

# For a Better Competitiveness of HCMC Private Sector

by NGUYỄN VĂN SÁNG

ability to meet the market demand quickly.

Contribution from the private sector to local budget income has rose by some 15% annually in recent years. After the Companies Law, this sector witnessed formation of various kinds of businesses in all industries and played an important role in poverty alleviation. There are more and more private companies with legal

## 1. Facts about competitiveness of HCMC private sector

After the Companies Law was promulgated in 2000, the private sector became increasingly important contributing more and more to the economic growth. Up to September 2003, the number of private concerns rose to 72,601 with a total capital of US\$9.5 billion. This sector accounted for 42.3% of GDP and 14.8% of the national budget income and 25% of employment.

The VCP has recognized the private sector as an important component of the economy and developing the private sector was a matter of long-term strategic meaning, and it was allowed to do business in fields permitted by law.

HCMC has the biggest private sector in Vietnam in terms of quantity, size of investment and tradition of trading and production. In recent years, this sector has accounted some 36% of the HCMC gross output and comprised 41,198 concerns by the end of 2003. This sector has really been an important part of the local economy, especially in job creation. The personal sector alone employs 40% of labor force due to its size and

Table 1: Position of the private sector in HCMC economy

| Indicator                            | Value (VND billion) |                | Percentage |                |
|--------------------------------------|---------------------|----------------|------------|----------------|
|                                      | Total               | Private sector | Total      | Private sector |
| Total output                         | 76,660              | 27,190         | 100        | 35.5           |
| As % of GDP                          |                     |                | 9.3        | 2.9            |
| Manufacturing                        | 85,319              | 19,025         | 100        | 22.3           |
| Trading                              | 11,303              | 6,906          | 100        | 61.1           |
| Hotel and restaurant                 | 6,627               | 5,116          | 100        | 77.2           |
| Transport, information and warehouse | 10,854              | 1,986          | 100        | 18.3           |
| Share in fixed investment            |                     |                | 100        | 29.6           |
| Labor force (person)                 | 2,237,168           | 1,711,434      | 100        | 76.5           |

Source: HCMC Service of Planning and Investment, 2001

Table 2: Sizes of concerns by sector

| Size in terms of capital and labor force | Private | Public | Foreign |
|--|---------|--------|---------|
| Over VND10 billion                       | 10.53%  | 63.56% | 86%     |
| Under VND5 billion                       | 80.0%   | 20.0%  | 13.6%   |
| Over 200 laborers                        | 12.72%  | 52.11% | 36.36%  |
| Under 50 laborers                        | 82.26%  | 26.76% | 36.36%  |

Source: HCMC Economic Board, 2001



Photo by Huỳnh Thọ

capital of billions of đồng that could produce goods of high quality and low costs.

Besides good results, the HCMC private sector still has shortcomings that affect badly its competitiveness when Vietnam is integrating into the world market.

- Most of private concerns are of small and medium sizes. This is a big disadvantage in international competition in which giants control almost everything. Because of their small capital, private concerns in HCMC face the danger of depending on foreign sources of finance.

- Regarding technology, 37.7% of concerns employed mainly manual labor and 43.2% were mechanized to a certain extent. Of the existing equipment and machines, 86% were obsolete and of medium level. This situation led to low productivity and product quality.





Photo by Huynh Tho

- Most business owners were not trained in management and they depended totally on experience handed down from generation to generation. Only a few concerns made some investment in development of human resource and gathered information about international integration. According to the HCMC Bureau of Statistics, some 97% knew almost nothing about WTO and how Vietnam joins this organization. Therefore they didn't know what are in store for them and what they should do when Vietnam gets admission to WTO.

- Many private concerns have no long-term business strategies and they only concentrated in trading and services. Some others even violated law by producing fake goods, evading taxes, committing commercial fraud, avoiding social security program, or failing to keep books properly.

Causes of these shortcomings are:

- + Many concerns owners haven't trusted fully the government's policy to develop all economic sectors with the result that they were reluctant to invest more in their business. This is the main reason why most private concerns in HCMC have small and medium sizes.

- + Some policies failed to encourage private investment, such as policies on land use, access to formal loan and tax. Generally, the private sector is not treated as equally as the public one.

- + The State control over the HCMC private sector is not adequate: there is no cooperation and specialization among relevant authorities with the result that too many authorities could intervene in

purely business matters. Many officials with poor work ethics and expertise have supported illegal activities (false declaration of tax, doing business without license, causing pollution, etc.)

- + Many concern owners failed to anticipate difficulties they would face when the domestic market is open to foreign competition.

## 2. Suggestion about measures to improve the competitiveness

- Reform in economic policies: To encourage the development of the private sector, the Government should ensure a level playing field for all sectors, especially policies on tax, loans from state-owned banks and land use right.

In recent years, many law documents relating to the land use have been issued to create equal opportunity for everybody but private companies still have to pay for the land use right while state-owned ones are free from this obligation. Procedures for leasing and transferring the land use right must be simplified. Receipts from the land use shouldn't be seen as a source of budget income and the Government had better use them as an instrument for supporting companies. Ones moving from inner city to industrial estates or suburbs could be given priority in buying or transferring the land use right.

Most private companies met with difficulties in getting loans from state-owned banks (mortgage requirements, time-consuming procedures, etc.) and 50% of them had to borrow from informal sources with high interest rates (from four to five times higher than the bank one).

The tax policy also needs reform that aims at giving more favorable conditions to all companies and less discrimination against private ones. In addition, a mechanism for declaring corporate income tax suitable to private companies is also much needed.

- Reform in the State control: The HCMC government had better treat all companies equally by ensuring them equal opportunity to engage in development programs launched by local authorities (programs to supply loans to replace production lines, develop key industries in HCMC, promote trading relation between HCMC and foreign partners, develop local brand names and intellectual property, etc.)

One of great obstacles to the development of the private sector is corruption of civil servants. The administrative reform and struggle against corruption and red tape must be beefed up.

- Reforms in private companies: Besides support from the local authorities, private companies must reform themselves with a view to prepare for the international integration and foreign competition by learning about agreements between Vietnam and foreign countries, especially with the U.S. and ASEAN, working out strategies to develop firm foothold in the domestic market considering it as a basis for expansion of export market, accelerating R&D activities, developing the human resource and joining local and foreign trade associations in order to take opportunity offered by the international cooperation. ■