

Private Industries in Ho Chi Minh City, Vietnam

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I Introduction

After gaining independence from France in 1954, Vietnam was divided into two sovereign nations. While South Vietnam followed the capitalist system, North Vietnam pursued a socialist mode of economic development. The reunification of the two countries in 1975 altered the political and economic system in South Vietnam. The pattern of ownership changed; state and collective ownership became prominent and private ownership declined. At the Fifth Party Congress in 1982, the government adopted a set of “new economic orientations,” under which production activities were partially deregulated by delegation of greater autonomy to industrial enterprises. At the Sixth Party Congress in December 1986, the government approved subsequent economic reforms, while the Council of Ministers’ Decree 217 of December 1987, further formalized the process of commercialization and liberalization [United Nations Development Programme 1990: 126]. Under these reforms, the private sector gained greater freedom to start industries. The new regulations for the non-state economic sector promulgated in Resolution No. 16 of July, 1988, countenanced the following principles regarding “non-state production units”:

- They will operate outside the state planning process.
- They will not be discriminated against by monopoly state organs that supply raw materials and spare parts.
- They may also secure their own supplies of raw materials and spare parts.
- They may procure on equal footing supplies of machinery and equipment from state units.
- Those producing for export may use their foreign exchange earnings to import machinery and equipment from abroad, and they may freely choose to set up their own sales outlets.
- Export units may negotiate their own foreign sales contracts.
- They may secure technical training and technology from state institutions on making appropriate payment.
- They may enjoy patent and copyright protection on their own inventions [*ibid.* : 130].

These policy reforms had far-reaching implications for the private sector industries in Vietnam. This paper examines the status of private sector industries in Ho Chi Minh City under these policy reforms. The analyses presented in this paper are based on the findings of a survey carried out in two districts of Ho Chi Minh City covering 120 industrial enterprises, during June-July, 1991. The two purposely selected districts are the Fifth and Phu Nhuan. There is a marked difference in the

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two districts regarding ethnic composition: the Fifth District has more people of Chinese origin, whereas in Phu Nhuan District the majority of the inhabitants are Vietnamese. Among the sample, 53.3 percent of the owners are Vietnamese and the rest are Chinese. Out of the total sample from the Fifth District, 75 percent are Chinese, while in Phu Nhuan District, 81.7 percent are Vietnamese. The industrial enterprises for the study were selected on a random basis.

II Ownership

Industries operating in the city can be divided into three broad categories on the basis of ownership: *State Owned, Collectively Owned and Privately Owned*. Variations in each of these outlined broad groups are discernible.

After the onset of Communist rule in 1975, the state operated and collective industries increased whereas those owned by private companies experienced a drastic decline. This was due to rapid nationalization and transformation of collective ownership. In 1976, there were 731 industries owned by companies, which were reduced to 73 by 1986.

The data for 1989 and 1990 in the two districts studied reveal that industries owned by the state and collective sectors had declined and private industries had increased. The share of private industries in the Fifth District increased from 81.8 percent in 1989 to 86.8 percent in 1990. Similarly, in Phu Nhuan District, share of private industries increased from 82.3 percent in 1989 to 87.7 percent in 1990. Thus, the prevalent pattern of ownership in the two districts is very similar.

III Entrepreneurship

Most of the entrepreneurs in the study areas were middle aged. Of the total sample, 43.5 percent fell into the age group of 31–40 and 35.8 percent into the category of 41–50 years. Most of the older entrepreneurs operated industries which had existed before the reforms, while the younger people operated those started after the policy reform.

Industrial entrepreneurs have emerged from many fields and professions such as traders (54.2 percent), state officials and employees (20.1 percent), farmers (8.3 percent) and the rest from other jobs. A large percentage of the traders among industrial entrepreneurs demonstrate their innate capacity to identify potential industries. Traders are relatively more informed about the condition of the market, which helps them to identify viable industries. On the other extreme, a small percentage of farmers among the industrial entrepreneurs indicated that either they tended to avoid the risks associated with entrepreneurship or they did not have enough information to make investment decisions.

Some of the entrepreneurs were engaged in manufacturing activities before 1975 but stopped due to the Socialist reforms. They have returned to manufacturing once again because of the promise of greater freedom to the private sector stemming from recent policy reforms. During the interim period, they were involved in collective industries or worked for the state. About 30 percent of the entrepreneurs operated industries which they inherited.

