

# Business-State Relations in the Differentiated Private Sector in Vietnam

## Access to Capital and Land

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# Business-State Relations in the Differentiated Private Sector in Vietnam: Access to Capital and Land

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## **Business-state relations in the differentiated private sector in Vietnam: Access to capital and land**

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### ***Abstract***

This paper examines private businesses' access to land and capital in Vietnam. It finds that the allocation of these resources to private firms is still excessively state-driven and personalised, and examines the links that business people of different ethnical and regional backgrounds have with the state and how this facilitates or hinders their access to land and capital. Lacking relationships with the state may have profound consequences for unconnected private enterprises, which are accordingly subject to uneven competition from connected ones. The paper suggests that private businesses' uneven opportunities are basically a consequence of the general history of the country and the role that individual business people have played in it, in such respects as having had former state-sector employment, party membership, the "side" they were on before and during the Vietnam War etc. In this, factors such as ethnicity, origin and present location in either northern or southern Vietnam play an important part.

### ***Introduction***

This paper deals with private enterprises' access to land and capital in Vietnam. Both types of resources are essential for businesses and exemplify basic factors of production associated with establishing and expanding businesses. They also exemplify resources to which private enterprises in general are supposed to have gained easier access after Vietnam's economic reforms. The paper shows however how this is not generally the case. The country's business climate depends not only on the regulation and often non-transparent registration of firms in particular state or private ownership forms, but also on the historical and thus present-day relationships of private business owners to the state. Hence, not all private enterprises work under equally adverse conditions as is sometimes being suggested in the literature on Vietnam's emerging political economy; rather differentiations *within* the private sector exist that have been subject to virtually no research<sup>i</sup> (see also name of author withdrawn, 2007; 2009). The paper shows how these differentiations derive mainly from Vietnam's political history and profoundly influence the relations of owners of private

enterprises with the state today. Business–state relations presently exist between the owners of private enterprises and individuals at different levels of the state, including state-owned enterprises (SOEs), intermediary associations, the police, customs, ministries, and various Peoples’ Committees (at city, district and ward levels). They generally relate, for instance, to private enterprise owners’ former employment in the state sector or their party membership<sup>1</sup>.

Based on extensive fieldwork, this paper suggests that in Vietnam access to land and capital for private businesses does not so much relate to their size, as the literature on small and medium-size enterprise (SME) performance commonly suggests (see e.g. Harvie and Lee, 2002; Steel and Webster, 1992), nor does it depend entirely on ownership form, as is commonly suggested by scholars of Vietnam (see e.g. Van Arkadie and Mallon, 2003; Diehl, 1998; name of author withdrawn, 2007). More significantly, it is determined by the owners’ historical – and thus present – relations with the state, and is therefore mediated primarily by Vietnam’s political history. In demonstration of this argument, the paper examines the different possibilities for accessing finance and land for four segments of private enterprises in the clothing industry. These segments are based on the owners’ ethnicities and also on their origin and/or location in southern or northern Vietnam, all of which, it is argued, have an impact on their relations with the state, both historically and today. Hence the paper explores the effects of the emerging business sector structure in terms of the ability of different types of businesses to obtain finance and land by dealing with four segments of private-sector enterprise owners against this background, namely Vietnamese Chinese in Ho Chi Minh City (HCMC), Vietnamese in Hanoi, Vietnamese of southern origin in HCMC and Vietnamese of northern origin in HCMC (see methodology section below). Thus the paper reveals heterogeneity in business-state ties following liberalization of the Vietnamese economy with specific reference to the role of the Vietnamese Chinese (Viet Hoa) who comprise an estimated less than 2% of the country’s population, mainly live in Southern Vietnam, and were historically important actors in the private sector. The paper shows the Vietnamese Chinese business people’s role in the private sector seems to be declining and also differing in terms of state connectedness from ethnic Chinese minorities in other Southeast Asian countries.

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<sup>1</sup> More recently and/or strategically established relations also exist. They seem less “effective” and more randomly used than personalised relations. Here, however, it is the connection between the personal background of enterprise owners and their present possibilities that is the main focus.

The paper falls in three parts. First, it presents the discussion of business–state relations in other South East Asian economies and other transition economies, and relates these to the situation in Vietnam. Particular attention is paid to the aspect of ethnicity. Secondly, relevant land and finance issues in Vietnam’s political economy are described. Third, a short description of fieldwork methodology is provided. Fourth the different segments of enterprise owners’ access to land and capital are examined sequentially, and finally, the findings are summarized and discussed.

### ***Business–state relations and ethnicity***

The overall topic of this paper touches upon the heterogeneity in business-state relations following liberalization of the Vietnamese economy in such a way that is partly also about ethnicity – about comparing and contrasting access to resources for ethnic Vietnamese and ethnic Chinese enterprise owners respectively in the South East Asian transition economy of Vietnam. Thus, specific reference is given to how the links between the state and the Chinese community has changed. The understanding of this issue seems closely tied to wider discussions of crony capitalism and business–state relations in other Southeast Asian countries as well as in other transition countries (e.g. Walder, 2003; Benáček, 1997). Reviewing this body of literature in detail exceeds the scope of the paper, but in the following a couple of issues will be pinpointed, while reference to and discussion of the relevance for the examination of private businesses’ various degrees of access to land and capital in Vietnam will be outlined.

