

Development Trends of Ownership Structures, Economic Sectors, and Business Types in Vietnam

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Abstract: *The development of the socialist-oriented market economy in Vietnam reveals various trends of ownership structures, economic sectors, and business types. Based on the statistics in the period 1995-2016, this paper describes main characteristics of those trends. These include a decrease in the shares of the state ownership and public sector in the total investment and Gross Domestic Products (GDP) and an expansion of private ownership and non-state sector. Likewise, the proportion of sole proprietorship has decreased while those of multiple ownership, especially joint-stock companies, have shown an opposite trend. On affirming that these trends have come forth as part of the market-oriented economy, the paper makes several policy suggestions concerning the development of forms of ownership structures, economic sectors, and business forms in Vietnam.*

Keywords: Market Economy Institution, Ownership Structure, Economic Sector, Business Organization

1. Introduction

The development of the socialist-oriented market economy in Vietnam depicts the activeness and evolution of ownership structures, economic sectors, and business types. The forecast of these development trends would serve as one of the scientific grounds for planning and implementing the Party's directions, policies, guidelines, and mechanisms. This is a complex issue, however, since the influence of various subjective and objective factors does not allow

a quantitative projection but only an identification of the general trends.

The projection reliability depends heavily on the forecasting methods used. In principle, it is possible to adopt the methods of Normative Economics or Positive Economics for predictions on the development trends of ownership structures, economic sectors, and business forms. We therefore make use of the official statistics relevant to these objects to outline their patterns, based on which policy recommendations would

be provided in order to promote their development accordingly.

2. Evolution of ownership structures and economic sectors

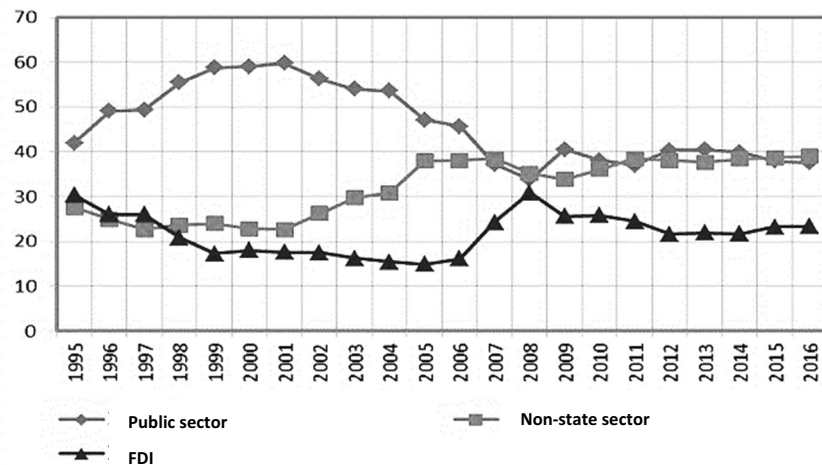
Since there is no available statistics on the size and share of ownership structures, their evolution will be analyzed in relation to the statistics on economic sectors instead. Two groups of indicators to be used include: (i) the investment share of each economic sector in the total social investment (i.e. capital structure); and (ii) the GDP contribution of each economic sector to the national GDP (i.e. economic structure).

The first group of indicators reflects the position of each economic sector by the level of capital investment it mobilized. In 1995, the total social investment at current price was VND 72,447 billion, of which VND 30,447 billion (42%) was contributed by the state capital investment accounted, VND 20,000 billion by the non-state capital investment (27.6%), and VND 22,000 billion by foreign direct investment (FDI) (30.4%). In 2016, the total social investment reached VND 1,485,096 billion, composing of the state capital investment VND 557,496 billion (37.6%), the non-state capital investment VND 579,700 billion (39%), and FDI VND 347,900 billion (23.4%). (GSO,

1995, 2016) The changes in capital structure in the period of 1995-2016 are illustrated in Figure 1.

While the total social investment continuously increased over the period 1995-2016, the transformation of each economic sector followed different patterns.