There were a few notable differences existing between the two districts. In the Fifth District the entrepreneurs were mostly traders and in Phu Nhuan District most of them were former state employees or farmers. The number of entrepreneurs who migrated to the city from other areas is higher in Phu Nhuan District. This situation may be attributed to the differences in ethnic composition. The Chinese community has traditionally engaged in trade and their established dominance made it difficult for outsiders to penetrate into their territory, the Fifth District. Therefore, the entrepreneurs from the provinces and peripheral districts, as well as state employees who wanted to start industries, have had to choose some other locality. A relationship also existed between the size of enterprises in terms of capital and the entry of entrepreneurs from other areas. The industries in Phu Nhuan District were relatively smaller and therefore, the capital invested was also lower.

The education level of the industrial entrepreneurs was quite high: 14.2 percent were university graduates, 20.8 percent had high school diplomas, 45 percent had reached high school, and 15.8 percent had primary education. Only 4.2 percent had no formal education. Most of the entrepreneurs (70 percent) received their education in Ho Chi Minh City and 1.6 percent were educated abroad. The number of entrepreneurs who had vocational training was very small. There was a significant relationship between the education level of the entrepreneurs and the ethnic origin. The education level of the Chinese entrepreneurs was relatively lower than that of the Vietnamese. It was observed that Chinese entrepreneurs in the Fifth District were seeking assistance from Vietnamese in accounting and office activities. The number of entrepreneurs who received training in fields such as Management and Accounting was very small, and all were Vietnamese. Most of the entrepreneurs managed their industries relying on the experience they had received while working in industries operated by cooperatives or collective production groups.

IV Finance

Almost 73.3 percent of the entrepreneurs used their own savings to start industries. The other sources of finance were foreign capital through joint ventures (7.5 percent), gifts from relatives of foreign countries (7.5 percent), and shares (6.7 percent). Only 4.2 percent used bank loans for starting industries. This is attributed to the rudimentary banking system and exorbitant interest rates, which run as high as 4.5 percent per month.

The ability to mobilize capital for starting industries differs between the two districts. In Phu Nhuan District, 90 percent of the entrepreneurs used their own savings to start industries, whereas in the Fifth District only 56.7 percent did so. The percentage of entrepreneurs who obtained funds from relatives in foreign countries, shares, joint ventures and bank loans were also significantly higher in the Fifth District. These results reveal that the entrepreneurs in the Fifth District were relatively better off than those in the Phu Nhuan District with respect to mobilizing funds for investment.

Mobilizing funds for initial investment has been a major problem for a large majority of entrepreneurs because since 1976, until the Government relaxed control over the private sector,

people worked in the Socialist system and therefore, had little or no opportunity to accumulate capital. However, in the Fifth District which is dominated by Chinese, private business continued even within the Socialist system, and therefore the entrepreneurs there faced little difficulty in mobilizing capital to start or to operate industries as compared to others.

V Technology

Most of the machinery and equipment used in the industries studied were very old and obsolete. For technology, Vietnam relied either on what was available internally or machinery and equipment obtained mostly from Eastern Europe and the U.S.S.R., thus preventing the industries from acquiring modern technology. Among the enterprises studied, 77.5 percent used machinery and equipment manufactured in Vietnam. The industrialists were in general agreement that the technology they use is backward: it wastes raw materials, costs too much and yields products of low quality. However, due to lack of capital and uncertainty over policies, no serious attempts have been made to improve technology. Among the industries studied, 31.7 percent had made some changes to improve technology. Of the 38 industries who had adopted new technology, 63 percent did so to produce new products, 23.6 percent to improve the quality of products and the rest for other reasons.

Most of those who improved technology had done so with their own capital, obviously placing a limit on the improvements. Joint ventures with foreign entrepreneurs have become a primary means of improving technology in industries, but even in those cases "Technology was mainly transferred in the form of machines and equipment of second hand with comparatively higher sophistication to the existing ones" [Nguyen 1992: 32]. The government has provided incentives such as duty exemption for imported machinery and income tax exemption on investments for machines and equipment. However, the conviction among some industrialists that the technology they use is suitable to perform the task could be a constraint on the adoption of modern technology. This may be due to lack of information or experience under the socialist system, in which industrialists could produce goods and sell them without paying much attention to their quality. Static or decline in demand emerged as another reason for not considering the improvement of technology.

