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Vietnam, Decentralization and its Prospect in Ho Chi Minh City

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Abstract: *The decentralization of public governance is arguably one of the most prioritized reforms for many of the world's policy-makers, especially those from developing countries. In theory, decentralization is a comprehensive solution, leading to innovative and capable leadership, higher popular participation, accountability, and even a decrease in corruption. Rodden believes that 'decentralization and the spread of federalism are perhaps the most important trends in governance around the world over the last 50 years.' However, how, why and when decentralization works are not straightforward questions. And the empirical evidences concerning the effectiveness of decentralization is significantly fragmented and diverse. Studies focusing on decentralization at an international level are not particularly robust in Vietnamese and ASEAN legal literatures, and this essay therefore aims to provide a compact, informative work about international experiences of decentralization, in relation to the overall contemporary condition of Ho Chi Minh City, as the city has now been granted certain administrative and financial freedoms. The essay will offer, it is hoped, a useful starting point for Vietnamese authors and also ASEAN scholars who would like to explore decentralization on a comparative basis.*

Keywords: *Decentralization, Equalization Transfer, Fees, Fiscal Autonomy, Fiscal Decentralization, Grants-In-Aid, Ho Chi Minh City, Local Taxation, Vietnam, User Charges.*

INTRODUCTION

Decentralization Policy at the National Level: A Theoretical and Empirical Success?

A. The Meaning of Decentralization

Decentralization is one of the most important institutional reforms of the past generation, in terms of the number of countries involved and in the long-term implications for its participants. Countries as diverse as France, the United Kingdom, Japan, South Korea, Cambodia, Bolivia, Indonesia, Uganda and Ethiopia have all introduced decentralization reforms as part of their efforts to improve their existing institutions. (Faguet J-P., 2014) From a generic perspective, decentralization could be described as a process of transforming the hierarchical and bureaucratic aspects of the mechanism of government into a system self-governing entities, characterized by cooperation, shared responsibility and participation. However, the term “*decentralization*” itself encompasses several different concepts that need to be carefully analyzed before any action can be taken. (World Bank Group on Decentralization and Subnational Regional Economics, 2001)

According to an OECD study on the topic carried out by Blochliger and Vammalle, decentralization is a combination of tax reforms and public administration reforms (Blochliger and Vammalle, 2012). To the decentralization study groups of the World Bank, decentralization includes political, administrative, fiscal and market aspects (World Bank Group, 2001). Other scholars have focused on the financial issues of

decentralization to create a whole spectrum of *fiscal federalism* literature, which in turn concentrates on the study of '*public expenditures, public revenues...and horizontal interactions among governments, vertical ones, or both.*' (Joanis, 2014)

Because of this open-ended nature, the comparative approach to decentralization can be tricky to study. Each country has its own institutional problems, and each package of decentralizing solutions is intentionally embedded within a specific social, cultural, political and economic *milieu*. It also means, however, that we have a large number of available examples of decentralization reform.

B. The Rationale of World-wide Decentralization

The end purposes of decentralization have been defined in blanket statements. Campbell argues that decentralization can generate a revolution in the governance model that would be innovative, capable and greatly approved by the public (Campbell, 2001). Some assert that decentralization would also foster political competition, public accountability, and impose certain limits on government power (Faguet, 2012). In 2003, even the World Bank firmly advocated decentralization, on the grounds that it could address corruption in developing countries (World Bank, 2003). Whilst these claims are not always accompanied by empirical affirmation (Smith and Revell, 2016), countries are motivated to adopt decentralization by specific governmental challenges nonetheless.

Originally, decentralization was a purely political concept.

Devolution in the United Kingdom was aimed at '*re-balancing power between citizen and government*'. In the words of the UK's former Prime Minister, Tony Blair, decentralization would '*move [the UK] away from a centralized Britain to a more democratic, decentralized, plural state*' (Blair, 2001). This was the vision that led to the creation of the Welsh Assembly and the Scottish Parliament.

Likewise, the Cambodian government considered decentralization as one of the means of strengthening democracy, with a strategic shift from a central-regional level to local communities. By increasing popular participation, the government believed that it could strengthen public accountability and improve government effectiveness overall (Government of Cambodia, 2005).

On the other hand, in many countries, decentralization has been employed as a remedy for violence. The decentralization process in Colombia was designed to do such task. The formation of elected local governments was a desperate effort to give Colombian citizens more voice in public discourse, and so drain the reservoir of discontent that fed the country's militant insurgencies (USAID, 2009). In Mozambique and Uganda, an opening of political opportunities at the local level has successfully allowed for greater participation of the warring factions and the more homogeneous groups within the countries (World Bank Group, 2001).

Of course, the aforementioned examples are not necessarily relevant to a majority of states in the contemporary world, since it is not that common for a government to be faced by the challenge of regionalism or secessionism (even though it is increasingly the case). Yet they do provide evidence to support the theoretical arguments that favour decentralization. One of them is the improvement of a government's *responsiveness* and *accountability*. This is due to the fact that tradition top-down governance systems usually undermine the connection between local government and local communities, especially if the position of local leaders and officials is influenced by the central leadership.

