

ENTREPRENEURSHIP IN VIETNAM: JUST ON THE STARTING POINT OF THE RACE

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OVERVIEW

RATE OF START-UPS

Vietnam's government has approved a strategy of gradual integration into the world economy. In 1986, Vietnam adopted the "doi moi" (renovation) policy, including opening doors to the world economy and liberalizing domestic trade; reforming state-owned enterprises; diversifying ownership and entrepreneurial development; reforming Vietnam's financial system with an orientation to a market based system; and attracting foreign investment as essential to foster the country's economic growth. The national economy has moved from a centrally planned system to a market-oriented one. Thus, Vietnam has made impressive economic progress as demonstrated by the consecutively positive record of the growth of gross domestic product (GDP) during the past decade.

Table 1: Growth Rate of Vietnam's Gross Domestic Product, 1991-2001

	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001
GDP (%)	5.81	8.70	8.08	8.83	9.54	9.34	8.15	5.76	4.77	6.72	6.80

Source: General Statistical Office, 2001

In the period 1991-2000, Vietnam's gross domestic product increased 2.07 times, and domestic saving reached 27 percent of GDP from nearly zero. The agricultural sector declined from 38.7 to 24.3 percent of GDP, while the industrial sector including construction increased from 22.7 to 36.6 percent and services from 38.6 to 39.1 percent of GDP. Household poverty, as measured by Vietnam standards, declined from 30 to 10 percent. And each year 1.2 million new jobs have been created. The average life expectancy of Vietnamese people increased during this period from 65.2 to 68.3 years (*Van Kien Dai Hoi Dai Bieu Toan Quoc Lan Thu IX*, 2001:149).

In 1990, Vietnam adopted for the first time its Company Law and Law on Private Enterprise. These laws were a first step in the creation of a new environment for entrepreneurship. Thus, for 8 years after the implementation of these laws, more than 35,000 enterprises were established, 61 percent during the period of economic boom in 1993, 1994 and 1995. After 1997, the regional financial crisis affected the country's economy, resulting in a declining growth rate for start-up enterprises. Also, calls from within Vietnam's government for equal treatment of private, collective, state-owned and foreign-invested enterprises resulted in the need to revise the Company Law and Law on Private Enterprise. In response, the New Enterprise Law (NEL), which replaced the two former Laws, was adopted in 1999 and took effect on January 1, 2000. The NEL firmly fosters entrepreneurial spirit in the country.

The NEL revoked unnecessary business license restrictions in 145 industries, trades and services, and eased private entry in the market. It also created new channels for private investment funds instead of the unique source of public investment capital financed by the state budget. The NEL has resulted in the birth of a new entrepreneur class "doanh nhan," which is taking the lead in doing

business that contributes to the economic growth of the nation. The New Enterprise Law clearly defined the governmental administrative function and promoted independent entrepreneurial activity in order to release the productive capacity of the society, and it adopted the principle of equality for private, collective and state enterprises.

Table 2: Number of Newly Established Enterprises by Legal Status in Vietnam, 1991-98

Year	Total Private Number	Year-to-Year Growth	Private Individual	Limited Company	Joint-Stock Company
1991	109	-	69	36	4
1992	3978	3649%	2858	1064	56
1993	7409	186%	5265	2104	40
1994	7171	-3%	5306	1840	25
1995	6158	86%	4076	2047	35
1996	5488	-11%	3696	1753	39
1997	3693	-33%	2607	1064	22
1998 ^a	1019	-72%	1000	-	19
Total	35025		24877	9908	240

Source: MPI-UNIDO Project, 1999.

^a *Source: Leila Webster and Markus Taussig, 1999.*

New regulations on the Business Register that ease the establishment of enterprises have been implemented. Thus, while a new enterprise granted a license under pre-NEL required 98 days on average following application; under post-NEL, licenses are granted in 2 to 7 days compared with 15 days. For two years (2000 and 2001) after the New Enterprise Law's implementation, the number of new enterprises grew to 35,447 with registered capital of Vietnam Dong (VND) 40,579 billion (US\$1=VND 15,243 as of May 12, 2002). Thus, in two years, the New Enterprise Law produced more new enterprises than were generated by the former Company Law and Law on Private Enterprise in eight years.

The Vietnam Communist Party's 9th Congress has approved a "Ten Year Socio-Economic Development Strategy for 2001-10," in which Vietnam will seek to reach goals of growth, employment creation and poverty-reduction. The strategy proposes that the total investment rate rise from an average of 25 percent of GDP in the 1990s to an average of 30 percent of GDP in the coming decade. In order to achieve those goals, domestic private investment will have to rise from 7 percent in the 1990s to 13 percent of GDP in the coming decade. Rapid growth of entrepreneurial activity will be key to reaching the target rate of total investment proposed in Vietnam's "Ten Year Socio-Economic Development Strategy for 2001-10."

CULTURAL/DEMOGRAPHIC FACTORS

ATTITUDES TOWARD ENTERPRISE CREATION

According to Marxist-Leninist theory, socialist economic activity was carried out by a central plan and based primarily on state-owned and collective enterprises that produced almost all national output; entrepreneurial activity was very limited. The idea of creating private enterprises was discouraged until the early 1990s when the Law on Private Enterprise was adopted.

