



Private Enterprises in the Mekong Delta

A Baseline Study of One of Vietnam's Most Dynamic Regions for Rural Entrepreneurship

for Discussion

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SUMMARY AND CONCLUSIONS

Despite its rural nature and limited infrastructure, the Mekong Delta is home to nearly a quarter of the domestic private companies in Vietnam. Unlike most of the country, private sector development in the region has been relatively even across provinces. As such, the region is already dealing with transition economy trends that will in the future affect all of Vietnam, from greater reliance on private companies than state-owned enterprises (SOEs) for locally-sourced tax revenues to greater emphasis on private firms as targets for formal bank credit. This relatively advanced situation should be seen as encouraging by national leadership, as it reflects positively on the ability of domestic entrepreneurs to play an increasingly large role in addressing pressing national issues such as rural under-employment and the dangers of increasing urban-rural disparities.

The most important achievement of the formal domestic private sector in the Mekong Delta is its rapidly growing role in creating much needed new wage employment opportunities. This is significant since state firms are clearly not the answer to Vietnam's employment creation challenge: at present, SOEs account for less than five percent of national employment despite holding nearly two thirds of total fixed assets. Much more likely is that resource-strapped entrepreneurs will base their decisions to start up new private companies on Vietnam's comparative advantage in relatively well educated, low cost labor. Though it has much room yet to improve, the Mekong Delta is, at present, Vietnam's most promising case that this can occur outside of major urban settings.

It is possible that domestic private companies may already employ more Mekong Delta workers than do SOEs. In Dong Thap province, private companies accounted for 82 percent of wage employment in industry in 2002. The strength of private sector development in the Mekong Delta is due not only to a history of entrepreneurship and a relatively weaker state sector, but also good local governance that has made local investors increasingly confident about investing their own capital. Significant growth in access to bank lending and in tax payments to the government are additional positive trends witnessed in the Mekong Delta's formal domestic private sector over the past three years.

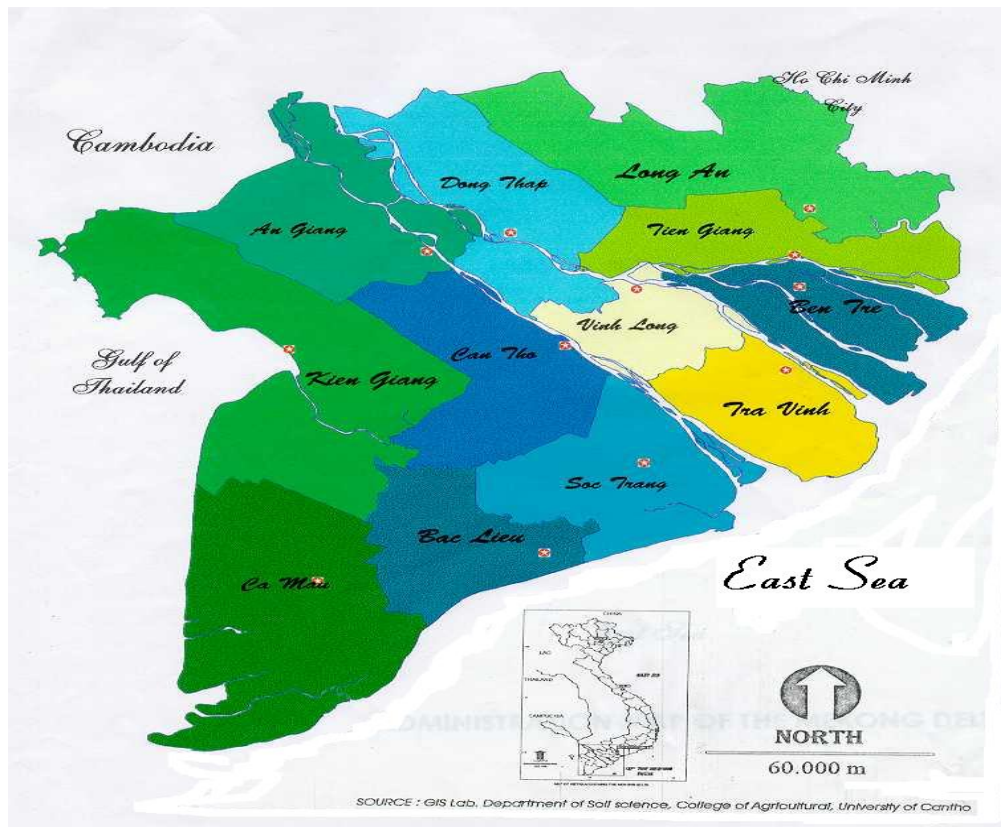
All of this positive news, however, is tempered by the reality that registered private companies still account for less than ten percent of GDP in the Mekong Delta. In fact, it appears that, despite higher numbers of firms and relatively small state sectors, the share of GDP held by private companies across the provinces of the Mekong Delta may actually be lower than is true for the country as a whole. Private companies in the Mekong Delta are, on average, the smallest in the country. These facts can in part be attributed to the rural nature of the region, but the Mekong Delta's private firms are small even when compared to other rural regions of the country. What stands out is that private company owners in the Mekong Delta are much less inclined than their counterparts in the rest of the country to form more corporate business entities, i.e. limited liability and joint stock companies, which allow them to access outside shareholder capital. The reasons why are not yet clear and further research is merited.

CHAPTER I INTRODUCTION TO THE MEKONG DELTA REGION

I. GEOGRAPHY AND CLIMATE

The Mekong Delta is the southernmost region of Vietnam, bound on the northwest by Cambodia, the east and south by the East Sea, and the southwest by Gulf of Thailand. The 12 provinces that make up the Delta cover 39,713 square kilometers and are connected by a network of tributaries, natural creeks and man-made waterways that turn and twist before flowing into the Pacific Ocean.¹ Delta land is relatively flat and fertile. The many waterways enrich the clay soil with silt, which along with the year round availability of plentiful moisture and sunshine make the region highly suitable for agricultural development.² The advantageous climate is defined by the region's location within the tropical monsoon zone between the Tropic of Cancer and the equator.³

Figure 1.1 Map of Mekong Delta Provinces



¹ The 12 provinces of the Delta are: Ca Mau, Bac Lieu, Soc Trang, Can Tho, An Giang, Kien Giang, Tra Vinh, Vinh Long, Dong Thap, Tien Giang, Long An and Ben Tre. These 12 provinces are organized into two agro-ecological zones, central Mekong Delta (zone VII) and the northeast Mekong Delta (zone VI).

² The Delta region, on average, enjoys over 2,100 hours of sunshine per year.

³ Mekong Delta lies approximately between latitudes of 8°40' and 10°40' N and longitude of 104°10' and 107°10' E. Average annual temperature is around 27°C, and the annual rainfall ranges from 1,500 mm to 1,900 mm.

The Mekong Delta is commonly referred to as Vietnam's "rice bowl", due to its importance in providing the food that feeds the whole country.⁴ The region's plentiful waterways and 700 km coastline mean that the region is able to supply not only rice but also plentiful fish and seafood—both industries in which the Mekong Delta holds the leading market share among regions in Vietnam.⁵

II. POPULATION

Population growth is a pressing issue for the Mekong Delta. It is Vietnam's most populous region, with over 16.7 million inhabitants, or 21 percent of the country's total population, recorded in 2002. The Delta's population is expected to reach 21 million in 2010; an increase of approximately 300,000 people per year. Population density—already quite high in comparison with other parts of the country—will continue to rise.

Vietnam, in general, and—to a greater degree—the Mekong Delta, in particular, are very young when it comes to the structure of their populations.⁶ The age group of people under 15 years old occupies about a third of the Delta's total population. This youth means that labor force growth is faster than population growth, with about 350,000 to 400,000 additional people joining the labor force each year. Local government is very much under pressure to find ways to create new employment to absorb this growing labor force, so as to avoid the negative social impact of further increases in un- and under-employment. Presently, over 10 percent of the working age population in the region is unemployed. Under-employment is particularly high in rural areas. Job creation in recent years has been driven by export-oriented industry, a high percentage of which is concentrated in urban centers⁷, while much of the population growth has occurred in the countryside. The fact that employment issues are more pressing in rural areas is important to note, given that the Delta's proportion of urban dwellers was the lowest in the country at just 18 percent in 2002.⁸ Rapid job creation is now quite urgently needed in rural areas to avoid a dramatic increase in migration to the urban commercial centers—and avoid the resulting further strain on limited urban infrastructure.

III. POVERTY

Poverty in Vietnam fell by about 50 percent from 1995 to 2000, while income per capita grew by some 40 percent.⁹ From 1990 to 2000, Vietnam's ranking on the United Nation's Human Development Index rose from 120th to 101 of the 162 ranked countries.¹⁰ Poverty in the Mekong Delta has also fallen a considerable amount, but the

⁴ Rice fields cover over 4 million ha of Delta land, of which, on average, 2.3 million ha is harvested.

⁵ It is estimated that fishery products in the Mekong Delta make up about 40 percent of total yield of the country, and exported seafood account for 50-60 percent of gross exported fishery product in the country.

⁶ The 5-9 and 10-14 cohorts were by far the largest age groups in Vietnam in 1999. These people are all now in the process of entering the work force (Brian Van Arkadie and Raymond Mallon, *Vietnam: A Transition Tiger?*, Asia Pacific Press at The Australian National University, 2003, p. 18.

⁷ As evidenced by falling urban unemployment numbers in 2001 and 2002 (GSO).

⁸ The share of urbanites for all of Vietnam is 25 percent, and is an even higher 53 percent for the whole of Vietnam's southeastern region (the region that includes Ho Chi Minh City).

⁹ GDP per capita in 1995 was US\$289 and grew to US\$406 by 2000.

¹⁰ Vietnam's HDI score increased to 0.696 in 2000 from 0.456 in 1990.

Delta's rate of poverty reduction has actually been the least impressive of the country's eight main regions.¹¹ Over the period in question, the Delta's poverty rate went from being almost three percentage points lower than the overall rate for the entire country to being more than a point higher in 2000. The fact that the region's GDP growth has outpaced that of the country as a whole over the past couple years, however, probably means that this trend is being reversed.

The poorest provinces in the Mekong Delta are Soc Trang, Tra Vinh, and Bac Lieu—all situated along the southeastern coastline of the Delta.¹² These provinces, in particular, have seen higher GDP growth in 2001 and 2002, as well as corresponding drops in the share of people living in poverty.

Table 1.1 Poverty Rates in Mekong Delta, 2001 and 2002

Provinces	2001		2002	
	Number	%	Number	%
1. Long An	na	na	16,879	5.80
2. Tien Giang	19,710	5.57	16,289	4.61
3. Ben Tre	34,299	11.26	28,610	9.40
4. Vinh Long	19,314	9.10	15,789	7.21
5. Tra Vinh	46,460	22.56	38,792	18.84
6. Dong Thap	45,405	13.52	35,259	10.31
7. An Giang	34,900	7.86	30,631	6.74
8. Can Tho	30,348	7.38	26,581	6.41
9. Soc Trang	74,160	30.75	NA	NA
10. Kien Giang	NA	NA	34,106	10.97
11. Bac Lieu	31,818	21.59	20,514	13.78
12. Ca Mau	35,460	15.48	-	13.70
Total Mekong Delta	(371,874)		(263,450)	

Source: Mekong Delta Poverty Analysis AusAID Funded

IV. HUMAN RESOURCES

The total population of working age in the Mekong Delta numbered 8.65 million in 2002. Unemployment in urban areas of the region was estimated at just over six percent. Nearly two thirds of workers were employed in agriculture, and less than ten percent in industry.¹³ Despite the region's relatively strong economic contribution to the national economy, statistics show the region to be one of the least developed in the country in terms of education and training. The Mekong Delta ranks the lowest in terms of the

¹¹ Geographical statistic show the upland regions, namely the Northern Mountainous Region and the Central Highlands have Vietnam's highest poverty rates, even after their poverty rates decreased at impressive rates of 47.7 percent and 79.6 percent, respectively, from 1996 to 2000. The lowest poverty rates were found in the Southeast and Red-river regions, at 3.5 percent and 5.3 percent, respectively. The Mekong Delta had relatively low poverty rates compared with country poverty rates, but the rate of poverty reduction was slow. From 1996 to 2000 the poverty in the region decreased only 31 percent while the poverty rate of the whole country fell by 48 percent (Table 3).

¹² Khmer household are represented at a disproportionately high rate among the Mekong Delta's poor. 2001 [?] statistics show more than 74,000 poor households in Soc Trang, with Khmer households making up 42.9 percent, Vietnamese households accounted for 26.6 percent, and Chinese 18.1 percent. Data for Tra Vinh and Bac Lieu shows a similar distribution of poor households.

¹³ More precisely, 64 percent of labor was in agriculture, 27 percent in services, and 9 percent in industry.

number of its workers that are deemed to be “skilled”.¹⁴ Low education levels are mirrored by low numbers of teachers and skilled professionals such as medical physicians—with obvious costs to living standards in the region.

