

THE RIGHT TO AUTONOMY IN BUSINESS FINANCE IN THE NATIONAL FINANCIAL STRATEGY FOR THE YEARS 2001 - 2010

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In Vietnam, the autonomy in doing business, including the financial autonomy has been affirmed by official documents made by the VCP and Government, but in my opinion, there is still a gap between actions and words. This problem has been a long struggle between companies and their governing organizations that want to maintain their intervention in companies, and prolong the petitioner-approver relation as a way to get "something under the table" or to milk as much something from companies as possible. These corrupt practices gave rise to so much protest that the VCP Secretary-General had to give warning in his opening speech at the Conference of VCP Central Executive Committee of the 8th term. This is also what I want to discuss here.

The autonomy in business finance is related to many fields of the government management but I want to limited my argument to the three fol-

lowing aspects aiming at solving the said long struggle.

1. A paradoxical and controversial reality in the finance field

In the socialism-oriented market economy, all economic concerns are affected greatly by the financial-monetary policies. Paradoxes, shortcomings and contradictions of the financial mechanism are nudging economic concerns down the permanent shortage of funds, forcing them to face with tax and credit policies so changeable that they couldn't work out business strategies for the year, let alone development strategies of longer term.

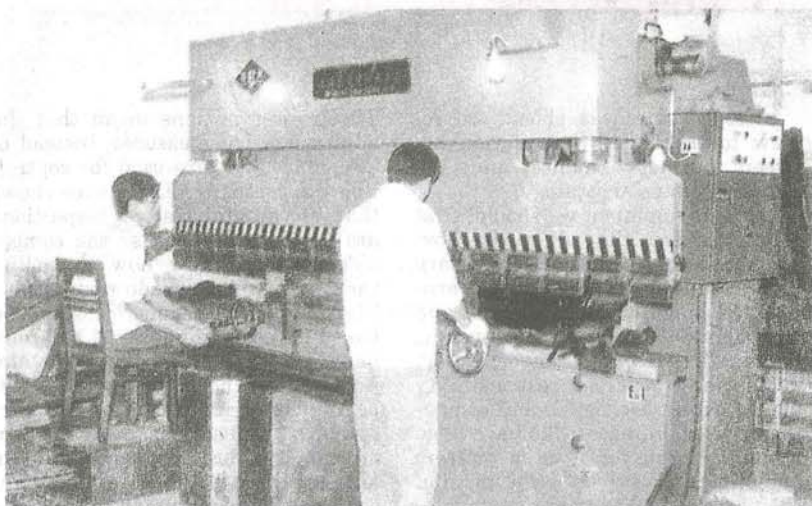
The following are main paradoxes:

a. When companies are badly in need of capital, the Government has tried to improve conditions for foreign investment, encourage domestic investment and secure loans for development from international financial institutions, in the meanwhile,

the banking system is having trouble with the surplus of fund. Up to September 1999, the bank deposit rose by 16% while bank loan increased by only 8% although the interest rates have been cut four times in this period. Many people are optimistic about this result and consider it a sign of trust the public put in the banking system. Others, however, think this reflects the failure of the banking system to do its business. The public, and companies as well, don't know what to invest in and they have to be content to deposit money with banks with a view to earning some interest instead of having its value decreased by inflation. Strange to say, many banks have refused to take 9-month or 12-month deposits in the past few months.

b. When the Government has to secure loans from the ODA sources or foreign banks, the banking system is suffering surplus of foreign exchange. The demand for foreign exchange reduced because import had slowed down. Commercial banks in HCMC had to sell US\$300 million to the central bank (*Saigon Times Daily*, Sep. 22, 1999) and many others had to deposit their reserve in foreign exchange in foreign banks to earn some interest because it's better to make a small income than to keep idle money. It's a kind of solution. But is it something desirable?

c. In running the national budget, the Government, to stimulate the spending power, had to petition the National Assembly to raise the budget deficit to 5% of the GDP (the allowed limit according to the international standard) but in the first three quarters, the budget deficit rose only to 2.3%. Thus, the Government couldn't increase its expenditures. It seems that the stimulation of spending power, an active measure to deal with the deflation and recession, is as unworkable as many other policies. It's always easier said than done. This phenomenon could tell us a lot about the administrative machinery. Opinions about this ar



ferent but they are certainly not content with this situation.

d. In the relation between the public finance and business finance, companies usually reproach financial authorities for high tax rates while the latter are frequently blamed for the tax take that fails to meet the government expenditures. Both blame and reproach reflect permanent contradictions in the finance mechanism that could be expressed in the following vicious circle:

High tax rates → small capital accumulation of companies → companies' shortage of fund → obsolete technologies → high production cost → big glut → poor ability to pay tax → low budget income.

