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Non-State Sector Development in Vietnam Economic Transition

Transition economies are the process of replacing the economic system from a centrally government planning to a free market system (Gregory & Stuart 267). There are several countries that had transformed their economic system such as, Russia, Ukraine, China, Vietnam, etc ("Transition Economy" par.1). The need to transform is largely due to the economic crisis that the countries encountered. Vietnam in the 1980s faced severe economic difficulties; the economic growth is as low as three percent (Mǜller 352), inflation was up to 487 percent in 1986 (Nguyen 5), and 75 percent of the population living in poverty (Mǜller 352). The Vietnamese government realized that the centrally government planning system was "no longer economically and politically sustainable" (Mǜller 352). Therefore, in 1986, Vietnamese government introduced a reform process called "Doi Moi", which means renovation process (Tran et. al. 48). One of the primary transformations that Vietnamese government established was privatization, which allows the private individuals to own enterprises in order to promote the development of non-state enterprises. Although the reform have led to a better economic growth and higher standard of living for the Vietnam economy, the non-state enterprises development is in fact still not as good as expected.

The "Doi Moi" reform was started at the Sixth Party Congress in 1986. The objectives of the reforms were to develop the agriculture, expand private and non-state enterprises, and expand foreign trade relations ("Viet Nam Tiger" 68). In the first phase of the reform, the agriculture and foreign investments sectors started showing some positive result. In contrast, the non-state sector was still stagnant because the government and the people were still affected by the state-owned development in the previous decade. The phase two of the reforms which was started in 1988 showed a more successful result for all sectors. In 1988, Vietnamese government liberalized prices of some commodities and passed a law that gave farmers rights to property in order to develop the agricultural sector further. This action was very successful and it resulted in the agricultural sector to grow 6.9 percent within one year ("Viet Nam Tiger" 70), and changed Vietnam from an importer of rice prior to 1989 to become the third largest rice exporter in the world in1991. Not just agriculture, non-state and foreign trade sector had also significantly increased. Furthermore, in the phase III of the reforms, the government created the two-tiered banking system, ended subsidies to SOE, and controlled money supply. This phase brought success to most of the sectors. A lot more foreign investors invested in Vietnam from $100 million in 1989 to $650 million in 1994. In addition, agricultural, industrial, non-state, and services sectors were having significant increase during the third phase (Dodsworth et. al. 9 -10). However, up to the present date Vietnamese government still controls and owns most of the big industries and corporations and foreign joint venture companies, most of the private and non-state enterprises are small and medium size industries.

According to Gregory and Stuart, the privatization reform is "the creation of markets and market institutions and the forces of supply and demand through the privatization of formerly state owned-assets (267)." In 1970s, after the war, the south that was previously based on free enterprise system was forced to follow the North socialist method. The government used the collectivization method on agriculture and the socialization method on commercial industries ("Economy of Vietnam" par. 3). Most of the enterprises then became government owned. The

Doi Moi program allowed private enterprise to take bigger role in the economy. The program abolish the system of “bureaucratic centralized management based on state subsidies” and to move to “a multi-stakeholder, market oriented” economy (Hakkala & Kokko 3). However, in the early stage of Doi Moi, there were still many problems for the private enterprise, especially in the process of registering and starting enterprises. According to Mùller, “The registration was cumbersome, there was no available institutional capital, most of the legal regulatory framework was unexciting or deficient, and the infrastructure and services required to support businesses were largely lacking (354).” Vietnamese government then passed a new law called Private Enterprise Law in 1990 that allow the citizens to conduct in business activities, establish easier and faster registration process, and promote the right of private enterprise owner (“Private Enterprise Law”). Also, in 1993, the government enacted the Bankruptcy Law and Domestic Investment Promotion Law (Hakkala & Kokko 3).

The implementation of these laws did increase the number of private enterprises that register; “from fewer than 5000 registered companies in 1992 to more than 40,000 in 1999. The number of household enterprises also rose from around one million in 1992 to more than 1,700,000 in 1999 (Mùller 356).” However, due to the continuing existence of discrimination by the government in regards to lands, capitals, and some other infrastructures (Tran et. al. 48), the private sector still involves only in the small and medium size industries, and the larger enterprises were mostly owned by government. In addition, most of the foreign investment enterprises are owned by foreign investors and government. Therefore, as during the period of 1995 - 2000, the share of the non-state enterprises in the economy was declining, while the share of the state enterprises remained stable, and the share of the foreign enterprises was increasing (see Table 1).

