

Development of private enterprises in Southwest Vietnam: some issues from a sustainable development perspective¹

Phi Vinh Tuong

Ph.D, Institute of Social Science Information

Email: phivinhthuong@gmail.com

Vu Hung Cuong

Associate Professor, Ph.D, Institute of Social Science Information

Email: vuhungcuong-7@gmail.com

Received 2 December 2019; published 18 December 2019

Abstract: *Private enterprises in Southwest Vietnam (also known as the Mekong delta) have grown in number in recent years. Their growth quality, however, is not compatibly improved as indicated by efficiency measures. More importantly, the development of private enterprises has not been commensurate with the region's potentialities such as agriculture and tourism. Apart from the need for an administration reform, various issues hindering the development of private enterprises require to be resolved as well. Thus, there is a strong urge for changes in private sector policies in order to increase their opportunities for growth and development.*

Keywords: Private Sector, Private Enterprises, Private Sector Policies, Southwest Vietnam, Mekong Delta

1. Introduction

The Southwest region, also known as the Mekong delta, has a crucial role to play in Vietnam's economy and the national food security. Agricultural production in the region contributes a large proportion

of the country's exports. The growth rate of the Southwest region, however, is lower than the other regions with similar natural conditions and only higher than two regions with less favorable conditions, that is the Central Highlands and the Northern midlands and mountainous region.

The private sector in the Southwest region over the past years has developed and made significant contributions to the region's economic growth and poverty reduction. Nevertheless, as a driving force of the economy, the role of the private sector

¹ The article is a part of the 2018-2020 state-level research project "Solutions for the development of private enterprises in Southwest Vietnam under the new context" led by Assoc. Prof. Vu Hung Cuong (Ph.D) and managed by Institute of Social Science Information within the framework of the Southwest Program.

in general and the private enterprises in particular remains restricted.

There is a development paradox in the Southwest region: Despite the significant improvement of the Provincial Competitiveness Index (PCI) of individual provinces, even much better than the country's average, and the local governments' high awareness of the importance of private enterprises, the number of private enterprises in the region is still low, with only 33,721 firms in operation, accounting for 7.4% of the country's total number of private enterprises (as of 2015). Also, the Southwest region's total number of enterprises in 2015 was equivalent to just one-eighth of Ho Chi Minh City's.

Many studies have provided explanation for the underdevelopment in the quantity of private enterprises in the Southwest region. From the perspective of ownership structure, Vo Hung Dung (2005) and Nguyen Chien Thang (2015) suggest that the region is not attractive to foreign direct investment (FDI), which is reflected in the region's small number of FDI firms. Meanwhile, Nguyen Van Trinh (2007) and Vu Hung Cuong (2016), by employing the opportunity-driven business development approach, admitted obstacles facing private enterprises in Vietnam generally and ones in the Southwest particularly in accessing to production resources for expansion and development. The industry approach analysis by Nguyen Xuan Dung et al (2011) and Vo Hung Dung (2012), however, has pointed to the Southwest region's structural transformation: while moving towards an increase in the proportions of manufacturing and services sectors, the agriculture sector continuing as the major driving force implies challenges of improving the region's productivity in

the coming development periods. Nguyen Van Hieu (2013) added further from a micro perspective that limited involvement of enterprises results in slow improvement of the value added of the region's farm produce. The feebleness of enterprises in the Southwest region is manifested through employing outdated technology and unskilled and low-skilled labor (Vo Thanh Danh, 2014). Other causes include institutional inadequacies for macroeconomic stabilization and underdeveloped auxiliary industries (Tran Dinh Thien, 2014) and restrictions of land ownership regime (limited area and term of land use) that dampen the investment motivation of enterprises for an optimal scale and effective production (Nguyen Dinh Bong, 2013). Land policies are also addressed in Phi Vinh Tuong et al (2015) as a barrier to the healthy operation of the land market and, hence, limits the land accumulation of enterprises for their business efficiency improvement.

