FOR A BETTER BUSINESS CLIMATE

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1. Business climate and companies

A business climate could provide companies with favorable or unfavorable conditions. It could be changed by efforts from the government, the public and the business circle itself. A favorable climate allows companies to reduce costs and sell their goods or services at profitable prices. Of course, there is a difference in business performance and profitability between companies (we only discuss here independent companies, like private ones, not profit- making companies that enjoy monopoly or state subsidies). Statistics gathered over years can help us estimate whether the business climate is favorable or not.

By examining the profitability we can determine whether the business climate is favorable or not. In addition, this concept also means that companies spend the better part of their profits on new investment instead of sharing it out among shareholders. Thus, the high profitability is combined with economic development and eased of exploitation of labor.

In any country, the business climate could become worse or better. In such a favorable climate as in Japan in the years 1945-1973, small companies could develop into leading ones in the world market and helped turn defeated Japan into an economic power. On the other hand, an unfavorable climate could hinder the economic development and industrialization. The problem is to find out elements that make the business climate better or worse.

2. Factors affecting the business climate

a. The most basic factor is political stability. Vietnam could be seen as a good example because it has no war or social unrest for years. It has established good relations with all countries in the world and refrained from intervening in internal affairs of other countries. Its government has adopted policies to develop the mixed economy, encourage both foreign and domestic investment and create the best conditions for business as it could.

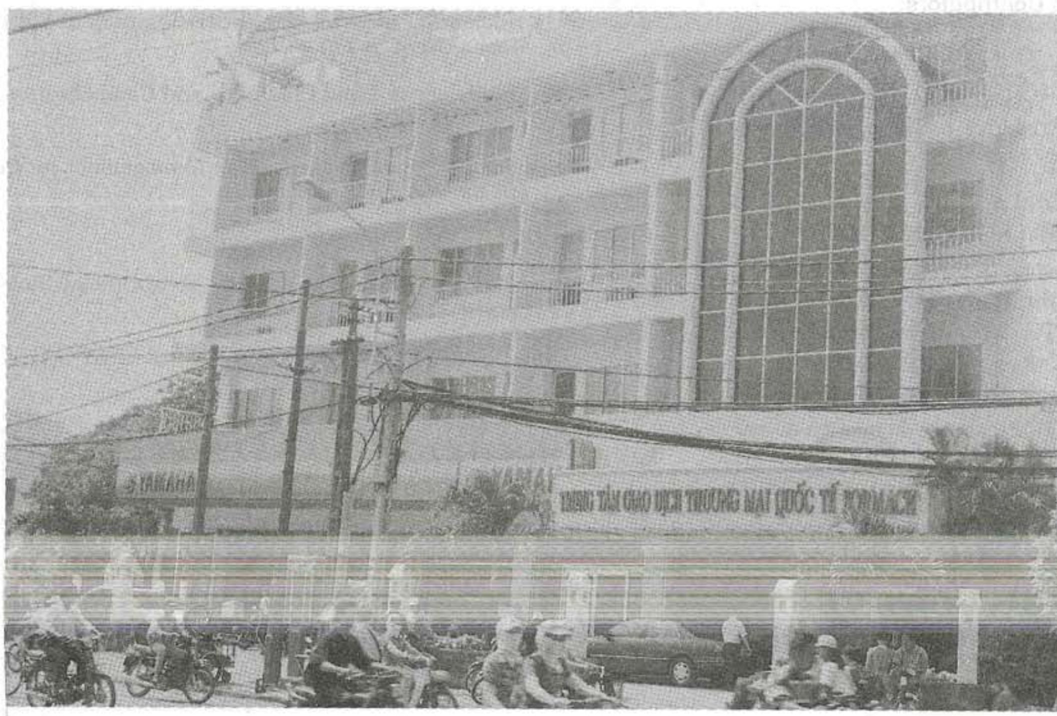
Many countries are at wars (the U.S., Iraq, Afghanistan, etc.) or suffer social unrest (Indonesia, Pakistan, etc.) and could hardly ensure good business climate. Moreover, the governments have to spend a lot on weapons or armed forces and this expenditure becomes a burden to the economy. The 1997 Asian financial crisis affected badly the business climate of many countries, such as Thailand, making many companies go bankrupt. Therefore, a policy to prevent economic crises, besides the policy to ensure peace and establish good diplomatic relations, is also necessary.

