Viet Nam: a transition tiger?
State enterprises

Abstract for chapter 10

Viet Nam has achieved relatively strong economic growth and reductions in poverty via a combination of cautious changes in state ownership, increasing competition, and a gradual removal of barriers to private sector development.

This chapter examines this step-by-step reform of state enterprise from Doi Moi up until the Eighth Party Congress as well as the reforms that followed the Eighth Party Congress. Future directions of state enterprise reform, including recent resolutions on state enterprise reform, are discussed, as well as the implications for development and future reform.

Keywords:
STATE ENTERPRISES

STEP-BY-STEP STATE ENTERPRISE REFORM

In contrast to the rapid progress in divesting land-use rights for agriculture, forestry and aquaculture, the approach to state enterprise reform has been cautious. Before 1998, the only substantial divestiture of whole enterprises was the relatively rapid liquidation and/or mergers of (mostly small) non-viable enterprises from 1991 to 1994. The equitisation\(^1\) program adopted by the Seventh Party Congress in 1991 made particularly slow progress, with only 14 small and medium sized enterprises equitised by September 1997 (Communist Party of Vietnam 1991a).

More rapid progress was made in sharpening the incentives facing state enterprises by hardening the budget constraint and introducing competition (both domestic and through foreign trade). This had a positive impact on enterprise productivity, with substantial reduction in state enterprise employment during the late 1980s and early 1990s.

While reforms in the ownership of state enterprises moved at a slow pace, the negative consequences have not been as apparent as many external commentators had predicted. Characteristics of the sector that may have mitigated expected negative consequences include the following factors:

- state enterprises accounted for a relatively small share of national employment and a smaller share of national income than in most other transition economies
• there were relatively few large-scale, capital intensive state enterprises. Most enterprises were decentralised geographically with considerable management discretion enjoyed by the diverse ‘owning’ agencies within the national and lower level branches of government
• sound macroeconomic management limited government budget resources to subsidise state enterprises, thus hardening budget constraints
• Viet Nam did not experience the institutional collapse that occurred in Eastern Europe. Despite limited formal legal infrastructure, property rights and basic rules governing commercial relationships continued to be enforced
• foreign direct investment was encouraged to introduce new capital, technology and marketing skills to state enterprises
• early reforms were introduced to increase competitiveness and improve incentive structures, including trade liberalisation, property right reforms (for example, long-term land-use rights), and the relaxation and subsequent abolition of official price controls (Mallon 1998b:14–15).

STATE ENTERPRISE REFORM FROM DOI MOI UP UNTIL THE EIGHTH PARTY CONGRESS²

The need to improve the efficiency of, and incentives for, state enterprises was a recurring subject of development policy debate well before Doi Moi was announced. Lengthy sections of resolutions from past Party Congresses had been devoted to options for improving state enterprise efficiency. This reflected the strong commitment for the state, and state enterprises, to play a leading role in the nation’s development.

The strong commitment to a leading role for the state was maintained in policy statements throughout the early Doi Moi period, but in recent years there has been somewhat less emphasis on the contribution of state enterprises, and a gradually increasing emphasis on a role for private domestic investors in the nation’s long-term development. Elements of the state enterprise reform program during the early Doi Moi period included

• commercialisation to increase efficiency
• re-registration, restructuring and liquidation
• pilot equitisation
• establishing the basis for leasing and divestiture
• developing a legal framework (including the Law on State Enterprises)
• development of enterprise groupings (state corporations).
Commercialisation of state enterprises

Promulgation of Decree 217 in late 1987 marked the first post Doi Moi step towards a broad-based state enterprise reform program aimed at placing state enterprises on a commercial footing, with increased autonomy and financial responsibility. This decree put into effect a Party Resolution to give greater autonomy to state enterprises and to introduce a ‘socialist cost-accounting regime’. Subsequent implementing regulations further clarified relationships between government agencies and state enterprises under the new system. While ‘the people’ retained ownership of state enterprises, enterprise assets were ‘placed under the direct management and utilisation of the collective of workers and the director for the development of production and business’. Employees were to remain ‘masters of the enterprise’—approval of a general meeting of employees would still be required for decisions on major issues such as development strategies, annual business plans (which must also be approved by government agencies), profit distribution and employee welfare policies.

Important changes introduced under Decree 217 included

- the introduction of a profit based accounting system. Profits were to be assessed based on actual costs and revenues (not on plan directives)
- replacement of physical output targets with profit targets for most enterprises. Physical output targets were to be limited to the production of goods of ‘strategic importance’
- increased autonomy for enterprise managers in production, personnel and financial decision making
- abolition of budgetary support as well as the state supply of inputs, and restrictions on selling in the open market
- limitation of subsidies to on-lending through state-owned commercial banks. Bank credit was to be provided to state enterprises on a commercial basis
- allowing enterprises, except those with high levels of public investment, to retain depreciation charges.

A crucial change was the introduction of economic contracts as the basis for transactions between business entities. Economic arbitration offices were established to assist in enforcing contracts. State enterprises had to purchase inputs directly from suppliers, rather than being supplied by the state. Except for a few products that had to be sold at government mandated prices, state enterprises could sell on the open market.
Initially, only large-scale state enterprises were permitted to undertake direct external trade and were legally able to retain only a portion of foreign exchange earnings, but subsequent reforms, aimed at boosting exports, relaxed restrictions on state enterprise capacity to engage in external trade. Follow-up regulations helped define an economic role for state enterprises independent of the broader functions of government, to clarify corporate governance provisions and to permit state enterprises to enter joint ventures and forms of economic cooperation with other entities, including private enterprises and foreign investors.

Increased autonomy, harder budget constraints, and improved profit incentives contributed to significant restructuring of state enterprises. Pressures to restructure intensified with the cessation of economic aid from, and trade with, the former socialist bloc countries in Eastern Europe over 1990–91. While Decree 217-HDBT was a turning point, serious problems persisted. In May 1990, the government initiated a review of the early experience with state enterprise reform to assess the need for further reform. With harder budget constraints and increased competition—between state enterprises, with the emerging private sector, and from imports—the numbers of loss-making enterprises also increased. There were growing concerns about the lack of accountability for the use of state assets and the rapid increase in numbers of state enterprises, particularly at the local level. There was also concern that decision making was constrained by ambiguity and inconsistency in regulations, and overlapping responsibilities between management and government agencies.

Following this review, the Seventh Party Congress in 1991 noted that

…the weakest aspect of the state-run sector as a whole remains its inefficiency in business operations. A fairly large number of state-run industrial enterprises, especially those under district management, are beset with difficulties. Many state-run trading enterprises have made losses: quite a few have been misused by private businessman for illegal activities (Communist Party of Vietnam 1991a:77).

