC Statistics Yearbook 1996* shows that the public sector represented 48% of local gross product, however this percentage has shown a downward tendency. Contributions from this sector to the local budget income also decreased. In 1996, this contribution, not including money received from customs duties, represented only 31% of the local budget income. As for job creation, the public sector employed only 22% of the local labor force in 1996.

These data show that the public sector has failed to make the best use of allocated resources, that is, the efficiency of this sector is low (this sector controls some 70% of public land, assets and capital but it contributed only 48% of local gross product and 31% of local budget income in 1996).

II.PERFORMANCE OF STATE-RUN

COMPANIES IN MAJOR INDUSTRIES

Up to now, after some rearrangements, the number of state-run companies reduced to around 700, representing 11% of the total number of state-run companies of the country. The growth rate of state-run companies tended to slow down as compared with other sectors. In the years 1993-96, its annual growth rate was 12% in comparison with 12.12% obtained by non-state sectors and 43% by foreign-invested sector. The share of the public sector in the local gross product decreased from 52.2% in 1993 to 48% in 1996 because it grew slower than other sectors. In the following, we will examine efficiency and business performance of state-run companies in major industries.

Capital turnover realized by state-run companies reduced remarkably, from 6.3 in 1994 to 4.7 in 1995. State-run companies in trading and hotel services obtained the capital turnover five times higher than their counterparts in manufacturing industry and three times higher than other industries.

The capital turnover in state-run companies was lower than what was realized by private companies. According to the General Statistics Department, the capital turnover of private companies in 1996 was 7.2 (VNĐ49,514 billion: 6,927 billion), that is, 1.5 times higher than state-run companies. However, the capital turnover isn't enough for us to estimate the performance of a company and many other factors such as profit, financial situation and return on capital should be taken into consideration.

Unhealthy financial situation existing for a long time in state-run companies has made it difficult to settle overdue debts. According to a report made by finance authority in 1996, the total debt owed by state-run companies in HCMC amounted to VNĐ11,300 billion. If loan capital is added, this sum will reach VNĐ18,500 billion, much bigger than the total working capital of these companies (in 1996, capital allocated by the budget plus their retained profit amounted to 14,000 billion only).

Return on capital realized by state-run companies was generally low. In 1995, this rate was 19% as compared with 18% in 1993 and 24% in 1994. Centrally-run companies had better performance than locally-run ones: the return on capital was 20% for the former and 16% for the latter.

Considering the return on capital by industries, the best performance was to be found in transportation and postal services whose return on capital reached 38%. Other well-performed industries were trading and hotel (19%), manufacturing (13%), and construction (12%). The return on capital was particularly low in agriculture: 8%.

Private companies had a lower return on capital in comparison with state-run companies. In 1996, the average return on capital obtained by private companies was 7.6% and 26% of private companies in HCMC reported that they had been suffering losses. Moreover, many private companies are in their first years of operation so they couldn't make big profits. Contrarily, a lot of state-run failed to capitalize on allocated resources.

III. PROBLEMS TO BE SOLVED

It's apparent that the economic reform carried by the Government and Party has helped to develop a mixed economy in HCMC and obtain a high growth rate and social progress. In the mixed economy, although foreign and private investors have been increasingly involved in the economic development, the public sector still plays the leading role in the economy as a whole, and in key industries to be precise. However, we must accept that the public sector has failed to make the best use of available resources and advantages and has caused a lot of waste.

The causes of this situation, in my opinion, are: the inconsistency and irrationality in macroeconomic policies, the imperfection in the law system and shortcomings of the way the government controls economic activities and runs the administrative machinery (many shortcomings come from the fact that several governmental bodies are authorized to do the same task, and as a result, no one bears responsibility for the outcome).

The land policy has many loopholes and it isn't effectively enforced. The Article 1 of the Ordinance on Rights and Duties of Organizations Provided with Public Land allows that all organizations in the public sector are provided with land by the Government and state-run companies can rent land from the Government. Organizations that are granted land may, or may not, be asked to pay land using tax but those who rent land must pay the rent. This regulation leads to unfair treatment of state-run organizations, because there is a great difference between the land rental and land using tax. In addition, there is no regulation distinguishing between companies that should pay the land using tax and those who are exempt from this tax. In fact, certain state-run companies have been granted big pieces of land while many others haven't. Some companies profiting from land grant have leased or sold it, that is, they have entered real estate business illegally. This will make it difficult for the government to control and evaluate exactly their business performance. In HCMC, companies that control warehouses tend to lease these warehouses instead of using them for their own businesses. If their main business were inspected properly, they would prove to be loss-making companies. This practice has become increasingly common among state-run companies provided with public land.

