

Orientations and Measures to Develop Private Businesses in HCMC

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In recent years, the Party's renovation line has helped boost private businesses and improved their significant contributions to the country's economic growth. Especially from the promulgation of the Resolution

GDP annually (see Table 1).

In particular, since the Companies Law was promulgated and effective from January 2000, the private sector includes limited liability companies, joint stock companies, private

tal of VND19.216 billion; 10,123 private enterprises with VND3,524 billion and 975 joint stock companies with VND6,213 billion.

Especially in 2002, the city's private investment represented 38% of gross investment, higher than

the manufacturing sector attracted 768,064 workers including 353,504 workers employed in the private sector, and the trade and service offered jobs to 612,500 persons including 560,321 workers in the private sector.

Private businesses' operations are diversified in many industries and occupations. They produce a lot of kinds of commodities and help restructure the city economy in favor of manufacturing and service. The trade, service and tourism sector makes up 76% (see Table 2).

The private sector has

Table 1: GDP share of HCMC from 1995 to 2002 (base price in 1994) Unit: %

Sector	Year							
	1995	1996	1997	1998	1999	2000	2001	2002
State	48.9	47.4	46.8	49.0	45.2	45.9	44.2	44.9
Non-state	40.0	38.6	37.6	33.6	36.5	35.5	37.3	36.8
Foreign-invested	11.1	14.0	15.6	17.4	18.3	18.6	19.5	18.3

Source: 2002 Statistics Yearbook, HCMC Statistics Bureau

of the Central Committee's fifth plenum, Term IX on March 18, 2002, more details have been given to the Party decisions on reforming the mechanism and policies with the aim to encourage and make favorable conditions for the private sector's evolution. This resolution thus shows the Party's consistent directions for the sector's growth.

HCMC is one of the country's biggest economic hubs with its people accounting for 6.6% of the national population. At present, the city contributes 19.3% of the national GDP, 29.4% of industrial value, 25% of added value of services, 42% of total export earnings, 31.6% of total budget revenue. It tops the Vietnam's list of per capita GDP producing provinces with the performance tripling the country's general figure. The private sector has made significant contributions to its GDP. On average, non-state businesses produce 35.5% of the city

Table 2: HCMC private businesses in 2001 by industry

Industry	Number of enterprises		Registered capital	
		%		%
Manufacturing	3,681	14.43	5,892	25.57
Construction	2,191	8.58	4,148	18.00
Agriculture	538	2.21	714	1.55
Transport	518	2.03	714	1.55
Trade	12,153	47.01	8,712	37.81
Service and Tourism	6,444	25.24	3,576	15.52

enterprises, and family businesses. They play increasing important roles in the city socio-economic development as follows:

- The sector has mobilized significant capital sources from the public and the average investment capital is growing.

For example, the registered capital of an enterprise was VND0.6 billion on average in 1995 but the figure increased to 1.06 billion in 2000; 1.3 billion in 2001; and 1.6 billion in 2002. In respect of business form, there were 18,325 limited companies with total registered capi-

tal of state-owned businesses belonging to both central and local authorities (36.5%).

- Over the past years, the private sector has been actually a job-generating machine. The proportion of workers in private businesses accounts for 73% of the city's employed people. In 2001, for instance,

made significant contributions to the city economic growth. From 2000 to 2002, the non-state growth rate reached 10% per year and its share in the city GDP was also larger than that of the state sector, if not mentioning businesses ruled by the central authorities.

Table 3: GDP of HCMC-based businesses (VNDbil.)

Year	Local state enterprises	Non-state enterprises
2000	8,159	19,578
2001	9,799	21,537
2002	9,477	23,852



- Private businesses have made important payments to the city budget (accounting for 8.3%), besides they also take part in the city's social development programs, especially for the program of hunger eradication and poverty alleviation...

- The private sector's development has forced state enterprises to reform themselves and sharpen their competitive edges. As a result, they help promote the competitiveness of the whole economy which is an urgent requirement in the process of international integration.

In addition to important contributions, the private sector reveals a lot of inadequacies and encounters not a few challenges because it operates in the increasingly fierce competition and in the situation of imperfect legal framework and unfavorable social psychology. The following will visualize it:

- Its capital size is not large, thus restricts its extension to those capital-intensive industries. Non-state businesses face difficulties in innovation of equipment and technologies, so most of them are equipped with medium-level technologies and outdated machinery. Therefore, their productivity,

quality and competitiveness are hardly intensified.

- The HCMC private sector also faces challenges in access to bank loans because banks still like to offer credit to state enterprises. According to the 2000 statistics, loans given to the private sector represented only 20% of its capital while this ratio was 40% for state enterprises. Moreover, the Government earmarked a lot of assistance programs to state enterprises and granted a few supports to private businesses.

- Land on the whole and production site in particular is a crucial condition for enterprises, while state enterprises are allocated land, private businesses have to buy land and register their use right. However, the procedure is very cumbersome and really an obstacle to their production and business expansion.

