

**Study on the Economic Development Policy in
The Transition toward a Market-Oriented Economy in
The Socialist Republic of Viet Nam
(Phase 3)**

**Final Report
Vol. 5 State-Owned Enterprise Reform and
Private Sector Promotion**

March 2001

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**Ministry of Planning and Investment
The Socialist Republic of Viet Nam**

**Japan International
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Foreword

This study entitled "Study on the Economic Development Policy in the Transition toward a Market-Oriented Economy in Viet Nam (Phase 3)" was conducted within the framework of the technical cooperation program of the Government of Japan, in response to the request from the Government of the Socialist Republic of Viet Nam.

This study was carried out as a joint research by professionals specializing in economic policy from both Japan and Viet Nam. The research groups headed by Shigeru Ishikawa, Professor Emeritus of Hitotsubashi University for the Japanese side, and by Dr. Nguyen Quang Thai, Vice president, Development Strategy Institute, Ministry of Planning and Investment, for the Vietnamese side were set up in each country, assisted by consultant teams from leading institutes in both countries.

The research groups and consultant teams held a series of discussions, and conducted several field surveys. This report was prepared jointly by Japanese and Vietnamese research groups based on a mutual understanding.

I hope that the useful suggestions presented in this report will contribute to the formulation of policies for economic transition and sustainable development of Viet Nam, and it would be my great pleasure if the report would be used practically by concerned organizations, officials and experts.

I wish to express my sincere appreciation to Professor Ishikawa, Dr. Thai and each research member for their close cooperation extended to the study, and to the officials concerned for their valuable opinions.

March 2001



Kunihiko SAITO

President

Japan International Cooperation Agency

Preface

The joint Viet Nam Japan Project of the Study on Economic Development Policy in the Transition toward a Market-oriented Economy in the Socialist Republic of Viet Nam, which we called in short Joint Vietnamese-Japanese Research (JVJR), has just terminated its 6-year activities of an undertaking for "intellectual cooperation" with the aim of advising various issues in designing and implementing the Five-year Social-Economic Plans in Viet Nam. JVJR was agreed upon in the consultations between the Governments of Japan and Viet Nam in 1994 and 1995 and was inaugurated in August 1995. The project was formally implemented under the Japan International Cooperation Agency (JICA)'s Social Development Studies Program as well as Technical Assistance Program.

Under the agreement, the research was to be conducted jointly by Japanese and Vietnamese study groups each consisting respectively of an average 20 academic scholars and high-ranking experts of a similar number.¹ Japanese study group was supported by professional consultants. In fact, these research members were regrouped into a small number of Study Group organized by different academic disciplines, and the joint studies were carried on mainly through these Study Groups. Moreover, the whole studies were conducted in three Phases and one Follow-up, and the Study Groups were specified for each Phase or Follow-up.

Below, the names of the Study Groups with their main study topics are shown according to this phasing.

Phase 1 (August 1995 - June 1996)

Main topic: Issues relating to the draft documents about the 6th Five-Year Plan

- (1) Macro-economy Group
- (2) Fiscal and Monetary Group
- (3) Industrial Policy Group
- (4) Agricultural and Rural Development Group

Phase 2 (July 1996 - March 1998)

Main topic: Issues relating to the participation to AFTA/APEC/WTO, and Industrial policy

- (1) Agricultural and Rural Development Group
- (2) Participation for AFTA/APEC/WTO and Industrial Policy Group
- (3) Fiscal and Monetary Policy Group
- (4) State Enterprise Reform Group

¹ By the end of Phase 2, the Vietnamese-side members of JVJR Study Group consisted solely of the high-level officials and experts of Ministry of Planning and Investment, but thereafter the high-level officials and experts of other Ministries: Ministry of Finance, State Bank of Viet Nam, Ministry of Trade, Ministry of Industry, and Ministry of Agriculture and Rural Development and Ministry of Labor, War Invalids and Social Affairs were permitted to participate in the JVJR Study Group as fullfledged members.

Follow-up Phase (July 1998 - July 1999)

Main topic: Issues arising from the impacts of the East Asian Economic Crises on the Vietnamese economy

- (1) General Commentary Group
- (2) Industry and Trade Group
- (3) Fiscal and Monetary Matters Group
- (4) Agricultural and Rural Development Group

Phase 3 (September 1999 - March 2001)

Main topic: Issues relating to the draft documents about the 7th Five-Year Plan

- (1) General Commentary Group
- (2) Trade and Industry Group
- (3) Fiscal and Financial Reform Group
- (4) Agricultural and Rural Development Group
- (5) State-owned Enterprise Reform and Private Sector Promotion Group

While conducting these studies, we held a large number of workshop either on the Study Group level or the overall project level, and either in Tokyo or Hanoi. Workshop on overall project level numbered 12.²

The results of these studies and the policy options derived therefrom were published in official reports jointly by JICA and MPI.³ In addition, we have attempted the commercial publication of a book on overall results of JVJR at the stage of the Phase 2 end.⁴

In retrospect, JVJR started at the period of Vietnamese economic development in which long years of Indo-Chinese War ended and the recovery from war-torn productive facilities and economic system minimumly completed, and therefore, it became possible for the government to think over Vietnamese economic development plans from a long-term perspective. We recognized on the other hand, that the Vietnamese economy was still at the embryonic stage of industrialization and market economy development. Hence, the

² Phase 1

Hanoi Preparatory Meeting (May 29, 1995); First Hanoi Workshop (August 28-29, 1995); Consultations on the work plan for joint research (November 27-28, 1995, Tokyo); Tokyo Workshop (January 28-29, 1996); Second Hanoi Workshop (March 1-2, 1996)

Phase 2

Tokyo Workshop (March 22-23, 1997); Consultations on the progress of joint research and announcement of results (May 22-23, 1997, Tokyo); Hanoi Workshop (June 6-7, 1997);

Follow-up

Hanoi Workshop (July 20-21, 1999)

Phase 3

Tokyo Preliminary Meeting (May 30-31, 2000); Tokyo Workshop (July 26-27, 2000); Hanoi Workshop (December 8-9, 2000)

challenging task before us was, in a sense, how to combine the existing theories of development and other disciplines with the practical knowledge of the Vietnamese economy to obtain the really useful prescriptions for triggering the development process in such an early-stage developing country. In the more-recent years when Vietnamese economy encountered a series of difficult issues from the international economic aspects, the task was again quite new and challenging. It was to discover for a country of embryonic industrializations those development policies that enable her to industrialize herself without resorting to conventional policy of "infant-industry protection."

The results of the study have not yet been very satisfactory. But the progress achieved in the method of the joint study has been satisfactory in that the relationship of mutual trust between the Vietnamese and Japanese study groups and among all research members, and even deep friendship, have begun to take root while tackling with these challenging tasks jointly. We both sides believe this mutual trust and friendship would continue to alive even after this round of the joint research ended.

The Japanese side members of JVJR feel extremely fortunate that throughout these six years they have been given many opportunities to meet with the former Secretary General Do Moui, the present Secretary-General Le Kha Phieu and other Vietnamese leaders and seek their opinions. These opportunities were

³ Phase 1

MPI/JICA(1996): *Opinions of the Five-Year Plan for Social and Economic Development 1996-2000 in Viet Nam: Vol.1 General Comments*, JICA, Tokyo.

MPI/JICA(1996): *Opinions of the Five-Year Plan for Social and Economic Development 1996-2000 in Viet Nam: Vol.2 Macro Economy*, JICA, Tokyo.

MPI/JICA(1996): *Opinions of the Five-Year Plan for Social and Economic Development 1996-2000 in Viet Nam: Vol.3 Fiscal and Monetary Policy*, JICA, Tokyo.

MPI/JICA(1996): *Opinions of the Five-Year Plan for Social and Economic Development 1996-2000 in Viet Nam: Vol.4 Industrial Policy*, JICA, Tokyo.

MPI/JICA(1996): *Opinions of the Five-Year Plan for Social and Economic Development 1996-2000 in Viet Nam: Vol.5 Agricultural and Rural Development*, JICA, Tokyo.

Phase 2

MPI/JICA(1998): *Study on the Economic Development Policy in the Transition Toward a Market-Oriented Economy in Viet Nam. Vol.1. General Comments/Agricultural and Rural Development*, JICA, Tokyo.

MPI/JICA(1998): *Study on the Economic Development Policy in the Transition Toward a Market-Oriented Economy in Viet Nam. Vol.2. Participation in AFTA /APEC/WTO and Industrial Policy*, JICA, Tokyo.

MPI/JICA(1998): *Study on the Economic Development Policy in the Transition Toward a Market-Oriented Economy in Viet Nam. Vol.3. Fiscal and Monetary Policy*, JICA, Tokyo.