Each of the above-mentioned studies, from different perspectives, has identified individual issues related to the development of enterprises. However, the questions of the Southwest region's sustainable development such as the utilization and promotion of its comparative advantages are not well discussed. The article first provides a clarification of business development in association with the Southwest region's comparative advantages. It then suggests the room for policy adjustments in order to assist private enterprises, with the region's potentialities and advantages, to develop and contribute to the region's growth.

2. Development situation of private enterprises in the Southwest region

** Structure of enterprises by ownership and industry*

Private enterprises (PEs) in Southwest Vietnam in 2016-2018 saw a significant increase in number to reach 41,000 with an average growth rate of 14% per annum. This has contributed to narrowing down the relative gap in the quantity of firms between the Southwest region and Ho Chi Minh City and the Southeast region. The absolute gap, however, remains wide.

By type of ownership, the Southwest region's PEs accounted for the largest numbers while FDI firms were very small in quantity (Figure 1). In the period of 2016-2018, the total number of FDI enterprises in the Southwest region did not exceed

The distribution of enterprises by industry in the Southwest region does not seem to present the direction towards utilizing the region's advantages. Rather, it reflects a common pattern of the Vietnamese economy as the majority of the region's enterprises concentrated in the services sector, particularly the wholesale and retail services (small traders) with PEs representing the largest share of 44.3% in 2016 and 43.4% in 2017-2018 (Table 1).

Meanwhile, the proportion of PEs in processing and manufacturing stayed almost the same for the whole period of 2016-2018, only around 14.7%. The

Table 1. Structure of enterprises in the Southwest region by level 1 industry (%)

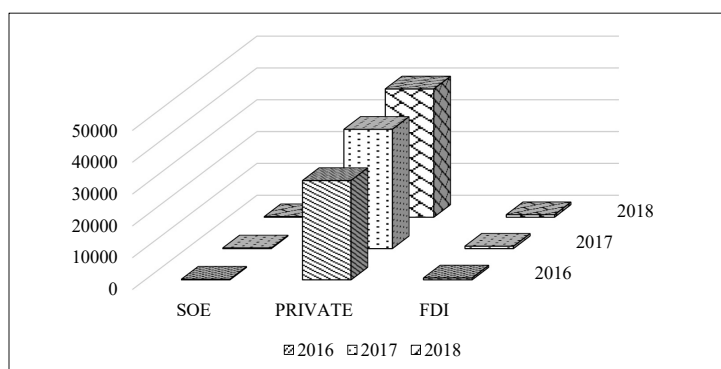
Industry	2016			2017			2018		
	SOE	PE	FDI	SOE	PE	FDI	SOE	PE	FDI
Agriculture	2,6	4,7	1,2	4,4	4,6	1,2	5,1	3,8	1,2
Mining	2,6	0,2	0,0	2,2	0,2	0,0	2,3	0,2	0,0
Processing and manufacturing	21,1	14,7	90,2	18,6	14,8	90,3	19,9	14,6	91,3
Power and gas	4,1	1,2	0,2	1,6	1,0	0,5	2,8	0,9	0,1
Water supply, waste water treatment, wastes	17,0	0,7	0,5	18,0	0,6	0,5	17,6	0,7	0,5
Construction	7,7	14,6	0,2	7,7	14,9	1,4	6,3	15,0	0,3
Wholesale and retail services	15,5	44,3	2,2	14,2	43,4	2,0	13,1	43,4	2,3
Other services	29,4	19,7	5,6	33,3	20,5	4,0	33,0	21,3	4,3
Total	100,0	100,0	100,0	100,0	100,0	100,0	100,0	100,0	100,0

Source: GSO's Enterprise Surveys 2017, 2018, 2019

1,500 and that of state-owned enterprises (SOEs) was less than 200 - a result of the equitization/privatization and divestment.

agricultural sector received even smaller number of PEs (4.7% in 2016 down to 3.8% in 2018) despite being the region's

Figure 1. Number of enterprises in the Southwest region by ownership



Source: GSO's Enterprise Surveys 2017, 2018, 2019

advantage. Besides, although there was a rise from 1,500 (2016) to 1,800 (2018) enterprises in the food processing in the region, the share of PEs in this industry was not more than 5% within the same period. Thus, the structure of the Southwest enterprises shows the quantity development of enterprises is not focused on the sectors and industries considered the region's strengths like agriculture and agro-processing and manufacturing.