- The majority of private enterprises lack a business strategy and they are in favor of trading and service in big cities (accounting for 72.6% in HCMC). They have not yet paid full attention to manufacturing in order to make the best use of materials from the city suburbs and neighboring prov-

inces. On the other hand, the managerial skill of business owners as well as professional skill of work-

ditional conditions. This has disappointed private investors which want to do business legally.

Table 4: Frequency of being inspected by state authorities in a year (highest number)

	State enterprises	Private businesses
Tax	4	12
Fire prevention	3	5
Labor	2	2
Sanitation	2	3
Police	1	10
Customs	1	300

Source: Reports of the World Bank, IFC, and MPDE at the Business Forum, Hà Nội, December 1, 2003.

ers is not high and their knowledge about law restricted.

The legal and psychological environment remains much hindrance to the private sector's development. The Companies Law allows private investors to do business in any industry and occupation which is not banned by law. Nevertheless, in HCMC, several investors want to do business in services of safeguard, inquiry agent, debt claiming...but they have to wait. Moreover, the business of karaoke club, hotel, or dancing club are considered sensitive and its registration may be suspended or requires ad-

The private sector are also faced with social unfavorable bias including tax evasion, smuggling, trade fraud...Furthermore, they also suffer adverse concepts, for example, "trafficker", "manipulating traders"...

The Government should draw up orientations and implement synchronous measures, overcome limitations and remove obstacles to encourage and facilitate the private sector's expansion so that the sector can contribute more achievements to the city growth rate. The private sector's development must secure following orientations:

- The promotion of private sector is a long strategic objective in the development of multisectoral economy in our country.

- The Government is required to respect and ensure the right to do business freely, impose no restrictions on scale and area for industries and occupations which are not banned by law and encourage investments in those areas in accordance with the city socio-economic planning.

- All social sources should be liberalized, improved and attracted to production and business with the aim to create jobs and increase workers' income.

- The private sector should be enhanced in the direction of ownership diversification based on volunteer cooperation. Family businesses should act as satellites of state enterprises.

- The city authorities should accurately evaluate the role of private businesses in the city socio-economic life, and build relations between the government and the private sector for agencies' easier management and businesses' effective performance.

Based on these above orientations, the following measures should be implemented to spur the private sector's development:

First, to carry out 12 major programs and projects laid down by the seventh congress of the HCMC Party Unit, private investment should be focused on the programs below:

- Quang Trung software park and high-tech park.
- Human resource development.
- Clean water for the people.
- Treatment of garbage.
- Settlement of traffic jam in inner city.
- Prevention of flooding in inner city on rainy seasons.

Second, the government should facilitate framework and psychological

environment by diffusing the Party's viewpoints of private businesses' promotion on media by different forms. Good and typical entrepreneurs who have made important contributions to the city development will be paid the honor. High-quality products manufactured by private enterprises must be advertised and given awards. Those entrepreneurs should be praised and given titles.

Third, infrastructures must be upgraded:

- The city authorities should plan land and site for production, give incentives to private investments in priority areas, and simplify the procedures of leasing land and transferring land use right.

- State enterprises engaging in supplying infrastructures including post, telecommunications, electricity and water are required to improve effectiveness to reduce input costs for private investors.

- The city government should examine grounds which state enterprises have not yet used or not used up in order to withdraw and lease.

Fourth, the Government should boost development investment

- Regarding finance and credit:

+ to fix proper land rent in accordance with

each area, especially for newly-founded districts and suburban districts with the aim to encourage producers to move to these areas for environmental protection.

+ to simplify the procedures of lending so that private businesses can easily make access to bank loans via the fund of credit guarantee for private businesses.

+ to stimulate the private sector to take part in finance leasing for technology innovation.

- Regarding information, science, and technology:

+ the HCMC Service of Science and Technology organizes short refresher courses to help workers in the private sector understand new technologies as well as to build a bridge linking private investors with scientists.

+ the city should set up a assistant fund for new technology development for private enterprises with a view to offering soft loans to the projects innovating technologies or applying the city's scientific achievements.

+ the Service of Science and Technology should map out programs to help private investors build their quality management system following ISO and improve their competitiveness.

- Regarding human resource training:

+ the city authority shall use its budget to train private investors in legislation and management and workers in professional skills.

+ the private owners should be encouraged to take positive part in the program of training 1,000 directors of the city and the program educating 100 masters and doctors with the government's assistance.

+ vocational schools and job training centers established by private investors shall be given incentives and privileges.

- Regarding trade promotion:

+ the Service of Trade in combination with the Association of SMEs accelerates trade promotion activities via fairs and exhibitions.

+ the city shall cooperate with neighboring localities to expand the consumer markets and supply services to the southern vital economic zone.

+ Typical enterprises will be funded to speed up trade promotion with other foreign partners in regional countries.

Fifth, the state management efficiency should be enhanced.

- The formalities of granting business registration certificate, making seals, giving tax code...should be simplified and the licensing process standardized for businesses' convenience.

- State agencies including the city People's Committee, Service of Planning and Investment, Tax Bureau...should make conversations with private businesses, and build hot lines for business owners to express their urgent requests on time.

- The state officials in charge of economic areas must be professionalized with the aim to make good impressions and friendly cooperations, and avoid discrimination against private businesses rather than other sectors. ■

