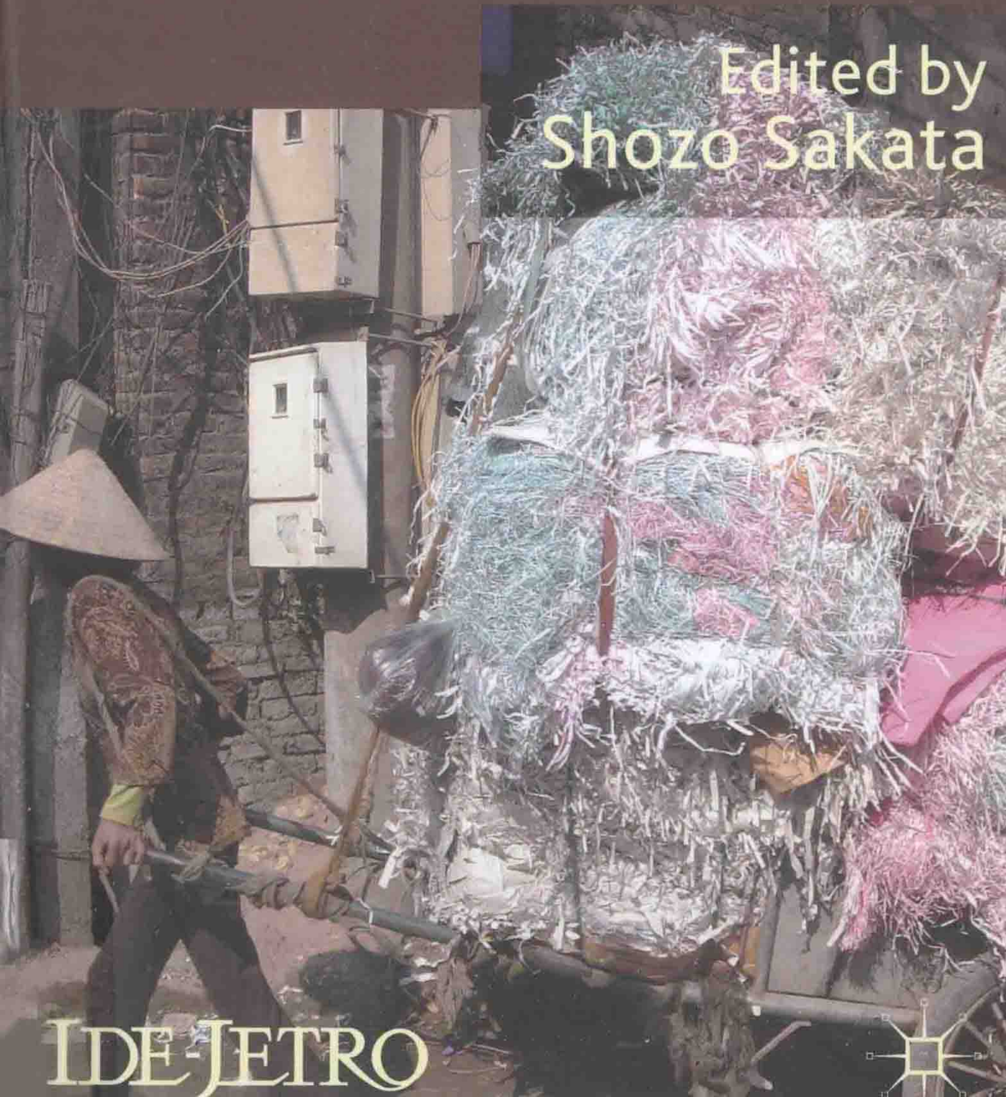
Vietnam's Economic Entities in Transition

Edited by Shozo Sakata



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Preface and Acknowledgements

During the last two decades, Vietnam has experienced a dramatic socioeconomic transformation. There are two pillars of institutional reforms which have brought this about, namely the deregulation of economic activities of all sectors of capital ownership and integration into the global economy. Deregulatory institutional changes include the issuance of the Enterprise Law in 1999 and the amendment of the Foreign Direct Investment (FDI) Law in 2000, which were then integrated into the Enterprise Law (so called "General" Enterprise Law) and the Investment Law (so called "Unified" Investment Law) in 2005. The watershed for Vietnam's integration into the global economy came in 2000 when the Bilateral Trade Agreement with the US was concluded. In 2005 and 2006, Vietnam introduced various new economic laws and regulations, which enabled Vietnam's accession to the World Trade Organization (WTO) in January 2007.