The Seventh Party Congress renewed the commitment to greater state enterprise autonomy, and an expanded private sector role, stating that

all enterprises, regardless of the system of ownership, should operate in accordance with a system of autonomy in business, co-operation and competition, and are equal before the law...The private capitalist sector is to develop without limits in terms of scale and location in sectors and professions that are not prohibited by law (Communist Party of Vietnam 1991a:154).

While the Party still maintained that state enterprises were to continue to play a leading role in the economy, there were also calls for consolidation of the
state enterprise sector, including the liquidation of non-viable enterprises and the equitisation of non-strategic state enterprises. Subsequently, the government introduced a second round of reforms.

**Re-registration, reorganisation and liquidation of state enterprises**

The decentralisation of authority to establish state enterprises under Decree 217-HDBT was followed by a proliferation of new state enterprise registrations, particularly at the local level. Local authorities had strong incentives to establish new state enterprises because they were able to exercise greater discretion in using state enterprise resources than they could with other state resources. However, increasing reports of financial failure and irregularities prompted government action to strengthen central control over state enterprises.

A second round of reforms started in 1991 which focused on reorganising and consolidating the state enterprise sector. The government issued a decree in November 1991 requiring all state enterprises to re-register or close. The decree specified criteria for establishing state enterprises, with commercial viability the main criterion for non-strategic enterprises. Minimum legal capital requirements were specified for different categories of state enterprises. Authority for approving the establishment of state enterprises was limited to the Prime Minister, Minister, or Chairman of the Provincial or Municipal People’s Committee depending on the scale and/or nature of the enterprise. State agencies, and/or organisations with state management functions, were not allowed to operate as state enterprises.

When that Decree was issued, there were an estimated 12,297 state enterprises (Nguyen Ngoc Tuan et al. 1995:2). By 1 April 1994, 6,264 state enterprises had been re-registered. The reduction in state enterprise numbers was achieved through liquidation (about 2,000) and mergers (about 3,000). Increases in average capital of state enterprises reflected the ongoing revaluation of state enterprise assets and mergers, and the impact of growth in investment in the state enterprise sector from domestic sources and joint ventures with foreign investors.

Most liquidated and merged enterprises were small locally managed state enterprises with less than 100 employees and 500 million dong in capital (about US$45,000 at that time). The assets of liquidated enterprises were generally sold to bidders from either the state or private sector. Total assets of liquidated enterprises accounted for less than 4 per cent of total state enterprise
assets and about 5 per cent of state enterprise turnover (Tran Ngoc Trang 1994). Money raised from the liquidation of state enterprises was first used to pay outstanding debts and surplus funds were transferred to the state budget.

In March 1994, instructions were issued for a second phase of re-registration. All re-registered state enterprises would continue to be monitored to ensure compliance with their certificate of registration. The new decision also required all umbrella entities, such as unions of enterprises and state corporations, to be registered as commercially viable business entities or be dissolved. The process of mergers and liquidation under the second phase of the re-registration process led to further, more modest declines in the number of state enterprises, to an estimated 5,500 at the end of 1997.

**Equitisation and divestiture**

The Seventh Party Congress called for pilot activities to dissolve or change the ownership of enterprises that did not need to be retained under state ownership (Communist Party of Vietnam 1991a:14). A Party resolution agreed that the conversion ‘of a number of eligible state enterprises into joint-stock companies...[which]...should be undertaken on a pilot basis and under close guidance, and experience should be drawn with utter care before divestiture is conducted on an appropriate scale’. The National Assembly approved a pilot equitisation program in late December 1991, and the government issued a decision to proceed with this pilot program in mid 1992. It aimed to increase efficiency through improved management and incentives; mobilise increased capital for investment, and allow enterprise employees to become owners of the enterprise.

Equitisation was in effect a form of partial privatisation—state enterprises were to be transformed into joint-stock companies and a proportion of state shares in the enterprise were to be sold. Implementing guidelines specified that pilot enterprises should be small or medium size and potentially profitable, but not ‘strategic enterprises’. Shares in equitised enterprises were to be registered, transferable and inheritable and be available to both employees and persons outside the enterprise. No single individual was allowed to own more than 5 per cent of all shares, and no institution could own more than 10 per cent. Enterprise employees were to be given preferential access to enterprise shares and provided with suitable redundancy and/or retirement packages as appropriate.
The Ministry of Finance was authorised to coordinate and work with the Central Institute for Economic Management, the Ministry of Labour, War Invalids and Social Affairs, the State Bank and other government agencies to implement the pilot program. A Central Steering Committee for Enterprise Reform (CSCER) was established in September 1992 to oversee government initiatives in reforming state enterprises. Line ministries and the chairpersons of provincial and municipal People’s Committees were assigned to establish divestiture steering committees to develop divestiture plans for submission to the CSCER and the Ministry of Finance for approval. Complex implementing arrangements provided opportunities for interested parties to slow progress.

Initially, seven enterprises volunteered for the pilot program, but these later withdrew. Subsequently, 21 new enterprises were selected, and the government later ordered the selection of another 200 enterprises. Most enterprises subsequently withdrew. Despite follow-up instructions calling for acceleration, implementation remained slow. Only 17 enterprises had been equitised by the end of 1997, despite a 1996 government directive instructing that 150 enterprises were to be equitised by the end of 1997.

In the lead up to the Eighth Party Congress, a review by the Central Institute for Economic Management concluded that equitised enterprises increased turnover and profit with no compulsory redundancies, and increased wages paid to workers (Le Dang Doanh 1995). Why then was it so difficult to gain the support needed to facilitate more rapid equitisation? Reasons given at that time included

- concerns by managers that they would lose the preferential treatment given to state enterprises (access to land, quotas, subsidised credit, and less strict financial reporting requirements)
- the lack of clear and transparent guidelines on equitisation procedures, especially those for valuation, formal classification of what enterprises could be equitised, and what to do with the social welfare services, funds and facilities provided by state enterprises prior to equitisation
- the fact that many state enterprises are too small for a joint-stock company structure to be economic
- the lack of liquidity in share trading because of restrictions under equitisation and the lack of formal share-trading institutions
- the limited institutional capacity to implement equitisation
• complex institutional arrangements that provided opportunities to slow progress
• political concerns about the impact of equitisation on the leading role of the state in the economy and, consequently, on state control over the economy.

Following the Eighth Party Congress in mid 1996, the government issued a series of new regulations to address these concerns. These will be discussed later.

**Legal framework for state enterprise activities**

The general legal framework governing business enterprises has evolved slowly and has gradually reduced differences in treatment between enterprises. The National Assembly approved the Law on Foreign Investment in 1987 and Laws on Private Enterprise and on Companies in 1990. As discussed earlier, the 1992 Constitution was also an important milestone in defining the rights of the non-state sector to operate alongside the state sector (Government of Vietnam 1992).