Since that time many private enterprises have been established by individuals—some alone and some with family members or two or more friends jointly—who were former employees of state enterprises and governmental officials. Some private enterprises have been established through the transfer from state to private ownership through the equitization process or by buying bankrupt state firms.

The development of small and medium-sized enterprises (SMEs) has been a means of promoting private sector growth. Experience in the early years of Vietnam's transition has shown that private enterprises are more efficient in the allocation of scarce resources and are more effective in generating employment opportunities. SMEs were defined formally in document 681/CP-KNT issued by the government in 1998. Accordingly, SMEs are those independent business and production establishments that have registered their business under the current legislation. Those SMEs that have registered capital of less than VND1 billion and an average number of 50 employees or less are referred to as "Small Enterprises." Those that have capital ranging from VND1 to VND5 billion with the number of employees ranging from 51 to 200 are referred to as "Medium Enterprises." Those that have been capitalized with more than VND5 billion or with its turnover of more than VND5 billion and employ more than 200 employees are referred to as "Large Enterprises."

Private enterprises have played an increasingly important role in job creation, investment structure, export and contribution to state budget and GDP during the past decade. As a result, the attitudes of governmental officials and Vietnamese citizens toward private enterprise creation have become positive and supportive.

Although the government has accelerated the transition to a socialist market economy with equal treatment of private, foreign and state enterprises, additional public campaigning would be necessary to improve the image of private business.

ATTITUDES TOWARD FAILURE/SUCCESS

Vietnam's history of central planning has created a very young entrepreneur class with inexperience in doing business in domestic as well as international markets. Furthermore, unclear and frequently changing government regulations have had a direct impact on entrepreneurial activity. This also created room for cheating and corruption in economic activities.

Over the last decade, there have been a number of big criminal cases involving entrepreneurs such as Thanh Huong Perfume Enterprise, Epco-Minh Phung Corporation, Tamexco Co., Viet Hoa Joint Stock Bank, Vung Tau Joint Stock Bank. These cases have resulted in VND trillions lost and most of the criminals were private entrepreneurs; the result was a heightening of the bad image of private business among citizens. Together with private owners, some high-ranking bankers also were arrested and jailed. Banks have little experience lending to private companies. As a result, many bankers have looked at private enterprises with doubtful, suspicious eyes. Economic and civil relations would deteriorate during the trial process if business failures occurred. Thus, attitudes toward unsuccessful firms have been distorted.

ACCEPTANCE OF WOMEN IN WORKFORCE

Vietnam has undergone a long history of wars and foreign invasion. In such times, women played an important role in sustaining family life and maintaining the nation's economy in the absence of men. In other times, women even participated in the war. Golden words described Vietnamese women as

“heroic, undaunted, upright and kind-hearted, responsible” during wartime in recognition of women’s contributions. It should be noted that the influence of Confucianism on women’s status in Vietnam is less powerful than in most of other Asian countries, possibly due to Vietnam’s special political and social situation.

Since Vietnam’s independence in 1945, the government has seriously confronted the issue of women’s status and played an active role in gender equality. Restoration of women’s social dignity and actual social rights was the major goal of women’s emancipation campaigns. The Vietnamese Women’s Union was established, effectively contributing to the course of women’s emancipation. Progress was made in raising the rate of female literacy and educational level. Paralleling Vietnamese women’s traditional roles as heroes in the struggle, the extent of women’s participation in economic activities has played an important role in furthering women’s emancipation.

Vietnamese women have been a crucial part of the workforce of the country. Women account for 51 percent of total population and 48 percent of total workforce of the nation. Employed women comprise 48 percent of total employment in rural areas and 45 percent in urban areas. Especially in labor-intensive industries such as textiles, garments, seafood processing and leather and footwear, women have dominated the labor force. Also, handicrafts, ceramics, banking, financial services, post office, telecommunications and tourism have increasingly attracted women. According to a recent survey, 66 percent of women work for a family member, 18 percent are self-employed, 7 percent work for the government, 5 percent work in a cooperative business, and 3 percent work for someone else (*Du an dan so-suc khoe gia dinh*, 1999).

Many women successfully perform their duties as general director, director and manager of large, leading companies such as Vinamilk Company, Phong Phu Textile Company, Hoa Binh Tourist Company, Co-op Mark and Thuong Dinh Footwear Company. The vice-president of Vietnam is a woman, Madam Nguyen Thi Binh.

It should be noted that in Vietnam society gender discrimination in the acceptance of work has not been allowed by laws and in practice. Even the government offers tax breaks for companies that use mostly female workers. Also, gender discrimination in payment for work has not occurred in practice.

EFFECTS OF AN AGING SOCIETY AND OTHER DEMOGRAPHIC TRENDS

According to the Population and Housing Census Vietnam 1999 carried out by the General Statistical Office, Vietnam’s total population as of April 1, 1999, was 76.3 million people: 37.5 million males (49.1 percent) and 38.8 million females (50.9 percent); 18.1 million urban (23.7 percent) and 58.2 million rural (76.3 percent) residents (*Tong Cuc Thong Ke*, 2001).