VI Raw Materials

Under the central planning system, the raw materials supply to industries was controlled by the state to a great extent. Availability of raw materials to an industry depended mostly on contractual agreements between the government and the enterprise. Industries having such contracts were supplied with the raw materials, and the products were bought back at a price fixed by the state. Those who failed to acquire such contracts with the state faced difficulties in obtaining raw materials.

After the reforms, the role of the state diminished and the situation changed dramatically. Now most of the industries obtain raw materials from the open market. Of all the industries

studied, 66.6 percent obtained raw materials from the open market and 13.3 percent from private industries. Just above 2.5 percent of the private industries obtained raw materials from state factories and organizations. Of the total, 17.5 percent of the industries received raw materials through joint venture contracts. This is a recent trend and in these cases, the foreign counterpart supplied the raw materials, and the finished products were usually exported. Of the 21 industries which obtained raw materials through joint venture contracts, 62 percent were located in Phu Nhuan District indicating that most of the joint venture industries are located there, perhaps due to the availability of space.

According to private industrialists, after the reforms it became relatively easier to obtain raw materials. In the sample, 70 percent held this view. Although it has become relatively easier to obtain raw materials, some industrialists still complained that they could not get the right kinds of raw materials at right time, such as certain kinds of steel for machine manufacturing or aluminum for building materials. Moreover, the price of raw materials increased after liberalization of the supply. Earlier, the prices of raw materials were either controlled or subsidized by the state. The increase in price may be partly due to mounting inflation and partly due to a reflection of the real cost.

VII Marketing

Before the reforms, most of the enterprises had to sell their products to the state and they reached the consumers through marketing outlets controlled by the state. Under those circumstances, marketing was not a major concern for the industrialists. Those who did not have such contracts could sell their products in the open market. However, if the state felt the necessity to obtain goods to meet abrupt increases in demand, products from private industries were purchased at prices fixed by the state, even if the enterprise did not hold an agreement with the state. The prices paid by the state for the products purchased from private industries were generally lower than the open market price. Therefore, the producers who had to sell their products to the state had to bear losses. Since the reforms, the private industrialists have been given enough leeway to sell their products in the open market. Furthermore, if the state wishes to purchase products from private industrialists, the prices are subject to bilateral negotiations and private industrialists are not under compulsion to comply.

Of the sample, 28.3 percent expressed that marketing is becoming difficult, mainly due to competition among the producers. Due to relaxation of state controls, the number of private industrial enterprises has increased and so has the competition. An increase in the import of certain goods, and smuggling, have also increased competition.

Recently, export of manufactured goods from industries in Ho Chi Minh City has increased. Of the industries studied, 25 percent export part or all of their output. Of the two districts, Phu Nhuan District has more industries that export their products than the Fifth District. This is attributed to the concentration of handicraft and garment industries in Phu Nhuan. Moreover, the growing number of joint ventures with foreign partners has also facilitated exports.

Until the introduction of reforms, import and export were state monopolies; state organizations

signed contracts with foreign buyers, supplied the raw materials, purchased the output and exported it. After the promulgation of Regulation No. 64 of the Council of Ministers in 1989, some changes in import-export activities occurred. Under the new regulations, producers in the private sector are allowed to find customers in foreign countries, negotiate contracts, get materials and machines, go overseas to study foreign markets and participate in trade fairs to introduce their products. Now the manufacturers who can show that they can get an annual turnover of US\$ 5 million or more are allowed to entrust private organizations with exporting their products, but they have to pay US\$ 3,000 in export fees to the government. Under the current status of the private sector industries, however, not many producers can avail themselves of this opportunity and hence have to entrust state organizations with the responsibility of exporting.

VIII Employment

Under the socialist system, the Government of Vietnam was attempting to guarantee employment for all persons in the labor force and therefore, had absorbed a large amount of labor into state and collective industries. However, since the reforms, state owned industries have been attempting to reduce the number of employees so as to increase efficiency and to reduce losses because they can no longer rely on state subsidies to cover the losses. Having given greater freedom to the private sector, the government's expectations regarding the expansion of employment in the private sector have been raised. In 1989, out of a total of 202,366 employed in industries, 102,949 (50.8 percent) were employed by the private sector. In 1990, the total number of employees in industries in the city declined to 147,267, i.e., by 27.2 percent. Of the total of 147,267 employees in industries, 87,147 (59.2 percent) were in the private sector. This shows that although the proportion of employees in the private sector has increased, the total number of persons employed in industries declined from 1989 to 1990 by 15.3 percent.

