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|  | <p>Contents lists available at www.innovativejournal.in</p> <p>JOURNAL OF BUSINESS MANAGEMENT AND ECONOMICS</p> <p>Home page: http://innovativejournal.in/index.php/jbme</p> |  |
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Vietnam Economic Issue: Looking from Enterprise Sector, Export and Import Situations

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DOI: <https://doi.org/10.15520/jbme.v8i06.3013>

Abstract: At first glance, Vietnam has relatively high growth rate in the region and in the world, the average growth in the period of 2011 - 2018 is about 6.2%. As soon as the Covid 19 pandemic became active, causing most countries to have a negative GDP growth rate, but Vietnam's GDP growth in the first quarter was still 3.82%.

This study tried to describe the situation in the context of the current economic situation in Viet Nam through the production results of the enterprise sector, import and export.

The study used official data sources from Vietnam General Statistics Office.

Key words: Enterprise, export, import, value added, turnover

INTRODUCTION

In GDP of Vietnam is not disaggregated by institutional area as recommended in System of National Accounts [1] of United Nation but by types of ownership. Type of ownership was classified of Vietnam general statistics office (GSO) [2] includes:

+ State

+ Non- State was divided:

- Collective
- Private
- Household
- Foreign investment sector

Enterprise in the “white paper on Vietnamese enterprises 2020” [3] is classified by scale and type of ownership.

Regarding classified by scale includes:

- Micro enterprises
- Small enterprises
- Medium enterprises
- Big enterprises

Classified by type of ownership includes:

- State enterprises
- Domestic private enterprises
- Foreign direct investment enterprises

A number of recent studies for a number of developing countries with manufacturing sector are basically outsourcing, resulting in their exports being more beneficial to the countries that they import for intermediate inputs of export country [4, 5]. More over, due to saving of country equal GDP + net, property income + net, current transfer - final consumption; therefore, in the case of FDI-based GDP growth may lead to smaller savings when the cash flow of property payments abroad increases rapidly [6]. This article is based on results of enterprise survey of Vietnam

general statistics office for some analysis of capital structure, rate of return on capital, value-added ratio compared to net turnover by scale and type of enterprises.

The next section will analyze Vietnam's import and export situation and their implications for Vietnam's economy.

The effects of final demand on output, value added and imports has been studied by M. Muchdie et al (2018) [7], before, in order to explained that imported intermediate input was shown in the usual Keynesian foreign trade multiplier analysis by Trinh et al (2008) [8]. In an open economy, $X + M = C + I + E$; the external sector is combined inconsistently with the domestic sector in the circular flow. Where, X stands for net national products (or net final demand) excluding intermediate products, while M stands for imported including intermediate products, C stands for final consumption, I stand for gross capital formation and E is export. This research also based on Vietnam input-output tables, 2012 [9] and 2016ⁱ with the export vector (E) was divided to export of FDI area (E^f) and export of domestic economic activities (E^d).

APPROACHES

Evidence of tables 1, 2 and 3 has been calculated directly from the “white Paper on Vietnamese Enterprises 2020” published by the General Statistics Office of Vietnam. Figure 1 is drawn based on imports and exports data published by the Vietnam general statistics office [pp10] Table 4 is the calculation results from the IO system with the following formulas:

Output was induced by FDI export (E^f) and domestic economic activities (E^d)

$$\sum (I-A^d)^{-1} \cdot E^f \div \sum E^f \quad (1)$$

$$\sum (I-A^d)^{-1} \cdot E^d \div \sum E^d \quad (1')$$

Value added was induced by FDI export (E^f) and domestic economic activities (E^d)

$$v. (I-A^d)^{-1} \cdot E^f \div \sum E^f \quad (2)$$

$$v. (I-A^d)^{-1} \cdot E^d \div \sum E^d \quad (2')$$

Production income was induced by FDI export (E^f) and domestic economic activities (E^d)

$$t. (I-A^d)^{-1} \cdot E^f \div \sum E^f \quad (3)$$

$$t. (I-A^d)^{-1} \cdot E^d \div \sum E^d \quad (3')$$

Where: I is an identity matrix, Ad is a domestic direct input coefficient matrix, $(I-A^d)^{-1}$ is Leontief inverse matrix, v is a coefficient vector of value added, t is a coefficient vector of income from production and E^f , E^d , are exports of FDI area and domestic economic activities.