MPI/JICA(1998): *Study on the Economic Development Policy in the Transition Toward a Market-Oriented Economy in Viet Nam. Vol.4. State Enterprise Reform*, JICA Tokyo.

Follow-up

MPI/JICA(1999): *General Commentary / Industry and Trade*, JICA, Tokyo.

MPI/JICA(1999): *Financial and Monetary Matters*, JICA, Tokyo.

MPI/JICA(1999): *Agricultural and Rural Development*, JICA, Tokyo.

⁴ Ishikawa Shigeru and Hara Yonosuke (1999): *Viet Nam no Shijo Keizai ka* (Marketization of the Vietnamese Economy), Toyo Keizai Shinpo-sha, Tokyo.

instrumental in bringing depth and strength to our study and findings.

The Vietnamese side members of the project express sincere thanks to JICA and its Viet Nam Office for supporting its research activities particularly in Japan.

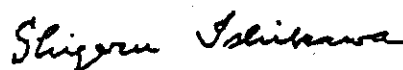
This Final Report is submitted herewith to the leaders of Viet Nam Government as well as to other government agencies concerned. Also, we shall be presenting it to the interested parties in order to seek comments and opinions that would be useful for the possible future joint Vietnamese Japanese Research along the similar lines of the present work.

In addition, we have presented an Executive Summary in March 2001. This was prepared even before the Final Report, as it was required that the research outcome of Phase 3 could be available even briefly before the 9th National Party Congress. It is hoped that this Executive Summary will also be referred to by the readers.

March 31, 2001, Hanoi/Tokyo



Nguyen Quang Thai
Vietnamese Cochair of the JVJR
Doctor of Economics



Shigeru Ishikawa
Japanese Cochair of the JVJR
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Acronyms & Abbreviations

ADB:	Asian Development Bank
AFTA:	ASEAN Free Trade Area
AICO:	ASEAN Industrial Cooperation
APEC:	Asia-Pacific Economic Cooperation
ASEAN:	Association of South East Asian Nations
CEPT:	Common Effective Preferential Tariff
CGE:	Computable General Equilibrium
CIEM:	Central Institute for Economic Management
CIS:	Commonwealth of Independent States
CKD:	Completely Knocked Down
CMT:	Cut, Make and Trim
CONCETTI:	Consulting and Research Company for Technology Transfer and Investment
CPI:	Consumer Price Index
DSI:	Development Strategy Institute
EAF:	Electrical Arc Furnaces
FDI:	Foreign Direct Investment
FOB:	Free on Board
FYP:	Five-Year Plan
GC:	General Corporation
GDP:	Gross Domestic Product
GRIPS:	National Graduate Institute for Policy Studies
GSO:	General Statistics Office
HNU:	Viet Nam National University, Hanoi
ICT:	Information and Communication Technology
IMF:	International Monetary Fund
IT:	Information Technology
JICA:	Japan International Cooperation Agency
JVJR :	Joint Vietnamese-Japanese Research (officially “the Study on the Economic Development Policy in the Transition toward a Market-oriented Economy in the Socialist Republic of Viet Nam”)
LLDC:	Least Less Developing Country
MARD:	Ministry of Agriculture and Rural Development
MITI:	Ministry of International Trade and Industry (currently “the Ministry of Economy, Trade and Industry”)

MNC:	Multi-National Corporation
MOF:	Ministry of Finance
MOI:	Ministry of Industry
MOSTE:	Ministry of Science, Technology and Environment
MOT:	Ministry of Trade
MPI:	Ministry of Planning and Investment
NEU:	National Economic University
NISTPASS:	National Institute for Science and Technology Policy and Strategy Studies
NPL:	Non-Performing Loan
NTB:	Non-Tariff Barrier
ODA:	Official Development Assistance
OOG:	Office of Government
PCF:	People's Credit Fund
PE:	Polyethylene
PP:	Polypropylene
PPH:	National Political Publish House
PRSP:	Poverty Reduction Strategy Papers
PVC:	Polyvinyl Chloride
SBV :	State Bank of Viet Nam
SI:	Supporting Industry
SME:	Small and Medium Enterprise
SOCB:	State-Owned Commercial Bank
SOE:	State-Owned Enterprise
SSC:	Southern Steel Corporation
SSC:	State Securities Committee
TISCO:	Thai Nguyen Iron and Steel Corporation
TVE:	Township and Village Enterprise
UNDP:	United Nations Development Programme
VASI:	Viet Nam Agricultural Science Institute
VAT:	Value-Added Tax
VBA:	Viet Nam Bank for Agriculture and Rural Development
VBP:	Viet Nam Bank for Poor
VNCC:	Viet Nam Cement Corporation
VSC:	Viet Nam Steel Corporation
WEI:	World Economic Institute
WTO:	World Trade Organization

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Chapter 1 State-Owned Enterprise Reform: General Introduction



Continuing the Reorganisation, Renovation and Development of State-Owned Enterprises

Le Dang Doanh

Central Institute for Economic Management

To accomplish the objective of industrialising and modernising the country and effectively integrating into the world's economy, it is necessary to push up more strongly the reorganisation, renovation and development of state-owned enterprises so as to make them efficient and capable of performing their role.

The process of state-owned enterprises reform took place in the late 80's and early 90's mainly through the 5 measures, namely: merge and dissolution; establishment of enterprises' business autonomy and adoption of a cost-accounting system in the conditions of a market-based economy; formation of State corporations as an enterprise model; equitisation of state-owned enterprises; and assignment, sale, lease and business contracting of state-owned enterprises.

As a result of the Government's three reorganisation campaigns made in the period from 1991 to now and other reform schemes, the number of state-owned enterprises was reduced while their quality improved, many of them modernised themselves, raised production/ business efficiency, and concentrated capital. The number of state-owned enterprises with a capital of less than VND 1 billion reduced from nearly 50% (in 1994) to 26% (in 1999) while the number of those with more than VND 10 billion increased from 10% to more than 20%, respectively, and their average capital increased from VND 3.3 billion to more than VND 21 billion. However, out of 5,571 state-owned enterprises that currently exist, 65.4% have an amount of capital of less than VND 5 billion and 21% more than VND 10 billion. As reported by 14 provinces, as many as 90% of state-owned enterprises in their localities have less than VND 5 million in capital. In addition, it has been the situation that state-owned enterprises are engaged in many fields where private enterprises can conduct business activities, and that in a particular geographical area or field of business there is an overlap in activity between state-owned enterprises managed by the local authorities and those managed by the various ministerial authorities.

After a reduction of 720,000 labourers during the period from 1989 to 1992, state-owned enterprises' workforce has resumed its growth from 1993 and now reaches 1.7 million, or an equivalent to the number of labourers working at state-owned enterprises as of 1991. Workforce redundancy has become a regular phenomenon at state-owned enterprises but their levels of qualification and skills in almost all professions and occupations remain the same. According to survey results, productivity of workers at state-owned enterprises is lower than that of private workers with lower professional rating.

Despite state-owned enterprises' effort to upgrade their technology, this remains a problem of great concern. Some industries made significant steps to renovate technology and raise competitiveness, for example textile, garment, construction material, construction and engineering, telecommunications, electricity and plastics industries while railway, mechanical, machine-tool and some other industries remain completely backward.

State-owned enterprises still are the principal donor to the State budget (in 1999 their contributions accounted for 39.2% of all contributions made to the State budget). The rate of their contribution to the GDP increased from 36.5% to 40.2%, and their export value accounted for more than 50% of the whole country's.

After 5 years of operation some State corporations have made positive steps forward in an attempt to maintain and concentrate capital, raise production capacity, efficiency and competitiveness. Examples include Viet Nam Post and Telecommunications Corporation, Viet Nam Oil and Gas Corporation and some others. In 1999, despite numerous difficulties, these corporations managed to maintain their production growth. Corporations established pursuant to Decision 91/TTg of the Prime Minister ("Corporations 91") achieved a 12% increase in their revenue, 23% increase in profit, and 29% increase in contributions to the State budget. However, business results of corporations are still below their potentials and far from meeting the requirements. Their capital is tiny, technology is obsolete, and productivity, quality, efficiency and competitiveness are low. Some corporations failed to be active in assisting member enterprises, the relationships between a corporation and its members are loose and resemble something like a mechanical combination and thus they do not help create general strength for the corporation as a whole.

The renovation and reorganisation of state-owned enterprises pose many issues that need to be further dealt with in order to set up a reasonable structure and assure business efficiency for state-owned enterprises, thus to enable them to raise their competitiveness, to meet the requirement for international integration in the future, and to join other sectors in an effort to maintain high economic growth rates.