Thus, the higher the tax rate, the smaller the tax take.

e. The same vicious circle could be found in relation between companies and the banking system:

High lending rates → Companies' high production cost → Companies' poorer competitiveness → big glut → big and doubtful debt → high banking overheads → higher interest rates.

When the lending rate on loans in domestic currency is higher than that on loans in foreign currency, some companies decided to secure loans from foreign bank with the result that the local banks' market share narrowed and dependence on foreign sources of fund rose.

Disadvantages in the relations between companies and the financial-monetary mechanism made companies fall into a more vicious circle:

Shortage of capital → obsolete technologies → high production cost and bad product quality → big glut → narrowed market share → more shortage of fund.

Thus, the shortage of capital has become something incurable to which companies couldn't find solutions.

Certain companies could keep themselves from falling into this vicious circle but in the long run, this circle seems inevitable when companies operate in an environment full of paradoxes and contradictions.

The shortage of capital facing the companies, and the economy as a whole, has become more serious in recent months because of the deflation, bigger gluts, lower spending power, low capital turnover and decrease in foreign investment. That is why the struggle against the deflation became an urgent task to the finance authorities. Experience, however, shows that to overcome the

deflation is more difficult than to deal with inflation because it requires new ways of thinking, new viewpoints and a set of consistent solutions appropriate to new socioeconomic conditions and the process of international integration.

2. Causes of the situation and new governing ideas

There are many causes of the situation and all parties involves have their share of responsibilities. I want to limit my opinions to the most important causes, especially those which are related to the current way of thinking because, as experience from the economic reform in the past 10 years shows, all reforms should originate from the reform in the way of thinking.



Then what ideas should we review to transform the relation between business finance and the national financial strategy?

a. In my opinion, we should, first of all, redefine the role of the Government to companies. It's necessary to reject the idea that the Government is superior to companies and has rights to grant raw materials, credit, licenses and import-export quotas (and bears no responsibility for its wrong decisions), and companies are subordinates who have to go around begging for some favor from governmental bodies only to find themselves in the maze of regulations and procedures. The government should become a friend, a helper and a servant of companies,

while companies should be considered as customers who pay taxes to maintain the machinery of government. From this idea we could develop a new management principle: companies have the right to do any trade not forbidden by law. The businessperson, when starting a business, need only make registration and inform the tax agency of his deed, thereby taking the obligation to pay taxes instead of making application and waiting for permission.

b. The second work is to make the financial autonomy of the company clearer. All interventions into the business finance are undesirable, such as limit on annual amortization, refusal of fast amortization for fear of lower profit and lower contribution to the national budget, limit on salary for directors and experts, etc.

These interventions mean that the administrative measures, instead of economic laws, are used for controlling the company. Experience shows that all administrative inspections are unworkable because the company's leaders know how to nullify them and how to evade restrictions. The most perfect control should be based on economic laws: if the company allows fast amortization and high salary, the production cost will be high and its market share narrowed, and thus it has to pay the penalty for it before any administrative measure is needed. In the market economy, such administrative rules only bind hand and foot of directors when they are in competition with rivals.

c. Thirdly, the Government should give up the idea of "getting as much tax as possible", such as imposing taxes on *xe ôm* (motorbikes used as a means of transport for one passenger only) and lottery ticket selling agents, or fixing so high VAT rates that many shopkeepers have decided to stop trading and the National Assembly has to think of an amendment to the VAT Law. The Government should base its financial strategy on the idea of "actively saving the public from the burden of heavy taxation and fostering tax receipts" in order to encourage the capital accumulation needed for replacing new technologies and enhancing the company's competitiveness.

