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## THE ROLE OF THE ENTREPRENEUR AND THE PRIVATE SECTOR IN ECONOMIC DEVELOPMENT

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(ENGLISH ABSTRACT)

12

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Leadies and Gentlemen :

Today I have the honor to talk to you about the role of the entrepreneur and the private sector in economic development of the country.

Because of time limitation, I will just sketch some principal aspects of the problem to reserve time for discussion.

Within the above mentioned subject, I shall approach the following topics :

- The role of entrepreneur in economic development
- The special characteristics of Vietnamese entrepreneurs
- The measures required to give a favorable medium to activities of Vietnamese entrepreneurs.

### I. THE ROLE OF ENTREPRENEUR IN ECONOMIC DEVELOPMENT

According to the economist, economic development is a process in which personal income increases continuously for a long time. Entrepreneurs are necessary to achieve development, thus entrepreneurs and economic development are together and we can not imagine development without some sort of entrepreneur, which according to standard definition, is some one who can mobilize capital, labor, raw materials to produce goods or services and exchange them for a profit. Profit is the main motive of the entrepreneur and the search for profit pushes the entrepreneur to apply innovation after innovation, to improve technology, to increase production and thus, increase profit.

#### Change in the role of the entrepreneur

However, the role of the entrepreneur changes with time and economic situations.

a. In the 19th century when the industrial revolution began in Europe, the entrepreneurs played a key role. In a free economy,

there was free competition. The Government's role was reduced to the role of a policeman keeping law and order. It tried to minimize all interference which could harm the free exchange economy.

In free competition each one tried to produce goods cheaper and better. The economy grew quickly because of that competition. Unemployment dropped, natural resources were put to exploitation, and personal income of the people increased many folds in comparison with the last century.

The entrepreneur in that time usually was an individual who took charge of everything in cooperation with a few friends or relatives. Later, because of large financial needs to implement large projects, there began to exist the corporations which, however, were still under one man's direction. The corporation was still a financial device; the individual characteristic in business did not change.

Outside the profit motive, the capitalists of that time were driven by other non-economic motives. I would like to mention here what Max Weber called "The Protestant Ethic" when he studied the economic growth in Northern Europe and North America. According to that conception, the protestant countries succeeded in achieving strong economic growth because their entrepreneurs believed that success in this life is an indication of God's grace and blessings for the after life. In other words, the entrepreneurs must strive hard for success because success is God's will.

b. After the First World War, the role of the entrepreneurs was reduced drastically: The Great Depression in the United States and its world wide consequences have strongly influenced proper's belief about the laissez-faire economy.

The conclusion was reached that there must be direction and control to avoid great depression. Thus, economic policies were designated sectors, through credit policies, subsidies or laws. The government subsidized the farmers to reduce farming acreage. The government bought and guaranteed the price of farm products. The government strongly reacted to cartel and trusts trying to monopolize the market etc . . .

c. After the Second World War the freedom of the entrepreneurs was still reduced more. The war caused disruption and change all over the world. The victors as well as the vanquished all met economic difficulties. There were needs for reconstruction and economic re-organization.

These national tasks required strong government intervention in the economy. This was the high point of interventionism with waves of nationalization in England, in France, and with long or medium term national development plan. In France, for example, right after the war's end the government played a leading role in the sectors deemed to be important to the task of reconstructions and economic development, like banking, transportation, hydroelectric power. In parallel with the reconstruction of developed countries, another phenomenon also existed which had the same effect of reducing the role of the entrepreneur. Indeed, after the Second World War, a great number of countries achieved independence. In the new heady atmosphere of freedom, the ex-colonial countries still recognize the need of economic development to solve the problem of poverty and to consolidate the new independence. Thus the governments had the process of economic development and almost all the economic activities controlled or influenced by economic policies.

These two above-mentioned phenomena (reconstruction in developed countries and development in ex-colonial countries) had to officialize the intervention of government in business.

Business activities are not the exclusive reserve of private individuals anymore. Previously, economic development activities are all under private responsibilities. Presently, the public sector has became important and overshadowed the private sector. Leadership lost its individualistic character and became collective. The profit motive, the principal motive of the old-time entrepreneur, became a secondary one.