** Structure of enterprises by labor scale*

The Southwest region is characterized by

the dominance of micro and small-sized PEs in terms of labor scale, which accounted for the largest share in 2016-2018 (also in the previous periods) with 72% in 2016 and 76% in 2018. In particular, while the proportion of micro PEs was more than three times bigger than that of small-sized PEs. Medium-sized and large PEs (by labor scale) comprised only less than 2% of the total number of the region's PEs and the share of medium-sized

PEs was even lower than that of large PEs (Figure 2).

In processing and manufacturing, micro and small-sized PEs accounted for larger shares while the number of medium-sized PEs is also very small (Figure 3). In comparison with the region's general structure, a notable difference is there is an increase in the proportion of small-sized PEs versus a decrease in micro PEs. Large numbers of micro and small-sized PEs by labor scale illustrate (i) weak linkages between the

Figure 2. Structure of private enterprises in the Southwest region by labor scale

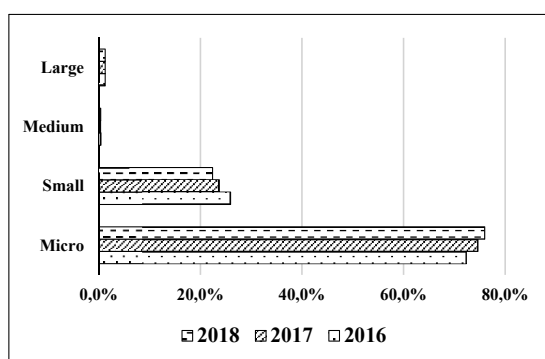
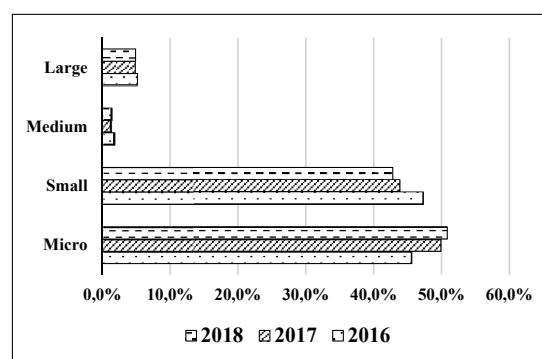


Figure 3. Structure of private enterprises in processing and manufacturing in the Southwest region by labor scale



Source: GSO's Enterprise Surveys in 2017, 2018, 2019

region's enterprises in labor distribution and (ii) weak driving forces for the region's economy since the major contributors of local budgets and employment are these groups of PEs.

** Structure of enterprises by capital scale*

The absence of medium-sized PEs is also found while examining the enterprise structure by capital scale, both in general and in processing and manufacturing in particular.

The structural features by capital scale of the PEs in the Southwest region show (i) a slow process of shifting from a resource-

3. Current situation of business operation (competitiveness) of private enterprises in the Southwest region

There are different approaches to assessing and measuring the competitiveness of enterprises, such as the employment of financial indicators such as ROA, ROE, and so forth. In 2016-2018, along with the growth in the number of PEs, the proportion of enterprises reporting losses in the Southwest region also gradually increased. About 20% of the Southwest region's total number of PEs claimed losses in 2016 and the number climbed to 28% in 2017 and

Figure 4: Structure of private enterprises in the Southwest region by capital scale