The transition in economics has caused demographic changes in Vietnam. Previously, the age distribution was typical of high fertility societies in which a larger proportion of the population is found in the younger age groups than in the older age groups. However, according to a recent survey in Vietnam, the number of children under five is now less than the number of 5-9 year olds and the latter is less than those who are 10-14 years of age. The proportion of the population less than 15 years old has declined over the last decade and the proportion of those who are 15-64 has risen. This trend is evidence of a rapid decline in fertility during the last 10 years in Vietnam (*Du an dan so-suc khoe gia dinh*, 1999).

The total fertility rate (TFR), estimated for the period 1992-96, is 2.7 children per woman. This is a rapid decline compared to 4.0 for 1987, and 3.3 for the period 1989-93. There are substantial differences in fertility levels in the country. The TFR is a full child higher in rural areas than in urban areas, 2.9 compared with 1.8 respectively. Women with no formal education give birth to an average of 4.0 children compared with 2.8 with primary school education and 1.9 for women with higher secondary school education (*Du an dan so-suc khoe gia dinh*, 1999).

Education is one of the most important measures of social and economic development, and educational levels are high in Vietnam. Eighty-eight percent of the population age 10 years and above is literate. Among the population, at least 10 years of age, 93 percent of males and 84 percent of females are literate. The urban literacy rate is 94 percent and the rural rate is 87 percent (*Du an dan so-suc khoe gia dinh*, 1999).

Migration has become a significant factor in Vietnam even as the government's policy and program have been unable to deal with the problem. Until 1986, most internal migration was organized and subsidized by the government. When the renovation policy was adopted, the non-state economic sector resulted in freer migration in both urban and rural areas. Emigration places have been Red River Delta, North Central Coast and South Central Coast while immigration areas are Central Highland, Mekong River Delta, Southeast Area, Ha Noi City and Ho Chi Minh City (*Doan Mau Diep and Trinh Khac Tham*, 1998).

Approximately 6.5 percent of the population age 5 and over, or 4.5 million people, moved within the five-years, 1994-99. The overall pattern of population redistribution in Vietnam showed that only the Central Highland and the Southeast gained population through migration and the population of the other six regions declined. The greatest loss was in the North Central Coast, which is one of the poorest regions of the country. Migrants were most likely to move to urban areas. Urban-to-urban migration tended to take place within the provinces whereas rural-to-urban migrants mainly moved across provincial borders. Ho Chi Minh City was the center of migration activity; the net-gain was 410,553 persons, with a net-migration rate of 8.15 percent, the highest of the country during the period 1994-99 (*Chuong trinh Phat trien Lien Hiep Quoc va Tong cuc Thong ke*, 2001).

Most of Vietnam's population is living in rural areas whereas economic growth is occurring in urban industrial centers. Poverty alleviation programs have been doing little to slow rural out-migration. The expansion of informal migrant support networks and recruitment channels such as for housing, employment and education helps to ease restrictions on urban entry. A lack of incentives for the growth of the private sector in the countryside makes it difficult for entrepreneurs to invest in businesses and non-farming jobs that could absorb surplus labor in rural areas.

BUSINESS ENVIRONMENT

STRENGTH OF FINANCIAL SYSTEMS

Under the central planning mechanism, the State Bank of Vietnam (SBV) served as the sole provider for currency or currency trading. The Foreign Trade Bank and an Agricultural Bank handled overseas transactions and rural development financing respectively. These banks were affiliates of the State Bank of Vietnam and did not have legal, independent status in doing business. Other financial institutions were nonexistent. This system was consistent with a centrally planned economy and dominated until October 1, 1990.

The government has since adopted a comprehensive banking reform, which relies on market-oriented actions and coordinated implementation of state enterprise reform. The objective of the reform is to ensure the stability of the banking system, to promote better mobilization of domestic resources and to improve allocation of those resources to efficient commercial users. Failure of the efforts to allow non-financial institutions to mobilize funds from public deposit was a dear lesson in the need for financial liberalization policy for Vietnam during early years of transition in the late 1980s. Thanh Huong Perfume Company was one of these lessons.

Beginning October 1, 1990, with the Ordinance on State Bank and Ordinance on Bank, the Credit Cooperative and Financial Company came into effect and reform actually took place in the banking industry. As a result, the banking system in Vietnam is divided into two sectors: the State Bank as a central bank, and financial institutions, which include commercial banks and non-bank financial organizations. The State Bank implements the government's monetary policy while financial institutions specialize in currency trading.