Figure 1: Investment by economic sector (%)



Source: Statistical Yearbooks

- The investment share of the public sector, which includes investments from the state budget and state-owned enterprises (SOEs), tended to decrease but remained its critical contribution to the total social investment. At times of macroeconomic instability, the Government's interventions, including increasing the state capital investment, were in place for stabilizing the economy. For example, the share of state capital investment was more than 50% and peaked at 59.8% in 2001 as the response to negative impacts of the financial crisis in the period 1997-1999. Nevertheless, there was a downward trend as the general tendency if looking at the whole period

of 1995-2016: the share of state capital investment in 2016 was only 37.6%, even lower than the share of non-state capital investment (39%).

Despite a decrease in proportion, the state capital investment continuously grew in absolute value, amounting to VND 557,496 billion in 2016 (GSO, 2016). The ineffective management over this source of investment, however, has not yet been solved fundamentally. It is linked to the corruption and degenerate of “a group” of officials who are authorized to manage the state assets. This not only restricts the efficiency of the public sector and state management but results in a steady increase of public debt.

- The investment from the non-state sector showed a rapid growth in share. Its proportion in 1995 was 27.6% of the total social investment, equivalent to VND 20,000 billion or nearly two-thirds of the state capital investment and nine-tenths of the FDI, and then grew to 39% in 2016 with VND 579,700 billion, even bigger than the state capital investment and 1.67 times bigger than the FDI. The development of this investment source has contributed significantly to economic growth, employment creation, and the state budget. The private sector and other non-state businesses, however, remain small in size with low level of technology and weak business management, financial capacity, and competitiveness. The structure of their business fields is still disproportionate while they lack internal cooperation and cooperation with other economic sectors. Also, their weak capability to integrate internationally

limits their involvement in regional and global production networks and value chains.

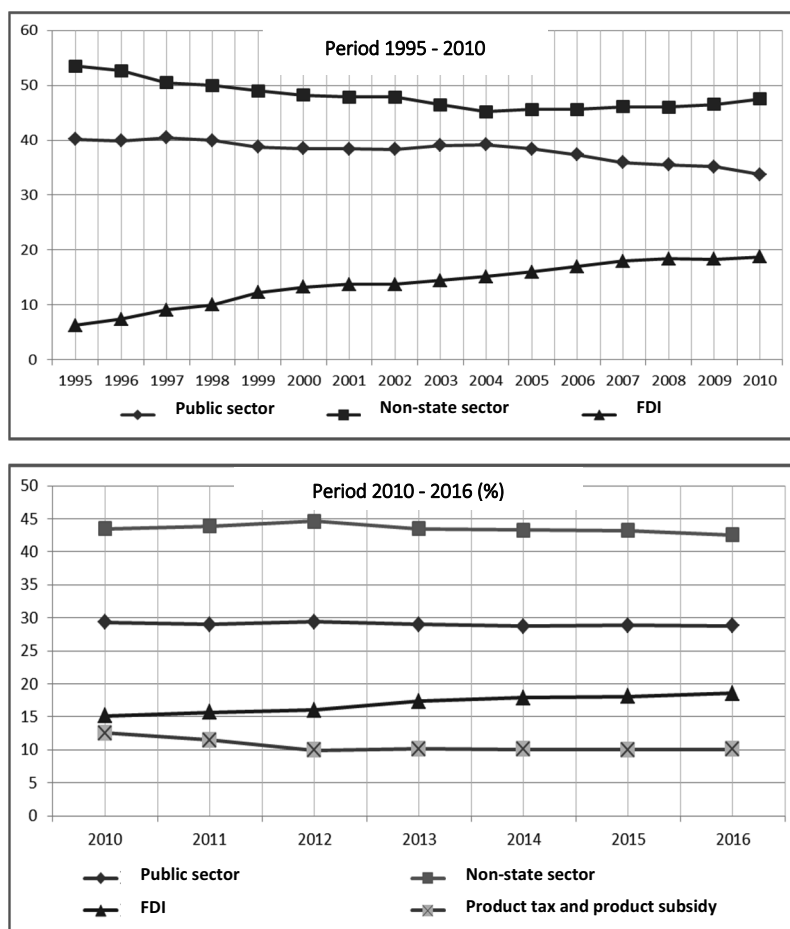
- The FDI sector had a comparatively stable development and became increasingly important contributor to the total social investment. Since the Law on Foreign Investment came into force (1988) up to December 31, 2016, the total number of projects were 22,594 with a total capital investment of USD 293.7 billion (GSO, 2016). The share of FDI increased continuously since 2005, from 14.9% in 2005 to 23.4% in 2016.