V. NATURAL RESOURCES

Commonly referred to as Vietnam’s “rice bowl”, the Mekong Delta supplies not only the bulk of the country’s staple dish, rice, but also key supplements such as fish and fruit. The most valuable natural resource in the Mekong Delta would appear to be its rich stock of available aquaculture. In addition to the network of waterways throughout the Delta itself, including the fast moving canals in An Giang that have proven ideal for catfish, the Mekong’s long coastline offers access to an even greater wealth of seafood products. Total water surface area is estimated at about 500,000 hectares.

Additionally, the Delta has about 18,000 hectares of forestry.¹⁵ Fortunately, there are efforts underway to protect and sustain this level of forestry. The region does not appear to have significant stores of underground resources that would support a mining industry.

¹⁴ The “skilled” category should not be over valued in terms of its importance to economic development in the short to medium term. A study by MPDF in 1999, in fact, showed that less educated southern entrepreneurs were far more successful in business than their more educated northern counterparts. Furthermore, state enterprises are staffed with far higher numbers of “skilled” workers, but generally under perform (in terms of profitability) their private sector counterparts [See, for example, Nguyen Manh Cuong, 2003. “Does Ownership Matter to Enterprise Performance: A Comparative Study of State and Private Enterprises in Vietnam's Textile-Garment industry.” Paper presented at the annual meeting of the International Convention of Asian Scholars (ICAS). Singapore, August 18-21]

¹⁵ Socio-Economics Statistical Data of 61 Provinces and Cities in Vietnam, 2000.

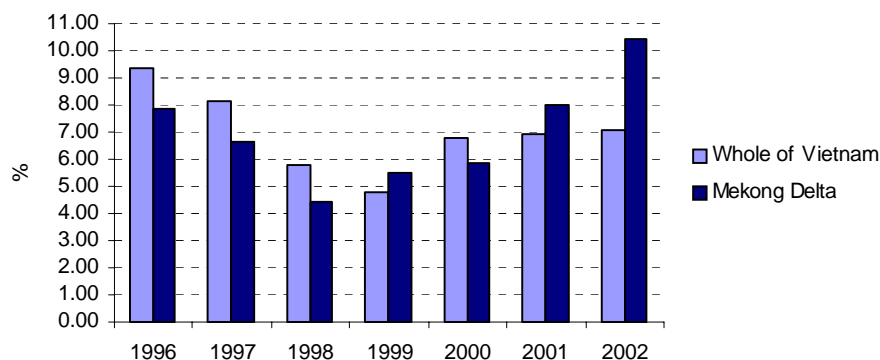
CHAPTER II

AN OVERVIEW OF THE MEKONG DELTA ECONOMY

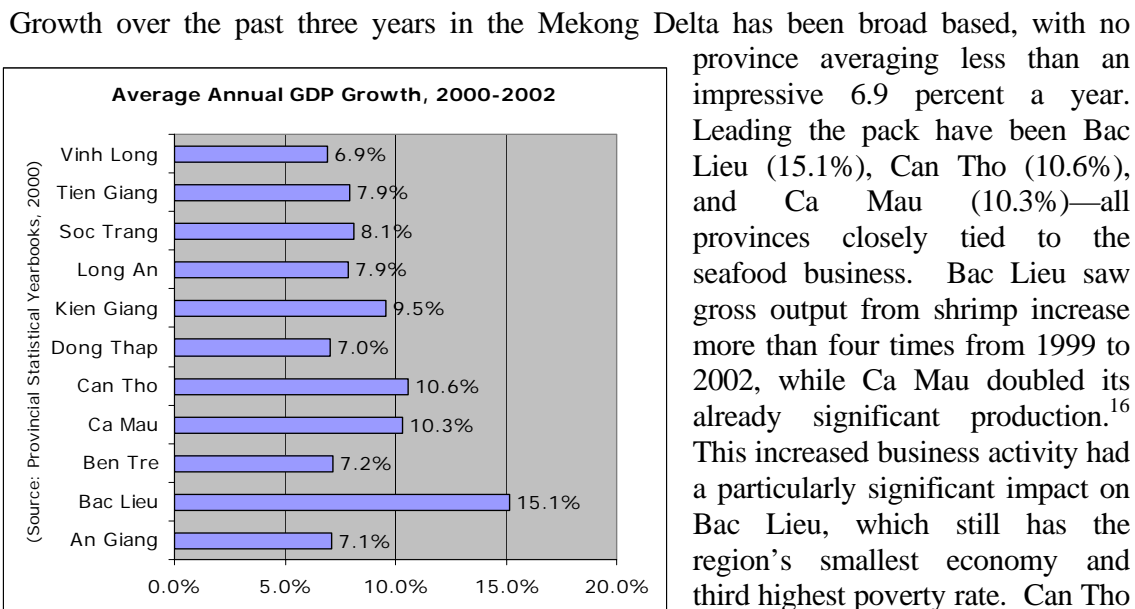
I. RECENT ECONOMIC PERFORMANCE OF THE REGION

Economic performance in the Mekong Delta over the past decade has generally corresponded with the strong growth of Vietnam as a whole. In the second half of the 1990s, the region generally lagged behind national growth by about a percentage point, but in 2001 and 2002 growth in the Mekong Delta increased significantly while national growth remained constant. This implies that, in fact, were the Mekong excluded, Vietnamese national GDP growth would have been on the decline over the past couple years.

Figure 2.1 GDP Growth, 1996-2002 (constant 1994 prices)



Source: GSO Statistical Yearbook, 2001



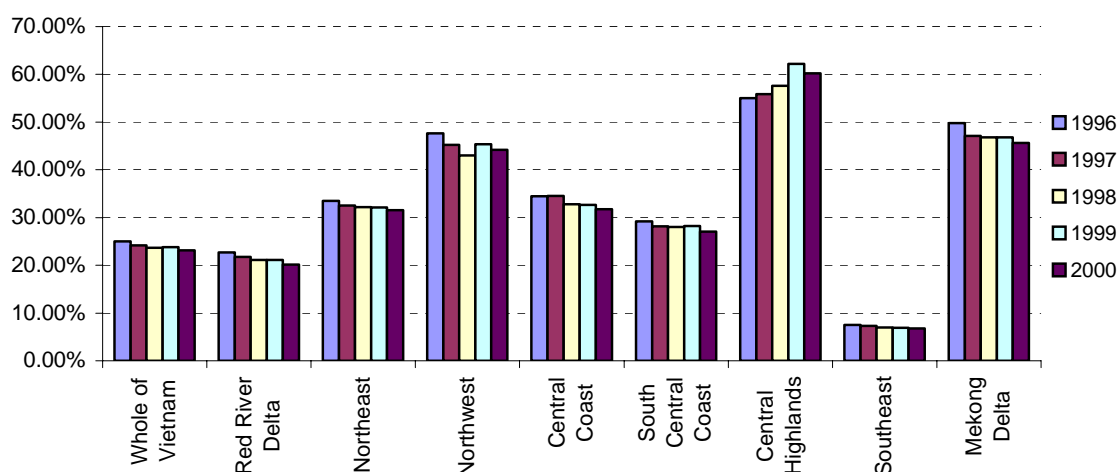
¹⁶ Dr. Nguyen Sinh Cuc, *Vietnam Agriculture and Rural Area in the Renovation Period*, Statistical Publishing House, Hanoi, 2003, p. 860.

has benefited more generally from the increased importance of seafood throughout the region, due to its status as the regional center for processing, trade, and other relevant services.

II. ROLE OF MAJOR ECONOMIC SECTORS IN THE REGION

Vietnam's strong economic growth has contributed to a clear process of industrialization. With the exception of the Central Highlands, where significant new investment has gone into growing coffee, the importance of agriculture, forestry and fisheries to the economy has steadily decreased throughout the country—including in the Mekong Delta. Nevertheless, this industrial grouping remains easily the largest sole contributor to GDP in the southern delta. Furthermore, while their overall share in GDP has fallen, the absolute contribution to GDP by agriculture, forestry and fisheries in the Mekong Delta region has continued to rise. This continued strength can be attributed to the region's comparative advantages with regard to climate and geographical conditions.

Figure 2.3: Agriculture, Forestry, and Fisheries as Share of GDP, by Region, 1996-2000 (constant 1994 prices)



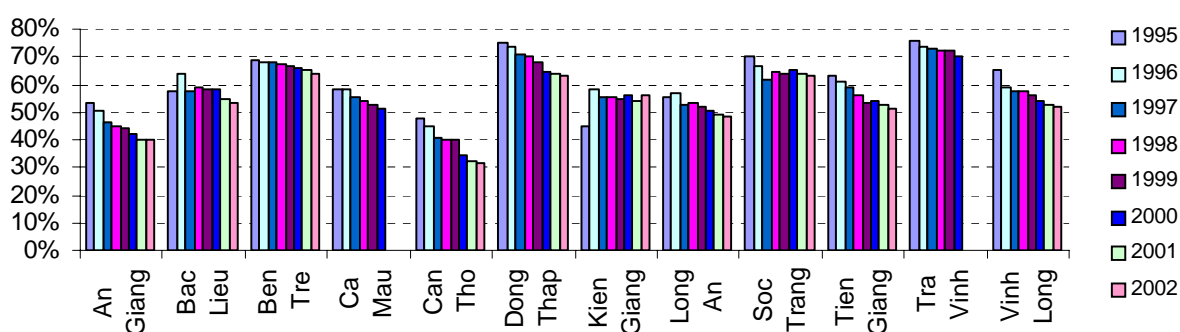
Source: GSO Statistical Yearbook, 2000

Within agriculture, forestry and fisheries, a significant transition appears to be underway wherein aquaculture products are increasingly displacing rice as the country's leading product, as well as the chief means of income for rural inhabitants. While exports of rice and of aquaculture products were about the same in 1999, the latter had increased to twice as many as the former by 2000 and the difference has continued to grow.¹⁷ This transition has been particularly evident in the Mekong Delta, which in addition to being the main source of the country's rice, also accounts for more than half of aquaculture output and exports.¹⁸

¹⁷ A rebound in the price of rice in 2003 has significantly increased rice revenues but still appears unlikely to reverse the overall trend of greater focus on aquaculture over rice.

¹⁸ "Mekong Delta's Aquaculture Surges Ahead", Vietnam News, September 20, 2003.

Figure 2.4: Agriculture, Forestry, and Fisheries as Share of Provincial GDP, 1995-2002
(constant 1994 prices)



Source: Provincial Statistical Yearbooks, GSO, 2000-2002

Growth in agriculture, forestry and fisheries output has been particularly strong in Mekong Delta provinces Ben Tre and Kien Giang. Ben Tre has seen growth in both gross output of fruits and fish, while Kien Giang has maintained its leadership in fisheries output and also taken over from An Giang as the biggest rice producer in the Delta. Can Tho and An Giang have seen the lowest growth in agricultural output.

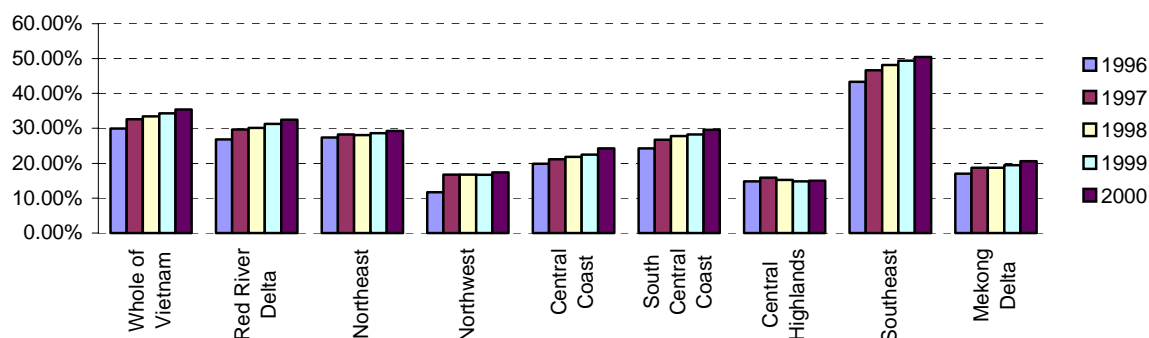
Table 2.1: Production of fishery by province (in tons)

	1999	2000	2001 prel.	2002
An Giang	133,007	171,424	180,213	172,999
Ben Tre	102,904	116,365	127,713	131,452
Ca Mau	171,405	197,836	214,742	221,417
Kien Giang	224,887	249,210	275,179	276,665

Source: GSO 2002

Vietnam's industrial growth has, not surprisingly, been greatest in its more affluent regions, particularly in the Ho Chi Minh City and surrounding area. Despite recent growth, the Mekong Delta remains only fifth among the eight major regions of Vietnam in terms of the share of GDP accounted for by industry.