These institutional changes have resulted in the acceleration of the establishment of the domestic economic entities in non-state sectors. On one hand, Vietnamese enterprises have been enjoying new opportunities brought about by institutional reforms. However, they have also faced stiff competition with FDIs because of the abolition of the long lasting preferential measures to protect domestic enterprises.

In order to cope with such an environment, Vietnam's domestic entities have employed various measures, such as technical upgrading, shifting to new business areas (in particular, the real estate sector), diversification of capital acquisitions, adoption of new corporate governance, formation of strategic partnerships with other entities, and so on. However, these strategic measures sometimes conflict with the Government's industrial policies that advocate the enhancement of competitiveness of the domestic industry in the international market.

This book analyzes in detail the management strategies of Vietnam's economic entities in regard to finance, investment, networking, employment, and other factors. The research covers various types and sizes of Vietnam's domestic economic entities, such as large-scale state-owned enterprises (SOEs), small-scale SOEs governed by local authorities,

'equitized' former SOEs, private enterprises in the manufacturing sector, rural entrepreneurs, and others.

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Introduction: The Changing Status of Economic Entities in Vietnam

Shozo Sakata

Introduction

Since the beginning of the new century, Vietnam has enjoyed rapid economic growth. Its economic performance, which had declined in the late 1990s because of the effects of the Asian economic crisis, began to recover in 2000, with Vietnam continuing to enjoy a high growth rate until 2008. The average GDP growth rate between 2001 and 2005 was 7.5%. In three consecutive years – from 2005 to 2008 – the growth rate exceeded 8%. Between 1997 and 2007, the value of GDP increased 3.6 times in nominal terms and twofold in real terms (GSO various years).

Since 2008, although the high growth of Vietnam's economy has tapered off due to macro-instability, caused principally by the effects of the global financial crisis that originated in the United States, Vietnam has maintained a relatively impressive economic performance. In 2009, GDP growth bottomed out at 5.3%, the lowest rate since 1999. However, this rate was still higher than those experienced in the same year by neighboring countries, including Thailand (−2.3%), Indonesia (4.6%), the Philippines (1.1%) and Cambodia (−2.0). Vietnam's economy showed signs of recovery in 2010, when it recorded a GDP growth rate of 6.8%.

There is no doubt that the introduction of market mechanisms and the open door policy to global economies under the *Doi Moi* reforms have been key factors in the recent rapid, economic growth of the country. Many earlier studies have argued that the liberalization policies envigorated the activities of various types of economic entities, leading to high economic growth at the macro level. Many of the earlier studies, for example, Pham Hoang Mai (2004), McCarty et al. (2005) and Tuan Bui (2009), stressed the impact of foreign direct investment

(FDI). On the other hand, Ohno (2005) emphasizes the development of Vietnam's domestic enterprises, in particular in export-oriented manufacturing sectors such as garments and electric machinery. Ohno, however, also indicates that domestic market-oriented enterprises, which have long enjoyed government protection policies, remain idle.

However, contrary to the findings of these earlier studies, at least from the beginning of the 2000s there is a clear tendency for Vietnamese enterprises in domestic market-oriented sectors also to be developing, and some of them have grown to become leading enterprises. With a population of nearly 90 million, the robust growth of the country's domestic consumption market has made a significant contribution to the development of Vietnamese enterprises.[1] This contrasts with the early economic growth experiences in Korea, Taiwan and other newly industrialized economies in Asia where the growth of export-oriented industries initiated national industrialization, which then stimulated the development of industries for intermediate goods and final consumption goods for domestic markets (Balassa 1989; Balassa and Associates 1982).

Bearing in mind this development trend at the macro level, this book provides a closer examination of the behaviors of Vietnam's domestic economic entities during the period of rapid economic growth in the 2000s. In the book, the authors attempt to analyze the characteristics of Vietnam's economic development from the micro point of view, not only by evaluating its performance at the industrial level, but also by analyzing the behaviors of economic entities. The authors of the book believe that this approach will allow us to emphasize the unique nature of Vietnam's development processes.