Effective law enforcement, financial disclosure and the combating press are also among elements needed for a good business climate.

b. Opportunities: Rises and falls in price of oil in 2001 lead to both opportunities and difficulties for oil exporting countries. Falls in prices of farm products and contracted export market caused by terrorist attacks in New York and Washington made the business climate worsen for Vietnam and many developing countries that earn foreign exchange by exporting farm products and labor-intensive goods. Generally, Vietnamese economy is easily affected by external factors.

c. Government intervention: The government can intervene to reduce costs on factor inputs and expand markets for local goods.

- Bank rate: Payments in interest are always a financial burden to companies, especially the state-owned ones where loan capital represents a large proportion in working capital. Banking authorities had better reduce the interest rate to a common level offered by international banks. As for certain state compa-



nies, debt owed to banks could be turned into shares held by banks with a view to helping them to make some profit.

- Tax payment: The government had better impose the tax burden on imported goods instead of local ones. The administrative machinery and the armed forces could be downsized with a view to reducing government expenditure and its dependence on tax take.

- Corruption: Corrupt administrative machinery means a lot of expenses for companies that want to run their businesses smoothly. Moreover, corrupt officials could facilitate smuggling activities that cause harm to local production.

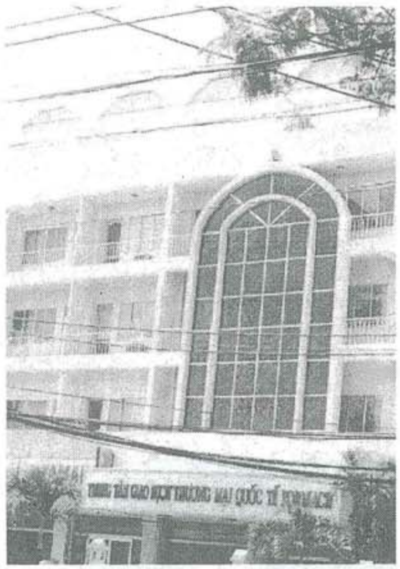
- Protectionist measures: Experience from the sugar industry shows that bans on the import of sugar are of great benefit to both sugarcane planters and local sugar refineries. In addition, large sums of foreign exchange could be saved when Vietnam stopped importing sugar. Although consumers have to pay higher prices for locally made sugar; the development of the sugar industry helps increase the Vietnamese GDP. These measures will produce the same effects when being applied to other industries.

- Export promotion: The government can give incentives to promote export or adopt an flexible exchange rate system that is in favor of exporters.

- Stimuli for market demand: The government can increase the supply of soft loans and investment in major projects. These projects should be big enough to create a great number of jobs without glutting the market with goods that are available in large quantities. They could be projects to build power plants, highways or apartment houses for low-income earners. In Vietnam, the government could invest in the heavy or technology-intensive industries with a view to substituting imports.

- Inflation: To increase the money supply carefully is also a measure to stimulate the market demand and carry out major development projects. Most economic experts have agreed that an inflation rate varying from 2% to 5% could help the GDP grow faster.

- Changes in structure of industry: Vietnam's economic growth depends too much on export of farm and mineral products whose prices are low and unstable. In the first three quarters of 2001, Vietnam lost some US$700 million because of falls in prices of such exports as rubber, coffee, rice, and aquatic products. Meanwhile, Vietnam has to buy semi-finished raw materials and machines at high prices and its industries become less competitive.



The local industries should be oriented towards production of high-class consumer goods that are saleable in both local and foreign markets instead of labor-intensive goods. The best way to achieve this aim is to import modern production lines and technologies needed for producing such goods. However, this approach requires time and an army of well-trained technicians while financial and banking measures are much easier.

In conclusion, we could say that a good business climate always ensures high profits for companies.

With high retained profits they could invest more in capital goods and enter a higher stage of development. The government plays an important role in this process because it can help reduce costs and expand markets for companies, and moreover it can increase the money supply to finance large-scale projects that aim at stimulating the market demand and spending power and ensuring full employment.

Some people could argue that high profitability means exploitation of labor. In my opinion, the high profitability is acceptable when the better part of profit is used for capital investment instead of being distributed among shareholders. A well-devised tax policy will help the government achieve this aim and foreign experience shows that this measure is very effective ■