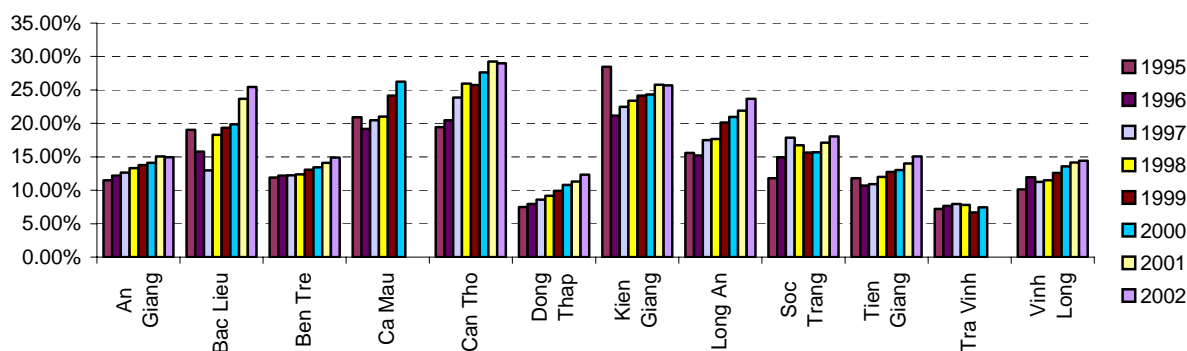
Figure 2.5: Industry as Share of GDP, by Region, 1996-2000 (constant 1994 prices)



Source: GSO Statistical Yearbook, 2000

The trend towards industrialization among provinces in the Mekong Delta has been quite clearly positive with the notable exception of Tra Vinh. Tra Vinh's industry saw very slight growth in the mid 1990s, only to see a fall in 1999 that brought its share down below its 1995 level. The contrast with Dong Thap is stark, as the two provinces were on equal footing in 1995, whereas by 2000 the share of industry as a part of Dong Thap's industry was nearly twice that of Tra Vinh. Can Tho and Long An recorded the largest increases in industrialization, with the former building on its existing superior infrastructure and the latter capitalizing on increasing urbanization resulting in part from growth emanating from Ho Chi Minh City.

Figure 2.6: Industry as Share of Provincial GDP, 1995-2002 (constant 1994 prices)

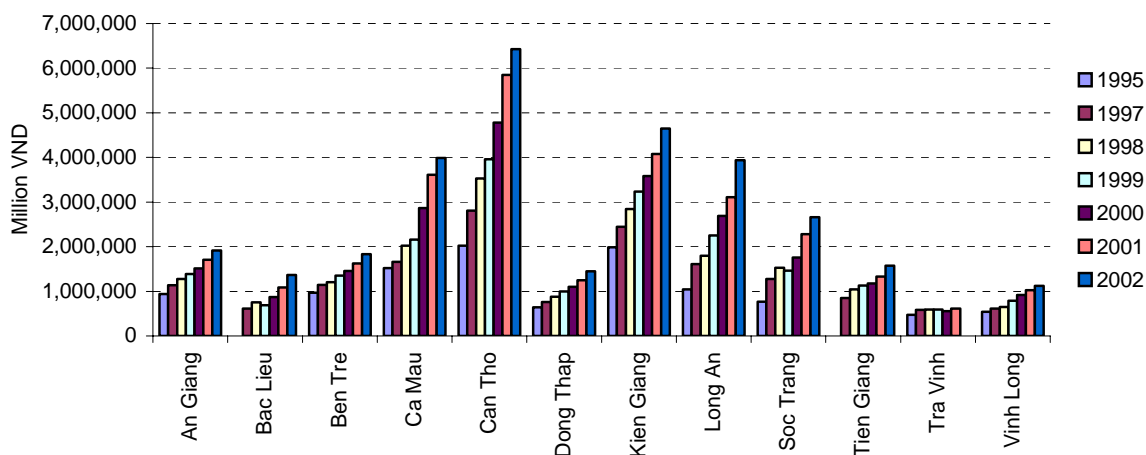


Source: Provincial Statistical Yearbooks, GSO, 2000-2002

Absolute industrial output show significant differences across Mekong Delta provinces. In 2002, Can Tho's industrial output was about nine times greater than that of Tra Vinh and four times the output of six other provinces in the region. As with share, the provinces with the largest industrial sectors in absolute terms, are the provinces with strong seafood-based processing industries and Long An, with its more diversified industrial base owing in large part to its proximity to Ho Chi Minh City. Growth in industrial output, in contrast, has been impressive throughout the region, with the exception, again, of Tra Vinh—where growth was negative until 2001 (2002 numbers not

available).¹⁹ As with GDP, the star performers have been Can Tho, Ca Mau, and Kien Giang. Can Tho has now emerged as the clear industrial center of the region, though, in terms of growth, the rate of industrialization in Long An has actually been higher.

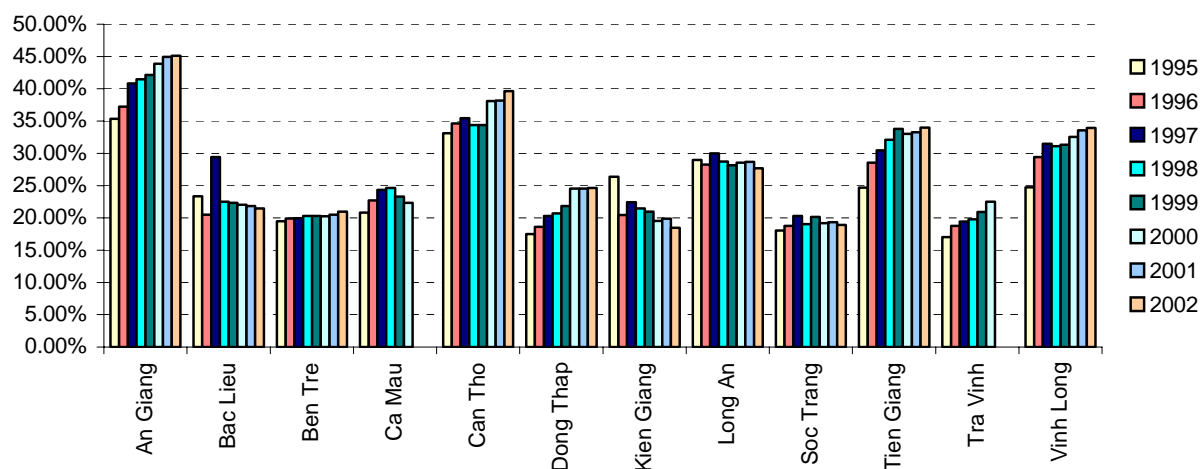
Figure 2.7: Gross Industrial Output by Province, 1995-2002 (constant 1994 prices)



Source: Provincial Statistical Yearbooks, GSO, 2000-2002

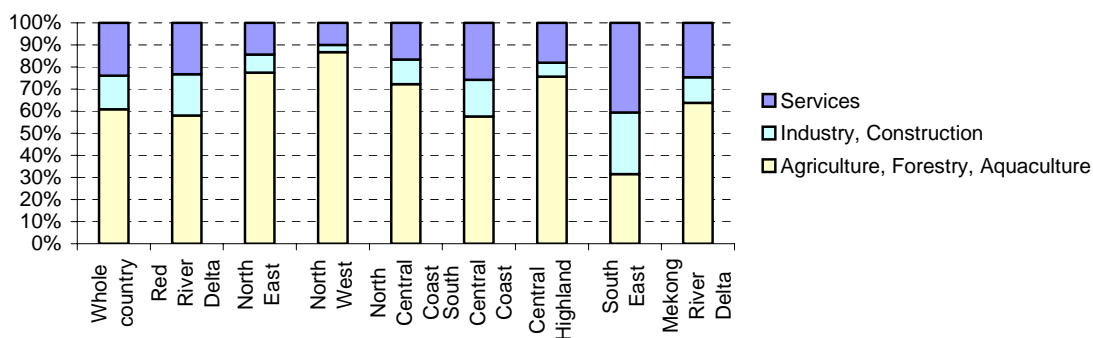
The share of services in GDP has remained fairly constant, both for the whole of Vietnam and for the Mekong Delta. In some individual provinces, however, the share of services has increased significantly. In An Giang and Can Tho, the increased importance of services correlate with higher incomes and urbanization. Can Tho service providers such as packaging and financial services providers often serve much of the Mekong Delta region, with their main competition coming from Ho Chi Minh City. Dong Thap also showed a strong increase in the share of services by actually doubling output from the services sector from 1997 to 2002. In Tra Vinh, in turn, growth in the share of services is likely to be the result, mostly, of weakness in agriculture and industry.

¹⁹ A study of Tra Vinh's weak economic performance could seek to identify the extent to which it faces uniquely difficult economic conditions to development not seen in more successful neighboring provinces and the extent to which different approaches at the provincial level of government might enable the province to begin to catch up with the rest of the region.

Figure 2.8: Services as Share of Provincial GDP, 1995-2002 (constant 1994 prices)

Source: Provincial Statistical Yearbooks, GSO, 2000-2002

The importance of agriculture, industry and services are somewhat different when seen in terms of their shares of employment. Agriculture, forestry, and aquaculture account for about 50 percent of GDP in the Mekong Delta, but an even more substantial 60 percent of employment. In contrast, industry's 20 percent share of Mekong Delta GDP corresponds to a lower 10 percent share of the region's employment.

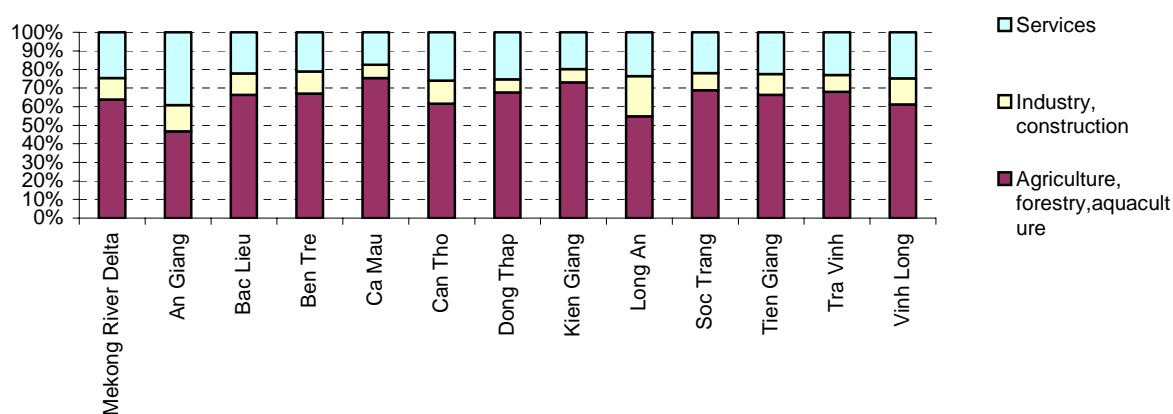
Figure 2.9: Rate of economically active population agwa 15 years and over by economic sector in whole country, 2002 (percent)

Source: Annual Labor Statistics Yearbook, 2002

Looking at the distribution of labor in the individual provinces of the Mekong Delta, it is striking to note the relatively low share of employment in industry in Can Tho, given its status as the province with the highest industrial output and the nearly 30 percent share of provincial GDP held by industry. This indicates both higher productivity per worker and a more capital intensive approach to industry in Can Tho. A similar situation is seen in Ca Mau and Kien Giang. While catching and raising fish and other aquaculture can be labor-intensive, the processing of these into exportable products would appear to be a relatively

capital intensive industry. Only in Long An is the share of workers in industry more in line with the provinces larger industrial output. As such, Long An would appear to be more engaged in labor intensive industry, featuring subsectors such garments and shoe manufacturing.