By giving more power to local governments, along with increased local democratic engagement, these governments hope to be closer to their people, more responsive and better able to deal with the particular requirements of their constituencies (Oates, 1999; Tiebout, 1956). It is argued that de-concentrated government units can act with better knowledge, better communication and better implementation of administrative decisions. This view seems to be generally accepted by many of the most established international scholars in the field, including Wallis, Oates, Tiebout and Faguet (Wallis & Oates, 1988; Oates, Wallace, 1972; Faguet,

2012).¹

Owing to the complexity of decentralization, fiscal decentralization is the kind generally favoured by governments. It is contended that fiscal reform is easier to implement than reform in other policy areas, especially with experiments and pilot programmes (Blochliger and Vammalle, 2012). Consequently, during the last few decades, over eighty-five countries, both developed and developing, have embarked mainly on fiscal decentralization, devolving parts of their fiscal policy and granting authority to the sub-national units (Feruglio, 2007).

With decentralization and fiscal decentralization running on the same philosophical platform, we can expect to witness a positive relationship between governments' overall improvement and their decentralized fiscal systems.

From a theoretical standpoint, public expenditure decisions taken at a level of government closer to the people it is serving are more likely to reflect the needs of local services, and thus resources will be allocated more appropriately than in the one-size-fits-all approach of a central government. This is particularly true in the case of Ho Chi Minh City, where urban infrastructure projects have long been neglected in comparison to the more greatly prioritized northern regions of the country.

A certain degree of autonomy in tax powers and tax sharing also promotes competition among subnational governments. Efficiency in the delivery of public services, and even innovation and experimentation in public policy could therefore be considered a tangible economic benefit of fiscal decentralization.

C. 'The Best of Reality'

Overall, there has been little doubt until now about the economic implications of decentralization (and fiscal decentralization). While no official theory directly linking growth to decentralization has been formally introduced, this direction of reform is already being seen as a "*prescription for growth*" (Buser, 2011).

After the break-up of the Soviet Union, the call for fiscal decentralization in Central and Eastern Europe ("CEE") was accompanied by a widespread and enduring dissatisfaction with the role of central government in setting policies (Ligthart and Oudheusden, 2015). Reforms helped to enhance the efficiency of local budgets, increased intra-national productivity and ultimately kept CEE countries on their feet during the enlargement of the European Union (Department of Economic and Social Affairs Division for Public Economics and Public Administration, 2000).

In Belgium, in 2001, the central government faced regional demand for more decentralization, fuelled by insufficient resources and the financial imbalance between federal and governing regional entities (Blochliger and Vammalle, 2012). By re-assigning several tax shares to the regions and granting them further tax autonomy, the Chambers of the Belgian parliament effectively changed the revenue structure of Belgium's financial system, consolidating national fiscal performance and eliminating the government deficit.

Likewise, there were many ongoing issues in Italy. Its annual growth rate was stuck at 1.5%, manifesting an obvious underperformance when compared to other OECD countries (Blochliger and Vammalle, 2012). Differences between the regions of the country also inspired harsh criticism. The northern regionalists, for example, claimed that the country's tax-share regime and redistribution system had become so inefficient that it strained the resources of the economically advantaged north and discouraged economic development in the south (Blochliger and Vammalle, 2012).

The reform components, therefore, were packaged so as to appeal to both wealthier and poorer regions. Sub-national governments in the north were then entitled to levy property tax on *non-owner-occupied houses*, 100 per cent tax share of regional business-cum-values-added tax and personal income tax; while local communities in the south continued to receive support from the central government through equalization programmes. The reform is considered successful by many scholars (Blochliger and Vammalle, 2012).

¹ See more at (no 2) and (no 15).

In 1994, acceding to the necessity of market development, the Chinese government also agreed to a fiscal decentralization reform with the aim of simplifying and rationalizing the national tax structure, raising the revenue-to-GDP ratio, and increasing transparency in central - local revenue sharing (Su and Zhao, 2004). The tax assignment system allowed sub-national governments more power to develop their economies and to collect their own taxes. It turned out to be a huge success. Before 1994, the fiscal revenue incremental pace of fiscal revenue was between 20 and 30 billion Yuan annually. After 1994, the annual fiscal revenue increased by 150 billion. In 2003, national revenue increase was over 200 billion.

However, even though decentralization is currently held as the best way to counter the effects of corrupt and growth-stifling governments (Buser, 2011), it would be naive to think that decentralization can always be a silver bullet in the arsenal of the governance apparatus. Argentina is one of the most decentralized states in the world, and a large proportion of policy-making power is held by provincial governors. The result, however, has been a weak national legislature and a constant struggle between a strong presidency and strong provincial governors (Smith and Revell, 2016).

We must look at decentralization under the lens of the law and politics if we are to find a set of institutional structures that can make it work properly. The OECD nations have consistently provided examples of the positive effects on growth resulting from decentralization. Indeed, this success was accompanied by a minimal heterogeneity among those nations – the OECD provides an example that is limited to developed, functioning and mature democracies (Buser, 2011). Yet, the common characteristics of the manner in which decentralization was implemented in these countries may provide the essential prerequisites we are looking for. After pondering a variety of studies that attempt to conceptualize an ideal model of decentralization, the author of this paper has come to believe that the following features are needed to make the project of decentralization successful.