The orientations and solutions for achieving the above-mentioned objectives in the coming period include:

- (1) Finalising the classification of enterprises. All state-owned enterprises, except for corporations, will be classified according to their levels of importance and efficiency and whether they are profit-seeking or public service vehicles. After classification, each state-owned enterprise will be converted into one of the following forms: not to be equitised while continuing to be wholly owned by the State; to be incorporated as companies; to be equitised with a controlling interest or special interest, or no interest, to be held by the State; to be offered for assignment, sale, business contracting or lease; and to be dissolved or go bankrupt. It is expected that in the coming period, state-owned enterprises will continue to be developed in the key industries such as gas exploration and processing, oil refining, metallurgy, and information technology.
- (2) In case of necessity the State will establish new state-owned enterprises in the fields of industry and service in order to promote the general development of the economy, for example gas industry, oil refinery industry, information technology, stock exchange brokering, etc., which, together with other

constituent elements, will guarantee the State's dominant role in the national economy.

- (3) The State will own the whole of or a controlling share in enterprises that operate in the fields of national defence and security and that make or supply, pursuant to social policies, necessary public welfare products which other economic sectors do not wish, or are not allowed, to deal with. Enterprises doing business in the field of public welfare will be diversified. No restrictions should be imposed on other economic sectors doing business in the field of public welfare that meets the needs of life. The State should introduce incentives to be commonly applied to all public welfare products and services irrespective of economic sector.
- (4) Economic sectors should be encouraged to boost business activities in all areas and fields not prohibited by the law. Mixed ownership enterprises where a share is to be held by the State will be formed. At the same time, efforts will be made to strengthen and develop those state-owned enterprises operating in the fields belonging to State monopoly which make huge contributions to the State budget and take lead in developing the key industries of the economy, especially in application of essential and high technology, and which play a role in stabilising macro economy.
- (5) A shift will gradually be made to the form of one-owner limited liability company or shareholders company with a share being held by the State. To create legal basis for the transformation of state-owned enterprises into one-owner limited liability companies, the Ministry of Planning and Investment and other concerned authorities are expeditiously completing a draft government decree on the transformation of state-owned enterprises and enterprises of political and socio-political organisations to one-owner limited liability companies and will submit it to the Government for promulgation in near future. The State will grant autonomy to state-owned enterprises to be so transformed and will invest its capital in those transformed enterprises through the State financial investment companies. This scheme aims to make a change from capital allocation mechanism to investment mechanism and to clearly identify the enterprise's ownership over its equity and the enterprise's right to use such equity. The State financial investment companies will be responsible for exercising the rights of the State as the owner of the capital invested in the enterprise, through which this capital flow will be channelled to the essential industries and fields of business in the national economy and the State's capital will be better managed and re-invested.
- (6) The financial management scheme (applicable to state-invested enterprises) which currently is of administrative nature, will be converted to a capital investment scheme to be operated under the conditions of a market-based economy. With respect to state-owned enterprises, the State will shift from the capital allocation mechanism to the financial investment mechanism where the State's investments will be made through its financial investment companies. Enterprises' rights to own and use capital will be well-defined. The parenthood of ministerial and local authorities over state-owned enterprises will be abolished, thus enabling state-owned enterprises to operate in accordance with

law.

- (7) State corporations as an enterprise model will be reorganised, and their business efficiency be improved. State corporations will be reorganised and developed where there is an actual need for them. In those fields of business and industries where there is no need for their existence or if they do not meet the requirements in terms of capital, technology or competitiveness, they will be merged or dissolved.

Where corporations are to be maintained and further developed, a pilot conversion to the parent-subsidiary model will be made, and economic groups will be established on experimental basis in certain industries and fields of business where they find their strength and advantages for raising their competitiveness in the process of international integration, for example post and telecommunications, oil and gas, and electricity. Those economic groups and corporations will enjoy the economic autonomy and conduct their business activities in accordance with law.

- (8) The equitisation of state-owned enterprises in which the State need not to hold 100% of equity will be accelerated. This aims to create mixed-ownership enterprises which are believed that the State capital will be used in the most efficient way and the equitized enterprises will be capable of raising huge amounts of funds from the public.

To accelerate the equitisation process, it is necessary to amend and supplement some mechanisms and policies, for example: improving the methods for determining enterprises' value and for selling shares so as to heighten impartiality and preciseness and avoid hindrances and frauds; increasing the rate of shares to be acquired under the first share issue under the Law on Enterprises and the Law on Domestic Investment Encouragement; amending and supplementing the priority scheme in selling shares to workers with a view to creating motivations for boosting production/ business activities and making workers deeply attached to their enterprises, while allocating an appropriate rate of shares for sale to the outsiders with a view to attracting capital and managerial expertise from outside shareholders.

- (9) The scheme for assignment, sale, business contracting and lease of state-owned enterprises will be pushed up in seeking to eliminate from the State sector those enterprises which are of small scale and with obsolete technology and which operate inefficiently or run at loss; this is to be done through the provision of guidelines for dealing with issues that arise, for example debt settlement, determination of enterprises' actual value, and settlement of interests and benefits for workers.

- (10) In tandem with pushing up the reorganisation of state-owned enterprises, the State should introduce appropriate mechanisms and policies, for example:

- Policies towards workers in state-owned enterprises to be reorganised: Specific policies should be elaborated to guarantee the legitimate interests relating to social insurance, allowances, re-training, etc. for laid-off workers on the principle of co-responsibility among the State, the enterprise and the workers themselves;

- Policies for dealing with bad debts owed by state-owned enterprises: Debts should be clearly classified for the purpose of properly dealing with each of them, both the debtor and creditor should take the initiative in repaying and collecting debts in accordance with the current laws and regulations; mechanisms, policies and measures should be introduced to make "healthy" the financial status of enterprises, a debt purchasing agency should be established to unfreeze bad debts for enterprises, the regulations on bankruptcy should be amended to be more simple, and Decree 189/CP of 1994, in particular, should be amended in the first place to abandon the requirement that an enterprise to be audited prior to its submitting an application for bankruptcy;
 - At the same time, the State should make policies to grant material and spiritual incentives to and to raise responsibilities of enterprise managers. The State will stipulate criteria and processes for enterprises to select and deploy staff mainly through examinations. Enterprises will choose payment methods, at their own, in close relation to production/ business results while the State will not restrict the maximum salary but, instead, regulate income through personal income tax.
- (11) Efforts should be made to renovate and raise efficiency of State management, with clearly distinguishing between the functions of state management and that of enterprises' production/ business activities. The State will concentrate on establishing and perfecting the legal framework and promulgating policies and mechanisms towards state-owned enterprises which conduct profit-seeking activities and those which conduct public welfare activities.
 - (12) The rights and responsibilities of State organs as the owner and as the user of State assets at enterprises should be clearly identified so as to ensure that users of State capital use the capital efficiently and maintain and develop it for the achievement of the set objectives while complying with the applicable laws and regulations.
 - (13) In the context of increasingly integrating into the regional and world economy, in order to secure the existence and development, enterprises need to renovate technology, employ more young managerial staff and provide regular, intensive training on international trade to the staff.
 - (14) To organise entry examinations and enter into fixed term, or conditionally liability contracts with the key personnel of state-owned enterprises.

**Present State of Reform of State-Owned Enterprises
in Viet Nam and Their Problems
— Focusing on ‘Equitization’**

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1. Methods of survey and analysis

This report analyzes the present condition of reform of state-owned enterprises (SOEs) in Viet Nam, focusing on their 'equitization' (transformation into stock companies). Based on various materials, including our field survey in Hanoi from March 30 to April 8, 2000 and a questionnaire survey in the summer and autumn of the same year conducted by Mr. Vu Huy Thong, Lecturer, National Economic University. We would like to thank him.

In the survey, he translated the questions we prepared in English into Vietnamese, had interviews with the subject enterprise personnel and collected the replies. (Responses not received on site were mailed afterward). Since the survey was not implemented through an official agency in Viet Nam, it did not involve a large number of samples and no responses were obtained for quite a few items. The sampling of subject enterprises was not perfect either.

The questionnaire covered 50 enterprises, including 14 equitized companies (ECs) and 36 non-equitized companies (NECs). Of the 36 NECs, 14 planned to equitize while 22 did not. The former group are referred to below as equitization-planning companies (PCs), while the latter group are referred to as non-equitization planning enterprises (NPCs).

Since there have been few general and multiple studies of the present state of SOEs, we hope this report will make some contribution.

In our survey, emphasis was placed on how the respondents actually recognized the management of their enterprises, rather than on their formal remarks. Although it may be possible that some respondents gave wrong answers to some questions, actual management is performed according to such wrong notions of the executives or employees, rather than following official documents. In Viet Nam, it is often the case that there are differences between legally prescribed systems and their actual application. In this context, we made efforts to understand the actual situation as far as possible, while paying attention to some extent to institutional aspects.

