



# MEASURES TO DEVELOP THE PRIVATE SECTOR IN THE SOUTHERN VITAL ECONOMIC ZONE

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After 15 years of the economic reform (1986-2002), the private sector has become indispensable part of the economy. Its development in all industries has contributed a lot to the economic growth, mobilized possible human and financial resources, created new jobs, improved the living standard, increased the budget income and helped with maintaining social order and political stability.

However, the private sector didn't develop evenly over provinces. Recent statistics show that most private concerns concentrated in the Mekong Delta and Eastern South and a smaller number of them operated in the Hồng Delta and central coastal provinces. The Southern Vital Economic Zone including four provinces – Bình Dương, Bà Rịa-Vũng Tàu, Đồng Nai and HCMC – has a private sector that develops well in many aspects: the number of companies, size of investment, and managerial level. This zone has a heritage of the market economy from the past. That is why the private sector here develops fast. Before 1975, this was the best developed zone under the Saigon regime. After 1975, policies that discriminated against the private sector and supported the collectivism and the public sector made the private sector contract and stop existing. When the economic reform was launched, however, this sector recovered and developed at speed making this zone the best developed one of the country.

At present, this zone is leading the way in the task of attracting foreign investment, foreign trade and industrial production and accounting for a considerable share in the GDP. Four provinces in this zone are among five provinces that make annual payments to the nation budget. In these achievements, the role of the private sector couldn't be ignored.

However, the private sector in this zone has many shortcomings: shortage of capital, obsolete technology and machines, badly-trained human resource, limited markets for their products and poor competitiveness. These shortcomings originate from the lack of a system of laws and fair policies on the private sector, the discrimination against this sector among administrators when carrying out the government policies.

Table 1: HCMC private sector in 1996-2002

Year	Number of companies up to the year's end	Yearly increase in the number of companies	Yearly increase in registered capital (VND million)	Average registered capital per company (VND million)
1996	8,115	1,722	911,576	529.4
1997	9,366	1,251	651,570	520.8
1998	10,725	1,359	877,020	645.3
1999	13,082	2,357	2,387,234	1,012.8
2000	18,581	5,499	5,834,618	1,061.0
2001	25,528	6,947	9,547,057	1,374.3
Dec. 6, 2002	32,681	7,153	11,537,000	1,613.0

Source: HCMC Service of Planning and Investment



**Table 2: HCMC private sector by forms of company  
(up to Dec. 6, 2002)**

Forms	Number	Registered capital (VND billion)
Private business	10,810	3,599
Joint stock company	1,495	4,522
Limited company	20,366	23,261
One-man limited business	44	168.1

Source: HCMC Service of Planning and Investment

**Table 3: Bình Dương private sector 1997-2002**

Year	Com- pany	Family busi- ness	Registered capital (VND billion)		As % of the previous year	
			Company	Family business	Number of compa- nies	Capital
1997	98	13,666	333.6	151.00	112.52	139.40
1998	667	14,153	1,229.16	168.32	93.49	117.84
1999	810	14,348	1,706.58	187.19	121.04	138.84
2000	1,068	14,891	2,540.49	404.03	139.21	148.86
2001	1,329	16,591	3,712.11	520.14	114.47	146.12
2002	1,894		6,844.90		142.00	190.00

Source: Bình Dương Service of Planning and Investment

**Table 4: Bình Dương private sector's export in 1997-2002  
(US\$ million)**

	1997	1998	1999	2000	2001	2002
<b>Bình Dương export value</b>	<b>352.69</b>	<b>363.47</b>	<b>430.24</b>	<b>557.73</b>	<b>703.857</b>	<b>958.200</b>
From private sector	160.63	177.18	204.04	233.26	334.059	360
As % of total export value	44.29	48.74	47.42	41.82	47.50	37
As % of the previous year		110.30	115.16	114.32	115.16	114.32

Source: Bình Dương Service of Planning and Investment

**Table 5: Payments to the treasury from Bình Dương private  
sector in 1997-2002 (VND billion)**

Year	Total payment	From private companies	From family businesses
1997	146.42	80.04	66.38
1998	152.70	83.71	68.99
1999	160.51	98.18	62.33
2000	176.91	100.65	76.26
2001	210.491	124.708	85.783
2002	202.207	104.878	97.329

Source: Bình Dương Service of Planning and Investment

**Table 6: Đồng Nai private companies in 1996-2001**

Form	1996	2000	2001
Family business	47,038	54,771	58,008
Private company	705	996	1,700
- Limited company	87	180	270
- Joint stock company	3	17	30
- Private business	615	799	1,400

Source: Đồng Nai Statistic Agency

To help the private sector in this zone develop faster in the coming years as required by the VCP Central Committee's 5<sup>th</sup> Resolution, many things must be done and measures be taken. The following are our suggested ones.



Firstly, the legal infrastructure must be perfected. According to many experts, the system of laws in Vietnam has been basically established but it isn't consistent and strict enough. Different sectors are regulated by different laws although they do the same business: the Companies Law regulates private companies while state-owned companies are subject to the State-Owned Companies Law, Cooperatives Law applies to cooperatives and Foreign investment Law to foreign-invested companies. This situation leads to discriminatory treatment to different sectors, and especially to discrimination against the private sector. Many experts are of the opinion that there must be a Business Law applied to all companies and businesses without discrimination.