- First and foremost, nations have to secure a uniform national political commitment. No matter how we describe it, decentralization is still a political process that transfers power from central to lower levels. Because of the existing bias towards the established *status quo*, (Blochliger and Vammalle, 2012) reforms might face delays in implementation and fuzzy assignment of responsibilities (Joanis, 2014). It is always possible for some achievements of the decentralization process to be reversed due to political bias.

The Chinese government, for example, had no intention of to increasing local independence and grassroots political participation. The revenue-sharing incentives given to sub-national governments were adjusted little by little, until the central government had reclaimed its dominance in the tax sharing scheme, effectively returning the system to its starting point, where the sub-national government depends heavily on the central government, with the usual *grant-in-aid* (Su and Zhao, 2004).

- Secondly, most successful fiscal decentralization reforms require the government to be in a generally sound fiscal position.

Fiscal decentralization (or federalism) seems to be a zero-sum game, especially in the short-term (Blochliger and Vammalle, 2012). It means that one level of government is going to lose what the other level of government gains. If the central government decides to devolve taxing authorities to the subordinates, it will usually also suspend allocative grants under various inter-governmental transfer programmes.

As a result, local leaders will be under immense pressure to deal with local needs, public opinion and the immediate financial deficit. In order to fulfil its tasks, it is essential for the local government to have backup resources at its disposal (Department of Economic and Social Affairs Division for Public Economics and Public Administration, 2000). Transitional arrangements and compensation are measures frequently employed to ensure that no jurisdiction suffers an additional burden in the short run.

Moreover, since sub-national governments are only accountable to their own constituencies, it is unlikely that they will invest in social infrastructures, such as regional or inter-municipal roads, the benefits of which go beyond their geographical boundaries (Department of Economic and Social Affairs Division for Public Economics and Public Administration, 2000).

All of the above situations call for the involvement of the central government and its financial support. This

is the reason why most governments have decided to carry out decentralization reforms when the national budget was in a state of relative stability. In Belgium, the central government's deficit had changed from around 7% to an almost balanced budget at the time of reform (Blochliger and Vammalle, 2012). The public finance of Switzerland were also in good shape when they decided to execute their decentralization reform (Blochliger and Vammalle, 2012). Chinese economic performance was admirable during the 90s, and reform only became urgent due to the continuous decline of the ratio between government revenue and GDP (Su and Zhao, 2004).

- On a separate note, the legislators of fiscal decentralization reforms in the OECD and CEE countries have made great efforts to cope with the requirements of democracy. It could be argued that even the most autocratic governments allow some degree of self-governance to their local entities: (Baskaran, 2009) Democracy, thus, is not an inherent feature of decentralization. Yet, albeit not crucial, electoral mandates, as called for in many OECD studies, for several reasons play an influential role in the decentralization process.

Of primary concern is the possibility of increased corruption when local leaders are given excessive power. Government officials at the sub-national level are naturally more vulnerable to pressures from local elites and interest groups. There will also be a lack of experience and training and institutional tools necessary to combat abuses of power and to manage newly added local resources including tax sharing and taxing power (Feruglio, 2007). Elected representatives, elected local leaders and an effective system of checks and balances system should be provided to local residents, and are always positive elements in a decentralization campaign.

Furthermore, recommendations from the United Nations Department of Economic and Social Affairs. (UNDESA), and the United Nations Development Programme, (UNDP), to CEE countries have repeatedly insisted that local policy-making power should be accompanied by democratic control (Department of Economic and Social Affairs Division for Public Economics and Public Administration, 2000). If a local authority continues to be no more than a proxy of central government, it can scarcely be expected to act for the benefit of local citizens and to take their welfare into serious consideration. Devolved authority that matches devolved responsibilities seems to be a vital principle in countries such as Germany or Spain, where high levels of local autonomy come with active civic participation, not only by means of local council elections, but also through referenda and the direct election of mayors (Department of Economic and Social Affairs Division for Public Economics and Public Administration, 2000). Some countries have tried to introduce alternatives, such as the Austrian Court of Audit, as an independent watchdog (Department of Economic and Social Affairs Division for Public Economics and Public Administration, 2000). However, its impact until now could, at best, be considered as uninspiring, while Vietnam has already established a National Audit Office with a quite similar philosophy.

As repeatedly noted, democracy is not an essential component of decentralization and fiscal decentralization. It would be advisable, however, to install proper democratic institutions, since *'the stronger an electoral mandate, the more comprehensive a reform tends to be'* (Blochliger and Vammalle, 2012).

- Last but not least, both central and local governments should be prepared for many technical difficulties. For example, a local government with excessive revenue, thanks to a certain tax autonomy, can pursue its own social distributive programs. However, an inappropriate local programme to subsidize services provided to low-income households and individuals is very likely to cause an internal migration influx and an exodus of tax-bearing local residents (Oates, 1999). Or it may be that due to the absence of monetary and exchange-rate prerogatives, local governments have very limited concerns and insufficient means to control macroeconomic effects in a traditional sense. Aggressive spending by strategic metropolitan cities can lead to nationwide macroeconomic instability (Faguet, 2014).