Four leading state-owned commercial banks (SOCB) were established namely the Investment and Development Bank, Industrial and Commercial Bank, Foreign Trade Bank and Agriculture and Rural Development Bank. In addition, joint stock banks (JSB) (i.e. Asian Commercial Bank, Maritime Bank, Eastern Asian Bank, Export-Import Bank), joint venture banks (i.e. Indovina Bank, Vid Public Bank, Vinasiam Bank), branches of foreign banks (i.e. City Bank, ANZ Bank, Standard Chartered Bank, Hongkong & Shanghai Bank Group, Deutsche Bank), people credit funds, leasing companies (i.e. VILC, VINALEASE), financial companies (i.e. SeaproDEX, Petro Vietnam, Textile), insurance companies (i.e. Bao Viet, Bao Minh, Prudential, AIA, Manulife), domestic and foreign investment funds and other financial institutions were established. The number of SOCBs increased from four in 1994 to five in 1999, the number of JSBs from 36 to 48, joint venture banks from 3 to 4, and branches and representative offices of foreign banks from 41 to 103, respectively. (World Bank, ADB and UNDP, 2000:15). So now, many players compete to create a diversified financial system in the country.

An important reform in the late 1990s was promulgation of the Law on State Bank and the Law on Financial Institutions that came into effect beginning October 1, 1998. These laws strengthened the financial system with a further orientation to the market mechanism. The Law on Financial Institutions clearly defines credit institutions including state credit, joint stock credit, cooperative, joint venture, non-bank financial institutions of 100 percent foreign invested capital, and foreign bank branches operating in Vietnam.

Following implementation of these laws, many initiatives have enhanced the efficiency of the banking system. In 1998, the Bank Restructuring Committee was established and regulations were issued for intervening in troubled banks including conditions for "Special Control Regime." These interventions included: perform independent audits of four large State-Owned Commercial Banks by international auditors; close and merge four Joint-Stock Banks in Ho Chi Minh City (HCM); issue prudential regulations for banking operations, and financial ratios for safe operation of credit institutions; establish authority of banking inspectors; and establish deposit insurance and collateral in 1999.

In 2000, the Bank Restructuring Committee issued new bank regulations with respect to calculating provisions against non-performing loans; lending on an unsecured basis to state-owned enterprises and foreign invested enterprises; replacing fully administered interest rates on dollar and dong loans by a more flexible interest-rate system under which the dollar rate is anchored in Singapore Inter

Bank Offered Rate (SIBOR), while the dong rate is allowed to vary around a SBV base rate subject to a ceiling rate.

In 2001, the Committee issued a circular to provide guidelines, either through the sale or seizure of secured property, for recovery of debts by credit institutions; regulations for simplification of procedures governing deferred letters of credit; broadening the scope for financial leasing and improving regulations to create a more attractive operating environment for domestic and foreign leasing companies; giving banks that operate in Vietnam the right to set the interest rate on currency lending based on international market rates and the domestic demand and supply situation; removing interest rate ceilings on foreign loans; giving Vietnamese enterprises and foreign lenders the liberty to freely negotiate and fix interest rates and fees on overseas loans.

In 2002, the Committee issued regulations for unsecured lending to all state and non-state enterprises. State, private, collective and foreign enterprises are now treated on an equal basis with respect to collateral against loans.

ACCESS TO CAPITAL

Vietnam's history of a central planning economy has left most of its citizens without savings large enough to start a small enterprise. Entrepreneurs have mostly relied on personal savings, plus those of families and friends for start-up capital and to finance the first months of operations. Some private enterprises have begun operations under the name of state enterprises, but operated independently and for their own profit from the start. Actually, most private enterprises are relatively small and highly concentrated in a few sectors such as manufacturing of food and beverage products, ceramics and glass, garments, and wood and leather products.

A recent survey of 95 larger private manufacturers identified the following constraints: unclear government policy (16 percent), regional financial crisis (19 percent), insufficient working capital (39 percent), lack of information, especially on foreign markets (41 percent), and inadequate access to capital (53 percent) (Leila Webster and Markus Taussig, 1999:30). In the early 1990s, the shortage of capital was at the top of the list of constraints identified by entrepreneurs in almost every survey on private SMEs in Vietnam. Collateral requirements represent the largest obstacle to accessing loans of significant size and maturity from the formal financial system. However, the situation has improved as a result of the change in credit regulations that ease access to bank loans for the private sector. Thus, the private sector's share of total credit granted has increased rapidly, from a very low base of 10 percent at the end 1991 to 39 percent in 1994 and around 50 percent in late the 1990s (World Bank, 1999).

According to the new Credit Regulation 1627/2001/QD-NHNN dated December 31, 2001, which was promulgated by the State Bank of Vietnam, commercial banks can now provide loans to all state, foreign and private enterprises based on the efficiency of the project and ability of the enterprise to repay the loan rather than on collateral requirements. This institutional change has opened the door for private entrepreneurs, giving easier access to credit from Vietnam's banking system.

LENDING AND INVESTMENT ENVIRONMENT

The State Bank of Vietnam has managed monetary policy through its credit regulations, which are applied to commercial banks and non-bank financial institutions. Commercial banks, in carrying out their lending activities, have to comply with the State Bank's credit regulations. Under current

regulations, the outstanding loan balance of any one customer may not exceed 15 percent of the commercial bank's equity.

Reliance on Asset-Based Lending

Initially, banking credit provided to entrepreneurs had to be backed by an asset as security against the loan. Real estate could comprise 70 percent at maximum of the collateral, and 60 percent of the collateral could be inventory. Security had to consist of the guarantor's asset, otherwise the guarantee was not accepted.