To help the private sector develop smoothly, the Land Law must be adjusted and perfected. All companies need some area for their factory buildings and offices. According to the Land Law, private companies have no right to own land, they are granted the right to use land during a certain length of time because the land is owned by the people and the State as their representative. Thus private companies have to depend on land authorities for the land using right. Procedures for getting this right are costly and time consuming although they have to pay the



market price for the piece of land they need. After receiving the right to use land, they have to pay the land using fee to the land authority. When granting land, the land authority stipulates the purpose the land to be used for. If the company want to use the land for another purpose, it must ask for permission from the land authority and pay a fee for this permission. Thus, the private company has to spend a lot of money and time before getting the piece of land needed for their business. These costs make private companies less competitive and prevent them from expanding their business.

The Land Law must be adjusted in the direction of granting private companies the long lasting right to use land for any business purpose on condition that it causes no harm for the environment. The Government had better create conditions for an estate market in its true sense. Prices of land is to be determined by market forces and the government intervention must aim at helping it develop instead of hindering it as what has happened in HCMC recently. Poor managerial skills of the land authority has led to chaos on the estate market with the result that the HCMC government had to issue Directive 08 to deal with the problem. However, this directive froze the market, which requires more directives and more chaos is in store. Many officials have taken advantage of this situation to speculate in land or milk money from estate agents. Many private companies engaging in the estate market and construction business felt so worried about their investment projects that they decide to pay land officials under the table to make sure that they are allowed to push ahead with their projects. This makes government policies less trustworthy in the eyes of private businesspersons when they want to do business in a legal environment.

Secondly, the banking and financial services must be perfected. At present, private companies find it hard to access bank credits while they are badly in need of capital. The main cause is mortgage and borrowing procedures are complicated. Most banks feel reluctant to supply loans to these companies for fear of bad debts. When lending to state-owned companies, they feel sure because they know the government will intervene when these companies fail to repay debt. To deal with this problem, the banking system must carry out structural reforms intensively. New mechanisms must be worked out to supply more loans to private companies. Banking authorities must make plan to enhance managerial skills and work ethics of officers in charge of lending and estimating investment projects because fiduciary loans could be offered to feasible and promising projects. Moreover, banks must improve and perfect the mechanism for internal supervision with a view to discovering corrupt officials and rewarding good ones. As for the interest rate, it's necessary to let banks and their customers decide the interest rate based on the supply-demand relation instead of fixing an interest rate ceiling. Furthermore, the SBV had better offer soft loans to companies of small and medium sizes, especially ones that engage in production of farm products for export.

The tax policy also needs adjustments for the development of the private sector. It is wrong to think that all private businesspersons tend to avoid or evade taxes because even state-owned companies could evade taxes. In fact, most companies want to do business legally instead of wasting time and money on lawsuits. It is apparent that the current tax policy is inadequate to companies of all sectors. For example, recent adjustments to the VAT Law were only a shotgun solution and they tend to turn the VAT into the sales tax. Many experts think that the

VAT Law must be amended instead of adjusting it with circulars or decrees. Learning from foreign experience, the VAT brackets must be simpler. They could be reduced to three levels: 0%, 5% and 10%, in 2003 and two - 0% and 10% - after 2004.

As for the company income tax, there is inequality of treatment offered to local and foreign-invested companies. It is a paradox that tax brackets applied to foreign-invested companies are lower than those applied to the former while the Government always publicly supports a level playing ground.

Thirdly, the monopoly held by state-owned companies in certain fields must be removed, especially in public utility services, with a view to helping private companies engage in these fields. The monopoly leads to high prices and poor product or service quality, which makes the business climate less attractive in the eyes of foreign investors. In 2002, the Southern Vital Economic Zone attracted the biggest volume of foreign investment, but the number of projects increased while the capital decreased. This situation is worrying because it means that the Vietnamese business climate is less attractive in comparison with regional countries, especially with China, a country with the same political system as Vietnam's. It's the participation of private companies that creates fair competition and a level playing ground.

In the market economy, all companies have a right to equal opportunities to access the market. At present, profitable or well-protected fields are controlled by state-owned companies, that is why an anti-trust law is much needed (a draft of such a law is under discussion in the National Assembly). For a long time, the monopoly in foreign trade has ensured an advantage for state-owned companies. The policy on foreign trade is reformed now but the inequality in this field still exists. In this year, the Government had better grant the right to do export to private companies, including foreign-invested ones. Quotas on exports must be auctioned, limits on the list of exports must be removed, requirements of compulsory sales of foreign exchange to the SBV could be lifted and companies be allowed to export and import items they have registered in their license, and the Export Supporting Fund must be open to all companies. In addition, the Government had better consider the formation of a Bank for Investment and Export based on the existing Export Supporting Fund. And removal of non-tariff barriers is also a condition for companies to get access to regional and international markets.

Fourthly, a favorable psychological environment for the development of the private sector is very necessary. At present, there are contradictory views on the private sector. Heritage from the centrally-planned mechanism and effects caused by law-breaking private companies (Tân Trường Sanh, Minh Phụng, Epco, Đông Nam, etc.) make a lot of people and officials consider the private sector as a source of labor exploitation, commercial fraud, tax evasion and smuggling activity. In fact, this view is more common among VCP members and civil servants than among the grass roots. Moreover, many private businesspersons are still afraid of nationalization or correction program that happened after 1975. But there many people who have a high opinion of the private sector considering it as an active sector and free from corruption. In my opinion, the existence of the private sector in the transition to the socialism or communism is the inevitable and this sector has the right to development. Providing it with favorable conditions without discrimination is the best way to help it develop. No other measure is necessary ■