Between 1989 and 1990, the total number of employees in industries in the Fifth District declined by 10.3 percent, but the employees in private sector increased by 31.9 percent. The proportion employed in private sector industries increased from 40.5 percent in 1989 to 59.5 percent in 1990, demonstrating a substantial change. In Phu Nhuan District, the decline in the number of employees in industry between 1989 and 1990 was only 4.9 percent. Employees in private sector industries increased during the same period by 9.6 percent, which is insignificant as compared to the Fifth District. Private sector employment, which was 53.2 percent of the total in 1989 increased marginally to 61.3 percent in 1990. Due to the rapid expansion of employment in private sector industries in the Fifth District, the differences in private sector employment between the two districts have diminished to a great extent.

The number of private industries in 1990, in proportion to the total, was as high as 86.8 and 87.7 percent in the Fifth and Phu Nhuan Districts. However, the number of laborers employed out of the total is relatively lower in both districts compared with the number of units. The figures in 1990 for the Fifth and Phu Nhuan Districts were 59.5 and 61.3 percent respectively. This is due to the small number of persons employed in private industries. In the Fifth District, the average

numbers of workers in 1989 and 1990 were 3.7 and 4.6. In comparison with state industries, the averages for the same years were 109 and 98. In the Fifth District, the average number of workers in state and collective industries declined over the same period but the average for private industries increased. This may be an indication of the expansion of private industries in the Fifth District. The average numbers of workers in 1989 and 1990 in Phu Nhuan District were 9.9 and 8.7. The averages for the same years for state industries were 85 and 90. In this district, during the same period, the average number of workers in state industries increased while it decreased in collective and private industries.

IX Overall Trends

The foregoing discussion provides evidence that due to reforms introduced by the Government of Vietnam, the role of private industries in Ho Chi Minh City has increased. Conceivably, when controls were relaxed, participation of the private sector increased, thereby becoming the principal precursor of the increased participation which led to greater competition. The effect on the growth of the industries is not an ephemeral one, but carries a much more long-term connotation; industries with better performance will thrive and grow, while, others stagnate or decline. A similar tendency was observed in this study. Of 120 industries studied, 39.2 percent experienced an increase in output while 30.8 percent experienced no significant change and 30 percent experienced a decline in output. Views of industrialists regarding their income has revealed an analogous pattern: of the total, 37.5 percent reported an increase in income earned, 33.3 percent noticed no significant change and 29.2 percent said that their income had declined. Of the total, 54 producers (45 percent) had plans to introduce new products or better designed products in the future. Fourteen (11.7 percent) hoped to start new industries besides the industries that they were operating at present. Asked about prospects for the future, 43.3 percent stated that they were optimistic about their industries, 38.3 percent were pessimistic, and the rest were neutral.

X Conclusions

The policy reforms introduced by the Government of Vietnam have yielded notable effects on private industries. After the reforms, the number of private industries increased. Most of the entrepreneurs who started industries were engaged in trade before pursuing their present businesses. The supply structure of raw materials has changed; with the relaxation of the policy on the supply of raw material, the role of the state as a major supplier has diminished. Obtaining raw materials has thus become relatively easier, but due to liberalization the prices have increased. Scarcity of certain types of raw materials is a constraint on the expansion of certain industries. Securing raw materials and marketing of products is increasingly becoming the responsibility of individual producers. Due to greater freedom given to the private sector, competition among industrialists has intensified. The data on perceptions of the industrialists on changes in output, income and future prospects show that approximately 40 percent of the private industrialists are facing difficulties. To a great extent,

the difficulties may have been caused by competition among domestic industrialists, and, to a lesser extent, by competition from foreign goods, mostly smuggled into the country. Lack of finance and obsolete technology have emerged as major constraints on the expansion of private industries. If the existing constraints on the expansion of private industries are removed and competition among the domestic manufacturers can be augmented, the efficiency of the private sector industries will increase, leading to further improvements in the technology used and the quality of products manufactured. This may force certain industries which are unable to face the competition to leave the market, thus creating some job losses. This process appear to be under way in Ho Chi Minh City.

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