The respondents to the questions were directors, deputy directors, heads of department and deputy heads of department of SOEs.

2. Types of SOEs

(1) Sizes

Setting aside the question to what extent the enterprises included in this survey represent the entire SOEs in Viet Nam, we will first review the average size of subject enterprises to illustrate the entire picture of SOEs.

As of December 2000 (at the time of the survey), the average number of employees among all subject

enterprises was 500: 169 in ECs and 633 in all NECs (of which there were 716 in PCs and 578 in NPCs).

The ratio of white-collar workers was 21 percent for all enterprises, 18 percent for ECs and 23 percent for NECs.

Table 1 shows the total assets, net assets, sales and production of the enterprises surveyed.

Table 1 Total assets of subject enterprises

Total assets (100 million VND)					
	All	Equitized	Non-equitized**	Equitization-planning	Non-equitization-planning
1999	350 (37)*	205 (12)	420 (25)	655 (9)	288 (16)
Net assets (100 million VND)					
1999	164 (17)	207 (6)	141 (11)	240 (2)	119 (9)

* The figures within brackets () are the number of valid replies (the same applies to other tables below).

** Two 'general companies' that replied to our questions were excluded because they were different in character to other enterprises surveyed (the same applies in principle to other tables below).

Table 2 Sales and production of subject enterprises (100 million VND)

Sales					
	All	Equitized	Non-equitized	Equitization-planning	Non-equitization-planning
1999	456 (24)	233 (9)	590 (15)	927 (4)	467 (11)
1995	283 (19)	59 (6)	387 (13)	420 (4)	373 (9)
Production					
1999	438 (25)	255 (10)	560 (15)	804 (4)	471 (11)
1995	241 (18)	93 (6)	315 (12)	181 (4)	382 (8)

* 'General companies' and those which disclosed either sales or production were excluded.

As seen in Table 1 and Table 2, the total assets, sales and production of subject enterprises were not very large.

The average total assets per subject enterprise in 1999, 35 billion VND, were about 2.5 million USD or 300 million yen according to the (then) exchange rate of 1 USD = 14,000 VND. This size was equivalent to a middle or small-scale company in Japan. As it is said that 50 percent of state-owned industrial enterprises in Viet Nam have a paid-up capital of less than 90,000 USD and less than 100 employees, the enterprises in our survey are not particularly small¹.

Of the subjects, one enterprise claimed total assets of 10.6532 trillion VND (760 million USD or 90 billion yen), sales of 5.945 trillion VND and production of 6.1 trillion VND. However, this is a cement

¹ However, a little less than 10 percent of SOEs are said to have a capital of 714,000 dollars or more.

cf. Asian Development Bank, Report and Recommendation of the President to the Board of Directors on Proposed Loans and Technical Assistance Grants to the Socialist Republic of Viet Nam for the State-owned Enterprise Reform and Corporate Governance Program. Nov. 1999, p.11.

industry general corporation (GC) consisting of a corporate group with a considerable number of enterprises under its umbrella. As its character is different from that of other enterprises, it was excluded from the calculations of average size as described in the notes to Table 1. For the same reason, another GC was excluded from the calculation. As Table 1 indicates, average total assets was 20.5 billion VND for ECs and 42 billion VND for NECs (the latter being larger than the former).

Interestingly, among the NECs, PCs are larger in size than NPCs. Although unrelated to differences in size, PCs have quite a few relatively unique features, to be referred to later. Thus, we will analyze SOEs by categorizing them as ECs, PCs and NPCs as necessary below.

(2) Gaps in growth

What kind of growth patterns can be observed among SOEs in Viet Nam? Let's compare the pace of growth of five categories of enterprises (all, ECs, NECs, PCs and NPCs) in terms of average total assets, sales and production, per company. For this purpose, we will compare the figures for 1997 and 1999, assigning the value 100 to the base year of 1995. The number of valid samples of each category is the same as used above to compare total assets, production and sales.

Table 3-1 Growth of total assets (1995 as 100)

	All	Equitized	Non-equitized	Equitization-planning	Non-equitization-planning
1999	140	270	139	197	101
1997	108	103	110	155	75

Table 3-2 Growth of production

1999	181	272	178	443	123
1997	144	200	136	269	105

Table 3-3 Growth of sales

1999	161	394	152	221	125
1997	128	246	119	143	111

* Two GCs excluded

Distinctive differences can be seen in the speed of growth of the five enterprise categories. By 1999, ECs had increased their total assets, net assets and sales to double or more 1995 levels, showing a sharp contrast with NECs. It is interesting to note that this remarkable growth was attained in spite of the fact the difference in the growth of total assets from that of NECs was less significant in 1997. This means that the growth of production and sales attained in 1997 affected total assets in 1999.

The movement among PCs is also interesting. They were not equitized at all at the time of the survey, but

are now planning equitization. It is noteworthy that production and sales (i.e. a flow aspect) of these enterprises rapidly increased, though the growth of total assets (i.e. a stock aspect) was less significant compared with that of other categories of enterprises.

In view of the rapid growth pattern commonly seen with ECs and PCs, we can, to some extent, identify the effect of equitization in ECs. It should be noted, however, that ECs had not long been equitized at the time of the survey, and that PCs had naturally not yet experienced the effects of equitization. In this sense, it can be said that these enterprises enjoyed vitality from the beginning. Their self-subsistent corporate philosophy in opposition to regulations or interference by competent governmental agencies was often evident at SOEs, and they sought equitization positively to realize their intrinsic potentials.

However when ECs and PCs are compared, the growth of total assets and sales is obviously greater in the former. It is possible, therefore, to infer that equitization inherently stimulates growth and rapid development.

(3) Subsidies, debts and finance

It is well known that compensation in the national budget for the deficits of inefficient SOEs, what is so-called the 'soft budget constraint', is a heavy burden on the national economy, so the rationalization of SOEs is an important matter. Accordingly the policy of cutting subsidies out of the national budget was rapidly promoted in the 1990s.

It is said that the ratio of (expenditure on) applicable industries in the national budget decreased from 35 percent in 1992 to 8 percent in 1996². However, the implementation of this policy was still not completely successful. For example in 1997 the Ministry of Finance decided to supplement the working capital of SOEs through subsidies, interest on money borrowed and investments, though this may partly have been intended as a response to the Asian currency crisis³.

In our survey, we found that the figure for explicit subsidies in the national budget was not so large. Although subsidies from GCs were considerable, this paper does not attempt a detailed examination of this issue, as the survey of these corporations was separately reported. However, it should be noted in relation to this survey that these corporations were organized to rationalize the supervision of SOEs, realize economies of scale and acquire international competitiveness. Nevertheless, mere increase in scale does not promote competitiveness. There might be a kind of religious belief in the power of scale.

Since the number of valid replies in this survey was limited, it may be rash to generalize about its findings. However, subsidies from GCs and other organizations to the enterprises surveyed are gradually decreasing as a whole as seen in the following table. It should be noted that subsidies for ECs are increasing, though the amount itself is not so large and that subsidies for PCs are substantial. Since these two categories

² Asian Development Bank, op. cit.

³ Asian Development Bank, op. cit.

of companies are developing more rapidly than others, it is conceivable that demands for funds are also growing.

The same tendency seems to be found in movements of debts and debt ratio, discussed immediately below.

Table 4 Subsidies for SOEs, per enterprise
— Subsidies from GCs and others (million VND)

	All	Equitized	Non-equitized	Equitization-planning	Non-equitization-planning
1999	3075 (23) [75]	259 (7) [194]	4308 (16) [89]	11600 (3) [105]	2625 (13) [95]
1997	3631 (21) [89]	271 (4) [203]	4422 (17) [92]	11933 (3) [108]	2812 (14) [102]
1995	4080 (19) [100]	133 (3) [100]	4820 (16) [100]	11025 (4) [100]	2752 (12) [100]

The figures within brackets [] are indexed with the figure for 1995 as 100.

One financial problem in Viet Nam, now being pointed out, is that enterprises rely excessively on the banking system, as dependency on the national budget decreases. The ratio of bank loans to SOEs (to total loans to all enterprises) increased from 19 percent in 1992 to 52 percent in 1998. According to the estimate by the IMF for 1,044 large-scale SOEs, the average ratio of debts to assets is 0.62 (higher than 0.5) which means that debts are larger than owned capital. This tendency is said to have been accelerated by the political measures taken by the central bank to deal with the currency crisis in 1997⁴.

The financial situation of the enterprises surveyed is moderate in terms of an increase in debt and the debt ratio, except in the case of PCs.