DISCUSSIONS

Capital structure and using of capital of Vietnamese enterprises:

According to the white paper on Vietnamese enterprises 2020 published by the General Statistics Office of enterprise size, the number of micro and small enterprises by 2018 accounted for 93% of the total number of enterprises, this average rate in the period of 2011 - 2015 and 2015 - 2018

unchanged, only micro enterprises increased by 3 percentage points from 60% on average in the period of 2011-2015 to 63% on average in the period 2016 - 2018, while the number of businesses small enterprises decreased by 3 percentage points from 33% on average in the period of 2011-2015 to 30% on average in the period of 2016 - 2018. The percentage 2, medium and large enterprises in the total number of enterprises did not change during 2011. - 2018.

Ironically, even though micro and small businesses account for 93% of total businesses, but capital stock accounts for only 22% of the total capital of the businesses, which is almost unchanged during the period 2011 - 2018, this partly shows that micro and small enterprises have difficulty accessing capital. Medium and large-sized enterprises have a slight increase in the proportion of their capital in the period of 2017 - 2018 compared to the period of 2011-2015.

The average number of State-owned enterprises in the 2016-2018 period only accounted for 0.4% of the total number of enterprises, but the capital ratio accounted for 27.2% of the total capital of the enterprise sector. Non-state enterprises accounted for about 96% during the period of 2011 - 2018 but the proportion of capital increased from 50% to 55% of the total capital. FDI enterprises had a stable proportion of capital and number of enterprises during 2011 - 2018

Table 1. Capital ratio by scale and type

| | Average period 2011 - 2015 | 2017 | 2018 | Average period 2016 - 2018 |
|---|----------------------------|---------------|---------------|----------------------------|
| Total | 100.0% | 100.0% | 100.0% | 100.0% |
| Classified by scale | | | | |
| Micro enterprises | 7.9% | 7.3% | 10.2% | 9.0% |
| Small enterprises | 14.9% | 12.2% | 12.8% | 12.5% |
| Medium enterprises | 7.3% | 7.9% | 7.4% | 7.7% |
| Big enterprises | 69.9% | 72.7% | 69.6% | 70.9% |
| Classified by type of ownership | | | | |
| State enterprises | 32.3% | 28.9% | 24.8% | 27.2% |
| - In which: Enterprises with 100% state capital | 21.0% | 15.0% | 12.0% | 13.6% |
| Domestic private enterprises | 49.5% | 53.0% | 57.2% | 54.8% |
| Foreign direct investment enterprises | 18.3% | 18.1% | 18.0% | 18.1% |

Source: "white Paper on Vietnamese Enterprises 2020" - GSO

It should be noted that the number of micro and small enterprises accounted for 93% of the total number of businesses, but the total profit before tax of these enterprises during the period of 2011 - 2018 is always negative, which leads to questions:

- Micro and small businesses are very difficult businesses, always near the edge of dissolution or bankruptcy even in the absence of a pandemic, when the Covid 19 pandemic struck these types of businesses, on the verge of life and death. Support policies such as extending corporate income tax for 93% of businesses of this type do not seem meaningful.
- Enterprises of this type are often difficult to access capital from banks due to the business results of losses or low profits, in addition to the problem of collaterals.

Regarding types of enterprises: Non-state enterprises account for 96% of the total number of enterprises, but the ratio of profit before tax to capital is the lowest, this type of enterprises only increases by 0.4 percentage points on

average in the period 2016 - 2018 compared to the average of period of 2011-2015. Only the type of FDI enterprise has the highest rate of return and this rate tends to increase. FDI enterprises, in addition to better management, easier access to capital, more preferential policies, are also less affected by corruption than domestic enterprises.

Note that the average ratio of profit before tax to capital of the whole enterprises in economy in the period of 2016 - 2018 is 2.5%, in 2018 this ratio was 2.3%, this ratio not only lower than the bank's deposit rate (from 6 - 8%) but also lower than the average consumer price index (CPI) in 2018 (3.54%). This means that continuing production will eat into capital, land and resources.

Notably, the average ratio of liabilities to equity in the 2011-2015 periods of State-owned enterprises was 3: 1, this ratio increased to 3.6: 1 in the period 2015-2018 while the Return on capital of this type of enterprises is 2.2%.

So, this situation can be seen that although the enterprises sector contributes about 44% to GDP on average in the period of 2015-2018, if this situation persists, it will be a

bad signal for the economy, or profit report in before taxes are incorrect. is the paradox that nominal profits do not seem to be the main purpose of business owners?