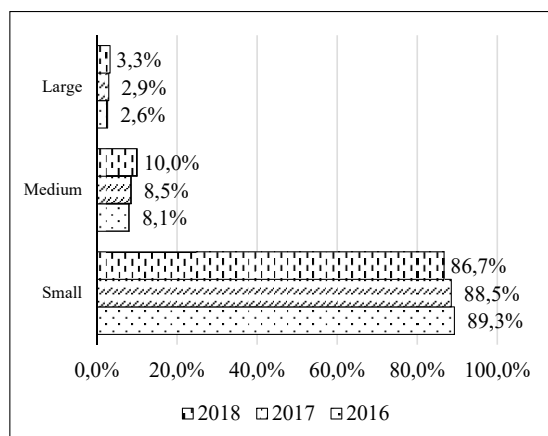
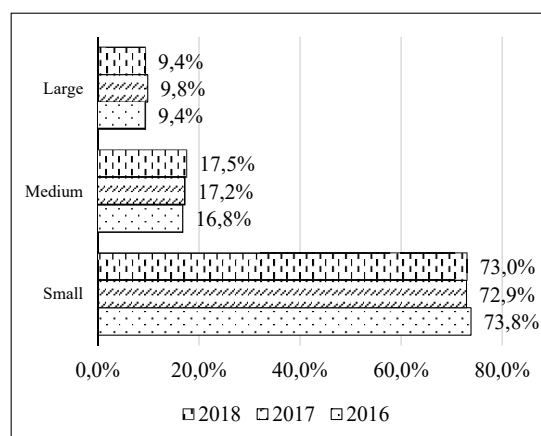


Figure 5: Structure of private enterprises in processing and manufacturing in the Southwest region by capital scale



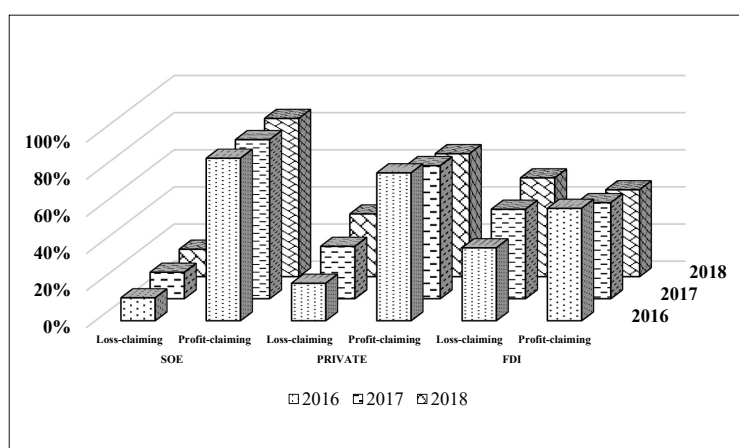
Source: GSO's Enterprise Surveys in 2017, 2018, 2019

based growth model to a capital- and knowledge-intensive growth model and (ii) a potential switch from labor-intensive industries into capital-intensive industries through the application of sciences and technology (e.g., from labor-intensive agriculture to high-tech agriculture). However, it is also perceived that there is no motivation for the PEs in the region to make such changes, which is going to be discussed in the following section.

34% in 2018. This share was much higher than that of the regional SOEs (as per GSO's classification) but still lower than that of the FDI enterprises in the region and in the Southeast region.

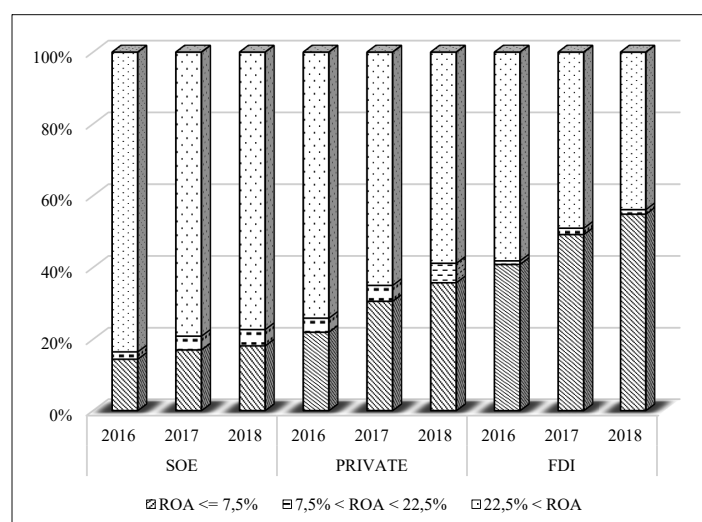
Nevertheless, the absolute number of enterprises claiming losses in the Southwest region rose significantly. While there was an addition of 2,000 enterprises making profits in 2016-2017, the loss-claiming enterprises increased by nearly

Figure 6. Business operation of enterprises in the Southwest region by ownership



Source: GSO's Enterprise Surveys in 2017, 2018, 2019

Figure 7. ROA of enterprises in the Southwest region by ownership



Source: GSO's Enterprise Surveys in 2017, 2018, 2019

7,000 in 2017, up from 6,000 in 2016 (Figure 6).