Table 1: Sector share of state, non-state, and foreign enterprises to GDP (in percentages).

	1995	***1996***	***1997***	***1998***	***1999***	***2000***
State	**40**	**40**	**40**	**40**	**39**	**39**
Non-State	**54**	**53**	**50**	**50**	**49**	**48**
Collective	19	19	18	18	18	18
Private	14	14	14	14	15	15
Household	67	67	68	68	67	67
Foreign investment	**6**	**7**	**9**	**10**	**12**	**13**

Source: GSO (www.gso.gov.vn).

Within the period of 1991 – 2000, Vietnam had achieved numerous successes such as, growth in GDP, creation of millions of jobs, and improvements in education and culture. Yet, Vietnam was still considered as a poor and underdeveloped country. Vietnamese government realized that their economic system was still inefficient and inadequate, and there are obstacles in developing production and business ("Strategy for socio-economic"). Therefore, in 2001, the 9th Congress endorsed a new Strategy for Socio-Economic Development for the period of 2001 - 2010. This strategy allows Vietnamese government to encourage the non-state enterprises to develop their business without limit and to provide equal assistance to them ("Strategy for socio-economic"). As a result, the number of non-state enterprises has increased extensively, especially the limited company. The number rose to 63,658 in 2006 from 10,458 in 2000, and it accounted for more than 50% in the share of non-state enterprises in 2006 (GSO). Even though the number of private and household enterprises declined during period of 2000 – 2006, the overall number of non-state enterprises increased from 35,004 in 2000 to 123,392 in 2006. At the same time, the share of non-state enterprises increased more than 10% from 83% in 2000 to 94% in 2006 (see table 2).

Vietnam has done a successful work in transitioning their economy. They started in 1986 with a reform process called "Doi Moi", and then established the legal system to allow private sector to contribute to the economy. Since the beginning of the implementation of Doi Moi, Vietnam has achieved more than 6.5% growth in GDP from 1990 to 2007, and improved the standard of living of its citizens. Nevertheless, government still owned most of the formal business sectors, which typically are large enterprises and foreign investments. Although the non-state enterprises accounted for more than 90% of the whole country enterprises, it contributed only 33% to the total industrial output. On the other hand, state enterprises with only 3% share in the overall enterprises contributed to almost 23% to the total industrial output; in fact, it was a lot more with the total output of joint ventures in foreign investments (see table 3). The persistence of government to hold over larger enterprises discourages non-state enterprises for conducting in larger business sector; instead, they just focus in the informal or small and medium business sector ("Vietnam: Economy" par. 3). In the 2001 – 2010 Strategy for Socio-Economic Development, Vietnam was targeting to create a more successful economy and become a developed country. With its current plans, Vietnam is in the right track to improve its economy as a whole. However, to achieve its targets requires market competition, which will only exist with the involvement of private or non-state enterprises in large business sector. As a result, the Vietnamese government has to implement several new enterprise regulations that will encourage non-state enterprises to get involved in the major or large business sectors.

Table 2: Number and percentage of registered state, non-state, and foreign enterprises.

	2000	**2001**	**2002**	**2003**	**2004**	**2005**	**2006**
State owned enterprise	5759	5355	5363	4845	4597	4086	3706
Non-state enterprise	35004	44314	55237	64526	84003	105167	123392
Foreign investment enterprise	1525	2011	2308	2641	3156	3697	4220
(In percentages)							
State owned enterprise	14	10	9	7	5	4	3
Non-state enterprise	83	86	88	90	92	93	94
Foreign investment enterprise	4	4	4	4	3	3	3

Source: GSO (www.gso.gov.vn).

Table 3: Sector share of state, non-state, and foreign enterprises to total industrial output (in percentages).

	2001	2002	2003	2004	2005	2006
State	**31.4**	**31.4**	**29.3**	**27.4**	**25.1**	**22.5**
Non-State	**27.0**	**27.0**	**27.6**	**28.9**	**31.2**	**33.3**
Collective	0.5	0.6	0.4	0.4	0.4	0.4
Private*	16.3	16.7	18.4	20.4	22.7	25.5
Household	10.2	9.7	8.7	8.1	8.1	7.5
Foreign investment	**41.6**	**41.6**	**43.1**	**43.7**	**43.7**	**44.2**

Source: GSO (www.gso.gov.vn).
*Private enterprise in this table includes the limited company.

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