Table 2. Rate of return on capital by scale and type of enterprises

| | Average period 2011 - 2015 | 2017 | 2018 | Average period 2016 - 2018 |
|---|-------------------------------|-------------|-------------|-------------------------------|
| Total | 2.4% | 2.7% | 2.3% | 2.5% |
| Classified by scale | | | | |
| Micro enterprises | -0.9% | -1.1% | -1.0% | -1.3% |
| Small enterprises | -0.1% | -0.1% | -0.3% | -0.2% |
| Medium enterprises | 1.1% | 1.4% | 1.0% | 1.2% |
| Big enterprises | 3.5% | 3.6% | 3.4% | 3.5% |
| Classified by type of ownership | | | | |
| <i>State enterprises</i> | 2.8% | 2.1% | 2.0% | 2.2% |
| - In which: Enterprises with 100% state capital | 2.5% | 2.5% | 2.2% | 2.5% |
| Domestic private enterprises | 1.1% | 1.7% | 1.5% | 1.5% |
| Foreign direct investment enterprises | 5.4% | 6.5% | 5.4% | 6.1% |

Source: "white Paper on Vietnamese Enterprises 2020" – GSO

Value added of enterprises:

Based on enterprises registration data, as of December 31, 2019, the Vietnam had 758,610 active enterprises and in 2018 there were 714,755 active enterprises, in 2019 the number of active enterprises increased by 6, 1% compared to 2018 and 2018, the number of operating enterprises increased by 9.2% compared to 2017. But note that operating enterprises have production results are the bottom line. In 2019, this data is not available, but in previous years, operating enterprises have production results accounted for only about 85% of the total number of operating enterprises. Calculated from the data in the white paper shows that the value added at the base price (equal to the income of the employee + profit before tax) of the entire enterprises sector (including the state-owned enterprise sector, Non-state-owned enterprises and FDI enterprises) accounted for 46% of GDP in 2017 and in 2018 this rate decreased by 2 percentage points to 44% of GDP. These 2 percentage points were basically due to decreased by 1 percentage point of the State-owned enterprises sector and 1 percentage point of the FDI enterprises.

The ratio of value added at basic price compared to the net revenue of the whole enterprise sector in the period of 2011-2015 is 10.3% and that of the period of 2016 - 2018 is 11%;

However, this ratio in 2018 returned to nearly the period of 2011-2015. Regarding the size of the enterprise, the value-added ratio compared to the net revenue of small and medium-sized enterprises had a stable rate during the period of 2011 - 2018; Micro enterprises this rate tends to increase from 7.9% in the period of 2011-2015 and 8.9% in the period of 2016-2018. Regarding types of enterprises, FDI enterprises have the highest value-added ratio compared to net sales at over 14% in the whole periodⁱⁱ.

The rate of value added of the enterprise sector is so low due to two reasons:

- Firstly, due to the production activities of enterprises basically are outsourcing and assembling, the content of added value is very low, whether they are processing contracts or self-production, they are basically processed. Input material is imported.
- Commercial enterprises account for a large proportion (35%) of the total number of operating enterprises, but account for nearly 40% of the enterprises with business results.
- Active small and micro enterprises have production results accounting for 94% of the total number of operating enterprises having production results but always negative pre-tax profit (loss).

Table3. Value-added ratio compared to net turnover

| | Average period 2011 - 2015 | 2017 | 2018 | Average period 2016 - 2018 |
|---|-------------------------------|--------------|--------------|-------------------------------|
| Total | 10.3% | 11.2% | 10.4% | 11.0% |
| Classified by scale | | | | |
| Micro enterprises | 7.9% | 11.3% | 12.6% | 8.9% |
| Small enterprises | 6.0% | 7.7% | 7.1% | 7.6% |
| Medium enterprises | 8.0% | 8.2% | 7.0% | 7.9% |
| Big enterprises | 11.9% | 12.4% | 11.5% | 12.2% |
| Classified by type of ownership | | | | |
| <i>State enterprises</i> | 11.6% | 11.9% | 10.5% | 11.8% |
| - In which: Enterprises with 100% state capital | 11.4% | 10.8% | 9.6% | 10.7% |
| Domestic private enterprises | 7.9% | 9.1% | 8.7% | 8.9% |
| Foreign direct investment enterprises | 14.2% | 15.1% | 13.7% | 14.7% |

Source: "white Paper on Vietnamese Enterprises 2020" – GSO

Data from the statistical yearbook show that in the past 15 years, the proportion of value added of the domestic private enterprise has increased but still not too much (about 10% of GDP); The economic sector with the largest share of value added in GDP is the individual economic sector, although this proportion decreased by 2.9 percentage points (from 32.1% in 2005 to 29.2 in 2018) but still accounting for the highest proportion of GDP.