The indicators of return on assets (ROA) and return on equity (ROE) reveal a notable feature of the enterprises in general and the PEs in particular in the Southwest region, that is the wide gap between groups of enterprises: enterprises of low efficiency (ROA below or equal to 7.5% and ROE below or equal to 15%) versus enterprises of

high efficiency (ROA above 22.5% and ROE above 45%). Enterprises of moderate efficiency (ROA within 7.5%-22.5% and ROE within 15%-45%) only accounted for a relatively small share. The ROE indicator also reflects a consistent business situation with the ROA indicator. In particular, among the profit-claiming PEs in the region in 2016, 23% of them had ROE under 15%. While, the moderately efficient enterprises only made up 3.9% (based on ROA) and 5% (based on ROE), the efficient PEs in the region accounted for around 74.1% (as per ROA) and 72% (as per ROE)¹.

The indicator of return on sales (ROS) shows a contrary picture: enterprises with low labor efficiency were the majority, comprising 75.9% of the total number of enterprises in 2016. The proportions of firms with moderate labor efficiency (with VND 1 of labor cost for less than VND 100 of revenues) and firms with high labor efficiency (with VND 1 of labor cost for more than VND 100 of revenues) were 21.4% and only 2.6% respectively. This indicates that the labor efficiency is really a problem of the PEs in the region.

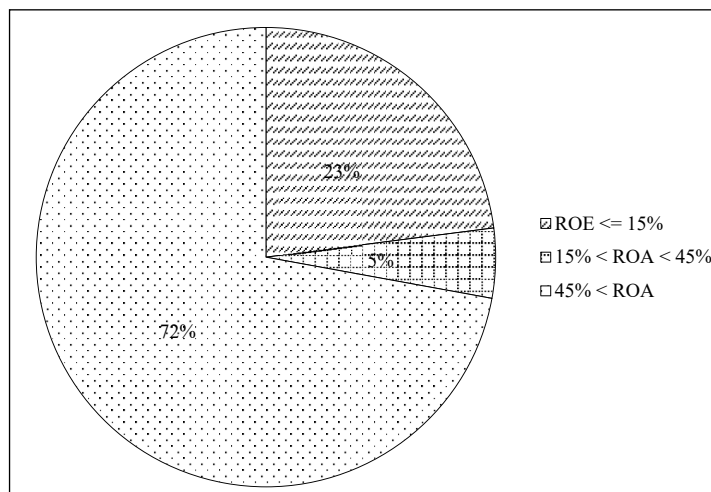
¹ Calculations based on the data from GSO's Enterprise Surveys in 2017, 2018, 2019.

4. Some issues of private enterprise development in the Southwest region from the perspective of sustainable development

* General issues

Despite the rapid growth in quantity of enterprises over the years, the number of PEs in the Southwest region remains modest in comparison with other three major economic regions of the Southeast, the Red river delta, and the North Central Coast as indicated by the number of enterprises over 1,000 people.

Figure 8: ROE of PEs in the Southwest region in 2016



Source: GSO's survey in 2017

In overall, the Southwest region is characterized by macro and small-sized PEs. There is also a large number of enterprises with high business efficiency as evidenced by the financial indicators of ROA and ROE. Nevertheless, that high efficiency is attributed to the macro and small business scale of such enterprises, accompanied by high working capital turnover ratio. When supplemented the examination with ROS, it turned out to a majority of enterprises operating with low efficiency. Since all the

indicators of ROA, ROE, and ROS were recorded as low, it can be said that the regional enterprises have not reached an optimal production scale due to the absence or low financial leverage and weak capacity of business administrators.