Further reforms now have taken place. Formerly, SOCBs provided credit to SOEs without collateral against the loan whereas non-state enterprises had to pledge security. Banks now can provide credit to all enterprises based on following conditions: the business has been profitable for last two years or the enterprise has a feasible project, sound financial ability, and a management board experienced in the industry.

Now, enterprises of all kinds can get access to loans from banks without collateral if they are profitable and the ability of repayment is clearly defined. An enterprise is no longer required to demonstrate two years of consecutively profitable business in order to get loan.

Besides, Vietnam's government has also applied a credit policy without collateral in some cases such as lending for purchasing store rice, building long distance boats, construction of sugar factories within the government's program, building houses in flooding areas, and poverty reduction and hunger elimination programs.

Zero Tolerance for Failed Investments

The emergence of a vibrant private sector will be vital to Vietnam's long-term economic growth. According to estimates, domestic private investment will need to almost double in order to reach the target of double GDP per capita over the coming decade.

During the past five years, Vietnam's government has taken steps to improve the investment environment. The government has amended the Law on Promotion of Domestic Investment, allowing domestic and foreign investors to buy shares of domestic enterprises including equitized SOEs, and provided additional incentives for new domestic investment. The New Enterprise Law has been implemented nationwide, which has created a new climate for domestic entrepreneurs. The Land Law has been revised to align compensation for nationalized land with its true market value. Vietnamese living overseas have been given the right to buy houses with attached land-use rights, ending price discrimination and lowering the costs of doing business in order to attract their investment from overseas. Other initiatives have included: establishing an Enterprise Information Center under the Ministry of Planning and Investment and the National Register Agency for Secured Transaction under the Ministry of Justice; allowing the formation of private business associations; establishing a Stock Exchange Market to open new channels of access to investment capital for entrepreneurs; and applying a "one door, one seal" method to ease administrative procedures for investors during the start-up phase of investment.

All the above-mentioned efforts have resulted in a rapidly rising entrepreneurial spirit in Vietnam, especially during the last two years.

IMPACT OF GLOBALIZATION AND WTO ON SMEs

Since the early 1990s, Vietnam had taken steps to integrate into the world economy. In 1993, Vietnam normalized relations with international financial institutions such as the International Monetary Fund (IMF), World Bank (WB) and Asian Development Bank (ADB). On July 28, 1995, Vietnam became member of Association of South East Asian Nations (ASEAN) and on December 15, 1995, Vietnam formally participated in Asian Free Trade Area (AFTA) in terms of signing the Agreement on Common Effective Preferential Tariffs (CEPT). In March 1996, Vietnam participated in the first Asian European Leaders Meeting (ASEM) in Bangkok and became one of founders of this forum. In January 1995, Vietnam applied for permission to enter the World Trade Organization (WTO). On November 18, 1998, Vietnam became a member of Asia Pacific Economic Cooperation (APEC). Vietnam signed a Bilateral Trade Agreement with United States (USBTA) on July 13, 2000, and the USBTA was ratified by both the U.S. Congress and Vietnamese Assembly in 2001. In December 2001, the USBTA came into effect.

In order to perform the task of overseas economic cooperation and integration, Vietnam's government established the International Economic Cooperation Board led by a Vice-Prime Minister as Chairman of the Board. With the door to the world economy now opened, Vietnam has gradually increased its trade volume and attracted a large amount of foreign direct investment. Thus, in 1990 Vietnam's international trade was valued at US\$5 billion compared with US\$30 billion in 2001. Since 1989, when Vietnam promulgated the Law on Foreign Investment, the country has attracted more than 3,000 foreign direct investment (FDI) projects valued at US\$42 billion and consisting of operating projects of US\$21 billion.

Vietnam is committed to liberalizing trade and investment rules, lowering tariffs and abolishing quantitative restrictions. Also, in order to join the WTO, Vietnam has participated in bilateral and multilateral negotiations and developed a transparent, rules-based trading and investment system.

Under AFTA, Vietnam is abolishing quantitative restrictions, and its current import tax on 5,500 items has been reduced to 20-30 percent on average. The import tax on another 800 items is likely to be reduced to 20 percent in 2003, then to 0-5 percent in 2006. In 2004, average tariffs on manufactured goods from ASEAN countries will be cut by 50 percent. Average tariffs on ASEAN imports of textiles, leather, wood products, non-metallic mineral products (glass and ceramic products) and food products will fall by 60 percent (*Dinh Lan*, 2002).

The government has issued Decision 46/2001 regarding the management of imports and exports for the period from 2001 to 2005. This is a consistent and transparent, long-term direction for all export-import businesses. Under the USBTA, beginning on January 1, 2003, cement, motorcycles, passenger cars with up to nine seats and passenger-cargo vans can be imported freely. Starting on January 1, 2004, investors will be allowed to provide telecommunications services. From January 1, 2005, foreign bank branches will be allowed to trade local currency. Also, the Trade Law has been amended to permit all legal companies and individuals to export most goods, including rice, without a license.