In the case of PCs, the amount of debt is increasing, reflecting the increase in demand for funds corresponding to the rapid growth of sales and production as mentioned above. However, the situation is not so grave from the viewpoint of the debt ratio. The debt ratio worsened in 1997 in all categories of enterprises in response to the Asian currency crisis referred to above, but has recovered to some extent since 1999.

Table 5-1 Average amount of debt (million VND) per enterprise

	All	Equitized	Non-equitized	Equitization-planning	Non-equitization-planning
1999	10366 (102) [32]	3473 (229) [9]	13064 (111) [23]	11342 (394) [8]	13982 (84) [15]
1997	12694 (125) [26]	3198 (210) [4]	14421 (123) [22]	8052 (280) [8]	18061 (109) [14]
1995	10193 (100) [20]	1520 (100) [3]	11724 (100) [17]	2880 (100) [6]	16548 (100) [11]

⁴ Asian Development Bank, op. cit. p.13

The Central Bank of Viet Nam issued a directive in November 1997 that mortgages are not required for loans from state-owned commercial banks.

Table 5-2 Average debt ratio (percent) per enterprise

	All	Equitized	Non-equitized	Equitization-planning	Non-equitization-planning
2000	28.7% (29)	29.3% (9)	28.4% (20)	33.9% (9)	23.9% (11)
1999	38.8% (29)	34.0% (5)	39.8% (24)	34.5% (10)	43.6% (14)
1997	43.2% (27)	44.3% (4)	42.9% (23)	60.3% (9)	31.8% (14)
1995	27.9% (24)	38.0% (4)	25.9% (20)	22.5% (7)	27.8% (13)

It is difficult to obtain confidential materials on the financial situation of SOEs in Viet Nam. Explained below are depreciation methods and sources of investment in plant and equipment of the enterprises. With regard to depreciation, almost half the enterprises adopted the straight-line method. The other half adopted the constant percentage method. ECs and PCs generally adopted the constant percentage method, while NPCs used the straight line method. Although there is no essential difference between the two methods for continuing business operations, the constant percentage method recovers invested funds more quickly. It is interesting to note different trends in different categories of enterprise.

Table 6 Methods of depreciation

	All	Equitized	Non-equitized	Equitization-planning	Non-equitization-planning
Straight line	22	5	17	5	12
Constant percentage	21	7	14	8	6
Others	1	0	1	0	1
Total	44	12	32	13	19

With regard to sources of investment, ECs obviously rely more on the funds from owned capital, retained surplus and depreciation than on loans. In contrast, NECs, and PCs in particular, rely mostly on loans. In this sense as well, the financial soundness of PCs is a concern. Due to the rapid growth at the flow level, such as productivity and sales, the financial structure tends to be weakened a little.

From this viewpoint as well, it may be necessary to equitize SOEs. In the case of ECs however, it is also a concern that the portion of short-term funds in debt loans is rather large (21 percent), although the portion of internal funds is also large.

Table 7 Average investment funds for plant and equipment from different sources (percentage) per enterprise

	All	Equitized	Non-equitized	Equitization-planning	Non-equitization-planning
Owned capital	28.3 (32)	14.3 (8)	33.0 (24)	21.8 (8)	36.6 (16)
Retained surplus	16.8 (32)	26.8 (8)	13.4 (24)	16.8 (8)	11.7 (16)
Reserve for depreciation	3.9 (32)	11.9 (8)	1.3 (24)	0.02 (8)	1.9 (16)
Debt loans	49.0 (32)	47.0 (8)	52.3 (24)	61.4 (8)	47.8 (16)

(4) Performances

What features do Vietnamese SOEs with above characteristics demonstrate in their business performance?

If our conclusions were reported first, they would serve to support in general what has been pointed out above.

First, trends in labor productivity will be reviewed. Since it was not possible to assess labor productivity directly in this survey, we calculated the labor productivity per employee as an alternate index. See the following table.

Table 8 Average productivity (million VND) per employee per enterprise.

	All	Equitized	Non-equitized	Equitization-planning	Non-equitization-planning
1999	159 (30)	204 (11)	134 (19)	79 (7)	165 (12)
1998	122 (24)	142 (7)	114 (17)	75 (6)	134 (11)
1997	81 (20)	69 (6)	86 (14)	52 (5)	104 (9)

As Table 8 indicates, the productivity per employee of ECs was 1.5 times that of NECs in 1999. The productivity per capita of ECs was about three times that in 1997, in contrast to the corresponding figure of 1.5 times recorded by NPCs. Among NECs, even PCs were far behind ECs in terms of the growth of productivity, let alone NPCs.

Turning to trends in business profitability: when compared with 1995 figures, business profits increased by 30 percent in all enterprises, 5.5 times in ECs and 3.3 times in PCs, but decreased to 71 percent in NPCs.

For this reason, in 1999 average profits of ECs were larger than those of NPCs despite their relatively small sizes.

Business Performance of Vietnamese SOEs
Table 9-1 Profit growth (million VND) per enterprise

	All	Equitized	Non-equitized	Equitization-planning	Non-equitization-planning
1999	2508 (40) [130]	3534 (12) [549]	2068 (28) [91]	1479 (12) [329]	2509 (16) [71]
1997	1520 (36) [79]	1580 (9) [245]	1500 (27) [66]	925 (12) [206]	1960 (15) [55]
1995	1933 (30) [100]	644 (6) [100]	2256 (24) [100]	449 (10) [100]	3546 (14) [100]

The figures within brackets () are the number of valid replies.

The figures within brackets [] are the index with the figure for 1995 as 100.

The ratio of profit to total assets (ROA) of ECs is three times, over that of NECs and a little less than twice that of NPCs. In 1999, ROA of NECs was 65 percent of that in 1995. It should be noted that ROA of NPCs, which was as high as 12.5 percent in 1995, far ahead of that of the other three categories of enterprises, decreased in 1999 to about 70 percent of the 1995 level.

Table 9-2 Trends in ROA (percent) per enterprise

	All	Equitized	Non-equitized	Equitization-planning	Non-equitization-planning
1999	7.2	17.2	4.9	2.3	8.7
1997	5.6	20.0	4.5	1.8	9.1
1995	7.7	8.5	7.5	1.3	12.5

In the case of PCs, ROA is still low. This suggests that the rapid growth of sales and production explained above was not accompanied by an increase in ROA. This was partly due to the fact that the level in 1995 was itself extremely low.

The trends seen in profitability are also reflected in the figures for retained surpluses as seen in Table 10. The average retained surplus of ECs was 3.4 times that of NECs. Mirroring this fact, the average amount of net assets in 1999 was a little over three times that in 1995 for ECs, far larger than the corresponding figure of 1.5 times, for NECs. In 1999, the average figure for net assets of ECs was about 1.5 times that of NECs.

The average figures for retained surpluses and net assets of PCs were smaller than those for ECs and NPCs. Although it is not possible to generalize due to the limited number of responses, this is consistent with what has been discussed above. In other words, these enterprises have potential debt problems, despite the rapid growth of sales and production.

Table 10 Average figures for retained surpluses and their growth (million VND) per enterprise

	All	Equitized	Non-equitized	Equitization-planning	Non-equitization-planning
1999	1764 (27) [578]	3181 (10) [618]	930 (17) [367]	191 (5) [95]	1238 (12) [489]
1997	1041 (25) [341]	1295 (7) [251]	943 (18) [372]	253 (5) [100]	1208 (13) [477]
1995	305 (20) [100]	515 (4) [100]	253 (16) [100]	253 (4) [100]	253 (12) [100]

Table 11 Net assets and their growth (million VND)

	All	Equitized	Non-equitized	Equitization-planning	Non-equitization-planning
1999	16467 (17) [191]	20727 (6) [317]	14143 (11) [154]	24000 (2) [118]	11952 (9) [178]
1997	12117 (14) [140]	8268 (3) [126]	13167 (11) [143]	21500 (2) [105]	11316 (9) [169]
1995	8624 (14) [100]	6529 (3) [100]	9196 (11) [100]	20400(2) [100]	6706 (9) [100]

Total assets of ECs were approximately half those of NECs. Nevertheless, the net assets of the former increased to about 1.5 times that of the latter in 1999, compared with 71 percent in 1995. As the number sampled was limited, figures for PCs should be taken only for reference.

(5) Implications of gaps in performance among different types of SOEs

How should we interpret differences in growth rates, between 1995 to 2000, of different categories of enterprises as noted above?

NECs, superior to ECs in terms of total assets, sales, production and numbers of employees, fell far behind in growth during the short five-year period after 1995. ECs not only developed faster but also exceeded NECs with respect to the labor productivity, business profitability, retained surpluses, ROA and net assets, perhaps as an outcome of the phenomenon noted above.