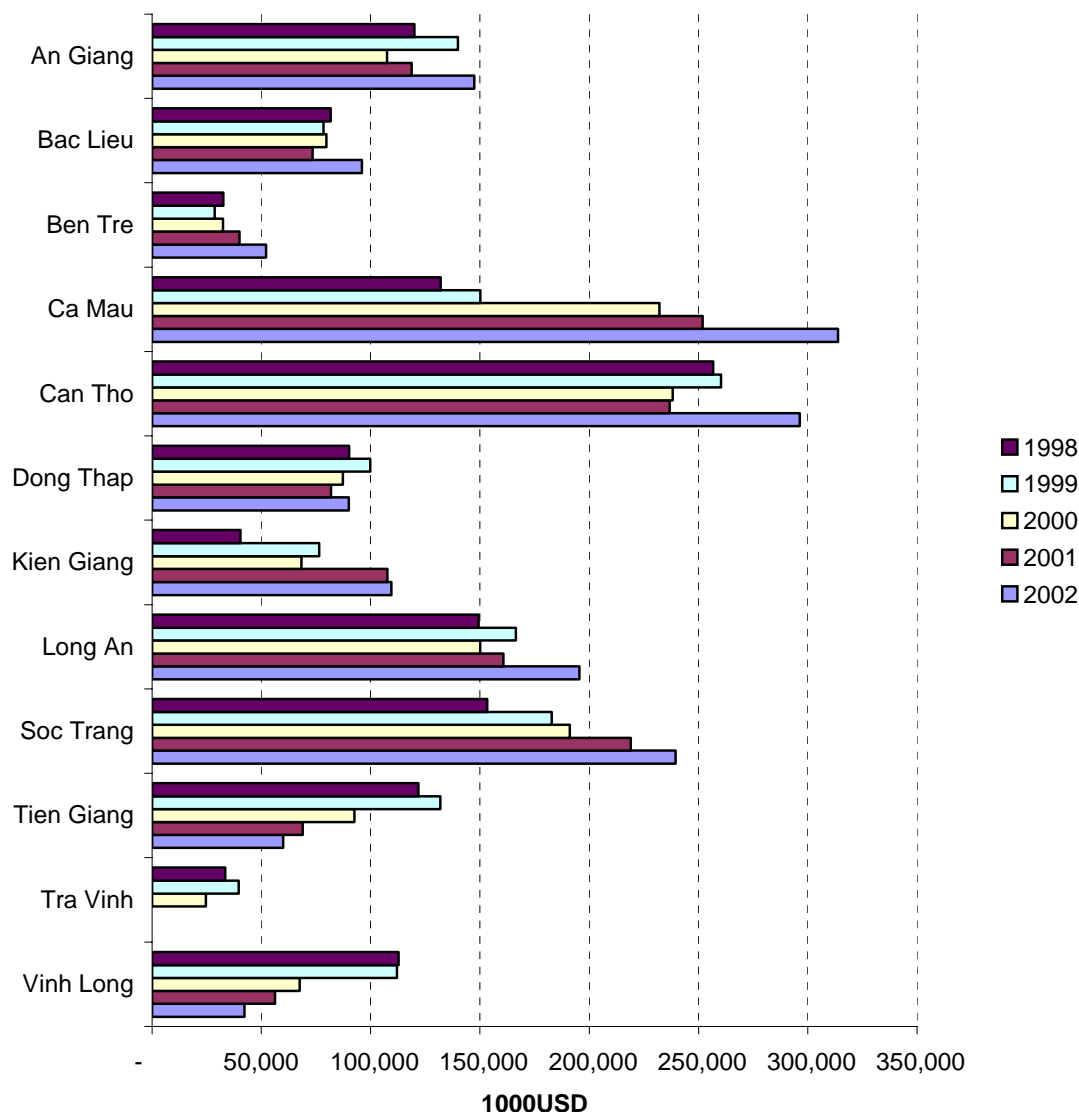
Figure 2.10: Rate of economically active population aged 15 years and over by economic sector in provinces, 2002 (percent)



Source: Provincial Statistical Yearbooks, GSO, 2002

Source: Statistical Yearbooks, 2002

Figure 2.11: Export performance (1,000USD, current prices)



III. THE STRUCTURE OF TRADE: IMPORTS AND EXPORTS

Early in the process of Vietnam's economic reforms, in the late 1980s, the country's ability to export rice, and subsequent rapid rise to being a top world rice exporter, were major symbols of the success of economic reforms. Most of this exported rice came from the Mekong Delta, which today still produces half of Vietnam's rice. In 2002, however, the leading exporter in the Mekong Delta was Ca Mau, a fact reflecting the advanced stages of a clear transition that has seen aquaculture far surpass rice as the region's chief

export. Similarly rapid growth has been recorded by coastal provinces Kien Giang and Soc Trang, with nearly all export growth accounted for by aquaculture products.

The past few years have also seen an increase in the difference between the Mekong Delta's haves and the have nots in the arena of trade. The total exports of Ca Mau, Can Tho, and Soc Trang accounted for more than 60 percent of Mekong Delta exports in 2002. Count in rapidly industrializing Long An and coastal provinces Bac Lieu and Kien Giang, and 90 percent of the region's exports have been accounted for. Ca Mau's exports alone in 2002 appear to have been about seven times greater than those of Tra Vinh. And while the seafood producing provinces have recorded double digit growth, provinces more dependent on traditional agriculture like Tien Giang and Vinh Long actually saw their exports fall to half their respective values just three years ago. Tien Giang is actually a bit of a strange story, in that it has not seen exports grow despite not only the advantage of having a coastline, but also having its main commercial center, My Tho, relatively close to Ho Chi Minh City. Tien Giang's gross output in cultivated fish did increase by 50 percent from 1999 to 2002, but exports did not increase. Frozen shrimp exports decreased to a quarter of their 1999 total.²⁰

A crucial element of increasing disparity in exports among Mekong Delta provinces is the earlier mentioned shrinking role of rice in exports since 1999. While rice production has maintained and even increased somewhat in recent years, exports of rice have fallen significantly. This is likely, in part, due to increasing domestic consumption. As seen in the table below, the fall in rice exports has occurred across multiple provinces.

Table 2.2. Decreasing Agricultural Exports

Units= USD '000	2000	2002
Tien Giang	98,727	22,638
Vinh Long	97,052	33,794
Soc Trang	29,813	8,465
Can Tho	94,842	71,419

Sources: Provincial Statistical Yearbooks

The defining feature, then, of export performance has been provinces' ability to diversify away from dependence on rice exports for foreign currency earnings—and, in almost all cases, to diversify primarily into greater aquaculture production. Soc Trang, for example, saw rapid growth in its total exports because aquaculture exports increased from USD 160 million in 2000 to over USD 230 million in 2002. Can Tho covered its own

Table 2.3: Changing Focus of An Giang's Economy (1000 USD)

	1999	2002
Rice exports	116,282	62,198
Aquaculture	20,687	69,355

Sources: An Giang Statistical Yearbooks, 1999, 2003

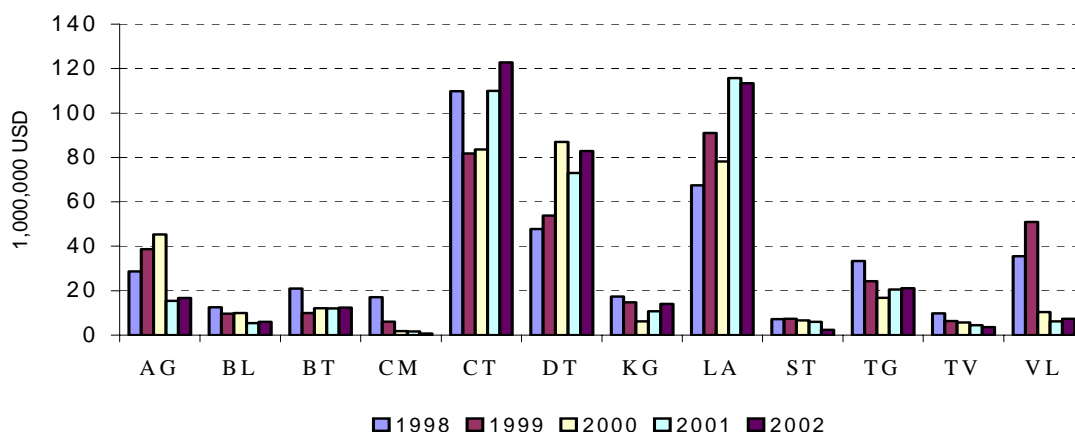
USD 23 million fall in agricultural exports with an increase of over USD 70 million in aquaculture exports and nearly USD 12 million in exports from light industry and handicrafts.²¹ Vinh Long, in contrast, saw its small aquaculture exports total shrink further, from USD 6.5 million in 2000 to just USD 2.7 million in 2002. Tien Giang also saw a fall

²⁰ Tien Giang, therefore, would make an interesting subject for further, more detailed study on the impact of differences local approaches to government.

²¹ Can Tho agriculture exports were valued at USD 94.8 million in 2000 and at USD 71.4 million in 2002 (Statistical Yearbook 2002, Can Tho Statistics Department)

in its aquaculture exports. Neither gained significant export earnings from any other industry.

Figure 2.12: Mekong Delta Import Performance, 1998-2002



Source: Can Tho Statistical Office "Data on Socio-economics 12 provinces in the Mekong Delta". 1990-2002.

Overall, the Mekong Delta is contributing positively to Vietnam's trade account, with exports three times the value of imports over the past five years. The region's leading importers in 2002 were Can Tho, Dong Thap, and Long An. This is consistent with the fact that these provinces have recorded impressive industrial output growth despite having less available natural resources to exploit than other provinces. Imports have largely focused on plastic products, fertilizer, cloth, chemicals, fuel, and textiles. Coastal provinces more focused on seafood resources have imported the least. The export of processed seafood is clearly an industry with limited need for imported inputs.

IV. FOREIGN DIRECT INVESTMENT

FDI in Vietnam has largely focused on the country's two main commercial regions: i.) Ho Chi Minh City and its highly industrialized neighbors, Dong Nai and Binh Duong; and ii.) Hanoi and coastal Red River Delta provinces Hai Phong and Quang Ninh. As such, the Southeast region and the Red River Delta region accounted for nearly three quarters (72%) of all FDI up through the end of 2002. When the 14 percent of FDI invested into Petrolimex is added in, only another 14 percent remains for the rest of the country. The Mekong Delta's share of FDI up through 2002 was 3.7 percent. This ranks the Mekong region fourth among the country's eight main regions.

Where the Mekong Delta ranks first, with regard to FDI, is the interesting category of implementation. A disturbingly low percentage of FDI contractually promised to projects in Vietnam has actually been invested over the past 15 years. In both the Southeast and the Red River Delta, less than half of promised FDI has been paid out. The Mekong

Delta's implementation rate of 70 percent is by far the best in the country. This percentage further improves to 93 percent if Long An is separated out from the rest.

Table 2.4: FDI in Vietnam, 1988-2002 (Unit: USD 1,000)

	Number of project	Total investment capital	Legal Capital	Implemented capital
Whole country	3,669	39,104,750	18,023,680	20,739,300
Red river delta	711	10,497,670	4,632,230	4,913,910
North east	117	558,930	281,300	332,870
North west	11	33,180	13,490	11,530
North central coast	47	885,830	331,670	566,610
South central coast	144	2218,670	1,161,270	1,042,820
Central highland	67	915,500	148,070	155,530
South east	2,415	21,062,000	9,595,830	10,024,890
Mekong delta	132	1,094,460	502,240	768,680
Petrolimex	25	1,838,500	1,357,580	2,922,460

Source: Dr. Nguyen Manh Hung, "Data on Socio-economics of Vietnam 2002", Statistical Publishing House, Hanoi 2003, p. 227

The high rate of FDI implementation in Mekong Delta should be seen as a positive sign regarding the region's business environment. Failure to follow through on FDI plans can, of course, very well be due to a fault on the part of the investor, but the frequency with which investors have failed to follow through in Vietnam points to a domestic factor such as poor or unclear local governance, or, at very least, local authorities that fail to take sufficient measures to facilitate the success of local FDI projects.

Table 2.5: FDI in Mekong Delta Provinces, 1988- 07/2003 (Unit: USD 1,000)

	Number of project	Total investment capital	Legal capital	Implemented capital
Mekong Delta	132	1,094,460	501,940	768,670
Long An	67	508,081,277	240,397,301	222,718,335
Kien Giang	6	447,618,000	192,558,000	393,490,402
Can Tho	27	99,679,449	54,252,357	54,285,347
Tien Giang	8	75,981,276	31,497,580	62,429,000
Bac Lieu	5	23,578,646	13,522,687	13,664,016
Vinh Long	7	15,711,641	9,075,000	5,918,271
An Giang	3	14,831,927	4,516,000	12,537,401
Ben Tre	4	10,494,048	4,454,175	3,783,743
Dong Thap	7	5,828,037	4,798,037	1,344,970
Ca Mau	3	5,175,000	3,619,721	6,005,355
Soc Trang	2	2,286,000	1,806,000	2,055,617
Tra Vinh	3	1,606,636	1,442,636	873,158

Source: Office of Foreign Investment – Ministry of Investment and Planning (07/2003).

V. EQUITIZATION

The equitization process in Vietnam has proceeded slowly. As of the end of 2001, Vietnamese SOEs still accounted for 60 percent of the country's fixed assets but only 30

percent of the country's GDP and about five percent of national employment. Only about half were believed to be profitable. As of June 30th 2002, the 828 equitized SOEs accounted for just 13% of total existing SOE's, 2% of respective total capital and 3% of total workforce of all SOE's.²²

Table 2.6: Equitization process in the regions - 2001

Region	Total firms	Total registered capital	Of which	
			From the state	From stock-holders
Whole Country	264	2,477,134	272,273 (11.00%)	2,204,861 (89.00%)
Red River Delta	82	1,795,102	68,369 (3.81%)	1,726,733 (96.19%)
North Central Coast	29	89,682	31,480 (35.10%)	58,202 (64.90%)
South Central Coast and Central Highlands	90	288,471	72,939 (25.28%)	215,532 (74.72%)
North East South	29	97,806	28,493 (29.13%)	69,313 (70.87%)
Mekong River Delta	34	206,073	70,992 (34.45%)	135,081 (65.55%)

Source: Can Tho University, 2003

Equitization has so far focused largely on the state sector heavy Red River Delta. As of 2001, 31 percent of equitized firms and over 70 percent of total registered capital, were located in the Red River Delta region. The Mekong Delta, in contrast, was home to 13 percent of the equitized firms and 11 percent of their total registered capital. It is, of course, important to keep in mind the original size of the state sector in each region when analyzing the equitization process.