Additionally, without knowledge of taxation, and with failure to preserve a common market, and lack of skill in democratic policy-making, competition between sub-national governments may end up in beggar-thy-

neighbor economic policies, disruption of the movement of goods between regions (Department of Economic and Social Affairs Division for Public Economics and Public Administration, 2000), and public frustration. Taxation is a double-edged sword that can either produce enormous additional revenue for the local budget, or destroy trust between local leadership and their citizens. Undoubtedly, local personnel will have to make unpopular and technically demanding decisions (Davey, 2002). But as long as these geographical units are given sufficient legal space to govern their finances independently, and the officials are ready to work in a completely different administrative environment, international experiences have shown that decentralization is a favourable option for most governments.

Ho Chi Minh City and the Prospect of Decentralization

A. Ho Chi Minh city as a Treasury Gatekeeper

There is no disputing the fact that Ho Chi Minh City (“HCMC”) is the most powerful actor in Vietnam’s economy, specifically for the vitality of the national budget. According to the official calculation of the Ministry of Finance of Vietnam (“MOF”), in 2016, HCMC alone contributed 306,300 billion VND (approximately \$13 billion),² accounting for almost 30% of the State’s total annual revenue.³ However, while this fact serves to produce sensational news headlines,⁴ it is merely the tip of the iceberg.

Vietnam’s national budget does contain some rudimentary decentralized elements, with a “*central budget*” and a “*local budget*” being combined to form a national “*state budget*”.⁵

The central budget is comprised of one hundred percent of several statutory taxes, including VAT on imported goods, export and import taxes, a special consumption tax on imported goods, an environmental tax on imported goods,... and fees and charges for services provided by central agencies.⁶

Local governments, on the other hand, are allowed to keep one hundred percent of taxes on natural resources (excluding oil-related resources), licensing taxes, agricultural land-use tax, non-agricultural-land-using tax, registration fees and local land-leasing revenues,... and fees and charges for services provided by local agencies.⁷

A tax-share mechanism is also in place with regards to general VAT tax, enterprise income tax (excluding oil-related business activities), personal income tax, general special consumption tax and general environmental taxes... The sharing ratio is decided by the National Assembly at the beginning of each budget stabilization period.

For such reasons, it is hard to say that Vietnam’s public revenue system lacks a normative base, or is subject to arbitrary variation. However, the current intergovernmental transfer arrangement, or equalization transfer, as so-called worldwide, obviously does not correspond to any economic criteria, but rather depends merely on the need of the poorer regions. In fact, local budget deficits are subsidised by the central budget in accordance with the Law on State Budget 2015 (and also its predecessor - the Law on State Budget 2002).⁸ The system creates incentives for many provinces to expand local spending and public investment, whilst free-riding on the capital accumulated in other proactive local units (Nga D-T, 2017). Abuse, inefficiency and irresponsibility are only to be expected from such a system.

² See more at

http://www.mof.gov.vn/webcenter/portal/btc/tr/ltvc/slnsnn/sltm?_afriLoop=15301845631337914#%40%40%3F_afriLoop%3D15301845631337914%26centerWidth%3D100%2525%26leftWidth%3D0%2525%26rightWidth%3D0%2525%26showFooter%3Dfalse%26showHeader%3Dfalse%26_adf.ctrl-state%3Dy5yhrkofc_335, (accessed 29 October 2018).

³ See more at: <http://plo.vn/kinh-te/tphcm-dong-gop-toi-318-cho-ngan-sach-ca-nuoc-643798.html> and

http://www.mof.gov.vn/webcenter/portal/btc/tr/ltvc/slnsnn/sltm/quyettoan/sltm_quyettoan_chitiet5?dDocName=UCMTMP129278&dID=137917&_afriLoop=15302117736038111#%40%40%3FdID%3D137917%26_afriLoop%3D15302117736038111%26dDocName%3DUCMTMP129278%26_adf.ctrl-state%3Dy5yhrkofc_421 (accessed 29 October 2018)

⁴ See more at: <https://dantri.com.vn/chinh-tri/tphcm-thu-ngan-sach-bang-45-tinh-2018010214381863.htm> (accessed 29 October 2018)

⁵ Article 6, Legislation No 83/2015/QH13, Law on State Budget, dated 25 June 2015 (‘*Law on State Budget*’)

⁶ Article 35, Law on State Budget

⁷ Article 37, Law on State Budget

⁸ Article 40, Law on State Budget

Of course, a redistributive philosophy in revenue-sharing practice prevails in many countries around the world, from Australia, Canada, Germany (Oates, 1999), to Argentina and Mexico (Smith and Revell, 2016). Yet, the situation in Vietnam has been perpetuated for too long and seems to be much more serious than in the other cases. As asserted by the 2017 annual report of the Centre for Economic and Financial Research (Centre for Economic and Financial Research - University of Economy and Law, 2017),⁹ 21 out of 63 provinces in Vietnam depend heavily on intergovernmental transfer, with the contribution of central equalizing grants dominating from 50 to 70% of the local budget. 9 out of 63 provinces rely almost exclusively on central grants in order to function. 17 out of 63 provinces receive a considerable amount of support from central government, accounting for 20 to 50% of their spending. In short, over 70% of sub-national units in Vietnam survive by using revenues from other units, significantly by those contributed by HCMC.