The ideas of social interest and national economic interest eclipsed the individual interest. Government entered into business not to get profit or money but to bring betterment to society, to bring favorable conditions for development, even though, according to ordinary standard, its activities may not bring the expected rate of return.

The basic role of the entrepreneur stated by Schumpeter faded in this stage of economic history; "The Government Entrepreneur" had "The Private Entrepreneur". Today private entrepreneurs revolve like satellites around the leading industries directed by "Government Entrepreneurs".

In Vietnam, however, the government's influence has not reached the importance above, and entrepreneurs still have relatively much freedom of action. The Vietnamese government still has not the time to fully devote itself to a national development plan since it has to solve the problem of the war which has lasted more than 20 years.

Vietnamese entrepreneurs, however, have their own characteristics that I shall describe to you.

## II. THE VIETNAMESE ENTREPRENEUR'S PROFILE

1. Historical Tradition: Vietnamese entrepreneurs are different from those in the developed countries.

In the beginning of the 20th century, while business was considered the top activities in the Western World handicraft and commerce were placed on the bottom in Vietnam. Because of the Chinese culture and the Confucian ethic, businessmen were considered as a parasite in the social body, having no productive activities but extracting profit by acting as a middleman. Handicraft and industries are manual professions and are not respected. Thus prestige and power are reserved for the mandarinate. With time, the classic classification endures: The literate, the peasant, the worker and the tradesman. Starting with the Ming dynasty in China, trade became a respectable profession; in Vietnam the ancient attitude stayed on.

The fact was that in ancient Vietnam industrial activities of mining and salt making were given to the foreigners (Chinese).

2. The Change of Attitude: French occupation of VN opened a new era in the peoples' attitude toward trade and work. The mandarinate proved themselves incompetent in dealing with the French challenge. The "lettre" was no longer the goal of every brilliant Vietnamese individual, and the old social order started to collapse.

Further more, the colonial government followed exploitation policies, built a foundation for exporting raw materials and started on some type of industries supplementing the needs for exploiting the resources of the country: cement factories, transportation industries, ship repairs industries. To supply the labor needs for these embryonic industries as well as the infrastructure of the country, people were drawn from the rural area to the urban area. The traditional barter

economy, based on the self-sufficient family unit started to decline. The family was not an economic unit anymore, the spirit of family declined because of the new market economy encountered in the urban area. There was a new awareness about material wants and a new social hierarchy supplementing the older one. The new class of trader was born in this area.

Traditional ethics however still conditioned much of the attitudes. Even though by force one has to adapt to the new situation, the adaptation still was superficial. Deep in the subconscious, the traditional values still exist. Thus, trade and industry still were considered as a means to reach other ends and successful business men still dreamed about becoming a high civil servant or a landowner. On the one hand, they send their children to schools to study, and on the other hand, go back to the country side to buy up land and rice fields thus making their dream a reality.

3. Further Changes: This attitude persisted until World War II and began to change with the rise of independence movements and the war. Independence was achieved. By comparing with other countries. The Vietnamese also wants their country to be strong and prosperous is appreciated as the only means to lift their country out of Weakness and poverty. A comparison of some statistics between 2 reference years, 1960 and 1966, showed clearly the change in VN businessmen's attitudes. According to the statistics from the National Institute of Statistics in 1960. Vietnam had 112,693 business firms among which 87,110 were commercial firms and 11,840 industrial firms; a ratio of 77% in favor of commercial activities. In 1966, 3 years after the investment law of 2/63 was passed, there were only 40,955 commercial firms - a decline of 41,5% while there were 21,026 industrial firms - and increase of 77,58. Thus we see that there is a definite change in orientation from commerce to industry.