The numbers for the Mekong Delta can actually be considered quite high, given the relatively small starting size of the state sector in the region. Equitized firms in the Delta are the second largest in terms of total registered capital per firm and they rank second in terms of highest share retained by the state. These are likely very much connected numbers, as the government has proved itself more willing to give up all shares in smaller equitized firms, but has generally sought to retain significant shares when equitizing larger firms.

²² Nguyen Dang Nam. 2003. "Retardation of SOE Equitization in Vietnam and Remedial Measures." *Vietnam Economic Review* 104(4): p.23-26

Equitization process in the Mekong River Delta – 2002

Province	Total firms	Total registered capital	Of which	
			From the state	From stock-holders
Whole Mekong Delta	34	206,073	70,992 (34.45%)	135,081 (65.55%)
An Giang	4	45,190	8,540 (18.90%)	36,650 (81.10%)
Bac Lieu	3	6,180	2,476 (40.06%)	3,704 (59.94%)
Ben Tre	0	0	0	0
Ca Mau	0	0	0	0
Can Tho	9	81,029	35,446 (43.74%)	45,583 (56.26%)
Dong Thap	6	2,794	838 (30.00%)	1,956 (70.00%)
Kien Giang	1	620	0	620 (100.00%)
Long An	4	40,548	11,969 (29.52%)	28,579 (70.48%)
Soc Trang	1	1,200	0	1,200 (100.00%)
Tien Giang	5	25,321	11,723 (46.30%)	13,598 (53.70%)
Tra Vinh	0	0	0	0
Vinh Long	1	3,200	0	3,200 (100.00%)

Source: Can Tho University, 2003

Thirty two of the 34 equitized firms in the Mekong Delta, as of the end of 2002, were located in six provinces: Can Tho, Dong Thap, Tien Giang, An Giang, Long An, and Bac Lieu. This is important to keep in mind when looking at private sector development in these provinces, particularly in provinces with small economies like Bac Lieu, or small industrial sectors like Dong Thap and An Giang, because of the significant impact that such privatizations of larger state enterprises can have on the overall indicators for the province. In An Giang, the high profile equitization of AGIFISH—which is now listed on the HCMC stock exchange—has clearly had a major impact on sector indicators.²³

VI. DOMESTIC BANK FINANCING

Like Vietnam's equitization process, Vietnam's banking system is very much still a work in progress. The banking sector is dominated by large state banks, most of which are

²³ An interesting research question would be whether these equitizations can be said to proof of local authorities' more positive, pro-active approaches to private sector development. It would also be interesting to research whether the act of equitization and post equitization performance have themselves influenced the attitudes of local authorities and populations towards the private sector.

heavily exposed to large, highly leveraged—and in many cases technically insolvent—state enterprises.²⁴ The exact extent of banks' exposure to bad SOE loans is very difficult to gage given that banks repeatedly roll over bad short-term debt held by struggling state sector firms, very rarely ever recording them as non-performing loans. Internal incentive systems for Vietnam's state banks are also flawed, with bank officers often promoted based on factors other than the profitability of the loan portfolios they oversee. The general assumption that the government will not allow state enterprises to fail, further corrupts a system that does not efficiently distribute scarce capital to those who will use it most efficiently.

Despite these continuing difficulties, the banking sector is clearly making strides. Total capital among financial intermediation enterprises grew by a quarter from 2000 to 2002. This number was slightly higher in Mekong Delta, where banking also emerged during the period as a highly profitable industry.²⁵ Some observers have even begun to warn that bank credit may be expanding too quickly.²⁶ Based on interviews with bank managers in Can Tho, credit expansion appears to have been particularly dramatic in 2002. The nature of this expansion is discussed in greater detail at the end of the next chapter on private companies in the Mekong Delta.

In addition to this general expansion in provision of credit to the Mekong Delta, there has also been a more specific increase in the reach of Vietnam's new domestic private banks. Joining the normal array of state banks, domestic private banks now active in the Mekong Delta include Asia Commercial Bank, Saigon Commercial Bank, Maritime Bank, Indovina Bank, Nam Phuong Bank, and others. Two private banks interviewed by the authors in Can Tho reported that they had increased their total lending by 66% and 193%, respectively, over the past three years. In addition to Can Tho, joint stock and limited liability banks have opened in An Giang, Kien Giang, Tien Giang, and Long An. This year, Australia New Zealand Bank opened the first foreign bank branch office in the Mekong Delta.

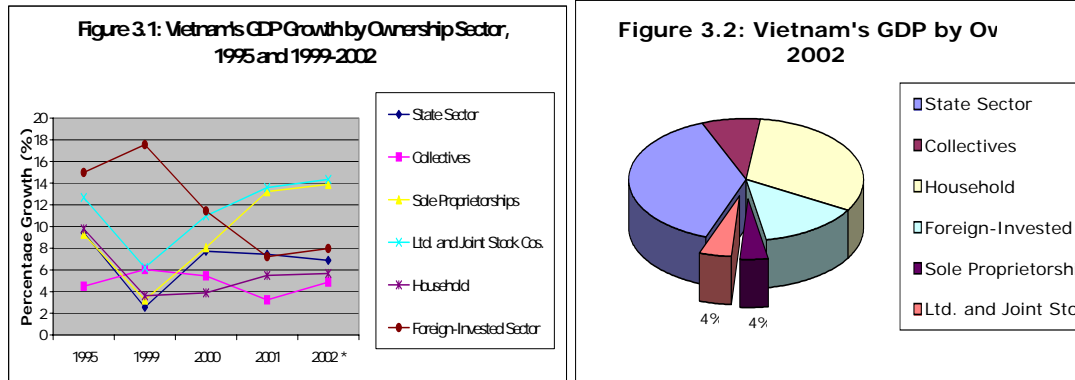
²⁴ *The credit situation of SOEs appears to have worsened significantly since implementation of the Enterprise Law. Despite high levels of national economic growth from 2000-2002, total equity in centrally administered SOEs fell significantly as a share of respective total capital from 34.5% to 24.6% (GSO, 2004)*

²⁵ *Financial institutions in the Mekong Delta earned pre-tax profits of VND 1.079 trillion in 2002, up from VND 575 billion in 2000. The Mekong Delta profits were second only to the Ho Chi Minh City/Southeast region, where profits were VND 1.156 trillion. The Southeast's banking sector, however, is more than 15 times larger, as judged by total capital. (GSO, 2004)*

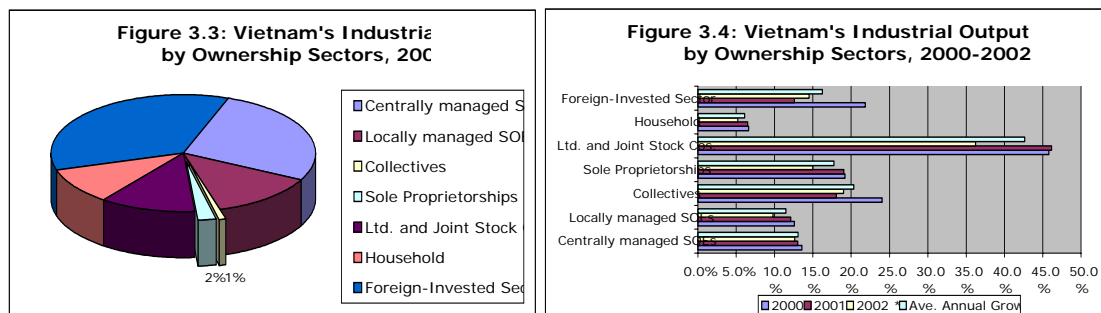
²⁶ *Given the fact that many ongoing development initiatives are based on the common assumption that bank credit is difficult to access in Vietnam, this possibility merits serious consideration and investigation. The fact that, as in all countries, entrepreneurs complain about the costs of accessing finance, cannot be considered sufficient proof to the contrary.*

CHAPTER III PRIVATE COMPANIES IN THE MEKONG DELTA

I. THE PRIVATE SECTOR IN VIETNAM: SMALL BUT GROWING



Vietnam's formal domestic private sector is small (see Figure 3.2), but its importance is expanding at a rapid pace. Domestic private companies presently represent the fastest growing ownership sector in Vietnam's economy: in terms of expansion in number of firms, job creation, and contribution to GDP and industrial output. The industrial output of private companies grew a robust annual 37 percent from 2000 until the end of 2002, more than twice as high as the 16 percent annual rate recorded by the foreign invested sector—the second fastest growing sector. Employment growth by the domestic formal private sector was an even more impressive 47 percent a year over the same three year period.²⁷ While the authors of this report did not have access to detailed national tax statistics, it is highly likely that domestic private firms are also the country's fastest growing source of tax revenues.²⁸



²⁷ This figure was arrived at through less than ideal means: 1999 employment private company employment (553,079) is drawn from GSO statistics, while the 2002 number (1,740,813) comes from Ministry of Labor statistics.

²⁸ CIEM reports that private companies' shares of the central budget were 6.4% in 2001, "over 7 percent" in 2002, and 11% in the first quarter of 2002. CIEM also reports that private companies' share of local provincial budgets, in general, are significantly higher. The role of private companies in the central and provincial level budgets would clearly be a very interesting area for further research. Reasons why the statement that private companies are the fastest growing source of taxes may not be true include the facts that many companies do not earn significant profits in their first years while others receive tax free status for their early years of operation. At the same time, however, provinces are, with each year, also improving their capacity to collect due taxes from private companies.

Growth of the domestic formal private sector intensified with the introduction in January 2000 of the Enterprise Law. According to the Central Institute for Economic Management, over 50,000 new private companies have registered in the first three years under the new law and total registrations are now approximately 100,000. GSO's figures on the number of private companies in operation rose to just over 50,000 at the end of 2002—nearly doubling the number of firms when the Enterprise Law was introduced.²⁹ Employment, meanwhile, has nearly tripled. It is reasonable to expect that rapid growth in output may follow in the coming years.

What is the formal domestic private sector?

There are four types of domestic private companies in Vietnam, as defined by the country's 1999 Enterprise Law: sole proprietorships (*doanh nghiệp tư nhân*), limited liability companies, joint stock companies (*công ty cổ phần*), and partnerships (*công ty hợp danh*). The first three types of companies are fairly self explanatory, while the fourth, i.e. partnerships, was created in 1999 and has not proven a popular option for entrepreneurs. At present, Vietnam's government holds shares in about half of all the country's joint stock companies, reflecting the fact that many of these companies were formed through the equitization process.

An additional enterprise type that has attracted private domestic investment is joint ventures. The number of formal joint ventures between foreign and private domestic investors remains small, however, and numbers are often not separated out from more common joint ventures between foreigners and state partners—the most common type of joint venture in Vietnam. As a result, most descriptions and numbers on the formal domestic private sector are unable to account for private entrepreneurs' involvement in joint ventures.

The basic framework for formalization of Vietnam's private sector was established in 1986 with the start of the *doi moi* economic renovation process. Then in 1990, passage of the first Company Law led to official registration of the country's first private companies. The recent 1999 Enterprise Law has further developed the legal basis for the domestic private sector by easing registration requirements and establishing that entrepreneurs can register in any area of business activity not prohibited by law.

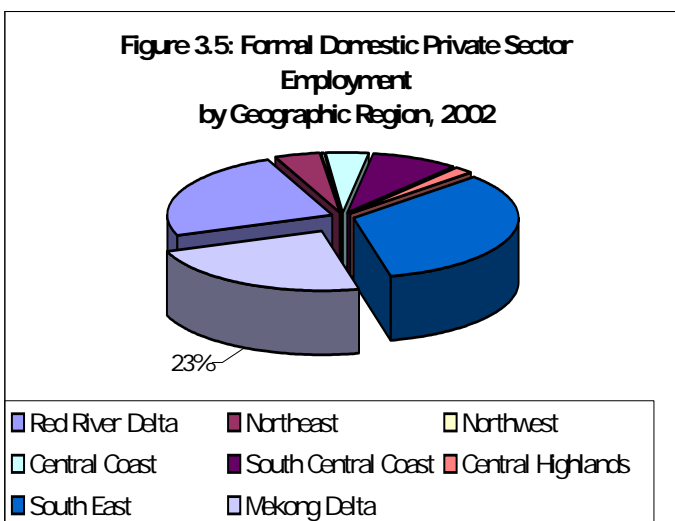
Household enterprises (*hộ cá thể*) and collectives are generally not included within definitions of the formal domestic private sector, even though they do register their businesses with authorities. The reasoning is that these business types i.) tend to have less transparent management structures, making them ill equipped to access outside resources such as capital and specialized expertise; and ii.) face less formalized, more subjective regulations regarding taxation, labor and environmental standards, and other forms of state oversight. Employment with household enterprises and collectives is less stable and less well paying than are jobs with private companies.

²⁹ The difference between MPI registration numbers and GSO numbers on actual operating private companies is often attributed to factors such as a higher number firms registering but never starting up operations and the phenomenon of firms taking advantage of the easier set up process to buy and sell VAT receipts. It seems likely, however, that the difference is primarily accounted for by the natural process of business failure. There also appears to be a significant number of firms that have re-registered, in some cases in order to re-access preferential tax benefits accorded to startups.