The scenario described is worryingly unhealthy by any standard. The role of HCMC in the current state budget situation is that of net donor to the national coffers, and HCMC can collect internally all the revenue it needs to support its spending programmes.¹⁰ But it is even more necessary to remember that further taxing power and tax shares given to HCMC cannot resolve the inherent problem of both the central and provincial budget deficits on national-wide scale.

This is fundamental to the success of the decentralization reform piloted in HCMC. If the reforms and the central government continue to be prone to regionalism and political bias, just like the contemporary state budget system, HCMC will have to be a one-man-army in this crusade, and could experience pressure from two sides: from the central government, and from local citizens.

B. The Troublesome Positive Law

Resolution 54/2017/QH14 (“*Resolution 54*”) passed by the Vietnam National Assembly on 24 November 2017 agrees to devolve some powers of the central government onto the HCMC sub-national level. These powers involve certain rights to land management, rights to local investment regulation, a certain degree of fiscal decentralization, and also fiscal autonomy. While all of them are unprecedented, the most significant, whether in terms of length or in terms of Vietnam political culture, is fiscal decentralization. This is no surprise because, as previously mentioned, fiscal reform is the easiest and least sensitive decentralization reform to implement, and fits relatively well into the experimental pilot programmes,¹¹ and the pressing concern at both levels of government is financial stability.

Notwithstanding the above, there are some problematic issues with the direction taken by the central government that we need to scrutinize in terms of the four basic prerequisites explained in Section 1.

1. The idea of giving taxation and charging power to a local government is remarkable in Vietnam. However, regarding its technical aspects, the list of adjustable taxes is somewhat underwhelming.

According to the first item of Article 5, Resolution 54, HCMC can suggest to the central government that it should raise the tax rate or tax level of two kind of taxes: only the Special Consumption tax (“*SCT*”) and the Environmental Tax (“*ET*”) are within the geographical jurisdiction of HCMC. The Resolution also decrees that tax rises can only be applied to goods, not services. The elaboration renders this taxing power virtually null and void.

Firstly, we need to remember that, at local levels, economic units and goods have significant mobility across jurisdictional boundaries. And so they should have. After all, the local government, for its economic and analytical purposes, could be characterized as an operational setting wherein economic units can move costlessly among geographical jurisdictions. Professor Oates, a distinguished international figure in public

⁹ <https://cefr.uel.edu.vn/ArticleId/80261d09-ca02-4ed3-93c2-46e78f8f0fb4/bao-cao-thuong-nien-thi-truong-tai-chinh-2017-tiep-can-tai-chinh> (accessed 6 November 2018).

¹⁰ See more at : <http://www.hochiminhcity.gov.vn/thongtinthanhpho/tintuc/Lists/Posts/Post.aspx?CategoryId=25&ItemID=58980&PublishedDate=2017-12-15T13:15:00Z> (accessed 29 October 2018)

¹¹ See more at (no 17).

economy and law, contends that local government must never touch the power to tax highly mobile economic units (Oates, 1999). Or to be precise, *non-benefit taxation* on mobile economic units is undesirable. This means that unless final goods can increase their value by receiving significant benefits from the public services of local governments, we should not levy different rates or types of taxes in different internal jurisdictions.

Both SCT and ET are not ideal for *non-benefit* and mobile economic unit taxation at local level. In Vietnam, taxable goods of these two kinds range from cigarettes, beer, wine, automobiles below 24 seats, motorcycles over 125cc, air-conditioners and playing cards¹² to gasoline, coal, and plastic containers,¹³ which are all versatile products that can also be purchased by equally mobile units (be they individuals or households). A reckless increase of these taxes at sub-national level would eventually lead to unintended repercussions, such as smuggling, buyer emigration, free-rider, and the erection of internal barriers on goods that is inappropriate in the 21st century. It would be a return to the era of “*Ngăn sông cấm chợ*” which the Vietnamese experienced not too long ago, and which was often the cause of public anger. On the other hand, the taxable services of these taxes are much more suitable for the control of local government, since they contain various immobile economic elements, although unfortunately these were not included in Resolution 54.

Secondly, the list excludes one of the most significant tax sources, as is confirmed by the general consensus of international experience: land and real estate. Every local government has at its disposal this tax base, one which cannot be evaded through mobility. This tax source is especially promising in urban areas, commercial centres and metropolitan cities, such as HCMC.

Studies in the United States show that the revenue from property taxes alone constitutes 30% of the own-source revenue of local governments and is the largest single source of tax revenue at sub-national level in the US (Tax Policy Center, 2014).

The central government of Argentina has not been very successful with decentralization overall, but its local cities utilize their land-based taxing power very effectively. In the city of Rosario, levies on property accumulate an impressive amount of revenue, allowing the local government to pursue an aggressively socialist agenda, with funds channeled to a comprehensive and environmental friendly public transportation system, public art displays - museums, educational forums, parks, and municipal banks offering micro-credit loans to public employees (Smith and Revell, 2016). Similarly, the government of the city of Rafaela has raised over 65% of its “*total own source revenue*”, primarily through taxes on property, industrial registration fees, and other licensing fees.