4. Some observations on the Composition of Businessmen and Vietnamese Industries: Utilizing available data of the Industrial Development Center (new Industrial Development Bank). The Vietnamese General Conferation of Industries and Handicrafts, and the Financial Company for Industrial Development (SOFIDIV). I obtained some following observations.

a) 90% of Vietnamese industries are family industries. Corporations are mostly composed of relatives and family members under the leadership of the family heads.

b) Tradesmen and big importers occupy the majority of the new class of businessmen, followed by small traders and civil servants. The distribution is as follows:

- Large traders, importers . . . . . 40%
- Small traders . . . . . 25%
- Workers, skilled workers . . . . . 15%
- Public Servants, private employees . . . . . 10%
- Others . . . . . 10%

c) The third observation is that most of the important firms in the private sectors, outside the pharmaceutical industry, belong to Vietnamese of Chinese descent.

d) The fourth observation is the importance of private investments. Looking at the total amount of investment projects benefiting special investments privileges, we found that, on the average, private investments occupy 58% of total investments or about 2.433.411.000\$ per annum. Government investments on the average about 36% or 1.504.962.000\$ per annum.

Since private investors also participate in mixed government-private firms, we found it difficult to separate exactly the private sector in the Vietnamese economy. However a ratio of 80% for the private sector, as determined by the Post War Development Planning Group, is deemed to be reasonable. The importance of the private sector in Vietnam does not mean that the Government does not want to participate in the process of economic development. The small part played by government is explained by the lack of budget resources earmarked for development. In 1970 for example, the government reserved more than 63% of the budget for defense purposes (121.5 billions/190 billions). Development plays a secondary part as the government concentrates efforts and resources for the war.

5. Some consequences - These observations lead to the following consequences.

a) Vietnamese industries lack firm bases. The majority of the Vietnamese industrialists come from the import-export business. In industry, they keep to their trading habits, trying to get maximum short term profits. Usually, they invest in products replacing the import

products previously handled by them and, because of their short term view, their industries usually have very small manufacturing; almost all are industries with an added value of about 5 to 10%. The work "packaging industries" may seem somewhat exaggerated, but it describes quite well these facts. Since these industries depend to a great extent on imported semi-finished products, almost all Vietnamese manufacturing industries will be in difficulty if there is a lack of foreign exchange. On the another side, the weakness of Vietnamese industries also stems from their financial structure. These industries utilize an important working capital financed by commercial banks importing raw materials. Working capital equals 3 to 5 times the amount of fixed capital. This is not unusual. The increase in the interest rate has stopped, to a certain extent, this kind of financing but this has become a habit and was accepted by commercial banks here indirectly. This is a disturbing fact and will have to be solved.

b) There is a lack of capacity in the private investor to invest in big projects requiring a large amount of capital and a complicated manufacturing process.

As was stated above, the majority of Vietnamese industrialists are of Chinese descent. Even though the government has proven to be realistic and sympathetic in its treatment of them, these people are still very fearful and are still keeping a defensive posture. They have much capital, but they do not want to tie it up in industries with a long term interest. They much prefer to invest it in many small industries that can bring quick profits and are easy to liquidate if the situation required.

c) The "advantages" due to the circumstance of the private sector are not exploited by the entrepreneurs since they lack the conditions for effective investment, capital, technology, assistance and security.

To be effective, Vietnamese entrepreneurs need to have a favorable environment.

### III. CREATING A FAVORABLE ENVIRONMENT

#### 1. Helping Vietnamese entrepreneurs

a) Guaranty the rate of exchange. Since the last 2 years, Vietnamese entrepreneurs are not enthusiastic in their effort to develop the country. They are afraid about the effects caused by the change in the rate of exchange. or other financial measures aimed at increasing the part of

government income contributed by industries. Indeed, a project estimated at 200 million piasters, for example, will almost double its cost when the rate of exchange increase from 118\$US to 275\$US.

In this actual state of inflation, Vietnamese entrepreneurs have to ask themselves whether there will be any other sudden change: Is the rate of exchange stabilized or will there be other changes? Is the actual taxation considered sufficient or not? This hesitation is further "encouraged" by high interest rates for time deposits actually in force. They reason that why should they invest in an industrial venture which will be certain to meet with difficulties and other hazards while with the actual interest rate, they are sure to get a high income just by putting their capital on time deposits in commercial banks.

b) Guarantee sufficient foreign exchange for importing of raw materials. Another fear of the Vietnamese entrepreneur stems from the lack of foreign exchange to guarantee their raw materials for import requirements. For several years now, many factories have to temporarily shut down; import licences have many times been delayed. These facts cause confusion and reinforce the fear in most of Vietnamese industrialists.