The 1993 Law on Bankruptcy and the 1995 State Enterprise Law were meant to facilitate improved governance and the closure of non-viable state enterprises. The Law on State Enterprises made progress in

• clarifying responsibilities and accountability and establishing state enterprises as limited liability entities
• distinguishing between state public service enterprises and business enterprises
• clarifying rights to establish and dissolve state enterprises, and the role of the government in exercising ownership rights in enterprises, including defining those rights that can be delegated to central ministries and/or provincial/municipal people’s committees
• defining the rights and responsibilities of state enterprises, including rights with regard to equitisation, divestiture and selling assets
• defining the rights and responsibilities of the chief executive, senior management, and the board of management
• specifying the rights and role of state management agencies and worker groups in day-to-day management decision making.

The law also addressed the rights and obligations relating to the management of investments by the state (or state enterprises) in other enterprises.
State business enterprises were subject to similar corporate governance structures as private enterprises, and profit maximisation was to be their main objective. State business enterprises had the right to ‘transfer, lease, rent and mortgage properties under their management, except important equipment and factories that are prescribed by the state...[and]...land and natural resources’. Autonomy in day-to-day management decisions, in mobilising capital and in allocating profits, was guaranteed within state guidelines. State enterprises were guaranteed the right to decide the level of salary and bonuses of employees within the framework of norms established by the state. State enterprises were required to comply with accounting and auditing standards established by the state and ‘to make public its yearly financial report and other information, with a view to allowing a correct objective assessment of the enterprise’s operation’.

The government retained the power to exercise ownership rights in state enterprises, including making decisions on the main components of the business development plan for the enterprise, promulgation of model statutes governing the organisational and operational arrangements, making decisions on capital structure, allocation of profits, sale or lease of major assets, and organisational arrangements to protect the rights of the state as owner of the capital of the enterprise, making decisions on management structures, appointment of senior management positions, making decisions on salary norms and allowances paid to employees, board members, and the chief executive of the enterprise.

A Board of Management was to be established for each state corporation and large state enterprises to ‘manage the activities of the enterprise, and be responsible to the government, or a state management body delegated by the government, for the development of the enterprise in accordance with the objectives assigned by the state’. Board members were appointed for a term of five years, contracts were renewable, and provision was included for performance contracts. The workers’ collectives were to be consulted on key management issues, including the collective labour accord, the use of enterprise funds directly related to the interests of labourers, business plans and assessment of business performance, measures to improve working conditions, training opportunities, and the wellbeing of workers. They also were given the right to propose candidates for the Board of Management.

However, key provisions of these two laws were never enforced. Few bankruptcy cases have been brought to the economic courts and the law is
widely seen as providing very little protection for creditors. Few state enterprises have published financial reports as provided for in Articles 12 of the Law on State Enterprises. There have been great delays in issuing implementing regulations and in effectively implementing key provisions. There has been little enforcement of provision of financial and performance reporting, despite the establishment of the General Department for the Management of State Capital and Assets in Enterprise in the Ministry of Finance with specific responsibilities for ensuring the financial accountability of state enterprises. The government continues to face serious difficulties in enforcing its ownership rights to sell or equitise state enterprises. The classification of state enterprises as public service or business enterprises (as required under the state enterprise law) was delayed by the absence of criteria and clear allocation of responsibilities for the process.

The main reasons for poor enforcement were that there was limited national understanding of the purposes of the laws and limited, if any, national demand for the laws. The two laws were approved because disbursements under a World Bank-funded structural adjustment loan were conditional on them being approved. There was little consultation with the business and financial sector in drafting the laws. This experience demonstrates the limited role of legislation as an instrument of change, where the laws are neither supported by a consensus of the concerned parties nor respond to a demand arising from within the society.

State corporations

The need to streamline state enterprise administration and to separate state ownership from state regulatory and public service functions has been a central proposition in the enterprise reform debate since the reform program started. The administrative grouping of enterprises under umbrella organisations was seen by the authorities as facilitating this separation.

Many state enterprises had for many years been grouped under unions of enterprises based on decisions issued by the government in 1978. New regulations governing unions of enterprises were issued in March 1989 which defined two alternative models for unions of enterprises: as a legal entity formed as a voluntary association of members, or as a stronger entity responsible for all enterprises covering specific public services such as power, postal services, rail transport, and air transport. In the second model,
membership was to be compulsory, member enterprises would not have a fully independent legal status, and the assets of member enterprises would belong to the union of enterprise. The proposals were resisted by both unions and member enterprises, and the institutional status quo prevailed.

While the Political Report of the Seventh Party Congress in 1991 called for enterprises to be grouped into large state corporations (Communist Party of Vietnam 1991b), Decree 388 (requiring re-registration of all enterprises) was vague on procedures for re-registration of existing Unions of Enterprises and state companies and corporations. The government issued two decisions in March 1994 specifying procedures for the re-registration of corporations and enterprise unions, which provided for the registration of two categories of state corporations, commonly referred to as Decision 90 and Decision 91 State Corporations. All state corporations, companies and enterprise unions were required to re-register as state corporations or state enterprises or be disbanded. Enterprise unions and other entities that only provided administrative services were required to be disbanded.

The stated objective of this decision was to consolidate enterprises in order to rationalise state enterprise supervision, and to facilitate the abolition of line ministry and local authority control over state enterprises. Arguments in support of state corporations focused on the economies of scale from larger state business entities, the increased scale needed for domestic enterprises with external competitors in domestic and international markets, the need to free state administrative resources to focus more on managing a reduced number of businesses better, and the idea that large state businesses were essential for the state to play a leading role in the industrialisation and modernisation of the economy.

Decision 90 State Corporations were required to have at least five member entities and total legal capital of VND 100 billion. Ministers and heads of the People’s Committee at the provincial or municipal level could approve the establishment of Decision 90 State Corporations. Decision 91 State Corporations could only be established with at least seven member entities, a total legal capital of VND 1,000 billion, and the approval of the Prime Minister. State corporations were not subject to the Company Law. They did not own their member entities, and were not holding companies like the South Korean chaebols. Many of their powers were more administrative in nature, similar to the enterprise groups (jituan) in China.
There is little evidence that the state corporations model has been successful in meeting stated policy objectives. Corporations have not resolved conflicts over the exercise of ownership rights. The state still directly exercises control over final decisions on major policies, investment plans and on the appointment and dismissal of senior management. Government officials from line ministries continue to intervene in the management decisions of corporations.

Member enterprises complain about direct involvement of state corporation officials in the day-to-day management of enterprises and argue that the state corporations merely add another layer of bureaucracy without producing any value added from their members’ contributions. Profitable member enterprises complain that they have to cross-subsidise inefficient enterprises, endangering their own viability in the process. Profitable state corporations are sometimes pressured to provide social services that would normally be a government responsibility. A lack of consolidated financial statements makes it difficult to assess the financial impact of state corporations, and suggests that there has been little improvement in terms of accountability and transparency. Amongst the first 18 Decision 91 Corporations established (see the following table), a number were well under the specified minimum capital requirements.