The story of León, in Mexico, is also inspiring. Their effort to restructure the city’s cadastre paid off, and helped to create more precise tax assessment. In addition to stiff penalties encouraging citizens and business owners to pay their bills, the approach revitalized and boosted property tax revenues from \$43 million to \$207 million in a span of just 10 years (Smith and Revell, 2016).

More importantly, land and property-based taxes seem not to hasten economic and urban development, the foremost evidence of this being the Pittsburgh phenomenon (Oates, 1999). The city of Pittsburg, one of the world’s great industrial capitals, experienced an unprecedented expansion in building activities, in the presence of a heavily graded property tax in which land is taxed at five times the rate imposed on building and structures. Commercial and industrial construction was also at a record-high level, more than tripling its annual value.

Furthermore, this tax source is not only natural enough to be easily added to and reflected in the market value of land and property, but also flexible enough to be tweaked into different versions, in order to preclude public opposition. In Italy, for example, property tax on non-owner-occupied houses intentionally focuses on

¹² Circular No: 195/2015/TT-BTC, dated 24 November 2018, on implementing Degree No: 108/2015/ND-CP.

¹³ Circular No: 32/VBHN-BTC, dated 14 July 2014, on implementing Degree N0 67/2011/ND-CP.

commercial and leased real estate (Blochliger and Vammalle, 2012), as a measure to prevent ordinary citizens from being dissatisfied with the local tax system.

Finally, the access of the HCMC government to the power of imposing fees and charges is of great value to the local budget, since the city is allowed to directly control, raise and introduce additional fees and charges.¹⁴ Recommendations for taking full advantage of this power, together with the 'benefit tax' approach and land-based taxation, will be briefly discussed in the next chapter.

2. In addition to the aforementioned hindrances to fiscal decentralization confronted by HCMC, the other prerequisites that are even more likely to be under-valued.

With the uniform commitment requirement comes a whole sky of political uncertainty. As stated in Resolution 54, HCMC will possibly have to exchange its added financial capacity for future earmarked national grants, or at least with the 10,000 billion VND previously designated for the city's controversial anti-flood programme.¹⁵ This could mean that the reform prompted by central government was nothing more than an effort to off-load central financial burdens. Countries that go down this path tend to carry out the decentralization process with so many operational caveats, and to such a limited degree, that sub-national units rarely end up with any meaningful authority to control either its revenues or local spending (Smith and Revell, 2016).

A sound national fiscal position in Vietnam can now safely be regarded as unachievable. The national budget deficit has continued for 10 successive years.¹⁶ In 2017, the deficit was equivalent to 3.5% of national GDP, almost equal to the total revenue of the city of Hanoi.¹⁷

An electoral mandate is also improbable to be considered as an integral part of reform, owing to the fact that both levels of government remain unfamiliar with (and hostile to) any idea of installing further institutional democratization.

Local Experience: How to Begin Fiscal Decentralization in HCMC?

In view of what has been said above, budgetary freedom in Ho Chi Minh City might appear to be somewhat anaemic. The city will also have to undergo fiscal stress and confront public outrage whenever it uses the newly authorized powers to increase annual revenue. The present is, after all, an odd time for the HCMC government to ask for public support. Local officials and representatives will need to be more than usually cautious when choosing, preparing and announcing their targets for this revenue-raising campaign. These technical issues need to be handled well, since most of the prerequisites for a successful decentralization campaign have now all been neutralized.

A. Taxes

Financial responsibilities levied by sub-national governments around the world are comprised of a wide basket of taxes, fees and charges.

From cities like Rosario, Rafaela, León in Mexico and Pittsburgh to states such as Italy, the U.S., or even China with its local tax, the '*City Maintenance and Construction Tax*' (IRET, 2010), it is universally accepted that local governments should only have the freedom utilize land and property tax sources. The reasons for this, as discussed in Chapter 2, are the threat posed by the inter-jurisdictional mobility of other kinds of final goods, (Smith and Revell, 2016) the need for internal market preservation (Oates, 1999), and the requirement to prevent of local forms of inefficiency.

However, to make thing more complicated, HCMC is only entitled to adjust STC and ET on taxable goods such as cigarettes, beer, wine, automobiles with fewer than 24 seats, motorcycles over 125cc, air-conditioners, playing

¹⁴ Item 2, Article 5, Resolution 54

¹⁵ Item 10, Article 5, Resolution 54

¹⁶ See more at <https://tradingeconomics.com/vietnam/government-budget>, (accessed 16 October 2018).

¹⁷ See more at

http://www.mof.gov.vn/webcenter/portal/btc/r/lytc/slnsnn/bcnsnnhn/bcnsnmhn_chitiet?dDocName=MOFUCM101277&_afzLoop=49574805102641115#!%40%40%3F_afzLoop%3D49574805102641115%26dDocName%3DMOFUCM101277%26_adf.ctrl-state%3Djpm5tvpki_91 (accessed on 16 October 2018)

cards, gasoline, coal plastic containers, goods that are best employed by the highest level of government (Oates, 1999). Hence, the options for HCMC are extremely limited.