On one hand, FDI has helped utilize Vietnam’s comparative advantages, create more employment, increase the state budget, and further boost the international integration. On the other hand, many problems in the attraction and management of FDI that require proper solutions in order to lessen the dependence of economic growth on FDI, to upgrade the technological level, and to enhance the spillover effects to other economic sectors.

While the non-state and FDI sectors focus more on profitable business, the public sector invests partially in developing SOEs and majorly in socio-economic infrastructure to facilitate the operation of all economic sectors as well as improve the people’s living conditions.

We would analyze further the GDP structure by economic sector in the period 1995-2016 to provide a better picture of the development trends (Figure 2). Due to the modification in the GSO’s calculation of GDP, the analysis will be separated into two periods (1995-2010 and 2010-2016).

Figure 2: GDP share by economic sector



Source: Statistical Yearbooks.

As presented in Figure 2, the contribution of the public sector to the GDP growth was decreasing while the non-state and FDI sectors saw an opposite trend. If the GDP shares in 1995 were 40.18% for the public sector (SOEs) and 59.82% for both non-state and FDI sectors, the respective numbers in 2016 were 28.81% and 61.15% (the remaining 10.04% was the difference of product tax and product subsidy). Noticeably, the FDI grew steadily from 6.3% in 1995 to 18.59% in 2016.

The changes in contribution of economic sectors (ownership structures) in recent

years resulted from the adjustments on the role of economic sectors in the general strategy of economic development: SOEs (state ownership) has been redirected to focus more on key economic activities; the non-state and FDI sectors have been expanded extensively in all production activities and conventional services while, at the same time, coordinated with the public sector in the development of socioeconomic infrastructure. This is the right direction that meets well the requirements of market economy development and international economic integration.

If the Government has stronger and more consistent adjustments, the effectiveness and sustainability of this process would be further enhanced.

3. Development of business types

Coupled with the evolution of ownership structures and economic sectors is the development of diverse business types. We would highlight some basic features of these types by analyzing the statistics on the structure and the average of annual working capital of businesses registered

Table 1: Shares of business types

Type	2000		2005		2010		2015	
	Number	Percent	Number	Percent	Number	Percent	Number	Percent
Total	42,228	100.00	112,950	100.00	279,360	100.00	442,485	100.00
<i>State-owned</i>	5,759	13.62	4,086	3.62	3,281	1.18	2,835	0.64
<i>Non-state</i>	35,004	82.78	105,167	93.11	268,831	96.23	427,710	96.66
Private	20,548	48.59	34,646	30.67	48,007	17.18	47,741	10.79
Limited liability	10,458	24.73	52,505	46.49	163,978	58.70	287,786	65.04
Joint stock	757	1.80	11,645	10.31	56,767	20.32	91,592	20.70
<i>FDI</i>	1,525	3.61	3,697	3.27	7,248	2.59	11,940	2.7
100% foreign owned	854	2.02	2,852	2.52	5,989	2.14	10,238	2.31
Joint venture	671	1.59	854	0.75	1,259	0.45	1,702	0.39

Source: Statistical Yearbooks 2000, 2005, 2010, 2015.

Table 2: Average working capital by business types

Type	2000		2005		2010		2015	
	Value (VND trillion)	Percent	Value (VND trillion)	Percent	Value (VND trillion)	Percent	Value (VND trillion)	Percent
Total	998,4	100.00	2,430.7	100.00	10,841.1	100.00	22,144.2	100.00
<i>State-owned</i>	670,3	67.13	1,333.9	51.92	3,701.8	34.13	6,944.9	31.36
<i>Non-state</i>	98,35	9.86	607,3	28.16	5,451.8	50.30	11,020.9	49.77
Private	15,8	1.59	62,2	2.68	323,9	2.99	402,0	1.82
Limited liability	44,5	4.46	275,9	11.35	2,084.9	19.23	4,828.2	21.8
Joint stock	30,2	3.02	254,1	10.46	3,042.4	28.07	5,787.3	26.13
<i>FDI</i>	229,5	23.02	489,5	20.14	1,687.5	15.57	4,187.3	18.87
100% foreign owned	83,9	8.40	277,2	10.40	1,050.3	9.69	3,384.4	15.28
Joint venture	145,9	14.62	212,4	8.74	637,2	5.88	794,0	3.59