Of course, we could only survey a limited number of enterprises for the reasons mentioned above, and valid replies with financial data were also limited. So we are not able to offer a general and definite conclusion in this report. However, the facts revealed through this survey are consistent and unexpectedly surprising as pointed out above. They ECs surveyed were no more fortunate than other ones.

NECs in Viet Nam have enjoyed a superior status as representatives of SOEs, and have maintained strong connections with the central and local governments while being provided with a wide range of subsidies. In contrast to the superior position of the NECs, the ECs in this report seem to have been in a relatively inferior position, in terms of scale, management resources and support from line ministries. Overcoming these handicaps, however, the ECs seem to have created managerial resources by themselves, in order to establish competitive superiority based on the momentum achieved through equitization. It is thought that this has been realized through the creation of management systems, relatively and partially different from those of NECs. Bearing in mind these results, we will look at more specific sub-themes below.

3. Managerial decision-making and top management

(1) Supreme decision-making body

Who makes managerial decisions for SOEs? The government is legally the owner of NECs, and therefore

some governmental organizations may actually be exercising proprietary rights. In contrast, and in legal terms, the general meeting of shareholders may be the supreme decision-making body in ECs independent of local government and competent line ministry. When the central and/or local governments hold stock however, they can influence decision-making to the extent of their ownership. However, the question is whether the management has actually recognized the fact that the right of decision-making has shifted to the stockholders. We asked some questions related to this issue in the questionnaire.

One question was "Does your company belong to a GC, line ministry or to the local government?" Among those in the 13 ECs which answered this question, one cited nowhere; eight, the local government; three, a GC; and one, a line ministry as the organization to which they belonged. However, a majority of those who replied that they belong to the local government was not actually owned by the local government. In some cases, the local government hold no stocks of them. In short, it is thought that the local government exerts influence not as a stockholder, but as an administrative organization as in the past. Among NECs, four cited the local government; 19, a GC; 10, a line ministry; and one, the Party.

The next question was "What is the supreme decision-making body for your company?" Five ECs cited the general meeting of stockholders; five, the board of management (which will be referred to later); one, the board of directors (which will be referred to later); two, the general director (which will be referred to later); and two the People's Committee. One NEC cited the board of management; two, the board of directors; 25, the general director; two, the committee of the Communist Party; one a line ministry; and one the local government. Since some companies cited two or more organizations to which they belonged, the total of the replies does not agree with the number of respondents. This also applies to some questions below.

From the above, it may be observed that the right of decision-making has shifted to stockholders in ECs to a large extent. It is not necessarily the case, however, that the general meeting of stockholders is actually recognized as the supreme decision-making body. There are some companies where the people's committee is still recognized as supreme. What does this mean?

In another question, we asked the interviewees to describe their views freely about relations with the local government and GCs. Several ECs replied that their relations with the local government were normal. This means that those companies were maintaining administrative relations with the local government even after they were equitized.

Chapter IV Share-Holding Company in the 1999 Enterprise Law specifies the general meeting of shareholders as the supreme decision-making body. At the beginning of the section about the organization and management mechanism, it prescribes their rights and duties as follows:

- (a) Decide the types and total amount of shares under each type the company is authorised to issue; decide the annual dividend per share;
- (b) Elect and dismiss members of the Board of Management and of the Control Committee;

- (c) Investigate and decide how to deal with breaches committed by the Board of Management and the Control Committee which cause damages to the company and its shareholders;
- (d) Determine the reconstruction and dissolution of the company;
- (e) Determine the revision and/or supplementation of the company charter, except where there is an adjustment of charter capital as a result of issuing new shares within the total amount of shares the company is authorized to issue;
- (f) Approve the annual financial statements;
- (g) Make decisions on directions of development of the company, to the sales of 50% or more of total value of assets recorded in the company's accounting books;
- (h) Make decisions with regard to the buyback of more than 10% of issued shares of one type;
- (i) Other rights and obligations as stipulated in this Law and the company charter.

We did not ask the ECs whether they were already exercising the roles and rights of the general meeting of stockholders as prescribed in the Enterprise Law. The answer to this question would have been negative, even if it had been asked, in view of the replies to various questions about the supreme decision-making body and the present conditions of ECs. For example, a number of ECs replied that they placed the board of management, whose members should be nominated at the general meeting of stockholders according to the Enterprise Law, in the same position as that of the supreme decision-making body.

The members of the board of management are nominated and dismissed at the general meeting of shareholders according to the Enterprise Law as mentioned above. In contrast, the Enterprise Law of Viet Nam doesn't set forth provisions on the board of directors.

Therefore, the board of directors does not exist in stock companies in Viet Nam formally, but the board of management seems to be acting similarly to the board of directors in capitalistic countries. The Enterprise Law prescribes that the rights and duties of the board of management are as follows:

- (a) Determine the development strategy of the company;
- (b) Make proposals with regard to the types of shares and the aggregate number of shares to be issued under each type;
- (c) Decide the issuance of new shares to a number not exceeding the total issuable number for each type of share; determine the additional raising of capital for the company through alternative means;
- (d) Make decisions on investment policies;
- (e) Make decisions on market promoting, marketing and technology solutions; approve all contracts of sales, purchase, borrowing, lending or any other types of contracts worth not less than 50% of the total value of assets recorded in the company's accounting books, unless otherwise stipulated in the company charter;
- (f) Appoint and dismiss the (General) Director and other key managerial positions of the company,

decide salary and other benefits applied to such persons;

- (g) Approve the organizational structure, internal rules and regulations within the scope of the company; make decisions on the formation of branches, representative offices and subsidiaries thereof; decide the contribution of capital to or buying of shares issued by organizations other than itself;
- (h) Submit the annual financial statements of the company to the Shareholders' Meeting;
- (i) Make decisions on the amount of dividend paid, time and procedures for payment of such dividend or methods in settlement of losses incurred during the course of business operations of the company;
- (k) Set the price of shares and other securities issued by the company, arrange for the evaluation of an asset other than Viet Nam Dong, convertible foreign currencies and gold used for equity capital contribution;
- (l) Prepare the agenda, materials and perform other jobs in arrangement for sessions of the Shareholders' Meeting, convene such sessions or proceed with the consultation of shareholders for the purpose of obtaining their adoption;
- (m) Determine the buy-back of no more than 10% of allotted shares of one type;
- (n) Make proposal with respect to the reconstruction or dissolution of the company;
- (o) Have other rights and obligations as stipulated in this Law and the company charter.

Unlike the board of directors, the general director, deputy general director and the chairman of the board of management are definitely prescribed in the Enterprise Law. Under the Enterprise Law, therefore, it can be assumed that the board of directors is an organization for consultation between directors which is set up based on the judgment of the company.

The board of management, which is more common and older than the board of directors in Vietnamese companies, has been organized as the supreme decision-making body in a widely range of SOEs.

One problem is that the general meeting of shareholders will become the supreme decision-making body at least in legal terms as prescribed in the Enterprise Law, when a company is equitized. However a difference seems to exist between the law and the real situation.

According to the Enterprise Law, a member of the board of management is nominated as the chairman, who can assume office as the (general) director, unless otherwise specified in the articles of incorporation.

The Enterprise Law prescribes that the rights and duties of the chairman of the board of management are, among others, to plan the business of the board, schedule meetings, decide agenda for discussions, prepare documentary materials, hold meetings, deal with resolutions and adoptions of the board, supervise the implementation of resolutions, and preside over the general meetings of shareholders.

The board of management appoints a board member or an outside as the (general) director.

The general director is required to act as the legal representative of the company, unless the articles of incorporation entrust this role to the chairman of the board of directors. He has the following rights and

duties:

- (a) Make decisions on all matters arising from the day-to-day operations of the company;
- (b) Arrange for the implementation of resolutions adopted by the Board of Management;
- (c) Arrange for implementation of business and investment plans of the company;
- (d) Make proposals as to the organizational structure plan and the internal management regulations of the company;
- (e) Appoint, dismiss or exempt the managerial positions of the company, except those whose appointment, dismissal or exemption are within power of the Shareholders' Meeting
- (f) Determine the salary and other allowances (if any) for employees of the company, including those managerial positions whose appointment is within the power of such (General) Director;
- (g) Other rights and obligations as stipulated in this Law, the company charter and in resolutions of the Board of Management.

(2) Election of top management

We obtained data on the origin of board members from eight ECs and 19 NECs. The number of members who came from a GC or other upper organization was 100 percent for one company and 0 percent for three of the eight ECs, and 100 percent for nine enterprises and 0 percent for six of the 19 NECs. If we call these members parachutist, the average parachutist ratio was far lower for ECs (26.0 percent) than for NECs (53.7 percent).