In the opinion of the present author, and in consideration of the cultural and political culture of Vietnam, beer and wine seem to be the most appropriate targets, for a variety of reasons.

Firstly, alcohol consumption is a social taboo and is subject to criticism for its alleged negative effects on national productivity.¹⁸ While there are no reliable scientific grounds for this accusation, the imposition of a higher SCT rate would be welcomed by the general public.

Secondly, the current average price of alcoholic beverages in Vietnam are unreasonably low, and is, in fact, one of the lowest in the world.¹⁹ Hence, a 25% cap imposed by the central government would ensure that even a maximum tax raise would not change customer buying behaviour, which then protects the stability of this tax revenue.

Last but not least, according to a study conducted by the EU - Vietnam Business Network with European sponsorship (EU - Vietnam Business Network, 2017), we know that alcoholic drinks in Vietnam are mostly consumed 'out-of-home' (82.6%), and are sold by street vendors, restaurants, pubs and similar types of retailer. Although it is mobile, this product is usually locked into a particular geographical unit for consumption. And because local retailers benefit from HCMC's infrastructure as the national centre for recreational activities, SCT on beer and other alcoholic beverages fits with the principle of only using *benefit tax* at the local level.

And perhaps it is the only taxable good on which the HCMC authorities should focus.

B. Fees and User Charges

Local governments around the world are increasingly using fees and other charges to fill their coffers. HCMC itself has quite a rich list of fees and charges at its discretion, such as registration fees and other fees, charges representing the price tag of services provided by the HCMC government.²⁰

Because of the socialist-orientation of our state, however, most of these are heavily subsidized by the government. For instance, the VND 100,000 tag (roughly \$5.00) of the usual business registration fee hardly reflects the cost of this service. The same could be said about the VND 50,000 - 100,000 fee for the issuance of a construction permit. Overall, most of these existing fees and charges are nothing more than a formality.

Of course, there are reasons for this situation. Public service fees are inherently non-measurable, because it is impossible to link the payments to the quanta of labour and materials used to provide such services. Also, its natural monopoly power does not allow us to treat the pricing of civic infrastructure services as if they were notionally similar to market prices (Bird, 2003). But this does not mean that we should not ignore the possibility of pricing them according to the standards of the market to a certain extent. If adequately and appropriately priced, fees and other user charges can provide a degree of financial stability to the local government by recovering costs associated with particular civic urban services. This, in turn, would help to enable allocative efficiency, since many local agencies would not then need to consume resources meant for other public sectors. With these new powers, HCMC government could actively engage in "*benefit taxation*", using a combination of fees and user charges.

But how to begin?

A possible first step would be to impose a higher rate of existing fees and charges on sources that reflect private wealth - a common strategy in many countries. Effective local taxing systems are usually based on the principle of distinguishing between highly individual benefits and community benefit - the so-called '*ability-to-pay*'

¹⁸ See more at: WHO: Vietnamese are drinking too much alcoholic beverages (Vnexpress. 2018) <<https://suckhoe.vnexpress.net/tin-tuc/suc-khoe/who-nguoi-viet-uong-qua-nhieu-ruou-bia-3779687.html>> and Vietnam is a world powerhouse in ... drinking beer? (Zing News, 2018). <<https://news.zing.vn/viet-nam-la-cuong-quoc-ve-su-dung-bia-ruou-post834230.html>> or <<https://news.zing.vn/dan-ong-viet-dung-dau-chau-a-ve-tieu-thu-ruou-bia-post872031.html>> (accessed 29 October 2018).

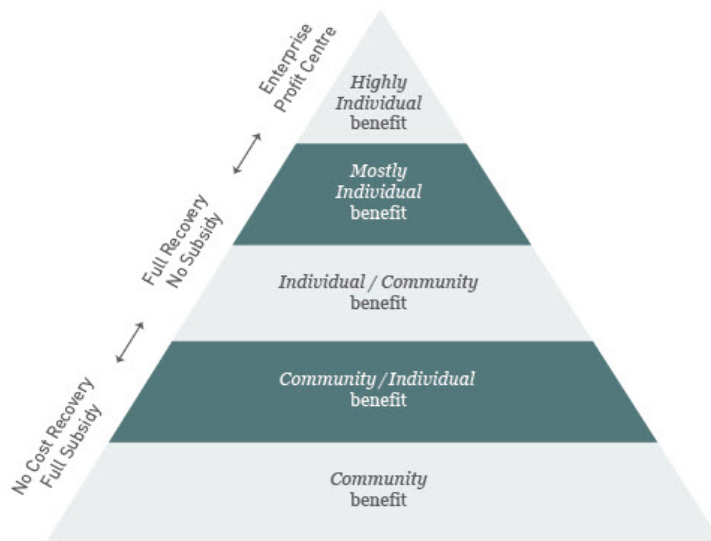
¹⁹ See more at: <https://news.zing.vn/bia-viet-nam-re-nhat-the-gioi-post430734.html> (accessed 29 October 2018).