There has been considerable debate about the desirability of the state corporation model. Many external commentators have been especially critical of this approach, arguing that Viet Nam should learn from the problems with the South Korean chaebols. Frequently raised concerns included

- the potential for state corporations to strengthen state monopoly positions and reduce the competition that had stimulated enterprise performance
- state corporations with monopoly powers could evolve as a pressure group opposed to further reform and opening up of the economy
- potential inefficiencies resulting from profitable enterprises cross-subsidising loss-making enterprises within the corporations.

The actual extent to which Decrees 90 and 91 contributed to increased monopoly powers has not been thoroughly studied. In some sectors, member enterprises have to compete with other members of the same corporation, other enterprises (both private and state), and imports. In the case of Vinafood 1 and 2, key policies that protected these entities from competition have been lifted since they were established as state corporations (Table 10.1). However, where there are natural monopolies, the domestic market is concentrated and/or trade barriers remain significant, there is potential for corporations to
coordinate the operations of their member enterprises to exploit possible monopoly positions. Certainly some state corporations have continued to use monopoly pricing (for example, in telecommunications and aviation), and the government has only permitted the introduction of very limited competition in these sectors. Partly in response to these concerns, the government has formally included the study of options for regulatory and institutional reforms to prevent abuses of monopoly power in its reform agenda.

The Law on State Enterprises clarified the legal status of state corporations as legal entities with the same rights and obligations as state enterprises. The law states that state enterprises generally have the right to decide whether to join as members of state corporations, but provision is included for compulsory membership when this is of special importance. The law requires that state corporations to establish a Board of Management and Control Commission to supervise the executive and to make major policy and investment decisions,

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<th>Table 10.1</th>
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<td>State corporation</td>
<td>Member enterprises (excluding j-v)</td>
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<td>Coal Corporation of Viet Nam</td>
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<td>Viet Nam Petroleum Corporation (PETROVIETNAM)</td>
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<td>Cement Corporation of Viet Nam</td>
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<td>Viet Nam Chemical Corporation</td>
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<td>Viet Nam National Gem and Gold Corporation</td>
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<tr>
<td>Viet Nam Ship Building Corporation</td>
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Note: ¹ At the time the decision to establish the Corporation was issued.
Source: Government Gazette, various issues.
and to appoint an executive team led by a chief executive to take responsibility for the day-to-day operations of the Corporation. Recent regulations on equitisation require state corporations to administer the equitisation of selected member enterprises.

STATE ENTERPRISE REFORMS FOLLOWING THE EIGHTH PARTY CONGRESS

The Political Report to the Eighth Party Congress in mid 1996 criticised the slow pace of state enterprise reform, noting in particular the slow pace of reforms aimed at improving enterprise efficiency and accountability and also the lack of progress in the pilot equitisation program. At the same time, the report stressed that calls for mass privatisation were inappropriate.

The Eighth Congress stated that ‘the state economy plays the leading role and, together with the cooperative sector, will become the foundation of the economy’ but that it was also important to ‘create favourable economic and legal conditions for private entrepreneurs to feel assured in investing in long-term business’ (Communist Party of Vietnam 1996a:50). The Congress noted an urgent need to improve the efficiency and transparency of state business. It also highlighted the need for a greater focus on improving financial management of all state enterprises, and to rely on profitability indicators to evaluate the performance of state business enterprises while also using social indicators to evaluate the efficiency of state public service enterprises.

Continuing slow progress with enterprise and administrative reform, concerns about the low efficiency and competitiveness in domestic production and the impact of the Asian economic crisis led to a notice from the Politburo in April 1997 calling for an acceleration of the equitisation process. The Fourth Party Plenum (December 1997) emphasised the need for financial sector and macroeconomic stability if Viet Nam was to cope with the unfavourable impact of the regional economic crisis and for a renewed focus on state enterprise reform.

The resolution of the Fourth Party Plenum charged that some officials are ‘inefficient, bureaucratic, corrupted, overbearing, oppress the people, hinder economic development and cause indignation amongst the people’ (Communist Party of Vietnam 1996b). This resolution highlighted the need for accelerated enterprise reform as the third of six priority program areas. Priorities for enterprise reform included: accelerating the equitisation program; developing
to be restructured (merged, divested, leased, or contracted out under performance contracts), incorporating state business enterprises as limited liability or joint-stock companies under the Company Law; promulgating regulations to deal with supervision of enterprises with monopoly powers; and introducing regulations imposing compulsory auditing and publication of annual reports. The resolution also sought action

- to encourage farmers to buy shares in equitised agriculture processing and trading enterprises
- to allow foreigners to be buy shares in equitised enterprises
- to formulate policies and legislation to control monopolies
- to improve the state corporation model to strengthen vertical and horizontal cooperation
- to reorganise inefficient corporations.

Further calls to accelerate broader economic reforms were made less than a year later at the Sixth Party Plenum (October 1998). Subsequently, implementation of state enterprise reform activities has accelerated, but the government continues not to meet its own targets for equitising enterprises. These continuing delays, despite the increasingly strong Party and government commitment to substantially reducing the numbers of state enterprises, suggests that resistance to change is still strong at intermediate levels and within state enterprises.

‘Compulsory’ equitisation

Decree 28, issued in May 1996, abolished the enterprise management’s right to veto equitisation decisions and provided clearer guidelines on responsibilities for action. At the same time, a Central Steering Committee on Equitisation was established, chaired by the Minister of Finance, to oversee the equitisation process. Decree 28 was amended in March 1997 and replaced by Decree 44 in June 1998. Both decrees sought to mobilise increased capital and new technology to develop state enterprises and to encourage employee owners of enterprises to play the role of real owners, to increase incentives, and incomes. The options to be followed in equitisation were clarified, specifying the responsibilities of government agencies and enterprise management in implementing equitisation, defining worker entitlements, and establishing a
central committee for reform of enterprise management. Importantly, Decree 44-CP included an appendix that listed the categories of state enterprises which could not yet be equitised, and those enterprises in which the state had to retain controlling or special shares.

Subsequent implementing regulations listed the steps that had to be followed in the equitisation process. Decisions on the equitisation of enterprises with a total of VND 10 billion (about US$900,000 at that time) were delegated to relevant ministers, or provincial chairpersons. Bonus and welfare funds were to be distributed to current employees to purchase shares. Decree 44 included provisions for equitisation through the issuance of new share capital, selling part of existing state equity in a state enterprise, separating and selling part of an existing state enterprise, and selling all state equity in an enterprise. State corporations were required to prepare lists of member enterprises to be equitised. Participation by foreign investors was also permitted on a pilot basis, subject to the approval of the Prime Minister.