According to Marx, the capital concentration comes first and capital centralization later. When a company starts its business, it should concentrate the capital as fast as possible and the fast concentration will lead to bigger centralization later. Saving the public from the burden of heavy taxation will encourage business. From a parent company, there will be many daughter ones and along with them are more tax payments. Many small tax receipts will be better than a few big ones.

d. The Government and companies had better make big investment in development of human resources. The most profitable investment is in human resources by ensuring them and their family a reasonable living standard and opportunities to improve their skills and knowledge. In many workshops, directors usually complain that because they aren't allowed to pay good salary, a lot of their skilled employees have left their companies for better jobs and pay. Foreign experience shows that reasonable pay is an effective measure to prevent corruption among high-ranking officials and attract skilled and well-trained employees, including expatriates.

The reform in salary scale has become a matter of great urgency. The problem to this reform is the shortage of fund, so the finance authorities should try their best to adjust government expenditures and give the top priority to this reform. After adjustments to the salary scale were made in 1995, the price index rose by over 32% but the salary scale saw no changes and the Government failed to keep its promise of annual adjustments to the salary scale in accordance with the inflation rate. However, the Ministry of Finance couldn't refuse to bear responsibility

for this. Foreign experience shows that increasing wages and salary is the fastest and most effective solution to the deflation: if the pay increases today, the trade will be brisker tomorrow, all concerns and individuals gain some more income and the government will gain enough income from tax payments to cover expenditures on the pay rise.

e. The relation between the government and companies should be made transparent. The government should put trust in companies and give up the practice of sending groups of inspectors of all levels of authorities to companies. Instead, the government could allow companies to send periodical financial reports to local authorities. If certain problems with the company are discovered and the company can't give satisfactory explanation, a group of inspectors will be sent to the company. Objectives, time limit and scope of inspection should be made clear and kept at minimum level because time means a lot to the company.

How could companies be allowed to estimate and inspect their business performance themselves? For the time being, we couldn't make everything perfect, so the government could set forth the following indicators as criteria for estimating a company: (1) return on capital (that could differ over industries); (2) technical innovations during a 3-year, or 5-year, period; and (3) improvements in workers' living standards and skills. Other criteria could be included, such as environmental pollution or the use of natural resources, but the three said indicators are enough, and the requirement for capital preservation could be seen as unnecessary.

3. On a set of consistent solutions

To deal with paradoxes and shortcomings in the financial-monetary policies and overcome the deflation, we should work out a set of solutions aiming at changing the thinking way, perfecting the law system, reforming the machinery of government and developing an army of good officials. The following are our suggestions about financial solutions aiming at beefing up companies and the national financial position as well.

a. Redefining the national financial strategy according to new governing ideas:

- Reducing the ratio of budget income to the GDP from 20% at present to 15% (compared with 13% in

China and Thailand): Although many people could feel fear of great budget deficit, this solution will encourage private investment, thereby generating future tax receipts.

- Reducing the tax burden and fostering tax receipts: this solution can accelerate capital accumulation in companies and promote business.

- Reforming the VAT Law: For the time being, two main aims are to lower tax rates and simplify procedures.

- Revoking the tax on farming land use: This solution is of great benefit because the income from this tax, after taking away expenditure on taxation, is rather small (around VND1,700 billion) but this decision will become a great encouragement to all sectors.

- Preventing the tendency towards "intensive taxation" which could lead to social unrest.

b. Concentrating efforts on dealing with deflation:

- Increasing the money supply as required by the economic development process instead of keeping it below 10%.

- Allowing a pay rise instead of giving a 20% allowance from Jan.1, 2000 as planned.

c. Beefing up the national financial position and controlling foreign debt:

At present, the foreign debt is equal 50% of the GDP. Some 7% of the GDP (or one-third of the budget income) is used this year to pay either principal or interest. It's likely the total export earnings won't be enough to service foreign debts, let alone principal, and the next generations will have to bear this burden.

The solution to this problem is to promote export by adopting the following financial policies:

- Adjusting the exchange rate flexibly.

- Cutting export duties on staples sold to new markets.

- Giving price support to exporters.

The financial-monetary system could only develop well when it is based on the public's trust. The same thing will happen to companies in its relation with the public finance. The government should put trust in the public and companies, and vice-versa, and this mutual trust will allow the government to tap all existing resources. This idea has been expressed by a German manager in the formula: Capital = Money + Trust. His suggestion is worth considering.