In the existing literature on transition economies, the discussion is often linked with debates over the emergence of and conditions for “rational” market institutions in these economies. While neoclassical approaches to transition economies simply call for the destruction of socialist institutions in order to “unleash” markets, institutionalist approaches link the possibility of success to the “rationalization of institutions”, creating an “enabling environment” for private enterprises. According to Garnaut, Song, Tenev and Yao (2005), the Asian transition economies have been among the slowest to privatise their SOE sectors and to introduce reform directed at creating and supporting new private enterprises. Privatisation has also been accompanied sometimes by the erosion of state assets and enrichment by private individuals. In cases where states have achieved private sector development mainly through privatisation, for instance, it has been said that SOEs simply “privatise themselves”. In addition, attention is paid to shady benefits obtained by state representatives from privatisation and relations between bureaucrats and private entrepreneurs, the

latter themselves often being former bureaucrats too (Benáček, 1997; Walder, 2003). Garnaut et al. (2005) stress that debates on ownership change and the emerging economic structure in transition economies often treats private and state ownership as two easily distinguishable and homogeneous concepts. In reality both types of enterprise take numerous and mixed forms so that it is difficult to tell the difference between them. Likewise, it is often difficult to know how closely related to the state these enterprises really are. As will become clear from the empirical analysis below, it is questionable whether those enterprises that are former SOEs and those that are owned by (former) state employees and registered as private in Vietnam are subject in reality to market mechanisms to the same extent as other private enterprises, since personal relations between these new private-sector owners of enterprises and their former colleagues are critical success factors. As, for example, Fforde and Senéque stress (1995), resources such as state credits and aid funds are generally used for an interlocking combination of party, state and private interests in Vietnam. Likewise, in analysing the changing role of the HCMC local government, Gainsborough (2003; 2010) notes that although HCMC, including its leadership, has often been seen as reformist compared to Hanoi. But argues that the reality of the city's economic policies "has more in common with accounts that downplay the state's developmental proclivities in favour of greater emphasis on rent-seeking" (Gainsborough, 2003: 1). Hence, corruption in Vietnam's state sector is highlighted, where low salaries and downsizing have clear and profound consequences for employees' survival strategies at all levels, as well as indirect distributional consequences in terms of the personalised allocation of state resources.

The literature on crony capitalism and business–state relations in South East Asia often distinguishes the ethnic Chinese and "indigenous" populations (Johnson and Mitton, 2002; Gomez and Jomo, 1999; Gomez, 2000). Two overall issues relevant here can be identified in this literature. First, it sometimes points to firms that are politically connected through their official status, mainly owned by "indigenous" populations, as in Malaysia and Indonesia. Secondly, it focuses on more informal relationships between enterprise owners and the authorities. This latter type exists, in the case of Malaysia, between both Malay business owners and the state and Chinese business owners and the state, though the focus has overwhelmingly been on the latter type (see e.g. Johnson and Mitton, 2002; Gomez and Jomo, 1999). In addition, it has been stressed that some South East Asian countries have applied different regulatory systems and different allocations of resources to their majority populations and ethnic Chinese minorities respectively. This body of literature also focuses mainly on Indonesia and Malaysia, but discriminatory policies have also been present elsewhere in

the region. For example, Shaolian (2000) shows that the presence of the Chinese minority in the Philippine commercial sector was the result of its exclusion from other sectors until at least the 1970s. Discriminatory policies and the absence of institutional support are often seen as leading Chinese business people to establish political connections and to create community-based business associations, whose leaders engage with the political elite. A search for political patronage has thus often been seen as a way of coping with South East Asian political and economic environments. Likewise, the success of such strategies has been used to explain the business success of Chinese enterprises in the region. An important point in Gomez's extensive work on the subject (e.g. 2000), however, is that, when such relationships are created by prominent Chinese tycoons in Malaysia, they are increasingly only helping the tycoons' own firms to overcome problems related to the rather discriminatory policy framework: small-scale Chinese businesses do not benefit much from these relationships. Such relationships occur rather in the upper layers of the community, since Chinese tycoons increasingly tend to relate more to Malay patrons than leading or even participating in the Chinese community. Yet, some "trickle-down" effect in terms of, for instance, the tycoons subcontracting downwards does occur. The Vietnamese case has important similarities with but also important differences from the South East Asian situation described here. The Vietnamese Chinese were also a powerful economic group historically in Vietnam, but in recent times they have not been marked out for institutionalised discrimination. Nevertheless, the minority has suffered intolerance on the basis of negative official and also public perceptions, being associated with "capitalist activities" (see e.g. Dolinski, 2001; Pan, 1998). After the country's reunification in 1975, northern (Hanoi) government aimed at promoting heavy industry and establishing an enterprise sector consisting only of state-owned enterprises (SOEs) and cooperatives, and at promoting heavy industry. As part of this industrialisation strategy, the Hanoi government initiated a clampdown on private business in the south a larger number of which were owned by Vietnamese Chinese. Campaigns to eliminate capitalist activities were implemented, and private enterprises were nationalised; only households were accepted as "private" economic units. The consequences of the anti-capitalist campaign, which apparently peaked when Vietnam went to war with China in 1979, were therefore most drastic for the Vietnamese Chinese (Amer 1996; Pan, 1998). As Dolinski stresses (2004), like everyone in southern Vietnam, the Chinese of Cholon were dispossessed of their properties and wealth, but they also lost all the privileges that their community had acquired through the years, becoming "the losers among the losers" and social outcasts. This feeling was strengthened when former North Vietnamese families, soldiers and civil workers moved into some of the numerous confiscated or abandoned houses in Cholon. Many Vietnamese Chinese

had fought with Vietnamese forces to conquer the territory they now lived in from the Khmer and shared a common cultural background with the Vietnamese, both of which had made them feel like “co-owners” of the place before the country’s reunification (Dolinski, 2004; see also Khanh, 1991).