Vietnam's domestic economic entities, from large-scale state-owned enterprises (SOEs) to small-scale household businesses in rural areas, have experienced drastic transformations in the socioeconomic environment, including trade liberalization, the government's frequent regulatory changes, an increase in the presence of FDIs, wage hikes, high inflation and changes to global as well as domestic market structures. In order to adapt to such transformations, some businesses have enlarged their production scales, while others have pursued a policy of diversification. Some have sought global business partners, while others have formed business groups in the same sector. Through an examination of their development and survival strategies and by revealing the tendencies or patterns within them, the authors attempt to re-examine the qualitative characteristics of the rapid economic growth in Vietnam.

The objective of this introductory chapter is to provide a general picture of Vietnam's economic entities and to outline the changes that have occurred in their status from the beginning of the 2000s. First the chapter elaborates on the classifications and definitions of economic entities in Vietnam. Secondly, there is a review of the shift in policies relating to the regulation of economic entities. Thirdly, the chapter presents statistical data to illustrate the development of various types of economic entities in the 2000s. In the final section, the chapter proposes the general plan of the book and gives a brief outline of the arguments of following chapters.

I.1 Classifications and definitions of economic entities in Vietnam

I.1.1 Classifications in the *Statistical Yearbook*

Table I.1 shows the classifications of the economic entities in the *Statistical Yearbook of Vietnam* 2009 edition (GSO [2010]). The first column of the table corresponds to the categories in the national accounts (components of GDP) classified by capital ownership, that is, the state economic sector, the non-state economic sector and the foreign-invested economic sector.[2] The non-state economic sector is divided further into the collective, private and household economic sectors. The second and third columns of the table indicate the types of economic entities in each economic sector. The entities listed in this column correspond to those in the section "Enterprises and Individual Business Establishments" in the *Statistical Yearbook*. It should be noted at this point that there is a separate category, in addition to "enterprise" – the so-called "individual business establishment." These are micro-scale household-oriented entities that are registered at district offices. Enterprises, by contrast, are registered at provincial offices. The definition of an individual business establishment is an entity "...owned by either one individual or household, solely registered in one place, with no more than 10 employees and no seal, and responsible for its business and production" (Government Decree No.109 [109/2004/ND-CP]). Included in the entities in the second column are those in non-agricultural sectors. For example, the "collective enterprises" include only non-agricultural cooperatives.[3] Similarly, "individual business establishments" indicate those in the industrial and service sectors. Other categories of economic entities, mostly related to the agricultural sector, including agriculture, forestry and fishery, are listed in the third column of the table.

Table I.1 Classification of economic entities in statistical yearbooks

Categories in National Accounts		**Enterprises and Individual Business Establishments**	**Other entities**
State Economic Sector (*kinh tenha nuoc*)		Central SOE (*doanh nghiep nha nuoc trung uong*)	
		Local SOE (*doanh nghiep nha nuoc dia phuong*)	
Non-state Economic Sector (*kinh te ngoai nha nuoc*)	Collective Sector (*kinh te tap the*)	Collective Enterprise (*doanh nghiep tap the*)	Agricultural Cooperative (*hop tac xa nong nghiep*)
	Private Sector (*kinh te tu nhan*)	Private Enterprise (*doanh nghiep tu nhan*)	
		Collective Name Company (*congy ty tap danh*)	
		Limited Liability Company (*cong ty trac nheim huu han*)	
		Joint Stock Company with State Capital (*cong ty co phan co von nha nuoc*)	
		Joint Stock Company without State Capital (*cong ty co phan khong co von nha nuoc*)	
	Household Sector (*kinh te ca the*)	Non-agricultural Individual Business Establishment (*co so ca the phi nong nghiep*)	*Trang Trai* (large scale individual farm)
			Others (Households involved in agriculture, forestry, fishery, salt production, street vendors and other low income service providers)
Foreign-invested Economic Sector (*kinh te co von nuoc ngoai*)		100% Foreign Capital Enterprise (*doanh nghiep 100% von nuoc ngoai*)	
		Joint Venture Enterprise (*doanh nghiep lien doanh voi nuoc ngoai*)	

Source: GSO (2008).