II. THE MEKONG DELTA'S FORMAL DOMESTIC PRIVATE FIRMS

No region of Vietnam is more dependent on its domestic formal private sector than the Mekong Delta. In addition to being home to about a quarter of Vietnam's private companies and a quarter of private company jobs³⁰, the region also boasts half of the country's provinces with over a thousand registered private companies. This means that the formal private sector is much more broad based in the southern delta than it is in the rest of the country. The Mekong Delta's broad based growth of private companies provides important evidence to other regions of the country that entrepreneurship and private investment are not only important in commercial urban centers, but can also be

significant in addressing the challenges of Vietnam's rural economy.



The Mekong Delta is the region in Vietnam where private companies come the closest to employing as many workers as do state enterprises—with 4.9 percent and six percent, respectively, of the region's total labor force. Considering the continued rapid growth of private companies, it may be that employment in the formal private sector did pass that of the

state sector in 2003. The relative strength of the private sector is, in large part, a result of history, as far less state enterprises were set up (per thousand people) in the Delta region during central planning than in any other region in the country.³¹ With this more limited state sector base, it has been chiefly private companies that have taken advantage of the region's relatively rich natural resources and entrepreneurial spirit. Looking forward, this inability to rely on the state sector may, in fact, prove a key advantage for the region.

Private companies in the Mekong Delta are overwhelmingly single owner entities, i.e., sole proprietorships. Since introduction of the Enterprise Law, the share of Delta entrepreneurs registering their businesses as sole proprietorships has fallen somewhat, but still stood at nearly 80 percent over the past three years, according to CIEM statistics. For the country as a whole, in contrast, the share of new sole proprietorship registrations was just 36 percent. This heavy emphasis is particularly true for Ben Tre, Bac Lieu, and Tien Giang in the Delta's eastern region, where sole proprietorships account for about 95 percent of all

³⁰ Unfortunately, the GSO's newest book on enterprise statistics in 2004 does not disaggregate provincial enterprise numbers to allow analysis of the private and state sectors. The most recent numbers covering the whole country that the authors were able to access were GSO numbers from two years earlier (GSO's April 1, 2001 Enterprise Census).

³¹ In 2000, there were about 37,000 people for each SOE in the Mekong Delta, compared to an average of 14,500 people for the whole country. In contrast, the Delta's 2,200 people per private company was lower than the national average of one every 2,600 people (GSO, 2000).

currently active private companies. While the high number of individuals willing and able to begin ventures on their own (or with family members) is surely a sign of the high level of entrepreneurial spirit in the region, the lack of more corporate structures like joint stock and multiple owner limited liability companies may eventually prove a bottleneck for future growth.³² Shareholding company structures allow entrepreneurs to access more sophisticated financing tools such as equity financing.

Table 3.1: Firms by Ownership Sector in Mekong Delta Provinces, (May, 2002)

	Sole Proprietorships	Ltd. and Joint Stock Cos.	Households	Collectives	State Sector	FDI
An Giang	815	148	47,530	187	26	3
Bac Lieu	853	52	22,766	5	20	1
Ben Tre	1,517	83	29,857	8	25	2
Ca Mau	1,457	123	20,143	21	43	10
Can Tho	1,434	471	34,852	261	44	32
Dong Thap	1,095	201	19,590	150	25	1
Kien Giang	1,601	370	20,208	50	30	5
Long An	1,237	392	25,000	1	23	150
Soc Trang	638	92	12,672	14	20	2
Tien Giang	1,678	101	28,113	91	26	4
Tra Vinh	341	45	18,556	107	20	2
Vinh Long	836	145	21,562	49	29	5

Source: Reports by individual provincial DPIs, 2003

In May 2002, local authorities reported a total of 15,725 private companies in the Mekong Delta, as compared to a modest 331 SOEs.³³ As is true throughout Vietnam, about half of the private companies in the Mekong Delta are service companies, focused on trade and repair of motorized vehicles and other consumer goods. Service companies are generally smaller in terms of employment and fixed assets, and their predominance is often understood to reflect entrepreneurs' risk aversion and preference for going into businesses where original investments are recouped relatively quickly. While updated statistics were not available to the authors, it appears that improved clarity of and confidence in the business environment due to the Enterprise Law has led to an increase in the share of manufacturing firms among recent registrations. Vinh Long authorities, for example, directly credit the Enterprise Law and resulting investor confidence for their province's increased number of new registrations in the area of manufacturing agricultural products.³⁴

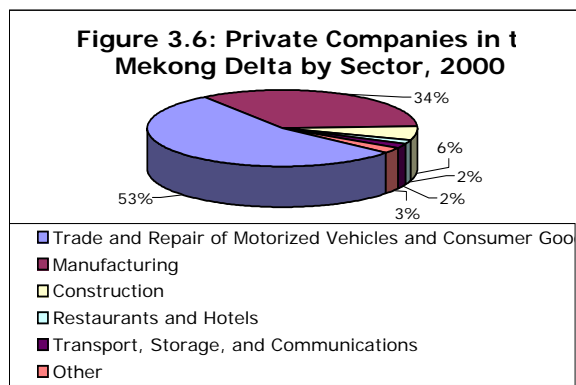
Private firms in the Mekong Delta are also more likely to be in manufacturing than are firms in other regions—most commonly smaller food and beverage processing firms. Can Tho and Tien Giang, the provinces housing the largest cities in the Mekong, are where the highest numbers of these private manufacturing companies are found. It is, however, Dong

³² Further research on this topic is merited.

³³ According to consolidated numbers reported to VCCI Can Tho by all of the DPIs of the Mekong Delta.

³⁴ Report on Enterprise Law Implementation, SOE Reform, FDI, and Domestic Investment Promotion in Vinh Long, Vinh Long Department of Planning and Investment, February 11, 2003.

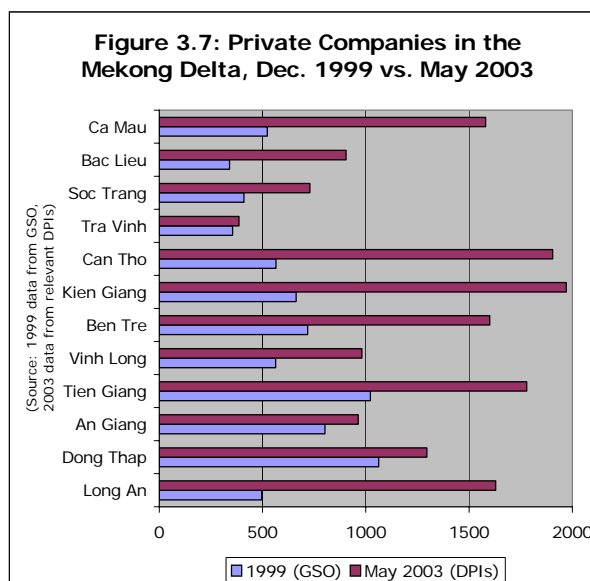
Thap—with its large number of small private rice millers—where manufacturers account for the highest share of total private companies (42%).



Growth in number of private companies in the past couple years has concentrated on the coastal seafood producing areas, where Ca Mau, Kien Giang, Ben Tre, and Bac Lieu have all seen the number of companies double. More inland Dong Thap, which claimed the highest number of private companies in the Delta region throughout the 1990s, grew at a much lower rate, falling to seventh out of the twelve provinces. Industrial centers Can Tho and Long An, in turn, also saw significant increases—with

Can Tho benefiting from development in coastal provinces through provision of relevant processing or other services, and Long An benefiting from its proximity to Ho Chi Minh City, as well as its efforts to learn from the local policy lessons of the Binh Duong and Dong Nai success stories. The growth in number of firms in these Delta provinces has followed directly much more difficult times in the wake of the Southeast Asian financial crisis (1998 and 1999), when some provinces actually saw significant decreases in the number of registered and active private companies.³⁵

The share of private companies in the Mekong Delta's GDP appears to have risen slightly, though not significantly, over recent years. The authors were not able to ascertain exact GDP growth for the region because not all provinces' statistics offices publish statistics about private companies.³⁶ Growth in contribution to GDP has not increased equal to—and, in fact, so far does not even appear to be particularly correlated to—the growth in the number of private companies. In An Giang, for example, the number of

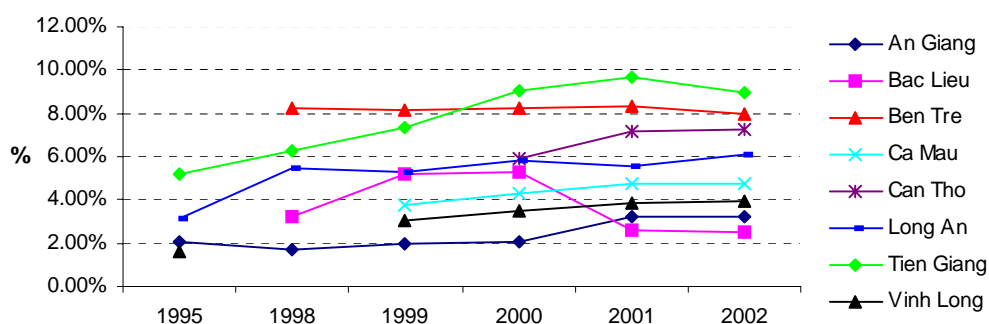


³⁵ There is some difficulty in comparing private sector development over the years. First, the problem that GSO private company statistics are still not yet available for large growth years of 2001 and 2002. Numbers taken from MPI and individual DPIs, in turn, are available, but these statistics are drawn from registration statistics and tend to paint an overly optimistic picture of the private sector by including companies that have gone bankrupt or that for some other reason are not actually in operation—even though some DPIs have made concerted efforts to investigate whether firms are still active or not and to then remove the. Second, even GSO data is quite clearly flawed. A detailed look at GSO private company numbers shows some strikingly odd numbers, such as numbers for Binh Thuan province that went from 194 in 1995 to 2,491 in 1997 and then back down to 365 in 1999. While GSO statistics are still clearly valuable indicators of trends and distribution, these clearly flawed numbers make it more difficult to have faith in some of the smaller provincial level fluctuations.

³⁶ These provinces generally provide statistics only for the much broader “non-state” sector.

private companies has increased only modestly, while the formal domestic private sector's contribution to GDP has increased by nearly 19 percent a year over the past three years. This is most likely explained by the relatively significant equitization program in An Giang and the otherwise still quite small size of the province's formal private sector. More common, however, have been the cases where growth in the number of firms has significantly outpaced growth in output. In Kien Giang, Can Tho, and Ca Mau, the number of firms has approximately tripled over the first three years under the Enterprise Law, but growth in GDP contributions appears to have been more restrained.³⁷ This may be because firms are just starting up and GDP effects will begin to show in 2003 and subsequent years. An alternate explanation is that GSO statistics are not fully capturing private companies' GDP contribution—perhaps due to under-reporting by entrepreneurs themselves. There may also be other factors such as the fact that some private companies still depend on the state sector as an intermediary for reaching foreign markets.³⁸

Figure 3.8: Private Companies Share of Provincial GDP, 1995-2002
(current prices)



Source: Provincial 2002 Annual Statistics Yearbooks, GSO, 2003.

Note: Figures for Dong Thap, Kien Giang, Soc Trang, and Tra Vinh were not available.

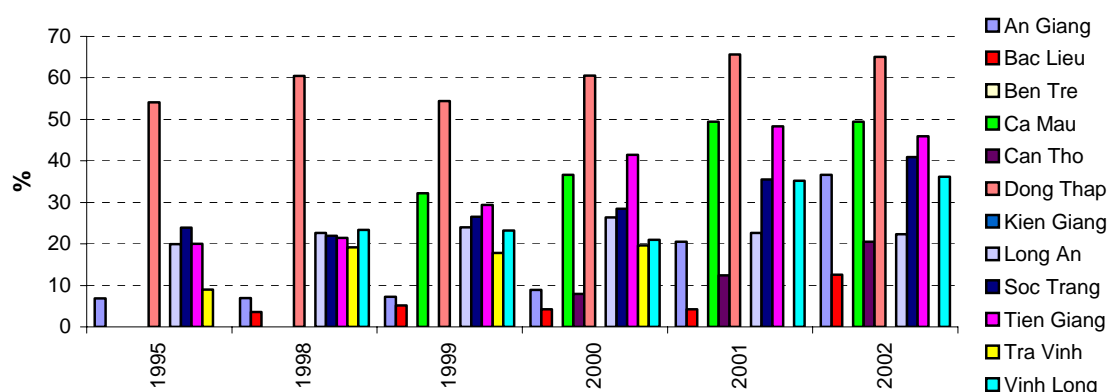
The role of private companies in the Mekong Delta becomes much stronger when the focus is industry. In three of the Mekong Delta's provinces, private companies now contribute more to industrial output than do state enterprises. The province with the largest formal private sector share of industry is Dong Thap, where private companies account for 65 percent of industrial output and 82 percent of wage employment in industry. This can be explained by the fact that Dong Thap has the region's smallest state industrial sector and has implemented the second highest number of equitizations in the Mekong Delta. The other provinces with major private company shares are the high performing provinces with successful seafood and fish industries. An Giang has seen private companies raise their industrial output at a rate of 56 percent a year over the past five years—with growth rates of 155 percent in 2001 and 104 percent in 2002. As a result, private companies' share of the

³⁷ Unfortunately, statistics on the contribution to provincial GDP by private companies was not available from Kien Giang.