The above changes addressed many of the constraints to accelerating equitisation. Whereas only 17 state enterprises were equitised from 1992 until the end of 1997, some 102 enterprises were equitised in 1998, 249 in 1999, 212 in 2000, and 197 in 2001.

Despite this progress, the government recognises that further changes are required to meet ambitious targets to reduce state enterprise numbers substantially by 2005. Part of the problem is that many state enterprises are not suited to the equitisation process either because they are not viable in their current form or because they are too small to operate under a joint-stock management structure. Consequently, the government has also stepped up its efforts to improve the regulatory framework for divestiture, leasing and contracting-out of state enterprises.

A second concern relates to the undervaluation of equitised enterprises and a lack of transparency in the sale of shares in equitised entities. Undervaluation results particularly because land-use rights do not have to be factored into enterprise valuations, although they are typically the most valuable asset. While this undervaluation is not a great problem from an economic efficiency perspective, lack of transparency in share sales and the broad public perception that access to shares is usually limited to (the often already privileged) state enterprise management and employees, state officials connected with the
enterprises, and business partners of the enterprise are cause for public concern. This will become a growing concern as larger and more profitable state enterprises are equitised.

**Divestiture, leasing and contracting-out of state enterprises**

The government issued regulations setting out procedures for divestiture and dissolution of state-owned enterprises in mid 1996, and amended these in April 1997. Implementing instructions were issued in mid 1997. In September 1997, the government issued Decree 103 on the Regulation on Contracting Out, Leasing and Divestiture of State Enterprises. Prior to this decree, there had been informal experiments with leasing and contracting out services and assets as a means for improving state enterprise efficiency. Indeed, some state enterprises earned a substantial proportion of their income from contracting out assets (including rights to use land and export quotas). However, there had been no transparent system for pricing and allocating these ‘leasing’ arrangements and it is difficult to assess the extent of such arrangements, but they were reported to be significant in areas such as retail services. Decree 103 aims to provide a more transparent process to facilitate the divestiture, leasing or contracting out of state enterprises with legal capital of less than VND 1 billion (about US$70,000), or up to VND 5 billion for loss-making enterprises.

The stated objectives of this decree were to increase the efficiency and competitiveness of the state run sector; to ‘promote the labourer’s right to mastery’, and create employment and higher income opportunities for workers, reduce state costs and responsibilities for business management. The scope of the decree was limited to the restructuring of whole enterprises, and specifically did not apply to the sale or leasing of parts of enterprises. Substantial preferences (reductions in the sale price of up to 70 per cent) were given to labour collectives to buy these enterprises. Larger preferences were given to collectives guaranteeing to retain the most workers. Other individuals or entities could purchase enterprises at up to a 50 per cent discount if they retained all workers for at least one year. Further reduction in sale price of 20 per cent could be obtained for immediate cash payments for enterprises. There are also provisions for state enterprises to be assigned free of charge to labour
collectives, provided the collective commits to increasing investment, maintaining employment, and not dissolving or selling the enterprises for at least three years.

A critical concern with Decree 103 was the lack of transparency in valuation procedures. Combined with the substantial discounts offered, there would appear to be considerable scope for privileged persons to acquire state assets at very low prices. Public concerns about the lack of transparency and restricted access to these potentially profitable opportunities—and questions as to why employees fortunate to have had the benefits of state employment should be entitled to special privileges—have slowed implementation of this decree. Nevertheless, 37 state enterprises were sold, and 4 contracted out during the period 1999 to 2001. Another 60 enterprises (43 in 2001) have been assigned to labour collectives.

**Corporatisation: transformation of state enterprises to limited liability companies**

The Enterprise Law included provision for state enterprises to be corporatised as state-owned limited liability enterprises. A decree outlining the procedures for corporatisation was issued in September 2001. Detailed implementing regulations were issued in January 2002 authorising ministers and the heads of provincial people’s committees to approve the corporatisation of individual state enterprises. Under these regulations the Prime Minister’s approval is required for the corporatisation of any members of Decision 91 State Corporations.

These actions were in response to instructions given in the resolutions of the Third Party Plenum, and the five-year plan endorsed by the National Assembly, to accelerate actions to transfer all state business enterprises into state limited liability enterprises. The aim is to transfer all state business enterprises into limited liability enterprises by the end of 2005. Given the past pace of state enterprise reform, this appears to be an ambitious target.

The government has also ordered that new regulations be drafted to specify the relationship between subsidiaries of state corporations, and to increase the accountability of subsidiary enterprises. Options being considered include the transformation of state corporations into holding companies.
FUTURE DIRECTION OF STATE ENTERPRISE REFORM: RECENT RESOLUTIONS ON STATE ENTERPRISE REFORM

The Third Party Plenum resolution

The Third Party Plenum\(^2\) called for further acceleration of reforms to increase state enterprise efficiency. Efficiency was to be assessed ‘based on a comprehensive view in economic, political and social aspects; in which the return on capital shall be one of the major criteria to assess the efficiency of operating business enterprises with the results in implementing social policies as the major criterion to assess the efficiency of public utility enterprises’. The resolution notes that it is not essential for state enterprises ‘to hold a large share in all branches and sectors and products of the economy’. Acceleration of the equitisation process was seen a key to achieving ‘radical change for improving the efficiency of state enterprises’. The Resolution of the Third Party Plenum instructed that during 2001–05, the government should

- basically complete the restructuring of existing state enterprises: equitising state enterprises where the state does not need to retain 100 per cent ownership; liquidating inefficient state enterprises; transferring, selling and leasing small state enterprises which cannot be equitised and the state does not need to keep control
- corporatise as limited liability enterprises all state enterprises where the state was to retain 100 per cent of equity. Amend the existing mechanism and policies to establish a consistent legal framework that ensure autonomy and accountability in state enterprise business operations
- reform and clean up state enterprise finances; resolve unrecoverable debt and labour redundancies and devise measures to prevent their recurrence
- reform and enhance the business efficiency of state corporations to establish several strong economic groups
- invest to develop and set up new state enterprises where needed in key sectors, branches and important localities
- reform and modernise the technology and managerial capability in most state enterprises.

The resolution clarified that the state is to retain 100 per cent ownership in state business enterprises involved in producing explosive materials, toxic chemicals, radioactive materials, and cigarettes, and managing the national
power transmission grid and international and national communication networks. The state will retain a controlling share in larger enterprises that ‘contribute significantly to the state budget and/or spearhead the application of hi-tech, and breakthrough technologies and also contribute considerably to macro-economic balances’, and in state enterprises that ‘provide necessities for…rural populations and ethnic minorities in the mountainous and remote areas’. Enterprises belonging to Party organisations shall be subject to the same restructuring as other state enterprises, while enterprises belonging to political and social organisations will be required to register under the Enterprise Law.