### ***Private clothing enterprises in Vietnam: access to land and capital***

North Vietnam and South Vietnam were reunified after the Vietnam War, after which the northern (Hanoi) government attempted to implement a planned economy throughout the country. This goal was only partly reached, and meanwhile an economic crisis emerged and escalated. In 1986 the Doi Moi economic reform was introduced (see e.g. Vylder, 1995; Van Arkadie and Mallon, 2003 for details). Subsequently, the previously planned economy became generally regarded by external commentators as a “transition economy” on its way towards becoming a market economy. An important point in understanding the kind of transition that goes on in Vietnam and other Southeast Asian transition economies such as China and Laos is that the transition to a market economy has not really led to simultaneous changes in the overall political structures in these countries, where communist parties and state organs remain very powerful (see Fforde, 2003; Garnaut, Song, Tenev and Yao, 2005; Backman, 2001). In Vietnam, the state plays an important role in defining access to economic resources, and hence continues to dominate the industrial as well as financial sectors (Steer and Tausig, 2001; Gainsborough, 2003). In Vietnam as well as other transition economies, as a result of privatization specific resources are no longer state property, but the question then becomes to what extent access to them has ceased being a matter of state control. Difficulties in accessing capital and land<sup>2</sup> are therefore commonly regarded as symptomatic of the private sector in general as opposed to the state sector. SOEs are allowed to borrow from the state-owned commercial banks, which account for three quarters of total credit in Vietnam. Therefore, credits are mainly distributed to SOEs (Vietnam Development Report, 2005) while private enterprises generally rely on family savings, retained earnings or informal credit markets at high interest rates (MPDF, 2004; Cortés and Berggren, 2001). Likewise, the existing distribution of land also favours SOEs, which receive an initial land allocation free of charge; along with long-term land-use rights (see e.g. Vietnam Development Report, 2005). For private enterprises, obtaining land-use rights by leasing land from the government is a very lengthy and costly process, while an estimated 70% of all transactions in land-use rights take place in the vibrant unofficial market in which private

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<sup>2</sup> Land is not regarded as a commodity in Vietnam, and trading in land is not allowed by law. Only land-use rights are regarded as a commodity, and hence a market for these rather than for land itself (Dinh, 2003) (see Appendix I for details).



businesses lease areas of land from SOEs or farmers (IFC, 2003). Our attention is here focused on these for two reasons: first, they were amongst the factors most usually mentioned as problematic to access by the private enterprise owners who were interviewed. Secondly, they both exemplify basic factors of production to which private enterprises in general are supposed to have gained easier access after Vietnam's economic reforms.

In reality however, bank loans and land are still generally out of the reach of most private enterprises. The financial sector was one of the first sectors in which reform was implemented in Vietnam. As in most other transition economies, the banking sector plays a crucial role in financial intermediation. This is among other things because the financial system in Vietnam is not able to support the development of capital markets, which are therefore still young. Likewise, land is not considered private property in Vietnam, and hence enterprise owners either rent land or obtain land-use rights (so-called "Red Books") for it. Renting is relatively expensive and also insecure, while Red Books can be obtained in two main ways: through transfer or through leasing from the government (IFC, 2003). Between 1988 and 1993, most agricultural land in Vietnam (excluding most of the land populated by ethnic minorities) was distributed to rural households, who thus obtained Red Books, while only 30% of urban industrial land and 15% of urban residential land was so allocated (Vietnam Development Report, 2005).

At the national level, the General Department for Land Administration sets the rules and procedures for obtaining Red Books and for leasing and pricing land from the government. These rules are legally the same for all domestic enterprises. In reality, however, it is often stressed that the implementation of the rules differs between provinces and that the distribution of land-use rights favours SOEs, which commonly receive an initial land allocation free of charge along with long-term land-use rights. Although in the main SOEs are only allowed to use their land for the purpose for which it was allocated, they often sub-lease or transfer it. The guidelines for equitized SOEs in terms of the treatment of the land previously granted to them are unclear. Typically, these now private enterprises apply to convert the Red Books on the land they occupy. For other ("new") private enterprises, obtaining land-use rights by official leasing land from the government is a very lengthy and costly process. As a consequence, an estimated 70 percent of all transactions in Red Books take place in the vibrant unofficial market, through which private businesses mainly lease plots of land from SOEs or farmers (IFC, 2003; Vietnam Development Report, 2005). It is important to note that access to land is now even more important for private enterprise owners since

they were principally allowed to use land-use rights as collateral for bank loans by the 2000 enterprise law, which was therefore still being implemented at the time of fieldwork (MPDF, 2001). As we shall see in the following empirical analysis, there was confusion over whether or not land-use rights could be used as collateral before the passing of this law, not least due to unclear regulation of the subject, given its uneven implementation by local authorities. The extent to which this has improved by now so that private enterprise owners who possess land-use rights are allowed by the state-owned commercial banks to use them as collateral is still unclear and requires further empirical research. However, it is safe to say that, since few private enterprise owners actually possess land-use rights, the number who can even try to obtain loans on that basis is still limited.

In what follows, access by enterprise owners within the four defined groups to land and capital will be examined. In addition, the use of alternative strategies in the form of more informal and horizontal inter-firm cooperation is briefly considered. It will become clear from the analysis that access to land and capital by enterprise owners depends greatly on their historical and current relationships with the state, and that these in turn derive generally from their ethnicity, their origin in northern or southern Vietnam respectively, and also the present location of their enterprise. Respondents are thus divided and analysed into the four categories as mentioned above. Before we proceed to the analysis of empirical data, a brief fieldwork methodology section is required.

### **Fieldwork methodology**

Two geographical locations were chosen for fieldwork. These were respectively the capital Hanoi in northern Vietnam and Ho Chi Minh City (HCMC) in southern Vietnam, including the surrounding areas. These were the two places where the private sector was most active. They were also chosen with the aim of illuminating and comparing expected variations within the Vietnamese private sector. The private sector was from the outset of the study thought likely to comprise a number of segments deriving from historical-political variations, including differences between northern and southern Vietnam. I conducted around five months of fieldwork in Hanoi and three and a half months in HCMC. Fieldwork was conducted in 2000/2001, followed up with a couple of interviews and further data collection in December 2005 and May 2008 to up-date knowledge on recent changes in the industry. Data collection mainly took the form of interviews with respondents in the form of owners of private enterprises. Respondents were chosen according to the common criterion that they owned registered private companies in the clothing industry in either of the two locations.