To solve these problems, the government must solemnly guarantee the rate of exchange of the piasters for the projects accepted by the investment committee. Furthermore, the government must guarantee enough foreign exchange to cover the import needs of necessary raw materials.

c) War risks insurance. Even though relative security has been established all over the country, Vietnamese industrialists still are afraid about possible rocketing, cannonnading, and enemy attacks upon their establishments. The memories of the Mậu Thân "general offensive" are still first in their minds. Thus, the establishing of war risks insurance. But the government would go a long way to reassure them to continue confidently in their task of developing the country.

d) Sino-Vietnamese Cooperation. The Vietnamese of Chinese descent have been playing a key role in the Vietnamese economy. All the important entrepreneurs come from this group.

The French colonial policies, utilizing Chinese in international trade, have given them a powerful role and a solid position in the Vietnamese economic structure. We have to recognize that the success of

the Chinese also was due to their hard working habits, good management and a spirit of unity. The hazard of history has given the Chinese a strong position, and any policy aiming at replacing them would not help the development process. Even NGO DINH DIEM's government had to give them concessions after the collapse of its discrimination policy. The government up to now has worked well in trying to absorb the Chinese into the national body, but this policy needs to be pushed harder to encourage Sino-Vietnamese cooperation and to dissipate their complex of being considered foreigners.

By utilizing administrative procedures and national laws, we may absorb the Chinese in the national body with good results.

## 2. Promoting Foreign Envestment

a) Guarantee the rate of exchange at the time of disinvestments. There are presently 2 contradictory currents in the flow of international capital.

On the one hand, there is a tendency to have capital flow to developed countries, which may have a surplus, and not toward underdeveloped countries whose needs for capital may be great. Safety is the main motive for that flow of capital. Thus developed countries, the only countries having all the safety conditions, are the main beneficiaries.

Yet, on the other hand, there are many ones interested in investing in developing countries, such as Vietnam. I have talked with them many times and I have had the impression that they carried with them a suitcase full of money, going around all over South East Asia looking for the most favorable spot for investment. The new investment law showed much progress, but I think it did not give enough attractive conditions. I want to talk about the question of the guarantee of the rate of exchange related to foreign capital invested in Vietnam. Foreign investors would like to have the rate of exchange, in force at the time they invest, also be applied when they disinvest. In other words, when they invest at a rate of 275 ₧/US\$1, they would get the same exchange rate when they want their capital back.

I have had opportunities to discuss this problem with some responsible officials. These people agreed that this is a very difficult problem to solve and, by using the example of neighboring countries, declined such as guarantee. I do not deny the government's difficulties, but if, because of these difficulties, we do not try to solve it, intentionally or unintentionally we jeopardize the economic development process.

b/ Effective protection of local industries. - The Foreign investor's other source of worry stems from the import policies of the Vietnamese government. These policies consider import as a way to fully exploit American aid, taking no account of possible harms to local industries. Tractor assembling plants run into difficulties because of competition from imports. Sewing machine assembling plants, as well as motorcycle assembling plants, had to close because they could not compete with imports.

I fully sympathize with the government's need to get enough income to cover defense expenditures. However, import policies, showing no regards to the need of national industries, will kill the productive potential of the country and keep it forever in poverty.

3. Austerity. - I don't know how many times people have talked about austerity. Governments call for austerity, but in Saigon, high living is still the rule, cars still jam streets, and expensive clothing abounds. We live high on American aid and think that we are rich. Consumption without production. Once the American withdrawal becomes a fact, we shall have to face the truth.

Here we see clearly that political considerations are given precedence over economics. We are afraid to lose the peoples' support and thus do not dare to force the people to live on less, especially while they are already living at a low level. In truth, however the people will accept austerity provided that it is shared equally.

Election considerations may caused some timidity in economic policies. However, with the new "Autumn revolution" just stated by the President, I hope that the long-talked about austerity will become a fact.

Compared with Korea or Taiwan, we have much richer potential both in industry and in agriculture. They succeeded because of austerity policies.