The state will retain 100 per cent ownership of public service enterprises in areas such as ‘printing money, flight controls, maritime control, radio frequency management and distribution; production and repair of weapons and military hardware and equipment for national defence and security; enterprises entrusted with special national defence tasks and enterprises operating in strategic locations and combining the economic operations and national defence tasks in accordance with the government decisions’. The state will retain a controlling share of public service enterprises responsible for ‘technical inspection of large transport vehicles, publication of academic books, political papers and books, current event and documentary films; management and maintenance of the national railways and airports, management of watershed irrigation system, plantation and protection of watershed forests; water drainage in large cities; lighting system of cities; management and maintenance of land roads, bus and coach stations, important waterways; production and supplies of other products and services as provided for by the government’. The resolution also noted that households and non-state enterprises will be encouraged to provide public goods and services.

The resolution called for a Competition Law to be issued ‘to protect and encourage enterprises from all economic sectors to compete and cooperate on equal footing within the common framework of the law’. It called for steps to be taken to monitor and assess the efficiency of state enterprises regularly and to strengthen accounting, auditing, reporting and publication of information on the financial performance of state enterprises. A state Finance Investment Company is to be established to manage state shares in business enterprises on a pilot basis. Mechanisms were to be developed for tendering out the provision of public goods and services.
The government plans to ‘rearrange and strengthen those corporations that are vital to the national economy while merging or dissolving other state corporations’. State corporations are to be retained and strengthened in petroleum exploitation, processing, and wholesaling; the supply and distribution of electricity; the exploitation, processing and supply of coal and other important minerals; metallurgy; heavy manufacturing; cement production; post, telecommunications and electronics; airlines; maritime; railway; chemicals and chemical fertilisers; key consumer good and food industries; pharmaceuticals; construction; wholesale grain trading; banking; and insurance. State corporations are to be transformed as holding companies, on a pilot basis, with member entities corporatised as limited liability enterprises, with a minimum capital of VND 500 billion.

A number of specialised economic groups are to be established based around state corporations, but with private sector participation. The government argues that economic groups are seen as important in allowing Vietnamese enterprises to compete internationally in sectors such as petroleum, telecommunications, electricity and construction. At the core of these groups will be conglomerates operating at home and abroad with a minimum capital of VND 10 trillion (US$667 million).

Government state enterprise reform agenda

The government expressed concern that ‘only 40 per cent of the SOEs operate at a profit, 29 per cent have prolonged losses and 31 per cent break even’ and considered state enterprise restructuring as ‘key to enhancing the competitiveness of the economy and ensuring successful integration’. In its report to donors in December 2001, the government noted a recent acceleration in state enterprise reform

…government decrees and other legal documents have been issued to provide guidelines for equitising state enterprises, for the divestiture, leasing and contracting out of state enterprises, and for the transfer of state enterprises into single-member limited companies, creating the basic legal framework to facilitate the operation of state enterprises within a socialist-oriented market mechanism. Initial progress has been made in adjusting the number, structure, and size of state enterprises. The number of state enterprises has been reduced from more than 12,000 to just over 5,000, and it is planned to further reduce the numbers by one-half, maintaining only those operating in key economic areas, especially in public services (Government of Vietnam 2001).
The stated objectives of accelerated equitisation are to create enterprises with a variety of owners, including a large number of workers; utilise the capital and assets of the state in an efficient manner to mobilise domestic capital for business development and create a dynamic and efficient management mechanism for state enterprises; enhance ownership of the workers, shareholders and promote supervision of enterprises by society; and ensure harmonised benefits between the state, the enterprises and labourers. The government also intends to include the value of land-use rights in enterprise valuations, and to identify options to ensure that valuations better reflect market value. Options to be piloted include public tendering for shares, and the sale of shares through intermediary financial institutions. Revenue from the selling of shares are to be used to implement redundancy policies, and for re-investment by the state in business development. While equitisation remains the preferred policy, efforts will also be made to accelerate the transfer, divestiture, merging, and/or liquidation of state enterprises that are not suited to the equitisation process. Increased efforts are to be made to build public understanding of, and support for, these policies.

IMPLICATIONS FOR DEVELOPMENT

Achievements and remaining constraints

State enterprise reform has been one of the most contentious areas of Viet Nam’s economic reform process. The most substantial changes occurred during the late 1980s and early 1990s in response to the cessation of economic cooperation with the former Eastern European countries. During this period nearly one-third of the workforce was made redundant. Subsequently, the number of state enterprises, and the share of state enterprises in GDP, remained little changed over most of the 1990s.

With the benefit of hindsight it is possible to identify the impact of three tracks taken in reforming state enterprises in Viet Nam. The most significant influence was from the track exposing state enterprises to some of the rigours of the market, by forcing them to compete—on a gradually more level playing field—with each other, with imports, and with an emerging private sector. Direct subsidies were abolished, and many indirect subsidies reduced (but far
The net result is that most state enterprises face a less elastic, if not hard, budget constraint, and operate in a substantially more competitive environment.

Another track involved a protracted effort to develop a new policy and regulatory framework to restructure and improve state enterprise efficiency. The net result of this track was a plethora of decrees, decisions, directives and circulars dealing with enterprise restructuring. The issuance of regulatory documents in Viet Nam is generally a time consuming, labour intensive process, involving many rounds of meetings and consultations. Sustaining this effort for such a protracted period suggests a strong commitment for change from at least some parts of the leadership. However, if there was such a strong commitment to reform, the obvious question is why many policy reforms were largely ignored by those responsible for their implementation. Why was Decree 388,67 issued in late 1991, enforced quite effectively, but Decision 202,68 issued a few month later, largely ignored despite repeated follow-up instructions urging action? Both regulations should have been implemented at a similar period of time, and both would have potentially important costs for some interests. Follow up regulations were issued in both cases in an attempt to facilitate implementation. These questions are raised, although the authors are unable to provide definitive answers. The processes of consultation and debate in drafting new policy documents and regulations have had a powerful educational impact, changing attitudes that eventually contributed to the acceleration of reforms. It is not possible, however, to determine whether faster reforms would have been possible if the government had taken a more authoritarian line in imposing implementation.

The third track was to allow pilot reforms and experimentation—to learn by doing. This had been the track adopted in many of the earlier reforms in agriculture, and with cooperatives, trading and other services. However, this approach was markedly less successful in the case of state enterprise reform. This was no doubt due to the fact that reforms in the area of state enterprises had much more clearly discernible costs to many of the officials responsible for implementing these measures.

The various tracks complemented each other, gradually building the support for state enterprise reform, needed to accelerate reform in the face of resistance from vested interests. State enterprise reform is a difficult process that requires
substantial inputs of political capital. Leading proponents of reform in Viet Nam have noted the need to weigh up the potential gains of reform with the probability of success in deciding where to focus their efforts.