Thus, globalization has had positive as well as negative impacts on entrepreneurial activities in Vietnam. As a member of the WTO, Vietnam will realize the following benefits: the nation will be treated as a most-favored nation (MFN) without any conditions; the tax on exports to WTO countries mostly will decline (promoting Vietnam's exporters); disputed trading issues will be treated

within WTO regulations on an equal basis; and finally, the trading position of Vietnam in the world will be increased because WTO accounts for 90 percent of world trading turnover.

The challenges that Vietnam will face are as follows: opening domestic markets in many sectors such as banking, insurance, telecommunications, and consultancy, which have been monopolized by domestic investors; reducing the import tax, which results in a shortage of tax revenues and no protection for local production; protecting intellectual property rights that may affect the desirability of disseminating knowledge; implementing policies that provide more attractive conditions for the foreign investment sector; implementing further institutional reform as required by the WTO; and, finally, creating an environment where Vietnam's enterprises can compete with foreign players in the domestic marketplace.

Integration in the global marketplace is an opportunity as well as a challenge. Vietnamese enterprises need to understand in detail WTO regulations for each country, each item, and each region. Also, SMEs need to have their own solicitors in doing business. However, while 42 percent of Vietnamese enterprises have an interest in the integration process, they know little about the benefits and obligations. According to a recent survey of the Central Economic Board under the Central Communist Party, 16 percent of enterprises in the sample did not have information about the integration process, and 50 percent did not have information about USBTA. State enterprises tend to rely passively on the government's protection, and they regard integration as the concern of the government (*Van Minh Hoa, 2002*).

During 1997-99, state budget direct investment in SOEs totaled 8 trillion VND, of which 81 percent was additional capital and 19 percent covered losses and promotion. About 20 percent of SOEs incurred consecutive losses. In the industrial sector, on average 1VND capital generated only 0.024 VND profit (profit to capital ratio 2.4 percent). Some estimates are that only 21 percent of SOEs will be able to survive integration into the world economy (*Hoai Thuy, 2002*).

According to Mr. Dinh Van An, President of the Central Institute for Economic Management at Ha Noi Workshop on Integration to the World Economy, May 6-7, 2002, in 1998 Vietnam ranked 39/53 among nations on competitiveness; its rank was lowered to 48/59 in 1999; it further declined to 53/59 in 2000, and 62/75 in 2001 (Nhat Linh, 2002, Dinh Van An 2002). Integration into the world economy will be a key challenge for Vietnam's government and entrepreneurs during the coming decade.

ROLE OF GOVERNMENT

EXTENT OF GOVERNMENT AND COMPLEXITY OF REGULATIONS

Legal institutions at the national level of Vietnam include the National Assembly—the country's legislature; the Standing Committee of the National Assembly; the Government— highest executive organ; the Ministry of Justice and other ministries and agencies; the Supreme People's Court; and the Supreme People's Procuracy. The government was formerly known as the Council of Ministers. The local government at the provincial level was known as the People's Committee; at the district level as the People's Committee; and the People's Committee at the village level prior to the enactment of the 1992 Constitution. The current government is comprised of the Prime Minister, the Deputy Prime Minister and the Cabinet Ministers. The core functional organ of the government is the Office of the Government, also known as the Prime Minister's Office.

Currently, the country is divided into 61 provinces (including major cities of the first level), which are in turn subdivided into 600 districts and cities of the second level, including 10,331 communes/wards and villages (Tong Cuc Thong Ke, 2001). The highest organ at the local government level is the People's Council. The executive organ is the People's Committee that is elected by the People's Council. The People's Council elects the chairperson of the People's Committee as well.

The Communist Party of Vietnam is the most important institution and dominates political life in the country. It is the center for decision-making. Party institutions are applied to the task at four levels of the government: central, provincial, district and commune. The central level involves the Central Committee of the Communist Party of Vietnam (CPV), the Secretariat, the Politbureau and the Boards concerned with particular areas with respect to the various ministries.

Vietnam currently has too many unnecessary and inefficient regulations in certain areas, some of which interfere with market activities. At the same time, there are important areas in which Vietnam has insufficient protection of the public interest and provision of public services.

There are, for example, very few environmental regulations to protect natural resources. Investment in roads, basic health care and education is not adequate. Many complaints are made against civil servants every year. The government issued an Ordinance on the Resolution of the People's Complaints against Civil Servants in 1993, but the issue is still far from being settled.

Administrative institutions include laws, regulations and rules creating the legal framework for activities of the administrative and business bodies. Frequently changing and complex regulations and excessive bureaucracy increase the risk and cost of doing business and tax the resources of private entrepreneurs. There is a need for institution-building that will gradually establish the Rule of Law as the basis for government-business relationships. The aim of institutional reform has been focused on improving relationships between government agencies and citizens; among government agencies; and between government agencies and both foreign and domestic investors.

The current administration has been challenged by the following issues: red tape has permeated all levels of the hierarchy; the system is dispersed and disorderly; there has been corruption, bribery and wasted public assets and money; the administrative apparatus does not work well because it is ineffective and cumbersome; and public servants are unskilled and under-qualified.