One unique, but confusing, aspect of this classification is the definition of the term "private." In the classification of the components in the national accounts, the "private" economic sector in the national accounts categorization does not include petty or household businesses, which are categorized as belonging to the "household" sector. In this context the term "private" does not mean "individual," but is used instead in contrast to the term "state." On the contrary, in the classification of enterprises, the term "private" is not used in contrast to the "state" (state-owned enterprises), but is used rather as a term with a definition similar to "individual." "Private enterprises," in Vietnamese terms (*doanh nghiep tu nhan*), imply small and medium-sized enterprises (SMEs).

The definition of "state-owned enterprises" (SOEs) is also confusing in some ways. In Vietnam, many SOEs have converted themselves to limited liability companies or joint stock companies, but they are still regarded as SOEs as long as the state is in virtual possession of ownership. The GSO defines SOEs (*doanh nghiep nha nuoc*) as "enterprises with 100% state capital," "limited companies under the management of the central or local government," and "joint stock companies with domestic capital, of which the government share is more than 50% of the charter capital" (GSO 2010: 133).

I.1.2 Differences in classifications and definitions

In Vietnam legal documents, policy papers and statistical data tend to use a variety of definitions and classifications for the economic entities. For example, in the data and documents published by the GSO, the category "enterprises" includes cooperatives. By contrast, the Enterprise Law, which provides basic definitions for various types of enterprises, does not encompass the notion of cooperatives. Conditions for the registration of cooperatives, both agricultural and non-agricultural, are legally stipulated in the Cooperative Law. Another example is "individual business establishments." These are not regarded as "enterprises" in either the statistical documents or the Enterprise Law. However, according to the government policy on SME development (Decree No. 90 [90/2001/ND-CP]), individual business establishments are included in the category of small and medium-sized "enterprises."

Since the creation of the new Enterprise Law in 2005, the foreign-invested enterprises (FIEs) have come under the scope of application of the Enterprise Law (a separate Foreign Investment Law had existed until 2005). This means that the same legal status is now applied to both domestic enterprises and FIEs. Therefore, the legal status provided to FIEs that registered after the 2005 Enterprise Law became effective (June 2006), or those that re-registered under the new law, is that of "limited liability companies" or "joint stock companies." Similarly, since July 2010, when the State Enterprise Law became void, the Enterprise Law has also been applied to SOEs.

I.2 Policies on the development of economic entities

Significant changes in the investment and business environments began when the Communist Party of Vietnam introduced the *Doi Moi* reform principle at the 6th Party Congress held in December 1986.[4] According to this principle, Vietnam's economy was described as a "multi-sector economy," which allowed various forms of capital ownership. The result was that with the introduction of this new principle, the importance of the private sector entities and foreign investors was positively acknowledged. The Party and the government used new methods to govern economic entities, such as issuing laws and legal ordinances, instead of relying on direct management by the state.

However, the actual rate of progress remained slow. It was only during the latter half of the 1990s that the concrete legal frameworks regulating economic entities began to be developed. This progress during the latter half of the 1990s was associated with Vietnam's strong motivation to enhance its external economic relations and to participate in global economies. Vietnam became a full member of ASEAN in order to become a part of the ASEAN Free Trade Area (AFTA) in 1995 and in the same year the country applied for membership in the WTO. In 1998, Vietnam joined Asia-Pacific Economic Cooperation (APEC), and, in 2000, Vietnam signed a Bilateral Trade Agreement (BTA) with the USA. After a long negotiation processes, WTO membership was finally achieved in January 2007.

In 2001 there was an acceleration of the development of the legal environment as preparation for WTO accession. This was encapsulated in a motion passed at the 9th Congress, when the Party agreed that WTO accession by 2010 was to become a crucial target for socioeconomic development. The concrete bilateral and multilateral negotiations for accession began in 2004. Various economically-related new or amended laws, including the Law on Investment, the Enterprise Law, the Commercial Law and the Law on Intellectual Property, were created in 2005, and related legislative orders were issued in the following years. Such development of legal frameworks in preparation for