Import and export situation:

GSO data shows that the domestic sector always has trade deficit and the FDI sector always has a trade surplus. In 2010, the domestic sector experienced a trade deficit of US \$ 14.8 billion to 2018 trade deficit of this sector is 25.5 billion US dollars; meanwhile the FDI sector had a trade

surplus of US \$ 2.2 billion in 2010 and by 2018 the trade surplus of the FDI sector was US \$ 32 billion, according to the General Statistics Office of the money flow abroad. legally through property payment of about US \$ 18 billion; The export rate of the FDI sector accounted for the total export value of goods increased from 54% in 2010 to 72% in 2018. Thus, it can be seen that the trade surplus or trade deficit of the whole country is entirely determined by the FDI sector. The trade surplus figure may increase the size and growth of GDP but it is clearly not meaningful to the Vietnamese people. Trade surplus and GDP may be a good sign for countries with more trade relations with Vietnam than for the Vietnamese people (figure 1).

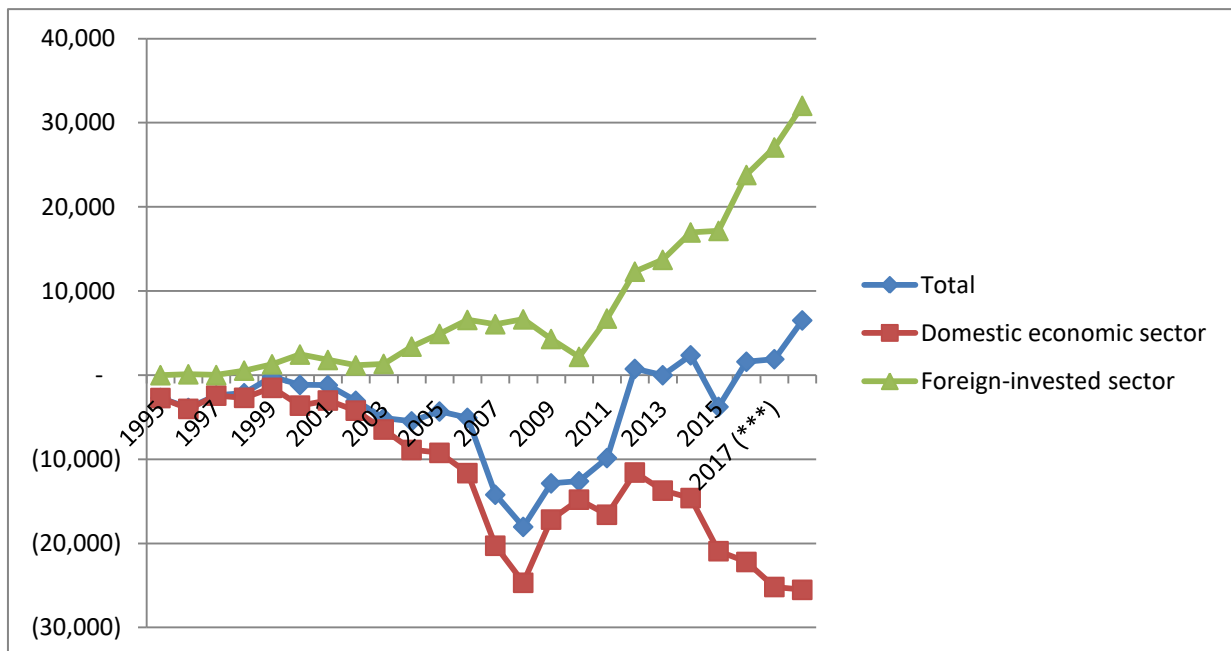


Figure 1, net, export (Million USD)

Source: gso.gov.vn

Calculated by input-output 2012 and 2016 tables for export of FDI area (E^f) and domestic area (E^d) shows the induced impacts by E^f and E^d made to increase output but made to decrease value added and income.

Table 4 also shows that the production of the foreign invested sector is mainly outsourcing contracted and the extremely low value-added content in the export value. The export of this region is the export of the owner countries of FDI enterprises that uses the territory of Vietnam to production and export because of special preferential

treatment.

Products that are produced by foreign invested areas but sold in Vietnam are products that exported to Vietnam, these enterprises made at Vietnam have higher profits when they produce domestically and then export to Vietnam because they receive too much. many incentives and cheap labor. This is partly reflected in the contribution of FDI sector to GDP, although the export value is very large, but the added value of this sector in GDP is low (only about 18%).