Though their historical relationship with the Communist government has been quite problematic at times, especially at Vietnam's reunification, the ethnic Chinese minority was expected to represent a relatively strong segment of the private sector for several reasons. These included their historical importance for the economy, their relatively fast re-establishment in the private sector when economic reform was introduced and their use of ethnic networks (see names withdrawn 2003). It was therefore intended to interview a more or less equal number of both Vietnamese and Vietnamese Chinese in Hanoi and HCMC respectively so that the study would cover four groups of enterprise owners on this basis. However, since not a single Vietnamese Chinese-owned clothing enterprise was identified in Hanoi, only ethnic Vietnamese enterprise owners were interviewed there. Moreover, a further unexpected (and unexpectedly important) group of respondents emerged during the fieldwork in the south: besides Vietnamese of southern origin, former northerners who were now living in HCMC owned a number of enterprises in the south. The majority of these former northerners in the southern clothing industry had been placed in major state companies or in the southern administration by the central government after the country's re-unification and proved important both as actors in the private garment industry and for this research because they had unusually good connections with the central government in Hanoi. A few of these former northerners had very different stories from the rest. They had come to the south to escape from the northern government rather than to work for it, and had never been employed by the state. Since these two respondents accounted for a very small proportion of the sample, they are not treated as a specific sub-group or segment of the private sector in the analysis. It is, however, important to note that being a former northerner in HCMC does not necessarily imply being well-connected, as is otherwise the case for this segment of enterprise owners. In addition, it should be noted that the proportion of this sub-group in the sample may have been larger if not only registered enterprises but also "household businesses" had been included.

Thus, the 68 enterprise-owning respondents for the Vietnam study fall into the four overall groupings mentioned above, namely: Vietnamese in Hanoi (all of whom originated in the north), Vietnamese of northern origin in HCMC, Vietnamese of southern origin in HCMC, and Vietnamese Chinese in HCMC. Respondents were also chosen so that company ownership form and size could be taken into account as much as possible. The purpose of this was to distinguish those management strategies, problems or potentials that derive from ethnicity, origin or location from those that were related more to size or private-sector forms of ownership. To improve the

reliability of the data on private enterprises, comparisons and contrasts were made using material from year books, factory visits and interviews with representatives of other foreign and state-owned companies that the company being interviewed had contracts with, plus a number of business associations and policy makers.

### **Vietnamese in Hanoi: access to land and capital**

Though the communist government abolished private property, it had become possible to acquire land-use rights by the time of fieldwork. Still, most of the land allocated for commercial use is in the hands of SOEs (Vietnam Development Report, 2005). In general, obtaining land-use rights was seen as involving lower expenses than renting in the long run by private enterprise owners. Renting land was also generally considered insecure in the sense that leases last for a limited period (usually only a few years) and as constraining when it came to the physical expansion of production sites. Thus, the relatively large number of Hanoi enterprises that rented land and also buildings from SOEs<sup>3</sup> either inside or outside the city boundaries often hoped to relocate to areas where they could obtain Red Books for the land. This was generally considered difficult, not least because it required a relatively large amount of starting capital. Of those who had already relocated and “bought” land, the majority were former state employees.

Relocation brought with it new problems, mainly in retaining workers. Some of these enterprise owners tried to retain the workers they employed in their former location by transporting them to and from work in buses, but they often stressed that workers usually got tired of spending time travelling twice a day and soon started looking for other vacancies. Others attempted to hire new workers from rural areas and provided housing for those who lived far from the factories. However, in these cases more or less all the workers needed to be given relatively long periods off simultaneously during holidays to visit their families, with comparatively long production delays as a result.

Joint stock companies, which were usually former SOEs, had a clear advantage in terms of access to land since they generally kept the land that the SOE had formerly occupied, for which they were usually able to obtain the requisite Red Books.

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<sup>3</sup> Though SOEs are principally only allowed to use their land for the purpose for which it was allocated, they often sub-lease it or transfer it to others (Vietnam Development Report, 2005) (see Appendix I for details).

Small enterprises that either did not need any more space than they had already or did not possess the resources to expand often used part of their own homes as production sites. This commonly created difficulties in terms of producing efficiently and obtaining larger orders. Also, location inside densely populated areas hindered the efficient transportation of inputs and finished goods, which often had to be carried to and from trucks rather than loaded on site. Finally, local authorities in these areas, especially those associated with the ward committees, were often considered to harass private companies by asking for bribes for “protection” and/or inventing fines for violations of regulations without issuing receipts.

As explained above, the government had made it possible for businesses to obtain land-use rights, which were still in the process of being widely accepted as collateral for bank loans at the time of fieldwork. And since the banks usually did not accept equipment and inventory as assets either, in general private enterprises had few opportunities to borrow from the state-owned commercial banks, which in addition tended to be more comfortable lending to SOEs with whom they often had long-established relations (MPDF, 2004; Gainsborough, 2003; MPDF, 2001). However, four out of the five joint stock companies in Hanoi (Respondents 7, 8, 13 and 20), plus at least one (Respondent 16) Ltd owner, who were all formerly managing SOEs, had borrowed capital in the state banks for such purposes as investment in new buildings or improving existing ones:

"I have taken out bank loans to improve the buildings and facilities. This was not difficult, maybe because of good relations and thanks to the good reputation of the SOE I worked for earlier. [Name of bank] has a good relationship with my SOE, so the chairman of the Board of Directors of the SOE has introduced my new project to the bank" (Respondent 7, 2000).