Viet Nam has achieved relatively strong economic growth and reductions in poverty via a combination of rather cautious changes in state ownership, increasing competition, and step-by-step removal of barriers to private sector development. But, there remain important questions about the appropriate pace of further reform and appropriate goals in striking a balance in the structure of ownership.

One interesting analytical issue relates to the relative importance of measures to change the structure of ownership as compared to measures to increase competitiveness and exposure to market forces. A possible interpretation of the Vietnamese experience is that promotion of competition is more important than promotion of changes in ownership.

**Pace of state enterprise reform**

Despite official commitments to accelerating state enterprise reform, resolutions of both the Eighth and Ninth Party Congresses maintained that the state was to continue playing a leading role in economic development. Of all recent Party policy resolutions, the continuing commitment to state-led economic development provoked the strongest criticism by multilateral financial institutions and OECD donors, with many warning that state enterprises have been a (if not the) major impediment to achieving strong and sustainable economic growth and that economic growth and stability can not be sustained without accelerated state enterprise reform. Those arguing for faster reform say that even greater progress could have been achieved with faster dismantling of state enterprises. They argue that this would have facilitated much greater private sector investment and employment creation.

An alternative view is that a stable set of state institutions, including state enterprises, along with market liberalisation have helped lay the foundations for a competitive private economy. A steady organic growth of private business has provided greater stability, more equitable distribution of the benefits of growth, and a more solid base for future development than may have been achieved by attempts to ‘kick-start’ a private sector through the rapid transfer of state assets despite the absence of an appropriate institutional environment,
with the attendant risks of ineffective enterprise management, asset stripping and the hasty creation of private property rights of questionable legitimacy.

Even within the Party there are conflicting views. Some senior Communist Party and government leaders have persistently criticised lower administrative levels for failing to meet state enterprise reform targets. The lack of national consensus on the direction of state enterprise reform was clearly recognised in the resolution of the recent Third Plenum of the Ninth Party Congress ...

...a high degree of unanimity of perception is yet to be obtained regarding the role and position of the state economic sector and state enterprises ... many issues remain unclear, entailing conflicting opinions, yet practical experiences have not been reviewed for proper conclusions. There are many weaknesses and bottlenecks in the state administration of state enterprise...Mechanisms and policies are entangled with many inadequacies...failing to generate a strong motivation for managers and workers in enterprises to raise labour productivity and business performance; a segment of state enterprises’ managers fail to meet professional and moral requirements. The Party’s leadership and the government’s guidance...are still incommensurate to this important and complex task.71

Implications for future reform

Despite the acceleration of state enterprise reforms in recent years, and regardless of the arguments about the pace of reform, there is clearly much unfinished business. Probably the most important incentive for the state to accelerate state enterprise reform is an increasingly public debate about equity, corruption and the misuse of state assets in the reform process. Most Vietnamese state enterprises are small. It will never be economic to implement effective governance of state investments in many of these small state enterprises. The more viable option—if the state is to achieve its objectives of increasing efficiency and reducing corruption—is for most of the small state enterprises to be sold. But the same public concerns about corruption and equity which lend support to the case of divestiture also require a greater transparency in the processes by which state assets are sold.

There is now a growing private sector with the capacity to buy the smaller state enterprises, but public bidding for the sale, or leasing out, of all of the smaller state enterprises will be essential in retaining public support for the process. Government policy seeks to ensure that workers have preferential access to state assets under public bidding processes, but there are questions as to
why preference should be given to state enterprise workers, who are not among the more disadvantaged groups in society.

Although the case of divestiture of the smaller state enterprises is strong, the state retains an unequivocal commitment to retaining and strengthening state enterprises engaged in some core industries and services, and in the provision of public services. In this regard, Vietnamese policymakers cite the examples of other successful East Asian and European economies in which an active role of the state has been combined with effective use of market instruments. Given this approach, the challenge is to improve governance of these enterprises, and to improve performance incentives for enterprise managers, in order to sustain the growth in labour productivity achieved in recent years. It is not difficult to envisage a gradual relaxation of the state’s position with regard to state ownership over time, as a large-scale domestic private sector emerges with the legitimacy, resources, and capacity to acquire and develop these businesses.

In discussions in the donor community in Hanoi, there was at times a certain reluctance to deviate from the ‘Washington consensus’ on the role of the state, because of a belief that this might lend support to groups opposed to further reform. But it is also important that experience and pragmatism, and not ideology, drive policy advice. Experiences of difficulties faced in other transition economies have demonstrated not only the failure of the central planning model, but also failures of poorly designed and managed reform efforts that neglect the important role that effective institutions (state and private) play in developing competitive market economies. There are limits to short-cutting development processes by simply copying models from long-established market economies.

In an analysis of the reform process, perhaps the key question of political economy is not whether it conforms to some abstract model of transition to a market economy, but rather what are the concrete patterns of interest engendered by the reform? In the Viet Nam case, an interesting aspect has been the degree to which those in the system have been able to benefit from the reform process and have therefore found it acceptable. Given that the Party highlighted conflicting internal views in the resolution of the Third Plenum, achieving consensus for more accelerated reforms in this area will require more time and debate in the Party and government.
NOTES

1. In Vietnamese, equitisation (xe phão hâa) refers to the transformation of a company to a share-holding company. Under the old Company Law this implied a divestiture of shares because this law required a share-holding company to have at least seven shareholders. The new Enterprise Law allows for the state to be the single owner of limited liability companies, but requires at least three shareholders in joint-stock companies.

2. See Mallon (1996) for more detail.


5. Decree No. 50-HDBT, (22/3/88) provided details on implementing Decree 217-HDBT. Decree No. 98-HDBT (2/6/88) defined the rights and limits of worker unions in state enterprise decision making. Decision 93-HDBT (2/12/89) defined the powers of management in making management decisions. Decision 332-HDBT (23/10/91) provided details on the rights and responsibilities of enterprises regarding the management of state assets.


7. The legal basis for these changes was reinforced by State Council Ordinances on: Principles of Accounting and Statistics (29/9/88); Economic Contracts (29/9/89); and Economic Arbitration (12/1/90).

8. By the early 1990s, controls were limited to public utilities and services, petrol, fertilisers, cement, steel, sugar and paper.

9. In practice, even before the controls were relaxed, many state enterprises showed little enthusiasm to transfer convertible currency to the State Bank.


Decree 388-HDBT (20/11/91), 'Establishing and Liquidating State Enterprises', Directive 393-CT (25/11/91) and Circular 34-CT (28/1/92). Later amended under Decree 156-HDBT (7/5/92) and Decision 196-CT (5/6/92).

Strategic state enterprise was not defined, but was understood to include enterprises that contributed to national defence, public utilities and enterprises producing basic factors of production (for example, steel and cement), and key services such as banking.