³⁸ Local officials in Ben Tre, for example, reported that private companies in their province almost exclusively sold their export products to SOEs, which then carried out actual export operations. The one exception noted in Ben Tre was production of coconut candy (*Evaluating Three Years of Enterprise Law Implementation, Ben Tre People's Committee, April 28, 2003*).

province's industrial output has increased five-fold from seven percent in 1999 to 36 percent in 2002. The equitization of AGIFISH and explosion of the catfish processing industry have clearly played leading roles.³⁹ Soc Trang and Bac Lieu—where only two years ago there basically was no private industrial sector—have also recorded strong growth.

Figure 3.9: Private Companies' Share of Gross Industrial Output by Province (current prices)



Source: Provincial Annual Statistical Yearbooks, 2000-2003

Probably the most noteworthy achievement of private companies in the Mekong Delta has been their role in job creation. This is particularly true given the enormous challenge Vietnam faces in providing work for its rapidly growing labor force. Job creation by the region's formal domestic private sector increased at an annual rate of 66 percent over the three post Enterprise Law years. Very significantly, average workers per firm more than doubled over the same period from about 12 workers to about 27. Whether this was more the result of new companies starting with larger work forces or older companies expanding is not clear from the information available to the authors. Either way, given recent growth rates, private companies may surpass state enterprises within 2003 as the leading provider of wage jobs in the Mekong Delta.

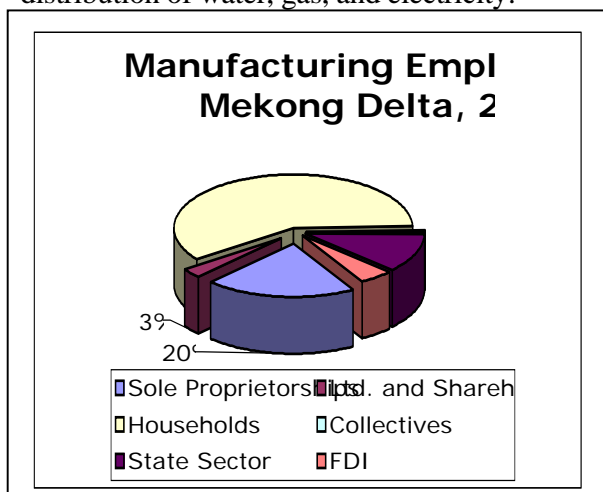
Table 3.2: Share of Usually Employed People Aged 15 and over, by Ownership Sectors and Region, 2002

	Sole Proprietorships	Ltd. and Shareholding Cos.	Households	Collectives	State Sector	FDI
Total	3.6%	0.9%	68.7%	15.6%	10.2%	1.1%
Red River Delta	3.6%	1.1%	46.5%	35.1%	12.9%	0.8%
Northeast	1.2%	0.4%	63.9%	23.7%	10.7%	0.2%
Northwest	0.4%	0.1%	83.9%	8.2%	7.5%	0.1%
Central Coast	1.3%	0.2%	67.7%	22.6%	8.1%	0.1%
South Central Coast	3.4%	1.1%	66.2%	17.9%	10.6%	0.8%
Central Highlands	1.4%	0.4%	89.2%	0.2%	8.7%	0.2%
South East	7.5%	2.3%	70.5%	0.9%	14.1%	4.7%
Mekong Delta	4.5%	0.4%	88.4%	0.3%	6.0%	0.5%

Source: 2002 Labor Statistics Yearbook, MOLISA, 2003

³⁹ Joint stock companies alone accounted for 31% of industrial output in An Giang.

As with output figures, employment figures are even more impressive when one focuses on private companies' impact in industry. Private manufacturing companies in the Mekong Delta employ twice as many workers as their state counterparts. Noteworthy, however, is that this picture varies significantly across provinces (see Table 3.3). Employment statistics also show the importance of private companies in construction and provision and distribution of water, gas, and electricity.



Source: 2002 Labor Statistics Yearbook, MOLISA, 2003

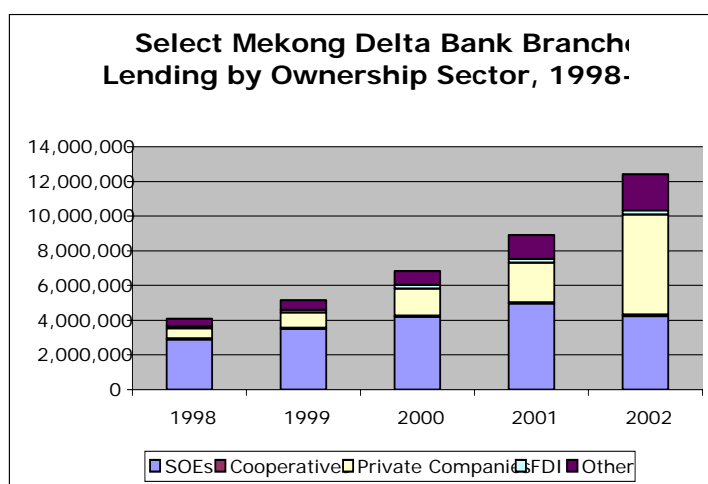
**Table 3.3: Share of Industrial Employment
by Ownership Type, Select Provinces, 2002**

	Private Companies	SOEs
Group 1		
Long An	27.8%	8.3%
Dong Thap	15.9%	3.4%
Tien Giang	27.4%	17.1%
Group 2		
Bac Lieu	3.8%	16.0%
Ben Tre	6.6%	11.0%
Can Tho	15.0%	21.8%

Source: Provincial Statistics Yearbooks, GSO, 2002

Private Firms Access to Formal Bank Finance

As mentioned in the previous chapter, major structural problems clearly remain for most of Vietnam's banks—making it more difficult for Vietnamese entrepreneurs to access much needed finance. Bank officials interviewed by the authors admitted that their banks do not base their lending decisions based on the type of individual loan analysis and risk pricing techniques used in most advanced economies. Despite these continuing internal



Source: GTZ/VCCI Can Tho Survey, Sept. 2003

grown at an annual rate of 76 percent over the past four years, compared to 10 percent growth in lending to state enterprises. In 2002, lending by the surveyed banks to SOEs

difficulties, the year 2002 appears to have witnessed an unprecedented expansion in credit available to private companies in the Mekong Delta. It is not clear whether the strength of this expansion is unique to the Mekong Delta or reflects a greater national trend.

A survey of a limited number of local bank branches in the Mekong Delta showed lending to private companies to have

fell, while lending to private companies increased by 153 percent—lifting total lending to private companies above lending to the state sector for the first time. As would be expected, banks named aquaculture as the leading private sector industry they lend to, followed by textiles and garments, and construction.

Understanding of why credit to private companies has increased so much requires more study. The increase in number of potential private sector borrowers is clearly part of the equation. What is less clear is whether—and, if so, exactly why—it has become easier for individual private firms to borrow formally. Ideally, what has begun is a virtuous cycle of more efficiently distributing capital wherein both companies and banks can maximize profits and support one another through their respective expansions. Banks throughout Vietnam are reporting increased deposits and, with the state sector fairly stagnant, are probably feeling pressure to venture more into lending to private companies as a means for earning interest on these deposits. The increasing ease with which private companies appear to be accessing official paperwork proving their land use rights (i.e., “red books”) has also help private companies to satisfy bank collateral requirements that have traditionally favored state enterprises.

CHAPTER IV

FURTHER DEVELOPMENT OF DOMESTIC PRIVATE COMPANIES IN THE MEKONG DELTA: KEY REMAINING ISSUES

The Mekong Delta is one of the most entrepreneurial regions of Vietnam. Despite its predominantly rural nature and generally quite limited infrastructure, it is home to approximately one quarter of the country's total number of private companies. Furthermore, unlike most of Vietnam, development of private companies has been relatively evenly distributed across provinces. Some of the region's provinces are already dealing with transitional economy trends that will in the future affect all of Vietnam, including greater reliance on private companies than on state enterprises for locally sourced tax revenues, as well as greater emphasis on private companies than on state enterprises as targets for bank credit. This relatively advanced situation in the Mekong Delta should be seen as encouraging by national leadership, as it reflects positively on the ability of domestic entrepreneurs to play an increasingly large role, throughout the country, in addressing pressing issues such as rural under-employment and the dangers of increasing disparity between urban and rural incomes. Further study of the Mekong Delta's more developed private sector would appear to be warranted so as to better enable other rural regions to prepare themselves for the future.

Probably the most important achievement of the formal domestic private sector in the Mekong Delta has been its rapidly growing role in creating much needed new wage employment opportunities. Given recent trends, it is possible that domestic private companies may employ more Mekong Delta workers than state enterprises by as early as the end of 2003. It is clear that the Mekong Delta will indeed be the first region in the country where this occurs.⁴⁰ The reasons for this are not only a strong history of entrepreneurship, but also good local governance that has made local investors increasingly confident about the conditions for investing their own capital in Vietnam's future.

Impressive progress has also been seen in the Mekong Delta on the crucial issues of streamlining the administrative processes of registering new companies and accessing formal bank finance. Improvements on the business registration process can, of course, in large part be attributed to the Enterprise Law and its national level guiding documents. That said, significant difference continues to be seen between implementation in provinces, so provincial governments in the Delta must be given credit for taking relatively positive steps in local implementation in order to achieve the continued strong performance in enterprise formation witnessed throughout most of the Mekong Delta. It is also improvements in local administration—such as increased provision of land use rights paperwork—and generally positive attitudes towards private entrepreneurship that must most likely be credited for the dramatically increasing share of bank financing that is going to private companies in the region. The developments in bank financing, in particular, clearly warrant further study.

⁴⁰ *Though, in fact, the Southeast region—home to the high performing provinces of HCMC, Dong Nai, and Binh Duong—already employs more wage employees in the formal private sector when foreign-invested companies are included.*

The reality remains, however, that private companies still account for less than ten percent of GDP in the Mekong Delta. In fact, it appears that despite higher numbers of firms and relatively small state sectors the share of GDP held by private companies across the provinces of the Mekong Delta may actually be lower than is true for the country as a whole. This can in large part be attributed to the rural nature of the region, but even compared to other rural regions of the country Mekong companies appear small. This reality is effected by the natural obstacles created by the Delta's many waterways and its still quite poor infrastructure. But it is also effected by issues more directly related to government administration of the region's local economies. Chief among these issues are i.) administration of land; ii.) the taxation system; iii.) lack of clarity on the rules governing the very broad area of how companies are to be regulated by local authorities after registration; iv.) still underdeveloped vehicles for communication between entrepreneurs and local officials; and v.) a continuing desire by local governments to actively participate in, rather than simply regulate, business activity. These issues are all quite relevant to local administration throughout the country, so there does appear to be a need for research into why companies in the Mekong Delta are of such small size relative to other regions—including other rural regions.⁴¹

Returning to a positive note, the research done for this report is largely based on documents, statistics, and opinions provided quite freely by local authorities in the Mekong Delta region. This relatively high level of openness and the depth of information and analysis included in provincial reports on economic development, in general, and the private sector, in particular, should be seen as very promising signs regarding local authorities' understanding of local economic conditions and their commitment to further economic reform and development. As noted toward the end of this chapter, a more proactive approach by local authorities in getting this and other relevant information out to domestic entrepreneurs themselves would be even more promising.

Implementation of the Enterprise Law and Business Registration

The success of the Enterprise Law in reducing the time and costs of registering a private company have been well documented and widely applauded. Outstanding issues on business registration are based on two fundamental issues: a.) implementation issues related to insufficient clarity from the central government on the details of

⁴¹ In looking at the small size of Mekong Delta private companies, the much higher number of companies per thousand people must be kept in mind. It is very possible, for example, that a generally more transparent business environment in the region means that small enterprises that might stay informal in other regions are far more likely to register as private companies—thereby bring down the average per firm size of the total population of private companies. Similarly, a business environment where political connections are relatively less important may mean that ordinary people are more likely to register business ventures, whereas in other regions only those with far greater resources would dare to do so. A less encouraging reason for the smaller size of the companies would be the possibility that entrepreneurs are making more use of temporary, non-wage labor that they are not required to report or that, in fact, they are being less transparent in their reports of number of employees to local officials—an option that could be made more possible by the more challenging task facing local governments in the region of regulating such relatively high numbers of private firms. Research on what the key factors are that lie behind the small size of private companies in the Mekong would clearly have significant policy implications.

implementation, as well as b.) limitations in the capacity of local governments to carry out implementation.⁴² As has been pointed out clearly by the Prime Minister's Enterprise Law Implementation Task Force, some Ministries have been slow to promulgate necessary guiding decrees that bring areas under their respective responsibilities in line with the spirit and contents of the Enterprise Law. In turn, local governments have found it difficult to fulfill their responsibilities to properly regulate a rapidly expanding formal private sector and have, as a result, been slow to implement certain aspects of the streamlined business registration process. In some cases, local governments have even introduced local regulations to limit private sector growth in areas where authorities suspect entrepreneurs may be particularly likely to engage in some sort of illegal activity in the future and thereby further stretch limited local capacity for regulating such violations. Looking forward, it is, of course, not only important that entrepreneurs not face such cynicism from local authorities, but it is also crucial that government increase its capacity to efficiently identify and punish the minority who violate laws without punishing the majority who do not.