Overcoming these issues requires establishing a capable and clean public administration in order to persuade people to trust government activities. Comprehensive administrative reform should be undertaken in Vietnam to improve the legal system and administrative procedures, and to install a more professional administrative personnel.

GOVERNMENT SUPPORT/PROMOTION OF ENTREPRENEURSHIP

Since it implemented its "*doi moi*" policy, the government has recognized entrepreneurial activities as an essential element of economic growth. Every year, the Central Government organizes a meeting between high-ranking governmental officials at the ministerial level, headed by the Prime Minister, and entrepreneurs of both state and private enterprises. The meeting allows for an exchange of information, answers questions raised by the business community, and clarifies the development strategy and action steps of the government, both internally and externally. Another meeting with foreign entrepreneurs is also held annually. The aim of those meetings is to discover and discuss more efficient measures to support entrepreneurship in Vietnam.

Physical Infrastructure (i.e. Incubator Development)

Incubator development is a very new idea in Vietnam. In the government's development policies and strategy there has been no mention of the incubator. The concept of incubators is not yet practiced in Vietnam.

People-based Infrastructure (i.e. Business Advisory Services)

Business development services have consisted of accounting and auditing, legal services, taxation, training, business advisory, advertisement and promotion, market research, product design, exhibition, quality management, Internet, information technology, and the environment, among others.

According to a recent study of 1,200 SMEs in the six most industrial provinces (Ha Noi, Hai Phong, Da Nang, Ho Chi Minh City, Binh Duong, and Dong Nai), almost all SMEs used business development services at least once. Seven percent said that they never used any services. For small enterprises with fewer than 10 workers, 90 percent used business development services at least once. In 2001, about VND4 billion were spent on business development services in the above mentioned six provinces (Quy Hao, 2002).

Advisory services have developed on an *ad hoc* and piecemeal basis in the country since the national economy began its transition to a market-oriented system. Private companies and individuals with limited capability have been the main providers of these services. Foreign companies have also participated in this market to meet the needs of foreign investors in market research, marketing, and legal concerns.

Key areas for advisory services have included legal problems of enterprise establishment, tax and custom declaration, quality management and land-use rights. Accounting and auditing advisory services have not been a primary concern for small private enterprises in Vietnam.

Recently, the Bureau for Tax Advisory Service was established in Ho Chi Minh City as a part of a pilot project in administrative reform to support enterprises in tax-related issues. The Vietnam Chamber of Commerce Industry (VCCI), donor-based NGOs and private NGOs have also established support centers or organizations to provide advisory services.

TAX POLICIES

The tax system in Vietnam incorporates indirect and direct taxes. The former includes the export tax, import tax, value-added tax (VAT) and special consumption tax. The latter includes the built-in enterprise income tax, personal income tax and transferring land-use right tax. Other taxes are asset taxes and fees.

The first tax reform took place from 1990-95 when the government of Vietnam introduced a new tax system that replaced the former one consistent with the centrally planned mechanism for national economic activities. The second tax reform took place from 1996-2000 with the purpose of improving the current tax system to further align it with market principles. The goal of the reform was for tax revenue to reach 20-21 percent of GDP in coming years, and it will be increased to 25 percent of GDP in the next 10-15 years (Nguyen Anh Tuan, Tran Manh Hung, 2001).

The Vietnam government's international commitments in the process of integration require further tax reform. Import taxes are scheduled to be reduced to 0-5 percent in 2006, resulting in declining revenues for the state budget. Under the AFTA commitment, import taxes of US\$ 62-171 million will be reduced in the period 2004-06. In order to control exports, an export tax will be imposed on some goods to protect natural resources, control pollution and environmental problems, and ensure raw material for domestic production. Also, in the next year, quantitative restrictions and licenses will be revised and abolished to be replaced by tax measures. The tax system should be transparent and consistent with WTO entry requirement as well.

A Value-Added Tax has been implemented over three years with some adjustments and now it needs to be amended. Debates have focused on changing from the current three-rate of VAT (5, 10 and 20 percent) to a two-rate VAT of 5 and 10 percent or to a one-rate system of 10 percent for all goods and services. The Enterprise Income Tax will also be revised in the next year in order to adopt a one-rate tax of 25 percent instead of the current two-rate system of 32 percent for domestic and 25 percent for foreign-invested enterprises. The personal Income Tax, applied since 1991, has been adjusted six times. Since July 1, 2001, the minimum taxable amount for foreigners living in Vietnam and Vietnamese working overseas has been VND8 million, while for Vietnamese in the country it is VND3 million.

Tax reform policies are meeting considerable challenges. On the one hand, under international commitments, import taxes must be gradually reduced while export taxes also must decline to promote exporters. As a result, the state budget will experience shortages from contracting tax revenues. On the other hand, to cover the shortfall, government tax policies should be reformed to increase the number of taxpaying citizens and organizations, simplify tax calculation and lower tax rates to avoid several tax exemptions.