The solution to this problem is to evaluate public land, as a form of assets, and authorize a governmental body to control and trade in this special kind of property. This solution could also be applied to other assets such as infrastructure, ports and harbors, and warehouses. There must be criteria for granting land and houses to state-controlled organizations in order to reduce waste and ensure budget income.

Inexact assessment of fixed assets, especially factory buildings, of state-run companies has led to wrong estimates of business performance of companies with the result that "true loss and false profit" still exist in most state-run companies. The salary scale and mechanism for distributing profit are unreasonable. Because the salary scale is low and regulations on profit distribution limit all bonuses to 3-month salaries, therefore most state-run companies are forced to make false reports on their performance and false financial statement with a view to paying better wages to their employees. At present, the government can't inspect real average income of companies and there is a great difference in income between state-run companies and between industries and this difference is really caused by the current mechanisms.In reality, good business performance found in many companies is due to certain advantages vested in them (subsidies and monopoly for example) instead of coming from good management.

Payment for capital supplied that all state-run companies are forced to make is a controversial matter now: Until recently, it has been considered as a class of capital tax and been added to production cost, and then, the Regulation on Finance and Accounting Management in State-run Companies (Article 32) issued in the wake of the Decree 59/CP on Oct. 3,1996 requires that the payment for capital supplied by the Treasury to state-run companies should be extracted from profit, and this payment equals 3.6% of net profit in a year for all companies. In my opinion, this requirement is unreasonable because state-run companies have different advantages and conditions, therefore this percentage should depend not only on the amount of capital supplied, but also on advantages enjoyed by each company, especially in the market economy where the value of intangible assets given by the government to companies is great and sometimes contributes a lot to companies' profit.

Rearrangement and management reform, especially the equitization and diversification of ownership, are carried out too slowly. Regulations and policies on equitization and diversification of ownership of state-run companies are imperfect and inconsistent. Method of evaluating a company is still a controversial problem. Methods of leasing a company aren't studied and applied on a large scale. Many state-run companies make losses year after year and run into debt but they aren't dissolved according to the Bankruptcy Act. Many companies tend to become defaulters while the government has no measure to help them to repay debt. Just because of a shortage of capital, most locally-controlled state companies have no ability to replace their production lines and improve product quality and competitiveness. That is why manufactured goods represented only a small percentage in exports.

In my opinion, the cause of these shortcomings is the imperfect mechanism for controlling state-run companies. Although the State Companies Act states clearly what rights and duties of board of directors, directorate and director are, but the most important problem that is still left unsolved is the legal relationship between the state, as the owner of state-run companies, and directors or board of directors, as employees who are authorized to run state companies. The supply of capital to state companies must be based on legal status of directors and the workforce employed by the company, that is, directors must be seen as employees, not employers or owners. Thus, there must be a mechanism for selecting directors, and their rights and duties must be well defined. The lack of such a mechanism and poorly defined relationship between the state and directors, and the workforce as a whole, have allowed directors to take advantage of this situation to look after their own interests, causing a lot of waste and damage to public assets.

Although statistics show that the public sector's performance is still better than that of the private sector, this achievement must be re-examined because, as was stated above, most of assets (land, factory buildings, convenient locations, etc.) allocated to state-run companies haven't been converted into capital yet. Moreover, the relative importance of contributions from the public sector to the GDP and budget income is on the decrease. This means that the public sector will be able to lose its leading role to another sector. Experience from foreign countries shows that the public sector is usually less efficient than the private one because people who run state-owned companies aren't their owners. Another cause is the fact that most state-run companies enjoy monopolies and subsidies, therefore they become less active and creative. To improve the situation and the business performance of state-run companies, certain kinds of joint ventures formed, and owned, by the state and private person are introduced. In the 1980s, many countries carried out the privatization programs and governments decided how much share to hold depending on the importance of the privatized company to the industry and the economy as well.

Up to now, the administrative management and business management haven't been separated. Governmental bodies, at both central and local levels, have failed to define what the administrative management of economic activities is, with the result that these bodies couldn't control sudden changes in situation on the one hand, and intervened too much in companies' operation on the other.

The administrative machinery at both central and local levels isn't well organized. Rights and duties aren't delegated clearly to local governments, and as a result, many governmental bodies do the same work but no one takes full responsibility. The existence of organizations that are controlled and directed by many governmental bodies makes it difficult to work out long-range development plans for HCMC. So it's necessary to improve the mechanisms for controlling each industry and each locality (or horizontal and vertical management). The Public Assets General Department has been formed but hasn't been operated well. The relationship between this department and state-run companies, and other organizations employing public assets, hasn't been made clear yet, with the result that public assets are wasted day after day ■