With our actual resources, by following the example of these two nations, we also shall succeed.

Someone, who may have been exaggerating, once said that the first Russian satellite was paid by limiting sugar consumption of the Russian people for one generation. This image, while exaggerated is a striking one to show the required sacrifice for a great undertaking.

Without accepting sacrifices, we must not talk about development.

The problem of capital formation cannot be solved without sacrifice. According to data of the Postwar Development Planning Group, if we want to continue to increase the national product at a rate of 5 year, we must keep the import level at 500 million dollars per year. Using the rate of exchange of 275\$ / US\$ we must use 137.5 billion piasters per year to buy raw materials and equipment.

If we use the hypotheses (very improbable) that with all the time deposits in commercial banks, now at the level of 53 billion piaster, we still lack 84.5 billion. Presently, our exports in 1969 was 950 million piasters, no where near enough to cover the difference. Thus we still depend on foreign aid either grants or loans to solve some problems of development. But in either case, we must show ourselves to be worthy by our hard work and our sacrifice.

Fully paying our taxes to the government is a contribution to the economic development process. That is also a sacrifice we must accept, and I am sure that most of us are ready to accept a fair and national tax system.

IV. - The role of development institutions,

We all agree that the profit motive plays a secondary role in economic development, and the government must play a leading role. However, since the government cannot do everything, there are needs for private entrepreneurs not only in the private sectors but in the mixed sector as well.

1. Mixed government - private sector. At the present time, Vietnamese entrepreneurs lack capital. And specialized cadres to form and to manage large industries. The Government ought to help in forming joint government - private companies. These companies will be sold to private individuals after they become effectively exploited. The process of selling stocks of government-owned companies to private people is a good idea and must be continued.

A new type of entrepreneur. While waiting for Vietnamese entrepreneurs to have enough ability to work by themselves, the mixed company is a relatively more adaptable way for development.

The government must contribute capital and cadres in the beginning. Thus, for this solution to be successful, we must have a new type of people: the professional manager.

"The professional manager" is a public servant yet working in the capacity of a private entrepreneur. He manages a company that is trying to make a profit but is not benefiting from that profit like someone who has stock in the company. The manager here has the responsibilities of the industrialist without his capital.

Therefore, failure will not lead to the bankruptcy of the manager, but success will also not bring more riches to him. Thus, if profit is the main entrepreneurial motive, what will drive the new manager forward?

It is here that the government will have to rethink the problem, to form a new type of people aware of their mission, accepting sacrifice, leading by ability and attitudes. At the same time, the government must allow the professional manager the facilities and means of an industrialist. It is presently ironic when a public servant with a miserably small salary has to be in a very important position bringing in hundreds or thousands times their

earnings. At the present time, with this system of unfair materials reward, the "public manager" would be hard put to fulfill his leadership role in his enterprise. To form a new class of public servant with managerial capabilities, And with leadership ability is an urgent matter in parallel with a fair system of material reward.

2/ The private sector.-

The government needs to reconsider the refinancing problem. The industrial finance corporations like the Industrial Development Bank and the Financial Company for Industrial Development (Sofidiv) have been given governmental assistance through refinancing their loans. This refinancing is given when there are guarantees on equipment, land, or construction. The financial structure, based on the ratio of 1/3 private capital, 1/3 long term loan, and 1/3 short term bank over draft by commercial bank, will have to be changed. I think that it is necessary to lower the ratio of private capital to 1/4 of the total investment. On the other hand the Refinancing Fund would have to lower the risk percentage of the financial institution from 20 to 10.

There must also be reconsideration on what is a good risk. We must not give too much weight to material guarantees but on the leadership and managerial capabilities of the investor.

Capital is necessary to the enterprise, but without a good manager, the enterprise will fail.

In actual Vietnamese situations, there are many talented experts having no capital. These people are usually public servants having experience in public, mixed, or private enterprises. When we demand from these people material guarantees, we may unintentionally destroy some potentially great business leader.

The financial institutions must encourage the formation of this type of entrepreneur. With financial help, they are most likely to succeed. The financial institutions must give them a chance to enter business. The risk is insignificant compared with the possibilities of success.