While none of the enterprises in the Hanoi or HCMC samples were listed on Vietnam’s recently established stock market, joint stock company managers and owners in Hanoi often pointed out their capacity for “trading stock to get capital”. In these cases, some of the stock that had been sold after the SOE equitisation was thereafter traded on the informal market. This is commonly known as the over-the-counter (OTC) market, which is thought to have a market value six times that of the official exchange (Ha, 2003; see also MPDF, 2004).

Most enterprise owners who had no former state employment or other type of relationship to the state had never obtained official loans and sometimes borrowed instead from “friends and family”.

However, the extent to which finance could be received in this way was commonly seen as limited. Terms were generally strict and interest rates high, and these enterprise owners stressed almost without exception that they would have preferred to borrow from the banks. In some cases it was also not clear what exactly the term “friend” meant, since respondents were not willing or able to clarify their relationships with them, suggesting that these were sometimes most likely to be “loan sharks” on the informal market. This finding is in line with those of MPDF (2001), who observed a number of enterprise owners incurring loans with “higher interest, but simpler procedures” than bank loans from informal market sources, and also describing this process as “borrowing from friends”. Even in cases in which the loans were obtained from “real” family members like, for instance, a biological brother, interest rates were applied. It seemed that, just as they preferred to employ members of the family in their companies but had no informal mechanisms to maintain authority over them (see name of author withdrawn, 2009), Vietnamese in Hanoi also lacked even unwritten and trust-based rules on how to borrow from family or close friends. Popularly speaking, they lacked informal “networking rules” or mechanisms even within the family, and hence they had to apply more formalised ones for this type of relationship, as well as for relations with “outsiders”.

Much more often than any of the other types of respondent, Hanoi respondents indicated international donors as possible sources of credit, either directly or indirectly (in the sense of providing assistance to obtain loans). About a quarter of the enterprise owners in Hanoi had had some support in obtaining loans for investment in technology or buildings from multilateral or bilateral private-sector development programmes, reflecting the fact that donor communities have a much greater presence in the capital than in HCMC.

### **Vietnamese Chinese in HCMC: access to land and capital**

Most Vietnamese Chinese-owned enterprises were relatively small and located in the “China Town” of HCMC, Cholon, or in the surrounding districts. Historically, Cholon was the main centre for private trade. The Vietnamese Chinese first came to Vietnam from China, especially Guangdong Province, between the eighteenth and twentieth centuries. Four of the existing five Chinese speech groups in HCMC are represented in this study in degrees that more or less reflect their actual presence in the city’s garment industry: the majority are Guangdong and Teo chew, while a few are Fukien and Hainan. The last group in HCMC, with only a few representatives in the garment industry in general and none in this study, is Hokkien.

As was also sometimes the case in Hanoi, production sites in Vietnamese Chinese-owned companies were commonly placed in the same houses as the owners' private residence. Still, a tendency to relocate at least part of production, depending on the availability of new sites, was also present. On the one hand, this meant that such businesses acquired more space and were able to accept larger orders. On the other hand, the enterprises were never located in industrial zones, but either at larger sites in the city or in isolated areas relatively far from it due to their not being able to afford more expensive alternatives. Therefore transportation, and with it lead times, were not necessarily improved by any of these solutions due to the generally inefficient infrastructure, nor were expenses reduced since only very few Vietnamese Chinese possessed Red Books for their land.

The general labour shortage in HCMC affected most acutely those Vietnamese Chinese respondents who had moved to more isolated and less densely populated areas. In general, workers often preferred employment in SOEs and foreign-owned enterprises, where incentives were clearly better: SOEs offered different state-subsidised benefits such as health insurance, while foreign-owned firms paid higher salaries than most private ones, mainly because minimum wages were highest by law in the foreign invested sector (see also Friedman, 2004).

None of the Vietnamese Chinese who were interviewed had ever taken loans from the state-owned commercial banks for long-term investment in setting up businesses. A few had obtained smaller amounts of capital from these banks, for example, for purchasing technology, but on terms shorter than six months and at high rates of interest. There are two main reasons for this: first, some Vietnamese Chinese respondents stated that they had tried to take out official loans, but had failed; and secondly, almost half of them, regardless of company size, end-markets etc., said that they had in fact never tried to obtain official loans because they expected it to be impossible. This was not nearly as often the case for the other categories of enterprise owner. Several explanations were given for this, including that they already heard that other Vietnamese Chinese (including some that owned larger enterprises) had not been able to obtain loans, and that it therefore seemed unlikely that they would be able to do so themselves. In other cases they found the loans generally expensive, or else they expressed a desire to "work in accordance with my own ability even if my ability is low" (Respondent 49, 2001). The latter type of explanation often referred back to lessons learned during the planned economy, when these business owners had been classified as capitalists. As a result, they often avoided dealing with the state system:

"I do not want to talk about anything relating to the state. I just want to do business and not take care of anything relating to the state. I do not really have a difficult relationship with the state, but I try to avoid dealing too much with it" (Respondent 47, 2001).

Vietnamese Chinese business owners sometimes obtained capital from other such owners or associations in the Chinese community, but this was only associated with long-term investment in a few cases. Usually, this took the form of other Vietnamese Chinese business owners, usually from the same dialect group or surname group – investing in their enterprises for an agreed period on the basis of a division of the profits. When compared with a study based on fieldwork conducted in 1996 (names of authors withdrawn, 2003), it is clear that the possibilities of obtaining informal credit had decreased for the Vietnamese Chinese by 2001. The earlier study had identified different types of low-interest informal credit systems in the Vietnamese Chinese community in HCMC, where associations acted more or less illegally as credit and investment institutions, as well as mediators between Vietnamese Chinese-owned companies and Vietnamese Chinese banks. Rather than relating to company size, access to credit was seen to depend on having good social relationships and trust. While some of these arrangements very likely still exist, a great scandal involving among others Vietnamese Chinese-owned companies<sup>4</sup> in the late 1990s led to a decrease in banking and other activities in the Chinese community in HCMC (see names of authors withdrawn, 2003). Subsequent clampdowns on, among others, Vietnamese Chinese-owned businesses and banks in HCMC appear to have made enterprise owners more cautious. Therefore, lending through semi-official credit systems (for instance, through Chinese-owned banks) had decreased by 2001, when the fieldwork for the present study was conducted in HCMC. Still, it is also clear from this study that Chinese business owners are still much more likely than other private business owners to obtain capital through the informal system and least likely to borrow from the state banks.