EXISTENCE OF A SOCIAL SAFETY NET AND ITS IMPACT ON THE ENTREPRENEURIAL SPIRIT

A major concern of the government is the potential for labor redundancies and layoffs arising from equitization, liquidation and restructuring. The government has provisions under the labor law to provide compensation for redundancy including a more generous separation package comprising a severance payment, an option for early retirement and retraining. An Enterprise Restructuring Assistance Fund has been established using proceeds from equitization. Recent government estimates of layoffs as a result of SOE reforms suggest a total of 400,000 workers over five years. On average, this will amount to 10 percent of the annual addition to the labor force, and the total costs to deal with layoffs have been estimated at about US\$ 450 million over five years (World Bank and ADB and UNDP, 2000).

The main weakness of the social safety nets (SSN) of Vietnam is that the majority of the beneficiaries are not the poor. The largest portion of spending on SSN is directed towards social security and special transfers, which benefit the former state sector employees and the war veterans. The fund for Pre-Harvest Starvation and Disaster and the fund for Regular Relief constitute the formal protection available for the poor. However, the amount of grants reaching the poor is modest, as the grants depend on limited local funding and receive limited funding from the central government. There is no existing safety net that addresses the social costs of reform and community risks such as natural disasters. Currently, disaster rehabilitation is managed in an uncoordinated way by different line ministries. After being hit by disasters, provinces receive financial assistance on an *ad hoc* basis. To improve the provision of rehabilitation assistance, a permanent disaster rehabilitation fund should be set up.

RULE OF LAW AND PROTECTION OF INTELLECTUAL PROPERTY RIGHTS

For a decade Vietnam has been engaged in building a state that is ruled by law, as mandated by the 1992 Constitution. Vietnam's legal system has developed since 1992; many laws have been passed, court and legal aid centers established, court houses built, legal information developed, and legal education and professional training created and improved.

The law, in fact, is becoming an increasingly important method for implementing administrative reforms. Relevant statutes include the Law on Foreign Investment in Vietnam (1987), the Ordinance on Industrial Property (1989), the Ordinance on Inheritance (1990), the Corporate Law (1990), the Law on Private Enterprises (1990), the Ordinance on State Bank of Vietnam and the Ordinance on Credit Institution (1990), the Ordinance on Housing (1991), the Ordinance on Civil Contracts (1991), the Land Law (1993), the Law on Bankruptcy of Enterprises (1993), the Law on Environmental Protection (1993), the Ordinance on Marriage and Family between Vietnamese and Foreigners (1993), the Law on State Bank of Vietnam and Law on Credit Institution (1998), Amending the Law on Promotion of Domestic Investment (1998), Approving the Enterprise Law (1999), Revising Land Law (1999), Revising the Foreign Investment Law, and Amending 1993 Law on Petroleum (2000).

However, there is no comprehensive overall strategy for development of the country's justice system. The development of the Rule of Law so far has been *ad hoc* and piecemeal. There are six major needs and directions that need to be focused on in developing a good legal system. First, the legal framework for the development of civil society and the economy, including international integration needs to be improved. Second, the legal information system needs to be strengthened to increase transparency. Third, legal institutions need to be improved to implement and to enforce the law. Fourth, law-making processes and institutions need to be streamlined and improved. Fifth, legal education, training and retraining are required. Finally, the issue of legal aid and access to justice for the poor needs to be addressed. The Rule of Law requires that there be equal access to the legal system for all.

In 1994, a new agreement on the trade-related aspects of intellectual property rights (TRIPs) strengthened intellectual property rights (IPRs) in WTO member countries. Intellectual property rights are created by national law and they apply only in a single national jurisdiction. Vietnam applied for entry to the WTO in 1995 and is now in the negotiation stage. It is expected that Vietnam will be admitted in WTO in the next two to three years. As a result, Vietnam has been working on its regulations and laws including protection of intellectual property rights consistent with WTO requirements. However, while that is true in practice, the country's protection of Intellectual Property Rights currently is very weak. Nevertheless, there are a few efforts to establish IPR protection in the country. Switzerland has funded a technical assistance project in enforcement of IPRs as set forth in international treaties.

CONCLUSION AND RECOMMENDATIONS

During the last 10 years, Vietnam has exemplified a successful transitional economy. "*Doi moi*" policy has released the productive capacities of all state, private and foreign sectors, contributing to economic growth of the nation. Private entrepreneurial activities have increasingly played an important role in investment, export and import, domestic trading and services, job creation and

contribution to the state budget. The private sector has been formally recognized as a crucial element of the multi-sector market economy oriented to socialism in Vietnam. However, entrepreneurship in Vietnam is positioned at the starting point of the race.

In order to improve the business environment for entrepreneurial activities, the following measures should be taken in the near future: first, further implementation of the New Enterprise Law in terms of abolishing unnecessary license restrictions to boost entrepreneurial activities in the coming years; second, further reform of the banking system in coordination with state-owned enterprises reform to ease access to capital for private enterprises; third, further tax reform to make the tax system more transparent and less complex; four, speeding up administrative reform that improves relations between governmental agencies and businesses; and finally, social recognition and moral encouragement to successful entrepreneurs to motivate the entrepreneurial spirit in the country.

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