The Enterprise Law is the key element of a transition in Vietnam from regulating private business through a subjective system aimed at identifying who is worthy to set up a business to an objective system that regulates actual business operations through enforcement of the rule of law. This transition is a transition to a significantly more complex system, requiring far greater capacity and skill on the part of government. It is entirely natural that Vietnam will not be able to pass easily through this transition without significant challenges. One such challenge at present is that many government offices resent the greater and more complicated responsibility that increased registration of private companies means for them. In cases where private businesses break the law, local authorities are often turning an accusatory eye on the business registration office, asking why a company that would break the law was allowed to register in the first place. Bringing about a change in this approach of seeking to pre-judge who is worthy of doing business to one based on punishing those who actually do violate the law will require initiative at both the central and local levels.

Key specific remaining registration issues include:

- A major complaint voiced by most local governments—not only in the Mekong Delta, but throughout Vietnam—relates to the lack of clear punitive measures that can be taken against companies that violate provisions of the Enterprise Law during the registration process. Common violations include: i.) not placing the required announcement in local papers regarding registration of the company; ii.) not placing all the required information on a sign outside the company headquarters; iii.) not submitting an annual company financial report; and iv.) not reporting a subsequent change in address or ownership. While the direct costs to society of these violations are very minor, and no instance is yet on record of an

⁴² The latter of these two reasons is generally given precedence by most observers. The authors of this report, however, believe that the former is given insufficient attention. This may be due to the very practical reason that the latter is more easily addressed, while the former involves a very complicated debate being carried out by Vietnam's leadership over which outsiders can only hope for very limited influence. In either case, the authors of this report feel that it is important to keep in mind that the task facing local officials is not completely straightforward.

Enterprise stealing state assets or anything of similar consequence, it is important that authorities be armed with the means to enforce these measures to ensure that respect for the rule of law, in general, and the rule of the Enterprise, in particular, can be maintained to a reasonable degree.⁴³

- Reflecting the complexity of inter-governmental relations in Vietnam, numerous local governments in the Mekong Delta are asking for assistance from the central government in directing local police and court authorities to provide background information on the criminal background of individuals looking to set up private companies. This issue is interesting, in that there is clearly not a need for local business registration authorities to have access to detailed reports on the personal backgrounds of entrepreneurs. However, it is clearly a problem that it is so difficult for registration offices to get a simple yes or no answer within a two week period (in order to complete registration within the nationally mandated time limit of 15 days) from a government office in the same town on whether an individual has actually been stripped of his/her right to establish a business that the office has to submit a request to the national level for assistance.
- Most local governments are also frustrated by the fact that entrepreneurs in their provinces are commonly registering their enterprises in multiple business sectors, whether or not they are actually active in those sectors. This, say officials, means makes it difficult to accurately account for the distribution of registered enterprises across sectors. The problem is that, in the spirit of the Enterprise Law, it would be inappropriate to limit the sectors in which entrepreneurs can register. The fact that local officials only know what business sector a company is active in when the company itself tells them is actually a problem of either the capacity of the government office or one of insufficient communication between the office and other government offices, such as the Department of Statistics, that do know. While it would not be appropriate to punish entrepreneurs for this limited capacity by limiting the sectors they are allowed to register for, it might make sense to introduce minor fees for additional sector registrations beyond two or three sectors. This administrative issue provides further evidence of the need for better inter-departmental communication and cooperation, under the leadership of local people's committees.
- Some provinces have called on the Ministry of Planning and Investment (MPI) to push forward faster on creation of a national enterprise database to standardize management of enterprises and allow more timely provision of individual or aggregated enterprise information. Such a database would naturally have the potential to further ease efforts for more efficient inter-departmental communication. A first step, however, would be for MPI to respond to another request put forth by some local authorities for a standardized, comprehensive yet simple registration form to be used for all provinces.

⁴³ CIEM Report

- Very common across all provinces is the request for further clarification from relevant ministries regarding the specific additional conditions to be met in some sector that the national government has identified as “conditional business sectors”, as outlined in MPI Document 08/2001/TT-KHDT-TCTL on 1/11/2001. Provinces are quite clearly making the request for clarification after having an entrepreneur request registration in a field that does not yet have a sufficient regulatory framework. Examples of this range from professional art performances and trading of cigarettes to newer sectors such as legal consulting and employment services. Even in those areas where conditions have been clarified, there is no clear government document that give business registration offices the power to revoke business registration when conditions are no longer being met. This is clearly a significant hole in the legal system that needs to be addressed at the national level.
- A problem encountered by all provinces was the national decision to significantly increase the annual registration fee (*thue mon bai*) subsequent to the rapid growth of registrations in the wake of implementation of the Enterprise Law. This increase led many companies across Delta to declare bankruptcy and then re-register themselves at the district level as household enterprises. Enterprises most likely to take these steps included gold stores, pawn shops, and even smaller scale rice millers. The decision for the more than three times increase in the registration fee certainly has sent a somewhat contradictory message about the government’s position on business registration. Most important is a clearer understanding of what the government sees as the most important distinction between companies and household enterprises. It may be that it is more appropriate for the above-mentioned types of enterprises to reside in the household sector. This, however, should be a decision made from a comprehensive policy perspective, not the unintended result of an individual initiative to increase government revenues. Local authorities are quite united in their opinion that the registration fee should be reduced to a lower, more appropriate level.
- The declaration of legal capital has limited meaning because there are no clear rules on how authorities should confirm declarations by entrepreneurs. Construction firms generally declare too high in order to qualify for government bids with minimum legal capital requirements, while many other firms declare too low in order to seem smaller and get less attention from tax authorities.
- Local governments complain that few entrepreneurs take seriously the writing of their business charter (*dieu le*). They do not understand that it is an important first step towards establishing the future for future decision-making and internal conflict resolution. Instead, most see the charter as yet another required administrative measure and put minimal thought into it. The issue of a charter is particularly complicated in a low-income, rural area like the Mekong Delta, because most businesses are small and shareholders are either family members or close friends. These relationships mean that they are used to dealing with one

another on an informal basis. Naturally, this then leads to confusion among shareholders when disagreements arise. entrepreneurs by distributing to provincial authorities a report on key issues to be aware of when constructing a business charter.

Increasing Land Available to Domestic Private Companies

In survey after survey, entrepreneurs throughout Vietnam have complained that the difficulty in obtaining satisfactory commercial use land is one of the very most important obstacles to private business—and particularly to the expansion of successful private business. Private companies often operate on land rented from state enterprises or local authorities, or on land that they have long term usage rights to but for which they do not have the appropriate official paperwork proving these rights (*so do*). In other cases, local authorities willingly turn a blind eye to private companies doing business that is technically designated for other purposes, recognizing the important job creation and tax revenue benefits from these ventures.

Local governments are generally very much aware of the land problem facing private business. Most have responded with an enthusiastic push for building provincial and district-level financed industrial zones. Unfortunately, government financed industrial lots do not appear to address the root of the problem, as most of the zones built so far suffer from low occupancy rates of 15-20 percent, while entrepreneurs' complaints regarding the difficulty of finding appropriate land continue.⁴⁴ It is likely that these government projects have spent insufficient resources in gauging the exact nature of entrepreneurs' demand for land. There also appears to be very limited sharing of lessons across provinces.

The most efficient means of addressing the land issue would be a streamlining of the processes involved with land use designation and registration, very much along the same lines as what the Enterprise Law has done for business registration. As such, the creation of a proper framework for dealing with the availability of land for business is first and foremost a national issue. Vietnam has recently passed a new Land Law, but it does not appear that this law takes significant steps towards such a more simplified system. In the meantime, of course, there is still room for initiative at the local level. Some provincial departments of planning and investment in the Mekong Delta have called, for example, for introduction of local incentives, such as the lowering or waving fees for changing land use designation for those investing their own capital into developing land for commercial purposes.

⁴⁴ Official figures showed 86 industrial parks nationwide as of October 9, 2003, encompassing over 17,000 hectares. These numbers, however, have been found not to include dozens of smaller industrial parks, particularly in the Central region (Margot Cohen, "Vietnam -- Costly Dreams: The drive to industrialize has resulted in too many expensive empty lots and little room for local businessmen", *Far Eastern Economic Review*, October 23, 2003). Unfortunately the authors did not have the time to investigate the specific state of industrial zones in the Mekong Delta in much detail. It was clear, however, that Mekong Delta governments were not immune to the enthusiasm for construction seen elsewhere in the country.

Financing Further Growth of Domestic Private Companies

Very much tied up with the land issue, and also repeatedly raised in enterprise-level surveys, is the issue of formal credit for private companies. Lack of sufficient land, or at least sufficient land with sufficient official paperwork, is frequently cited by entrepreneurs and by government as the reason why private companies have so much trouble accessing the financing they need. The recent doubling of bank lending to private companies in the Mekong Delta shown earlier in this report, for example, may very well be in large part the result of local government efforts to ensure more widespread dissemination of land use rights paperwork. It is clear, however, that lending officials at banks continue to hold private companies to much higher standards than they do their state counterparts when it comes to loan applications. This is in part a national issue, relating to the internal employee incentive structures of Vietnam's dominant state banks, as well as a rational response by banks to the significant measures taken by central and local authorities in Vietnam to support the state sector.

Some provinces have called for changes that would free up capital they have available for supporting local business to be more efficiently targeted and dispersed. For example, some governments have said that the bureaucratic steps for dispersing preferential domestic investment measures are still too many, leading frustrated entrepreneurs to quit before completing all steps or to not bother applying at all. Another related complaint is that central level restrictions limit the ability of provincial Development Support Funds to finance enterprises in certain sectors. This may come from a recognition that the central government's focus on heavy industry is at odds with the greater focus of private companies in the Mekong Delta on comparative advantages in less capital intensive industries such as light industry and natural resource extraction (such as seafood). At the same time, however, some provinces have unwisely called for lending by local funds to give preference to investments into newer technology. Considering the still scarce nature of capital in the region, return on investment should clearly be the key factor in all lending decisions.

Taxation of Domestic Private Companies

There does appear to be a sense among local governments in the Mekong Delta that current tax levels facing businesses are too high. The result of such high taxes is greater reluctance to invest into new businesses and into expansion, as well as increased resources spent, and risks taken, in order to avoid paying taxes. At least one local government in the region encouraged tax authorities to re-examine present tax regulations as a precursor to drafting a new framework that will make it easier for enterprises to fulfill their tax obligations and make it clearer how the local government can provide assistance to enterprises in a legal manner.

Communication between Government and Companies

The third major problem consistently raised in all surveys of private entrepreneurs in Vietnam is the problem of accessing relevant business information. This includes not

only information on markets and customers, both in country and abroad, but also information on government regulations and policies. Many local governments have responded to this clear demand for more information by setting up their own direct business information service providing centers—but even the local governments themselves generally acknowledge that the available services are far from adequate. Nevertheless, various provinces continue to call for additional funds to be put into increasing local authorities' capacity to provide business services.

One area of business information provision in which local governments clearly could and should perform better is the supply of clear information on the legal framework for business. The large information push that followed introduction of the Enterprise Law is the main success story in this area, but even with regard to this law, there is room for improvement. Too often it is not entirely clear to investors where and how to get copies of relevant legal documents. Local governments themselves have admitted the need to further strengthen dissemination of information on the Enterprise Law, Domestic Investment Promotion Law, and implementing documents, with particular focus on companies and household enterprises. Some have appropriately highlighted the particular importance of widely publicizing and disseminating annual government plans regarding land use through district level governments.

An additional means for improving the clarity of communication between businesses and government would be a more significant role for business associations. Business associations are receiving increasing emphasis from foreign donors in Vietnam, but unfortunately there still appears to be very limited attention paid to their role by local governments. The strongest local level business associations are mostly limited to Ho Chi Minh City and, to a lesser extent, Hanoi.

In the Mekong Delta, the Can Tho Branch of the Vietnam Chamber of Commerce and Industry is easily the most active and significant business association. The VCCI Can Tho participates in the organization of annual meetings between local businesses and local authorities in many of the provinces of the Mekong Delta. The VCCI's resources, however, are limited, and its location in Can Tho is often not ideal for dealing with business issues in other provinces. Provincial level business associations, in turn, are few and generally lack clear mandates or obligations to their memberships. One major issue is the fact that these associations are managed by local authorities themselves. The result is that entrepreneurs view the associations as tools of the government, rather than tools of their own. Unfortunately for government, this makes the associations less legitimate to association members and thereby makes them less effective at understanding and then communicating to authorities the full breadth and depth of business community needs.

ANNEXES