### **Vietnamese of northern origin in HCMC: access to land and capital**

Enterprises owned by Vietnamese of northern origin in HCMC were relatively recent in origin, and their owners were generally highly “state-connected”, since they had generally been sent to HCMC to take up positions in the state sector after the country’s re-unification. In contrast to the majority

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<sup>4</sup> Human Rights Watch (1997) has stressed that the arrests in connection with this, the largest corruption trial in Vietnam’s history, were mainly show-cases.



of enterprise owners in the other segments, the former northerners had commonly “bought” the land (i.e. held Red Books) at the time the enterprise was established, often because it had been “transferred” to them from the SOEs that they were formerly managing or they had acquired an opportunity to buy because of other former state sector positions. One respondent, formerly a prominent government official, explained this as follows:

“We have had the Red Book for the land – just like we have had a license to export directly - for such a long time that I never really thought about it as something that could have been difficult to get, but I guess we have been lucky. Things have been easy for us” (Respondent 39, 2001).

Similarly, in cases where their enterprises were former SOEs, the land had been automatically transferred to the present private enterprise after its equitisation.

The enterprises owned by Vietnamese of northern origin were the only ones that were generally located in industrial zones outside the city. Several reasons could be indicated for this, not least the fact that these enterprises were relatively large and therefore needed more space. In addition, HCMC enterprise owners of northern origin were much more likely than others to have the capital required to locate themselves in industrial zones, which resulted in easier access to trained workers and good transport facilities due to the infrastructural development in and around such zones.

This group of respondents had also most commonly taken loans from state banks for capital investments such as establishing enterprises and building factories, as well as for working capital, for example for paying salaries. They generally emphasised that it was easy to obtain these loans as long as the banks were presented with investment plans etc., though they also often considered the procedures of applying for bank loans quite bureaucratic. It is also striking that they more often claimed to have taken out bank loans at relatively low interest rates and on relatively longer terms than other enterprise owners. This is clearly related to the fact that they themselves were typically former state-sector employees or their enterprises former SOEs, meaning that they tended to have connections in the state-owned commercial banks.

In addition, owners of joint stock companies (which were generally former SOEs) had usually traded stock in the OTC market, as was also the case for equitized SOEs in Hanoi. As a consequence, of all the enterprises it was theirs that had the easiest access to capital, and by far had

most sources through which they were able to acquire it. The former northerners rarely mentioned family and friends as sources of investment capital, conceivably because of the size of their investments and the fact that public resources were available to them.

### **Vietnamese of southern origin in HCMC: Access to land and capital**

For this category of enterprise owner, there was a clear division with respect to enterprise location between those with and without state relations (of whom the latter comprise the largest group). It is also an important point (as described in Paper 2) that this segment of Vietnamese enterprises is not as heavily dominated by former SOEs as the other two Vietnamese segments. As with the Vietnamese Chinese, the majority of the southern Vietnamese who were not related to the state had mainly located their enterprises within their own residences in the city. Three out of the five enterprise owners who had some type of relationships with the state had already moved their factories to new and more spacious locations, while another had concrete plans for doing so. The advantages of the relocation were seen in terms of being able to produce on a larger scale. But, as with other enterprise owners in HCMC, they often pointed to labour shortages as one of their main difficulties and to the fact that relocation tended to increase rather than solve this problem. They all had Red Books for their newly acquired land, which was considered an advantage compared to renting land, especially when it came to long-term planning. However, they also often referred to unforeseen problems. When they had “bought” the land, it was not only to acquire more space, but also with the hope of using the Red Book as collateral in the banks. The fact that they had still not been given the right to do so in 2001 when fieldwork was conducted in HCMC may derive from two factors. The first is a rather gradual implementation of the law, as mentioned above. Secondly, HCMC bank officials may have been particularly cautious in implementing the law due to earlier disorders connected with it. As Gainsborough (2003) notes, local authorities in HCMC especially had had a “belief that companies had private property rights in all but name” already in the 1990s, though the formal position of the Hanoi government was that all land was owned by the state. Therefore, banks had accepted land (and not only houses, as they were supposed to by law) as collateral for lending in HCMC. In 1995, Decree 18 supposedly put a stop to the lending of capital on this basis, but it is clear from the present study that the practice of doing so – or at least of enterprise owners buying land believing that it could be used as an asset – had not been totally eliminated between 1995 and 2001. Gainsborough also points to the fact that during this period the ability to borrow capital on the basis of land-use rights in HCMC had otherwise mainly been

reserved for SOEs, who had benefited disproportionately from allocation of the land that had been confiscated and redistributed after 1979 and again in the early 1990s.