Table 4. Induced impacts by export of FDI area and domestic area (times)

| | Input-output, 2012 | | Input-output, 2016 | |
|-------------------|--------------------|-------|--------------------|-------|
| | E^f | E^d | E^f | E^d |
| Output | 1.55 | 1.54 | 2.2 | 1.8 |
| Value added | 0.28 | 0.32 | 0.18 | 0.25 |
| Production income | 0.2 | 0.27 | 0.15 | 9.2 |

Source: Calculated from Vietnam input-output tables, 2012 and 2016

CONCLUSION

It can be seen that Vietnam's GDP growth does not seem to reflect the health of the economy. When Vietnam has a strong trade surplus and high GDP growth, the beneficiary countries are the exporters of input materials for production in Vietnam and countries with FDI enterprises operating in Vietnam. This situation may not only exist in Vietnam but may exist in other developing countries or countries without ancillary products.

Short-term or long-term viewpoints are often in conflict, most rulers are concerned only with short-term GDP growth. For example, GDP growth based on FDI and exports of this region will make resources in the long term increasingly shrinking. In the SNA system, the indicator of economic potential in the long term is the saving indicator, which reflects the resources for investment in the next production cycles.

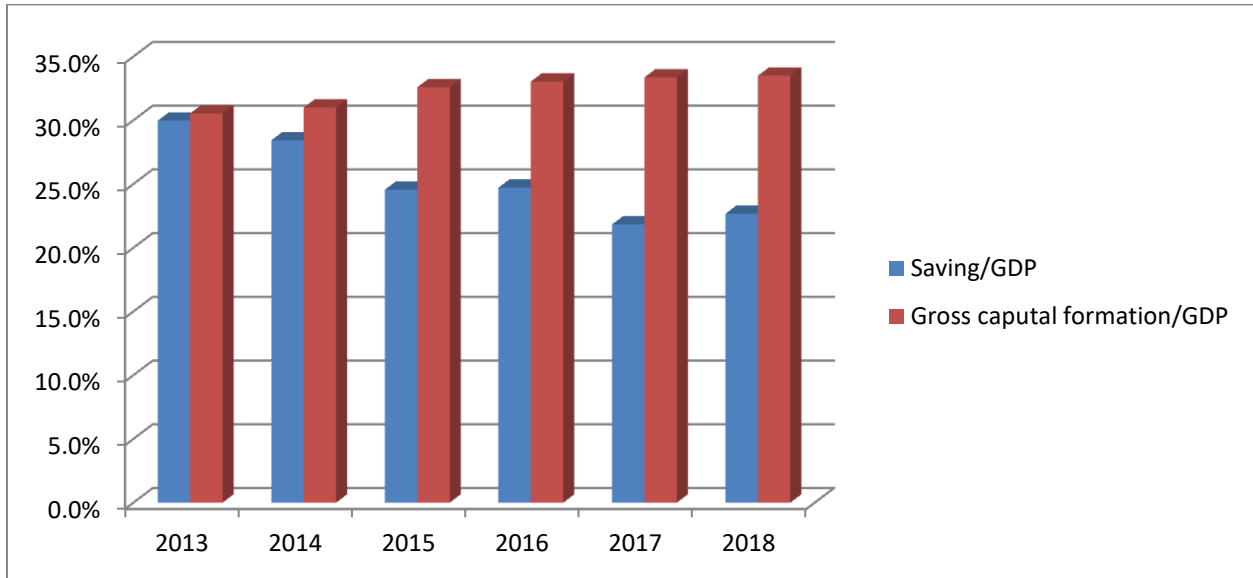


Figure 2, Saving and gross capital formation compare with GDP

Sources: Author calculated from GSO data

However, the GDP growth in short-term is related to employment and income of workers, which is also important. Thus, there should be policies to minimize the conflict between short-term and long-term development, which may be: Improve investment efficiency.

- Behave equality between types of enterprises
- Select industries with high spillover value added, low spillover to imports and low emissions
- Equality between export policy and domestic consumption

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³ Vietnam input-output table, 2016 was updated by Vietnam development research institute

⁴ According to the data in Vietnam's input-output table published by the General Statistics Office in 2012, the value-added ratio at basic price against the output (net revenue + difference in unfinished products and inventories. inventories at the end of the period, beginning period minus cost of goods sold / or goods transferred) about 32%