The average number of board members was 5.08 for ECs and 3.49 for NECs. The difference was statistically significant at a confidence level of 1 percent. This implies that the number of board members increased as corporate rights were delegated to the board after equitization, though it is difficult to generalize about this due to disparate enterprise sizes.

We then asked from where the general director had been appointed, inside the enterprise or from a GC or line ministry. Almost all enterprises, equitized or non-equitized, replied that their general director had been appointed from inside the enterprise. This means that even upper organizations cannot now intervene in the appointment of managerial staff of ECs and NECs, ignoring personnel within the enterprise.

We also asked to what extent (in percentage terms) the following five factors were influential in the appointment of general directors: (1) nomination by a GC, line ministry, or local government, (2) nomination by a predecessor, (3) reputation among employees, (4) special personal connections and (5) others, for which valid replies were obtained from 11 ECs and 32 NECs. The total is not 100 percent since the figures are rounded, see Table 12.

Table 12 Method of selecting the general director

	Equitized companies (%)	Non-equitized enterprises (%)
Nomination by a GC, line ministry or local government	30.5	54.4
Nomination by a predecessor	0.9	18.5
Reputation among employees	62.7	20.3
Personal connections	0.5	0.6
Others	5.5	6.3

Of the general directors of ECs, 30 percent were still nominated by upper organizations, though this was lower than at NECs. This means that the influence of the line ministry was still strong for the appointment of top management, though most of the general directors of ECs were promoted from inside the companies. In the case of ECs, however, reputation among employees had a larger influence on the appointment of the general director than in NECs. This means that support by employees was influential in the appointment of the general director of ECs, but not in NECs. The implications of this fact will be discussed later. Nomination by a predecessor was an insignificant factor for ECs, which was slightly different than in the case of NECs.

(3) Decision-making authority of top management

To what extent can the executives make autonomous decisions in Vietnamese enterprises?

We investigated this issue in terms of changing production lines, investment, product price, product improvement, product development, loans ceilings, changing the organization, appointment of the general director, appointment of board members, appointment of managers and selection of parts suppliers.

We offered five reply options and allocated scores as follows: 5 points for the reply that the enterprise determines; 4 points for the reply that the enterprise determines and obtains the ex post facto approval of the upper organization; 3 points for the reply that the enterprise obtains the prior approval of the upper organization; 2 points for the reply that the enterprise expresses its view, but the upper organization determines; and 1 point for the reply that the enterprise does not have the right and the upper organization determines. Therefore, it can be seen that the higher the average score, the stronger the right of managerial self-determination in the company.

In relation to several items, the average score for managerial self-determination was higher for ECs than for NECs at a statistically significant level. A t-test for the difference between the averages of ECs and NECs proved that the right of managerial self-determination was significantly stronger in the former than in the latter, at a significance level of 5 percent for loan ceilings (4.64:3.97), 1 percent for changing the organization (4.62:3.69), 0.01 percent for the appointment of the general director (3.85:2.14), 0.01 percent for the appointment of board members (3.93:2.31), and 1 percent for the appointment of managers (3.85:2.14).

Although the average score for ECs was higher than that for NECs for changing production lines

(4.29:3.97), investment (3.86:3.66), product price (4.86:4.17), product improvement (4.86:4.40), product development (4.21:4.14) and selection of parts suppliers (4.93:4.36), the differences were not statistically significant.

Average points for all reply options (with a full score being 5) were 4.43 points for ECs and 3.76 points for NECs, with the difference being statistically significant at a significance level of 0.01 percent.

These figures prove that the right of managerial self-determination, especially for organizational and personnel affairs, was stronger in ECs.

So it can be said that the policy to strengthen managerial self-determination, promoted in all SOEs since the end of the 1980s, was implemented more positively in ECs.

(4) Features of managerial organizations and problems in the corporate governance

We asked each respondent to draw an informal organizational chart of his or her enterprise. This might be different from the official one, but indicated realistically how the organizational structure was perceived by the personnel in the enterprise.

As a typical organization, the board of management was in the highest position on these charts. Among 11 respondent enterprises, only one cited the general meeting of shareholders, legally the supreme decision-making body. Were the personnel of ECs not conscious of the general meeting of shareholders, even though they were still in the process of equitization?

As mentioned above, it is a principle of the Enterprise Law to nominate board members at the general meeting of shareholders. In reality, however, quite a few board members seemed to have been nominated by line ministries or local governments, posing a problem for the organizational autonomy of stock companies.

According to the Enterprise Law, the control committee is set up within the board of management to supervise it. In our survey, however, no respondents showed the control committee in the organization chart. This implies that the control committee was not well-recognized among the personnel of the enterprise.

The board of directors, composed of the general director and deputy director, was placed under the board of management in four enterprises, while these two directors were placed separately in the organization chart in another four enterprises.

According to our interviews for SOE in Spring 2000, concerning the distinction between the roles of the board of directors and the board of management, it was believed that the board of management took charge of strategic decision-making, while the board of directors made decisions about business operations. According to separate interviews in the survey, in some cases members of boards of management had strong connections with upper organizations (GCs, local governments and line ministries).

In the case of ECs, the general meeting of shareholders should be the legal organization to nominate members of the board of directors. In reality, however, GCs, local government and other upper organizations seem to have the authority to appoint them. This reflects the fact that GCs have considerable stock, and

they are frequently exercising their de facto powers. As a result, the general meeting of shareholders is reduced to a formality, compared to the strong power of traditional authorities.

Proposals and reports are submitted to the general meetings of shareholders, typically through the following procedure. The general director, or board of management, prepares a draft, based on which the board of directors and board of management have consultations, before it is proposed to GCs or upper organizations, and then to the general meeting of shareholders after necessary modifications. In reality, proposals are seldom modified at the general meeting of shareholders.

The general meeting of employees is traditionally influential in SOEs. This seems true also for ECs. The general meeting, which is held once a year, discusses overall management issues including past business performance and plans for the future. The influence of the general meeting differs depending on the relationship between the trade unions and the board of management.

4. Composition of the labor force, and personnel and labor management

(1) Composition of the labor force

The average number of employees of ECs, 168, is only 27 percent of that of NECs, at 633. When compared with the level in 1995, the number of employees in 2000 was 1.1 times for ECs and 1.2 times for NECs.

As mentioned above, productivity per employee is far higher at ECs than at NECs. In this regard, the existence of excessive labor will be a more serious problem for NECs where numbers of employees are larger.

NECs can be divided into PCs and NPCs. For PCs the number of employees in 2000 was 715, 1.5 times that in 1995, and for NPCs it was 578 which was almost the same as that in 1995. Judging by this survey, NPCs had some efforts to control the number of employees, while PCs had an increased labor force during this period.

The average age of employees was 33.6 years for ECs, 34.6 for NECs (34.1 in PCs and 34.9 in NPCs). The employees of PCs were a little younger than those of NPCs.

When employees were classified by length of service, 13 percent had worked for less than one year, 25 percent for 1 to 4 years and 62 percent for more than 5 years in the case of ECs. The corresponding figures for NECs were 8 percent, 23 percent and 66 percent, respectively.

Table 13 Average numbers of employees per company classified by length of service

	All	Equitized (11)*	Non-equitized (34)	Equitization-planning (14)	Non-equitization-planning (20)
Less than 1 year	9%	13%	8%	8%	8%
1 to 4 years	24	25	23	21	25
5 to 10 years	30	29	31	34	28
10 years or over	37	33	35	37	39

* The figures within brackets () are the number of valid replies.

When we conducted a field survey at Vietnamese enterprises in the spring of 2000, an interviewee explained that they have three types of employees: (1) labors with indefinite term, (2) labors with definite term (1-4 years), and (3) seasonal labors.

Those in category (1) have been employed and will remain employed until the employment age limit, while those in the categories (2) and (3) may be dismissed by the general director when their contract period expires. An enterprise was adopting workers only in the categories (2) and (3), and all new graduates were the employees in the category (2).

It is not known to what extent this concept of classifying employees into three categories can be applied in Viet Nam. However since explanation was given by other enterprises as well, this type of employment structure may have prevailed to some extent. This may also be supported by the fact that employment security in SOEs under the socialistic system has been sacrosanct about which labor unions have maintained a strong voice. On the other hand, it is also a wide-accepted view that the problem of surplus labor is a factor limiting the efficiency of Vietnamese SOEs. Under this circumstance, it is quite natural for the management of SOEs to have created the compound employment structure mentioned above. What should be recognized is that management can be empowered with the right to 'adjust' employment one year after equitization. Thus surplus labor is a real or potential factor that could prevent or retard equitization.

The labor composition of SOEs can be seen in terms of blue-collar workers, white-collar workers and engineers.