The present study suggests that some of the state-related private enterprise owners of southern origin in HCMC especially, had thought that by obtaining Red Books they had acquired the same ability to use Red Books as collateral as the SOEs. Hence, those enterprise owners who had recently “bought” land expecting to be able to use it as an asset were all surprised that they could not, so that land-use rights merely gave them more space and enhanced the possibilities open to them in terms of planning production in the longer run. One enterprise owner, who had “bought” land as late as in 2000, explained how this had failed to solve his problems either to borrow capital or to maintain his workforce:

“We are going to move in July; we already own a new factory. Many of the workers have quit now because of this, but some of them will come with us. Here we rent the land; in the new place we own it. Some of the government articles are not so clear. For instance, I bought land and started building a factory, and when I had to do all the paperwork about the land, it turned out that I could not use it as an asset, even though I had bought it from some farmers. The land could be a big asset for me, but since it does not say this on the paper, it is just as if I do not own anything in reality. The authorities started referring to the Vietnamese constitution, which says that you cannot own land, which is very confusing since there is the system of Red Books anyway. I am not satisfied with this because I paid money to buy it” (Respondent 30, 2001).

What is striking is that similar problems in using Red Books as collateral were not mentioned by those former state-sector employees in HCMC who had come from Hanoi, and who had often obtained bank loans, as noted above. One plausible reason for this difference between otherwise state-connected enterprise owners seems to relate to differences in their degrees and types of connectedness. These southerners, who used to obtain positions in the state sector, apparently had enjoyed sufficient relationships with banking officials and local authorities in HCMC to obtain loans on the basis of their Red Books before this option was enshrined in law. However, unlike the former northern state employees, they were not sufficiently connected at a higher (Hanoi?) level to be able to use their connections to obtain loans on this or any other similarly personalised basis at the time that this opportunity temporarily ceased. Similarly, it may have been easier for owners of

enterprises with former SOE status (of which there were relatively few in this sample) than for enterprise owners with former state-sector positions to borrow from the banks without collateral, since this practice had been legal before equitisation. For the southerners in this sample, there were therefore only a few cases of former SOE employees who had obtained a bank loan without collateral at the time of fieldwork. In these cases, they considered it relatively easy to obtain bank loans on a long-term basis, usually for seven years, and to use them to set up an enterprise. All in all, the Vietnamese of southern origin were therefore generally not able to borrow on a long term basis from state banks. Those without relationships with the state seldom borrowed capital from state banks, though a few had taken smaller short-term loans, for instance to cover expenses for salaries and sewing machines. To set up a business, friends and family were most commonly mentioned as sources of capital, and as with the Vietnamese in Hanoi, “friends” were broadly defined so that they included black-market money-lenders. In this case, as well as when loans were obtained from actual friends or family members, agreements were almost always recorded in contracts and subject to interest rates, sometimes heavy. It was commonly stated that interest was “not really required”, but something that enterprise owners themselves chose to pay to “show that we are able to keep up good relations” (Respondent 23, 2001).

The finding that joint stock companies owned by Vietnamese in Hanoi or by former northerners in HCMC sometimes traded stock in the informal OTC market was not repeated for this category, not least because the proportion of joint stock companies was much smaller (only one of the thirteen enterprises). In this company, stock had only been traded to managers and employees when it was equitized, and it had not changed hands since.

### ***Summing up***

This above empirical analysis has examined the opportunities for accessing land and capital for four segments of private sector enterprise owners distinguished by their ethnicities and origins and the location of their enterprises in Vietnam. These are respectively Vietnamese in Hanoi, Vietnamese Chinese in HCMC, Vietnamese of northern origin in HCMC and Vietnamese of southern origin in HCMC. The major differences and similarities with regard to access to land and capital between them are summarized in Table 1. Due to the governments’ abolition of private property rights, land can either be rented or “owned” in Vietnam in the sense that land-use rights (“Red Books”) can be obtained for a period of time. The first form especially is seen as inconvenient by business owners,

not least in terms of insecure rental periods and high costs, while the latter is generally considered to be out of the reach of most private enterprises. However, those business owners who have relationships with the state clearly have an advantage in terms of having obtained land-use rights. This is most obviously the case for those enterprises that are former SOEs – mainly represented in the Hanoi sample and in the sample of former northerners in HCMC – since they have often been registered as private while remaining in the same location and keeping the Red Books formerly belonging to the SOE.

Table 1: Access to resources

	Vietnamese in Hanoi	Vietnamese Chinese in HCMC	Vietnamese of northern origin in HCMC	Vietnamese of southern origin in HCMC
Access to land	High degree of enterprise location in owners' homes or buildings rented from SOEs.  Some land-use rights.	High degree of enterprise location in owners' homes.  Virtually no land-use rights.	High degree of enterprise location in industrial zones.  High degree of ownership over buildings and land-use rights.	High degree of location in owners' homes.  Some land-use rights.
Access to capital	Some degree of bank loans and stock trading at the informal market.  Loans from friends and family (incl. professional moneylenders) Some donor support.	Virtually no bank loans or other types of long-term investment capital.  Some credit from other enterprise owners or associations in the Chinese community, but seldom for enterprise investment.	High degree of bank loans and informal market stock trading.	Some degree of bank loans.  Loans from friends and family (incl. professional moneylenders).

Source: Interviews

For businesses that are not former SOEs, other personalised types of relationships with the state clearly also affect access to land. The group of business owners who are worst off in this respect is undoubtedly the Vietnamese Chinese, who have virtually no former state employments or other relationships with the state, and practically none of whom obtained land-use rights. At this point,

the former northerners in HCMC differ from the Vietnamese Chinese the most due to their being generally well-connected. They usually possess the Red Books on their land and also locate themselves in industrial zones much more frequently than other enterprise owners, a privilege out of the reach of most other private enterprises due to the high costs involved. The other Vietnamese respondents in Hanoi and HCMC sometimes have land-use rights, again mostly in cases where they are related to the state in one way or another. As with the Vietnamese Chinese, those who are not state-connected generally have no other options than to locate in their own residence or relocate to remote areas. In addition, and mainly in the case of Hanoi, they sometimes rent expensive production space from SOEs. All of these solutions bring with them problems in terms of capacity, transport, maintenance and retention of work force, as well as the corruption of local authorities.