The field surveys in 13 Southwest provinces/city in 2019¹ reveal limited capital accessibility of the regional PEs. In most of the provinces, the establishment of business fostering funds (such as Credit Guarantee Fund, Start-up Fund, etc.) is not possible due to restricted local reciprocal

capacity. Even when it is possible, the size of the loan is small. In Soc Trang province as an example, only one enterprise had been able to obtain the loan since the firm fostering fund was established. Concerning other funds for the promotion of innovation and creation activities, business leaders and policy makers all acknowledged the complexity of borrowing procedures that exhausts the enthusiasm of businesses, even when they already advanced their own investment.

As a result of the co-existence of fostering funds (for different purposes) and the limited reciprocal capacity, many provinces could not be able to launch all such funds or, if established, could only provide small loans. It therefore restricts the firms' access to loans from funds. Instead of advocating as many funds as at present, one integrated

¹ Under the state-level research project "Solutions for the development of private enterprises in Southwest Vietnam under the new context".

fund for fostering businesses could be a solution for the improvement of lending capacity in order to meet the demand for investment and development of businesses. Besides, the Southwest region is not attractive to both domestic and FDI large firms and business groups due to infrastructural disadvantages, such as poor ground-bearing capacity leading to higher investment in infrastructure and limited highways for transportation, that increase production and business costs and reduce the comparative advantages of the region against the Southeast region.¹ This results in the absence of large enterprises and business groups who are capable of boosting economic growth and development, creating spillover effects and leading small- and medium-sized enterprises in the Southwest region. The PCI of provinces in the region, despite being higher than the country's average, might reflect only the satisfaction of the regional macro and small-sized enterprises who seems to have lower requirements than larger enterprises.²

** Comparative advantage related issues*

There are only a limited number of enterprises investing in the sectors and industries that are considered the comparative advantages of the Southwest region. As can be seen from the structure of enterprises by industry, a majority of enterprises concentrated in the wholesale and retail services. Although the number of food processing firms (with VSIC³ equal to 10) is twice as many as the number of other enterprises in processing and manufacturing (VSIC from 11 to 35),

most of them are medium- and small-sized. There were more than 500 macro enterprises and 800 small-sized enterprises present in food processing in 2016. The total number of food processing firms increased to 1,500 in 2017 and 1,600 in 2018. Meanwhile, the industry requires large-scale production for efficiency due to the economy of scale. The number of enterprises with large-scale production, however, remains small, only less than 150 for the whole period of 2016-2018.

Similarly, in the services sector, a majority of retailers are macro businesses while the presence of firms in tourism, particularly for hospitality and dining services, is very limited. Thus, tourism as the region's advantage is still untapped, which restricts its contribution to the regional development. Firms running business in tourism have so far focused only on hospitality services while the typical regional tourism products are not yet developed. Tourism activities in the Southwest region, despite being a link of the tourism chain, have to depend a lot on tour operators in the Southeast region. As a result, the region's number of overnight visitors and tourism revenues remain very modest.

5. Conclusion

Despite being considered as a driving force of the Vietnamese economy in general and the Southwest region in particular, the PEs in the Southwest region have not yet succeeded with their role. The statistics show a development in quantity of enterprises in the region but most of them are macro and small-sized. This group of enterprises often do not have much room to grow quickly, which is attributable to their lower level of technology application and their restricted capital capacity and accessibility. Thus,

¹ In-depth interviews with local government managers and business leaders.

² Provided by interview respondents.

³ Vietnam Standard Industrial Classification System.

there should not be strong expectation that they could be fostered to grow quickly in order to create quality jobs and increase their contribution to the state budget. Meanwhile, the Southwest region has not been able to attract many medium-sized and large enterprises, particularly domestic and international business groups who are 'game changers' and capable of promoting institutional breakthroughs and generating spillover effects for the formation of development poles.

The lack of enterprises is also found in the sectors considered as the region's competitive advantages, like tourism and agriculture. It is therefore necessary to have policies for investment promotion in these two sectors, particularly the policies for cleared land and loan accessibility improvement. This would require changes in the policies related to fostering funds in order to better meet the demand and development goals of the enterprises operating in the region's competitive sectors. Besides, low business efficiency (as reflected through ROS) indicates the need for policy adjustments in labor training and employment. Improving the labor quality would lay the groundwork for the PEs in the Southwest region to enhance their productivity and business efficiency □

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