FOR A BETTER COMPETITIVENESS OF LOCAL COMPANIES

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The number of companies in Vietnam rises by 22% a year, which took place mainly in non-public sectors (joint stock companies by 93.3%, limited companies by 49.9% and foreign-invested ones by 23%) while the public sector tends to contract.

On Dec. 31, 2002, the total capital of companies rose to VND1,441,000 billion increasing by some 14%. State-owned ones controlled 62.1% (or VND895,200 billion); private ones 16.5% (VND237,300 billion) and foreign-invested ones 21.4% (VND308,200 billion).

Besides increases in the number of companies and their output, their performance also started to improve.

Profitable companies increased from some 33,100 in 2000 to 47,300 in 2002. Their total profit rose from VND53,400 billion to 73,200 billion in the same period. The total loss reduced from VND12,227 billion in 2000 to 10,959 billion in 2002. The average loss decreased from VND1.5 billion to 0.8 billion in the period. Capital turnover rose from 0.68 in 2000 to 0.96 in 2002. Return on capital also rose from 3.7% in 2000 to 4.3% in 2002 (from 2.4% to 2.9% in the public sector; from 1.8% to 2.3% in the private one and from 9% to 10% in the foreign one.)

However, small companies accounted for the nest part of recent increases in the number of companies. Only 68% of companies came into operation after registration. Their factor inputs, such as labor, capital, land, supporting services, technology and information are small, obsolete and less competitive.

Most companies are in trading, hotel, restaurants, food processing, beverage, real estate, clothing, assembling or producing common consumer goods. In industries processing farm products for export, producing import –substitutes and high-tech ones that need more investment are not developed as expected. Proportion of owner's capital was low and decreased from 38.1% in 2000 to 33.1% in 2002. In many companies, their net profit was just enough for them to pay bank interest. The proportion of loan capital was on the increase.

According to the World Economic Forum in 2004, Vietnam ranks 77 among 104 economies in terms of competitiveness at macroeconomic level and 79 among 103 countries in terms of competitiveness at microeconomic level, compared with the rank 50 among 95 countries in 2003. This is the biggest fall among ranked countries: 15 grades at macroeconomic level and 21 grades at microeconomic one.

Under such a situation, local companies need macroeconomic measures to improve their competitiveness. The following are what we want to suggest.

1. Facilitating flows of capital for companies:

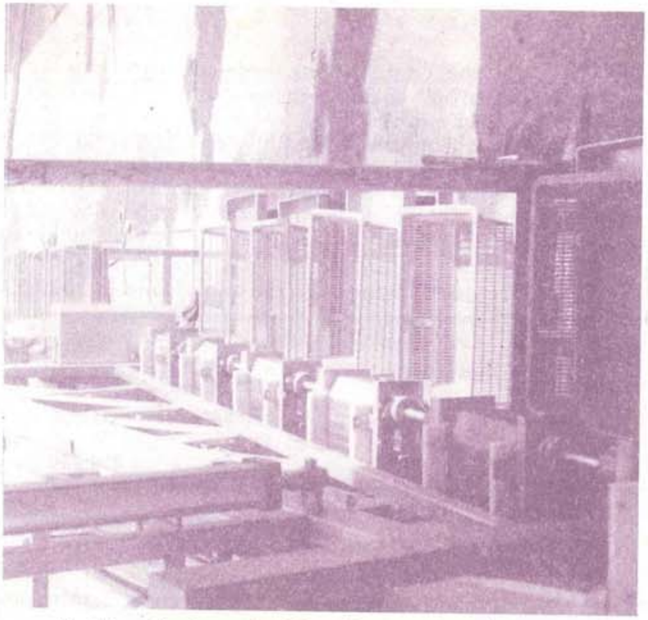
Some 96% of local companies are of small and medium sizes. They produce 25% of GDP and employ 64.8% of the working population. Half the number of state-owned companies has less than VND1billion in their capital. At present, most companies are badly in need of capital but their ability to accumulate capital is very limited. The stock exchange hasn't become a source of long-term capital. And as a result, most companies should rely on the owners' money and loan capital supplied by banks.

State-owned commercial banks must treat all borrowers equally and give up discrimination against private companies. In ad-

dition, the banking system could mobilize medium- and long-term capital by issuing bonds and certificates of deposit with long maturity.

High interest rate is also a disadvantage for companies. The interest rate has been liberated since 2002 but the open market operations fail to regulate the rate with the result that companies have to pay a rate of some 10% a year.

Facing the shortage of cash, the financial leasing proves to be an effective way to finance companies. The Government had better perfect the legal infrastructure for this service and encourage companies to use this source of capital.



2. Using exchange rate as a leverage

The Government should adjust the exchange rate with a view to making it stable. In the long run, the rate must be floated according to changes in the market forces.

3. Diversifying commodities for the stock exchange

More state-owned companies, including profit-making ones, should be privatized and restructured in order to help them go public. Foreign-invested companies could be also allowed to go public, which will provide more high-quality commodities for the stock exchange.

Companies and commercial banks could issue bonds to secure medium- and long-term capital. In addition, local government could issue project bonds to raise funds needed for infrastructure projects. Along with encouragement to the issue of bonds and shares, rating companies and credit agencies are also needed to reduce risk and provide potential investors with advice.

4. Reforming the investment policy

Public funds should concentrate in exports-making companies instead of being divided among too many projects. Projects with poor feasibility and economic efficiency must be rejected. The Government should stop giving subsidies of all kinds to state-owned companies in order to force them reform their organization and management methods. Be careful with public expenditure in order to save money for new investment projects.

Inspection authorities must keep a close watch on investment projects in order to prevent corruption, loss and embezzlement, which have raised a lot of protest from the public.

Besides making investment in export-oriented companies, the Government could give them tax incentives and remove all export duties in order to make local goods and services more competitive.

5. More cuts in the production cost

At present, financial autonomy is extended to companies, which allows them to choose business strategies and plans based on precise calculations. In my opinion, their greatest effort must aim at reducing the production cost because it is very important to their competitiveness.

6. A fair tax system

The tax system must be free from discrimination and ensure fair competition between companies regardless of their owners. This aim could be achieved by:

- Reducing cases of tax exemption and reduction and increasing taxable cases.
- Introducing the anti-dumping tax as an instrument for protecting local production.
- Perfecting the legal infrastructure in order to protect legitimate interests of both companies, as taxpayers, and the government.

7. Credit for development

To help companies improve their competitiveness, the government could provide them with credits for development. The following are some examples:

- Low-interest credits could be extended to investment in capital goods.
- Interest support could be given to prioritized projects that depend on bank loans. This support is granted in cash.
- Guarantee could be given by the government to companies that want to secure long-term loans from any financial institutions.

8. Brand- name development

Companies certainly try their best to build their own brand- name. The question is how the government protects them from illegal usage and prevents companies from violating intellectual property rights.

9. Better conditions for local companies

The government could give support in many ways to companies because they create new jobs for the public, such preferential charge on public utility services, reduction in taxes on land; profit; capital gains, etc., quicker land clearance and compensation...

10. Leverage of social benefits and bonuses

After-tax profits serve as a basis for increases in wages, bonuses and benefits. At present, the poor productivity makes these compensations in local companies lower than what offered by foreign ones, which attract talented persons from the local companies. The government should revise the system of wages and benefits and link them with business performance of companies in order to encourage laborers to do their best for the companies.

11. Better quality of managers and laborers

Universities and technical schools must be open to everybody in order to create necessary conditions for improvements in their performance. Recruitment of laborers, including the leadership or office-holders, must be transparent and based on their skills instead of seniority, families or classes.■