A similar segmentation of the categories of enterprise owners is evident in terms of their access to investment capital. Once more, there is a strong correspondence between enterprise owners' relationships with the state and their access to bank loans from the state-owned commercial banks, so that equitized SOEs and enterprises owned by former SOE employees have a clear advantage here. This is often seen to be a consequence of "being known" in the bank from the time that they managed SOEs. The correspondingly different opportunities in terms of accessing capital of the different categories of business owners examined are striking: almost none of the Vietnamese Chinese have acquired long-term bank loans to be used for investment in setting up or maintaining businesses, while the former northerners in HCMC have both usually obtained bank loans and – especially for those who own former SOEs that are now joint stock companies – have had the opportunity to trade stock on the informal stock market. Vietnamese of northern origin in HCMC seldom make use of other informal sources of capital such as borrowing from family and friends, most likely because they do not have to. All types of unconnected business owners, on the other hand, use this possibility as an alternative to bank loans. In the case of the Vietnamese in Hanoi and those of southern origin in HCMC, informal loans are usually subject to high rates of interests and included expensive black-market loans, while the Vietnamese Chinese community provides low-interest loans to its members to a greater extent, though these are usually for limited amounts of capital. A striking difference between Hanoi and HCMC is that almost no enterprises of any kind in HCMC reported having obtained credits from international donors either directly or indirectly (i.e. from the state on the basis of donor support), while this is more frequently the case for business owners in Hanoi. It is suggested here that this is due on the one hand to geography in the sense that donor communities are mostly located in Hanoi and therefore distant from HCMC, leading to

logistic problems if they are to operate there. On the other hand, this is also symptomatic of the state authorities' control over public resources, including aid funds. As Fforde and Seneque (1995) point out, these often seem to be reserved by the central government as far as possible for regions of highest developmental priority, that is, northern Vietnam.

### ***Concluding remarks***

This paper suggests that in spite of economic reform, access by private clothing enterprises to two important resources in Vietnam, land and capital, depends little on regulation. Rather, the paper suggests that having personalised relationships with officials at different levels of the state system is perhaps the most important factor in obtaining such resources. The allocation of resources to private firms is still excessively state-driven and personalised in Vietnam, so that lacking relationships with the state may have profound consequences for unconnected private enterprises, which are accordingly subject to uneven competition from connected ones. Resources are not allocated on a market basis: state-connected enterprises access them through their connections, while those without connections have no market to turn to. The paper has also shown how business owners' opportunities relate to the general history of the country and the role they have played in it in such respects as having had former state-sector employment, party membership, the "side" they were on before and during the Vietnam War etc. In this, factors such as ethnicity, origin and present location in either northern or southern Vietnam play an important part.

The paper examined literature on the importance of business–state relations in South East Asia and in transition economies in order to determine the significance of these relations in Vietnam in a broader perspective. As regards transition economies, the conclusions of this paper suggest that the existing literature on the transition economy tends to focus too narrowly on the type of crony capitalism that benefited privatised SOEs in the emerging private sector. While this point is also important in Vietnam, other types of state relations than simply ownership forms, such as the former state-sector employment of owners of enterprises that are established as private from the outset, are also important. In the case of South East Asian economies, this paper differs from the existing literature in especially one respect and thus contributes significant insights to our knowledge on the dynamics of Chinese communities in an environment of economic liberalization under the control of a strong state. It is often stressed in the literature on business-state relations and

crony capitalism in South East Asia that ethnic Chinese business people engage in political business – sometimes even more than is the case for the “indigenous” populations –so that the ethnic Chinese minority is often seen as canvassing political patronage. This finding is definitely not confirmed by this study in Vietnam. Almost without exception, the Vietnamese Chinese in the clothing sector lack any type of relationship with the present state system, while especially ethnic Vietnamese of northern origin and with historical relationships to the communist government in Hanoi are much more “connected”. It is very clear that those business people who had close connections with the North Vietnamese state before the country’s reunification are also those with the most effective networks today. This difference may derive from Vietnam’s status as a transition economy and the relative importance of enterprise owners’ former state employment, their party membership etc. in establishing such relations.

When compared with an earlier paper (names of authors withdrawn, 2003) based on fieldwork in Cholon in 1996, it is clear that the degree of state connectedness of Vietnamese Chinese business owners and community leaders has decreased since then. This earlier paper found that during the first decade of economic reform, the Vietnamese Chinese experienced increased political acceptance since they were considered “good for economic development”. Perhaps because of this, community leaders at that time tended to have more relationships with the state, which to some extent benefited the entire community economically. For reasons that are not entirely clear, this positive official view of the community seems to have changed within the last decade, most notably with the clampdown on large-scale Chinese-owned businesses, banks etc. in the late 1990s. In these cases, political patronage was apparently not enough to avoid penalties, or else the value of the political connections of these Chinese tycoons decreased for one reason or another. This not only affected the tycoons themselves but also the community as a whole, whose benefits in terms of easy access to capital from Chinese-owned banks were eliminated. Hence, Vietnamese Chinese entrepreneurs have gone from being among the most successful and fastest rising after economic reform to being some of the most vulnerable in Vietnam, due to their having little or no access to state-controlled resources, as well as decreased access to benefits from their own community. A final significant point is that it is not only the Vietnamese Chinese minority that lacks relationships with the state and hence access to resources amongst those enterprise owners examined here; so too do a large number of ethnic Vietnamese, not least those who also come from southern Vietnam where most of the Vietnamese Chinese in this study was born. Hence other explanatory factors than ethnicity alone are required, and since the factors determining access to resources for private



business owners today are mainly their connections with officials in the state system, having come from, or being located in, northern Vietnam becomes extremely important.

### *Acknowledgements*

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<sup>i</sup> See author withdrawn (2007; 2009) for how the same groups of businesses examined here differ in terms of respectively internal business organization and access to markets.