²⁰ Decision No. 52/ 2016, The People's Committee of Ho Chi Minh City, regarding charges and fees within its jurisdiction. <<https://thuvienphapluat.vn/van-ban/Thue-Phi-Le-Phi/Quy-dinh-52-2016-QD-UBND-muc-thu-10-loai-phi-7-loai-le-phi-Ho-Chi-Minh-336500.aspx>> (accessed 16 October 2018)

principle (Smith and Revell, 2016).

Simply put, if the service enhances basic human rights and benefits the community as a whole (Boyle, 2012), its fees and user charges should not be subject to cost recovery and revenue raising. Birth certificate issuances and temporary residence registrations are prime examples of such services.

On the other hand, if the services are directed at personal wealth, or if they reflect an individual's social status, the case for fees and charges to generate cost recovery is strengthened. Hence automobile drivers' licence fees, car registration fees, construction permit fee business licence fees, and industry registration fees (Smith and Revell, 2016) are among the most effective financial tools all over the world.



The author believe that the City of Fort Lauderdale in the USA (Nallathiga, 2009) has successfully conceptualized, in the above figure, a straightforward pricing-cost recovery pyramid, and has created a clear model to guide thinking on which public facilities and services should be fee-based.

Another step would be to introduce appropriate new user charges. As HCMC is inexperienced in this regard, there must be adherence to certain fundamental principles; otherwise, we could fall into the trap of opportunism, leading to taxing whoever or whatever cannot avoid being taxed. But in summary, the *'ability-to-pay'* principle, the *'non-benefit tax'* principle and the *'mobile economic units'* issues need to be taken into consideration. Inspiration can also be drawn from international experience, to lessen the risk of wrong moves in the process of decentralization reform.

For example, according to Professor David G. Duff, water and sewage systems for water supply and treatment require a multi-parts tariff including (1) lump-sum access charge, (2) a variable charge based on water volume and finally, of course, (3) a distribution charge (Duff, 2004). But the problem is that most countries hesitate to interfere with the service of supplying and draining water, with no costs recovery for any of the three tariffs, on the grounds that the right to water is an essential human right. This approach, however, does not reflect reality.

In Canada's Ontario province, congestion charges in the summer are imposed even on residential consumers (Duff, 2004). Residential customers with higher income, those who live in penthouses or villas, should also be charged at a higher rate, since they use more water for value added utilities like gardens, lawns, and swimming pools.

Sewage charges are also levied in many developed countries. In Australia, sewage charges are divided into residential user charges (at a flat rate) and non-residential user charges (with the rate based on the size of the

property, discharge factor, volumetric component and the kinds of pollutants discharged) (OECD, 1991). In several European countries, residential and non-residential sewage rates depend on water consumption, including special effluent charges necessary to treat special wastes (OECD, 1991). Cities in the US increasingly rely on service charges as other revenues fall.²¹ As a modern city struggling with an outdated, overloaded and ineffective sewage and drainage system, HCMC can start to look specifically at this important user charge.

Fees and user charges tied to real estate, urban development and road maintenance should also be actively imposed by the local government. As we contended above, land and property are the most reliable and the safest financial source for local government, due to their immobility. Thus, many economists agree that, beside sewage and drainage, street services should be the next to come under scrutiny.²²

In 2008, the Dutch Parliament passed a national distance-based system of user charges for passenger and freight vehicles, based on a rate per kilometre. A distance-based charging mechanism for trucks exists in Germany, Austria, Switzerland and the Czech Republic (Robin Lindsey, 2009). Although Vietnam has a national road usage fee programme (as known as the Road Maintenance fee), automobile and motorcycle users in HCMC are largely unaffected, despite the fact that they are the most dominant beneficiaries in urban areas. For local law-makers in HCMC, understanding the density flow of its population during the day is important to make sure that local authority creatively targets the right 'users' of the road infrastructures.

Further down the road of the fiscal decentralization process, urban maintenance fees and urban real estate development fees, related to non-owner-occupied housing, commercial and trade building, special consumption service facilities and highly concentrated residential areas are further promising areas for taxation.

Conclusion

The present author are aware of the fact that readers could be left dissatisfied if this paper ends here. Our paper contains are so many uncertainties, and so many issues left unmentioned and undiscussed. Yet, the author also have to acknowledge that fact that decentralization, fiscal decentralization and local taxation are all extremely complicated fields.

A deep scrutiny of the rationale for further application of benefit taxes, fees and user charges in developing countries merits a national study programme in itself. The design of benefit tax and fees in Vietnam needs an extensive and established literature before that body of literature could be considered mature. A more detailed analysis of water and sewage charges and experiences in other jurisdictions could take Vietnamese officials several years to comprehend adequately. Road pricing to maximize net economic benefits with short-run marginal costs and other economic criteria is entirely another spectrum of social science study (Heggie and Fon, 1991). Within the time and resources available, this paper could not hope to achieve these technically demanding goals.

Notwithstanding the above, the author are confident that the paper will provide sufficient information for Vietnamese and regional researchers to understand decentralization around the world in the context of comparative law. The introduction of taxing power, fees and user charges with benefit-taxation guidelines at local levels is helpful and universal, as long as several prerequisites for reform are achieved. In the present condition of Ho Chi Minh City, however, caution is necessary, and technical experts, public support and even populist approaches are also required to make sure that the city's new-born fiscal autonomy will endure.

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