Source: Statistical Yearbooks 2000, 2005, 2010, 2015.

under the Law on Enterprises. Some major points could be drawn types the statistics on business types are as follows:

- A significant decrease in the number of SOEs as a result of the restructuring and equitization of SOEs: from 12,400 SOEs at the start of Doi Moi (1986) down to 5,759 SOEs (or 13.63% of the total registered enterprises) in 2000 and then to 2,835 SOEs in 2015 (0.64%). Despite a sharp cut in the number of SOEs, their working capital remains large (of VND 6,944 trillion or 34.14% of the total working capital in 2015). The weak performance of SOEs, however, is not proportionate to such volume of capital investment and policy incentives favored by the Government, particularly when they often suffer from huge debt and losses. It could be said that the role of SOEs have not been well played in the national economy.

- A rapid expansion of the non-state sector has contributed substantial capital investment for development. If in 2000 there were only 35,004 firms with the capital investment of VND 98,35 trillion (9.86% of the total capital investment in the country), the respective numbers in 2015 were 427,710 firms and VND 11,020 trillion (49.77%). In Vietnam, individual (non-agricultural) business households are also widely developed besides the business types regulated by the Law on Enterprises. In 2016, there were 4,909,827 registered households who provided employment to 8,261,870 people. The non-state sector, therefore, has contributed significantly to economic growth and job creation. Nevertheless,

the majority of these businesses are small and super small size with low level of technology and weak capacity in management and linkage. Those are obstacles that hinder making the private sector “an important driving force of the socialist-oriented market economy”.

- There were noticeable changes in proportion of different types of private enterprises. Despite an increase, the number of sole proprietorship enterprises was still humble and its proportion in the total number of enterprises decreased sharply. In 2000, there were 20,548 enterprises, accounting for 48.59%. Although the number of enterprises in 2015 climbed to 47,741 but its respective proportion was down to 10.79%. The multiple ownership enterprises (limited liability and joint stock companies) appear to expand quickly and become the majority in the country. The number of enterprises in 2000 was 11,215, including 10,458 limited liability companies and 757 joint stock companies, making up 26.53% of the total number of enterprises. In 2015, it surged to 379,379, with 278,786 for limited liability and 91,592 for joint stock, and accounting for 85.74% of the total number of enterprises. The increase in both absolute number and proportion of these enterprises show the tendency of linkage development between particular owners in order to enhance their investment and business capacity.

- There was a soar in number of FDI firms. The FDI sector had only 1,525 firms (3.61% of the total number of enterprises) in 2000 but its size was 7.83 times bigger in 2015 with 11,940

enterprises (2.7%). Noticeably, the 100% foreign owned companies increased more dramatically than the joint ventures: if the numbers in 2000 were 854 for the former and 671 for the later, they grew in 2015 to 10,238 (or 12 times bigger) and 1,702 (2.5 times bigger) respectively. The major attribution of this increase was the stability of investment climate, which built up the confidence of foreign investors in doing business in Vietnam.

4. Conclusion and recommendation

Although relying on the statistics is not sufficient for an analysis of the development trends of ownership structures, economic sectors, and business types, it is still possible to understand their basic features in the development process of socialist-oriented market economy. Some conclusions are as follows:

First, the existence and diversification of ownership structures, economic sectors, and business types is in conform to the development of market economy in the world.

Second, the changes in proportion of state ownership and economic activities in association with the renovation of the state management functions have been in line with the requirements of market economy. The 100% state owned enterprises would accordingly decrease in number and the public resources would be invested in key economic activities, particularly in national security and defense. The Government needs to enable an environment for coordination and equal competition between state owned enterprises and other economic sectors. This also comes forth with the

development of a constructive and action government since the government would not “directly perform economic activities” but rather “create favorable conditions for economic development”. A consistent and modern system of infrastructure is one among those conditions.