Decision 90-TTg (7/3/94), ‘Work to Re-arrange State Enterprises’.

Specifically, a resolution of the Second Plenum of the Seventh Party Congress.


Decision 84-TTg (1/3/92), ‘Establishing a Central Steering Committee on Enterprise Reform’. This committee is now chaired by the Minister for Planning and Investment.

Decision 84-TTg (4/3/93), ‘Accelerating the Pilot Scheme for Converting State Enterprises into Share Holding Companies’.

The target was specified in Article 3 of Decision 548-TTG (13/8/96), ‘Establishment of the Equitisation Steering Committee under Decree 28-CP (7/5/96) of the Government’.

One of the first equitised enterprises, the Refrigeration Electrical Engineering Company, faced initial difficulties in retaining export permits after equitisation.

A state public service enterprise was defined as ‘a state enterprise that produces and provides public services pursuant to state policies, or directly involved in the discharge of defense or security tasks’ (Law on State Enterprises, Article 3 (4)). More detailed definitions were subsequently provided in Decree 56-CP (2/10/96) ‘On Public Utility State Enterprises’.

The Prime Minister’s approval was required for state corporations and large state enterprises to be established. Ministers and Heads of the People’s Committees of the Provinces and Municipalities were allowed to approve the establishment of other state enterprises.

Law on State Enterprises, Articles 49–54 (and Article 3 for definitions of state predominant and special shares).

Law on State Enterprises, Articles 7–8. State enterprises also had the right to ‘reject and denounce all requests for supply of resources not prescribed by law from any individual, agency or organisation, except voluntary contributions for humanitarian or public utility purposes’.

Law on State Enterprises, Articles 10–12 (quote from Article 12(2)).
By itself, this would not be bad. A good bankruptcy law could encourage problems to be resolved without having to resort to the courts. The problem, however, has been that bankruptcy actions have been slow, costly and often unsuccessful.

References:

32 Law on State Enterprises, Articles 31(2), 34 and 35.
33 Law on State Enterprises, Articles 41–42.
34 By itself, this would not be bad. A good bankruptcy law could encourage problems to be resolved without having to resort to the courts. The problem, however, has been that bankruptcy actions have been slow, costly and often unsuccessful.
36 Directors of member enterprises were to be represented on the Board of Directors of the Union of Enterprises. The head of the Union of Enterprises was to be elected by member enterprises, subject to the approval by the government.
38 Article 2(2) of this decision does emphasise that, in establishing business groups, efforts should be made to ‘limit both monopoly powers and disorderly competition’.
39 Most importantly private enterprises were allowed to engage directly in external trade in agricultural commodities (including rice). Agriculture trade reforms were key conditions of an ADB-financed agriculture adjustment program.
40 Law on State Enterprises, Article 7 (1.d).
41 See Chapter V of the Law on State Enterprises. See also Decree 39-CP (27/6/95), ‘Model Charter on the Structure and Operations of State Corporations’.
42 Resolution 8/1998/NQ-CP (16/7/98) notes that ‘impediments in the system of institutions and administrative procedures remain large. Some cadre, especially at the executing level, still cause hindrances and harassments to the production and business activities of the population and the enterprises. Implementation of the policies and regulations of the state, including correct ones which are promulgated in time, has not been serious…’
44 Decision 548-TTG (13/8/96), ‘Establishment of the Equitisation Steering Committee under Decree 28-CP (7/5/96). This committee was then abolished under Decree 44-CP in 1998.
46 Decree 44-CP (29/6/98). ‘The Transformation of State Enterprises into Joint-Stock Companies’.

Decision 111-CP (29/6/98). ‘Establishing the Central Committee for Reform of Enterprise Management’. This decision repealed earlier decisions establishing the Central Steering Committee for Reform of Enterprises (Decision 83-TTg, 4/3/93) and the Central Steering Committee for Equitisation (Decision 548-TTg, 13/8/96).

Decree 44-CP (29/6/98), Article 17. The cut-off value in Decree 28-CP was VND 3 billion: this had been increased to VND 10 billion in Decree 25.

This allowed an enterprise to be transformed into a joint-stock company, new shares to be issued, and these new shares to be sold to fund expansion, thus diluting state equity.


Article 3 of Decree 28-CP (7/5/96), ‘Transformation of a Number of State Enterprises into Joint-Stock Companies’. This is not allowed under the current Company Law, but exceptions are often made for ‘pilot’ reforms.


Decree 103-CP (9/9/97), Regulation on Assigning, Selling, Business Contracting or Leasing State Enterprises.

Decree 103-CP (9/9/97), Article 2.

Decree 103-CP (9/9/97), Articles 51–52.

Decree 63-CP (14/9/01), ‘Transforming State Enterprises into Single Owner Limited Liability Enterprises’.

Circular 01/2002/TT-BKH (28/1/02).
Central Party Committee Resolution 05-NQ-TW (24/9/01), Resolution of the Third Plenum of the Ninth Central Party Committee ‘On Continuing to Restructure, Reform, Develop and Improve the Efficiency of State Enterprises’.

The Competition Law is scheduled for consideration by the National Assembly during 2003.

Presentation by Deputy Prime Minister Nguyen Tan Dung to a two-day workshop on state enterprise in March 2002 (as reported in *Saigon Times Weekly*, 9 March 2002).

Government reports indicate that about 60 per cent of state enterprises have capital of under only VND 5 billion (about US$330,000).

Presentation by Deputy Prime Minister Nguyen Tan Dung to a two-day workshop on state enterprise in March 2002 (as reported in *Saigon Times Weekly*, 9 March 2002).

Decree 388-HDBT (20/11/91), ‘Establishing and Liquidating State Enterprises’, reinforced in Directive 393-CT (25/11/91) and Circular 34-CT (28/1/92). Revised and strengthened in Decree 156-HDBT (7/5/92) and Decision 196-CT (5/6/92).

Decision 202-CT (8/6/92), ‘Implementing Experiments to Convert state Enterprises to Share Holding Companies’, and followed by Decision 84-TTg (4/3/93), ‘Accelerating the Pilot Scheme for Converting state Enterprises into Share Holding Companies’.

This was a major topic of ‘dialogue’ between government and donors during the preparation of the last two five-year development plans, and at most CG meetings.

The World Bank warned that ‘[o]verwhelming international evidence indicates that there are limits to what reform without divestiture of non-strategic enterprises can accomplish and sustain. Divestiture of non-strategic state enterprises will be critical to encourage entry by private business in productive sectors’ (1995a:xii).

Central Party Committee Resolution 05-NQ-TW (24/9/01), Resolution of the Third Plenum of the Ninth Central Party Committee ‘On Continuing to Restructure, Reform, Develop and Improve the Efficiency of State Enterprises’.