Third, the affirmation of “developing the private sector into a principal driving force of the socialist-oriented market economy” will generate favorable conditions for the private sector to grow better both in size and force. During the process of development, however, the private enterprises have to improve their capabilities, technological level, management capacity, and production and business linkages.

Fourth, the FDI sector will continue its growth as globalization and international economic integration is deepening. The development of this sector depends on three factors: (i) the attractiveness of Vietnam’s investment climate, such as the openness, stability, and competitive advantages, as assessed by foreign investors; (ii) the strategies, capacities, and goodwill of foreign investors; (iii) Vietnam’s strategies for investment attraction and the construction of an open and stable investment climate (the decisive factor).

Fifth, the development of multiple ownership in different structures, particularly joint stock companies, is the main development trend. The formation and development of these business types results directly from the cooperation between investors, who might be or might be not of the same ownership structure

(state or private), to form an economic entity. Contributors of capital may not directly participate in running business but authorize the management over their own capital to the people they select. In other words, there is a separation between ownership and management of capital and assets.

The above conclusions could be considered also as an overview of the development trends of ownership structures, economic sectors, and business types in the beginning stage of Vietnam's transition to socialism. While building and perfecting the institutions for the development of socialist-oriented market economy, solutions for the issues related to ownership structures, economic sectors, and business types should follow some principles below:

First, the balance between economic and political issues should be the basis for solving problems related to ownership structures, economic sectors, and business types. From the economic perspective, the development of these objects is aimed at mobilizing social resources for investment, production development, promotion of industrialization and modernization, the construction of physical systems serving socialism, and constant improvement of people's living standards. From the political perspective, solving problems related to those objects would help safeguard and fortify the so far political achievements. Moreover, if socio-political preconditions are satisfied, those problems would be solved more effectively.

Second, the establishment and improvement of production relations

should take into account the market-oriented development of ownership structures, economic sectors, and business types. With recognition of the objectivity of the development trends in the beginning stage of the transition, the Government should have appropriate policies to facilitate and promote these trends instead of imposing obstacles by its subjective expectations of harvesting the early fruits of socialism.

Third, the purposes of solving problems related to ownership structures, economic sectors, and business types should be clearly defined in accordance with the actual conditions of the country in the early stage of building socialism. Under the current circumstance and to avoid being lagged far behind other countries in the region and in the world, as well as to realize the target of "being a modernized and industrialized country by the mid-21st century" as stated in the Platform for Building the Country in the Transitional Period to Socialism (supplemented and developed in 2011), solving those problems must aim at mobilizing social resources for development and liberalizing and promoting the productive forces.

Fourth, there should be synchronization between solving problems related to ownership structures, economic sectors, and business types and solving problems of organization, management, and distribution. Management and organization in recent years have exposed many shortcomings and inadequacies at both macro and micro levels as major obstacles to the country's socio-economic development. Thus, the diversification of

ownership structures, economic sectors, and business types must be implemented in close relation with improving the capacity in organization and management as well as enhancement of distribution relations.

Fifth, it is necessary to promote the renovation of state management of economic performance and international integration along the way. The Government has to play its dual role of (i) management of the whole economy and (ii) management of state ownership and SOEs. Therefore, its performance would be subject to many conditions, of which the top priority is quality institutions for market economy as well as capacity and responsibility of civil servants in the administration system. This will directly affect the effectiveness of the implementation of the Master Program of Public Administration Reform.

Reforming the public administration in association with the development and diversification of ownership structures, economic sectors, and business types must also serve the promotion of democracy in economic activities, which means (i) freedom to conduct business activities in accordance with laws and regulations and (ii) participation of business entities in shaping the legal system, policies, and mechanisms.

Under the influence of globalization, international economic integration has become an indispensable requirement for every country's strategy. All countries

must follow "common rules" as well as adapt their legal system with those rules. Therefore, solving problems related to ownership structures, economic sectors, and business types should not take into account only the local but international requirements also. Legal documents should clearly state the principle of fair competition and non-discrimination as well as guarantee the enforcement of this principle in practice □

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