The following table shows average numbers of blue-collar workers, white-collar workers and engineers in different categories of SOEs.

Table 14 Average numbers of workers of different types per enterprise

(1) Average number of blue-collar workers					
	All	Equitized	Non-equitized	Equitization-planning	Non-equitization-planning
1999	389 (43)*	131 (11)	477 (32)	507 (12)	460 (20)
1997	365 (33)	110 (6)	422 (27)	414 (8)	426 (19)
1995	379 (27)	113 (5)	439 (22)	468 (5)	431 (17)

* The figures within brackets () are the number of valid replies, which are omitted for 1995 and 1997 in the above and following tables. The figures are rounded to the nearest whole number.

(2) Average number of white-collar workers					
	All	Equitized	Non-equitized	Equitization-planning	Non-equitization-planning
1999	100 (41)	27 (11)	127 (30)	145 (11)	116 (19)
1997	101 (33)	23 (6)	119 (27)	98 (8)	127 (19)
1995	105 (28)	24 (5)	122 (23)	77 (6)	138 (17)

(3) Average number of engineers					
	All	Equitized	Non-equitized	Equitization-planning	Non-equitization-planning
1999	72 (42)	18 (11)	91 (31)	156 (10)	61 (21)
1997	52 (33)	12 (6)	60 (27)	83 (7)	53 (20)
1995	43 (28)	8 (5)	51 (23)	54 (5)	50 (18)

The ratio of blue to white-collar workers is 20% in ECs and 27% in NECs: the latter higher than the former. The average number of engineers in PCs is 18, or one-seventh that of blue-collar workers, which is a little lower than the corresponding figure, approximately one-fifth, in NPCs. The ratio of the number of engineers to that of blue-collar workers is as high as one-third in PCs. The number of engineers is rapidly increasing in ECs and PCs.

(2) Labor turnover

In ECs, a relatively large number of employees fall into the category of short duration service workers. This corresponds to the fact that the labor turnover rate is higher at ECs than at NECs as revealed in our survey. The turnover rates of white and blue-collar workers were 37 and 32 percent at ECs in 1999, quite higher than the corresponding figures of 16 and 17 percent at NECs. The turnover rate of managers/engineers was 6 percent at ECs and 5 percent at NECs, only a small difference. It is thought that the high labor turnover rate at ECs was related to the fact that there were a large number of short duration service workers. This means that personnel within enterprises were repeatedly changed introducing new vitality, to some extent, into business activities.

Although it may be rash to directly correlate the rate of absenteeism to the above, as an outcome of corporate labor and personnel management policies, that rate was 2.7 percent at ECs, approximately half that at NECs (5.2 percent). The corresponding figure was 7.1 percent at PCs and 4.5 percent at NPCs.

The high labor turnover rate implies labor mobility with some attendant effects. On the other hand, instability of labor prevents the accumulation of skills and knowledge.

(3) Personnel and labor management

How is labor and personnel management implemented in Vietnamese SOEs under the conditions above?

1) Employee recruitment standards

What are the criteria for hiring new employees? As a whole, emphasis was placed on professional

skill, potential capability and educational background. A larger emphasis was placed on potential capability at ECs than at NECs. This may imply that ECs which are in a process of rapid development are positively seeking personnel with high potential capabilities together with those who have professional skills. This corresponds with the fact that employees are rarely hired through personal connections unlike at NECs.

Table 15 Standards of recruitment

	All	Equitized	Non-equitized	Equitization-planning	Non-equitization-planning
Professional skill	38%	30%	41%	46%	39%
Potential capability	29	43	24	20	25
Educational background	23	23	23	24	22
Personal connections	7	1	10	6	12
Others	3	3	2	4	2

2) Factors in wage increases

Regarding the factors that determine wage increases and promotion for white- and blue-collar workers, in the survey, we asked enterprises to specify percentage scores for five conceivable items making a total of 100 percent, from which we calculated the average score for each item, for different categories of enterprises. Greater emphasis was placed on performance, educational background and seniority in this order.

Table 16 (1) Factors determining the wages of white-collar workers:

	All (44)	Equitized (12)	Non-equitized (32)	Equitization-planning (12)	Non-equitization-planning (24)
Performance	59%	75%	54%	63%	48%
Seniority	14	5	18	12	21
Educational background	18	17	17	15	19
Others	9	3	11	10	12

Table 16 (2) Factors determining the wages of blue-collar workers

Performance	76%	83%	78%	78%	70%
Seniority	9	5	11	6	14
Educational background	8	11	8	7	8
Others	7	1	8	9	8

Greater emphasis was placed on performance for both white and blue-collar workers at ECs than at NECs. The difference between these two categories of companies was especially noticeable with regard to the white-collar workers.

In this sense, it can be said that ECs are determining wages with a larger emphasis placed on the

individual's performance compared with NECs. Among NECs, PCs placed a larger emphasis on performance both for white and blue-collar workers than NPCs. This phenomenon, seen both in ECs and PCs, may imply that equitization orients enterprises toward performance and places a large emphasis on it. Although the replies on factors determining wages, as quoted here, were submitted in response to a broadly conceived enquiry, it may be possible at least to take note of the above.

Relative to this, it may be pointed out that the emphasis placed on seniority was smaller at ECs than at NECs. This may reflect the difference in concept on wage determining factors, though it may also be related to the high labor turnover rate and short service duration at ECs as mentioned above.

Generally speaking, individual performance was emphasized more for blue-collar workers than for white-collar workers, while educational background was more important for white-collar workers than for blue-collar workers.

3) Factors in promotion

We examined how factors determining wages also determined promotion, as summarized in Table 17.

Table 17 (1) Factors determining promotion of white-collar workers

	All (45)	Equitized (13)	Non-equitized (32)	Equitization-planning (12)	Non-equitization-planning (20)
Performance	51%	56%	48%	46%	50%
Seniority	11	8	12	16	10
Educational background	31	34	30	26	32
Others	7	2	10	12	8

(2) Factors determining promotion of blue-collar workers

Performance	64%	64%	65%	71%	62%
Seniority	11	11	11	13	10
Educational background	19	24	16	14	18
Others	6	1	8	2	10

We noticed that the factors determining promotion were slightly different from those determining wages. The first factor determining promotion was performance both at ECs and NECs. However differences in the factors determining promotion between different categories of enterprises were extremely small when compared with those for determining wages, especially with regard to those for blue-collar workers. In this case as well, the emphasis on performance was almost the same at ECs and NECs for blue-collar workers, though for white-collar workers it was greater at ECs than at NECs.

What was different from the wage determining factors was that a fairly large emphasis was placed on educational background for the promotion of blue-collar workers and, in particular, on white-collar workers. This holds true among all the enterprises surveyed, irrespective of the category where they

belong, with the emphasis on performance and experience reduced relatively. It is difficult to judge whether educational background is accepted as the second factor due to its visibility, or because the highly education-oriented nature of Vietnamese society is reflected in the corporate promotion system.

To examine a concrete example of the promotion system, we asked the enterprises to explain how a managerial vacancy was filled. As seen in Table 18, as a whole emphasis on internal promotion was strong, a decisive factor for ECs in particular. This means that managerial candidates have been nurtured in enterprises and that the autonomy of managerial personnel has been established at a corporate level. This may be worth evaluating to some extent. One problem is, however, whether enterprises can overcome the disadvantages of inbreeding.

Table 18 (1) Methods for filling managerial vacancies

	All	Equitized companies (14)	Non-equitized enterprises (33)
Internal promotion	82%	91%	77%
Dispatched from a GC	4	1	6
Line ministry	1	0	1
Local government	1	0	1
Others	12	8	15

Table 18 (2) shows the criteria for the selection of new managers.

Table 18 (2) Criteria for the selection of new managers

	All	Equitized	Non-equitized	Equitization-planning	Non-equitization-planning
Professional skills	36%	34%	37%	33%	36%
Leadership	25	24	26	28	24
Educational background	26	38	23	27	20
Personal connections	4	0	5	1	7
Reputation among employees	6	3	6	7	7
Others	3	0	3	4	2

In this case, professional skills and leadership were emphasized in parallel with educational background. Interestingly, there were some enterprises where reputation among employees was one of the factors for selecting new managers. However in the case of ECs, this factor was not so significant, educational background being the most important factor. In this regard, ECs were considerably different from NECs. This factor may be valued highly in rapidly developing enterprises, for the reason that they are short of workers with a high educational background.

In contrast, in the case of NECs, personal connections and reputation among employees are important to some extent, though the situation is not essentially different from that of ECs.

(4) Relative features of labor and personnel management in equitized companies

In the features of the labor and personnel management of Vietnamese SOEs discussed above, ECs and NECs have both common and relatively different aspects.

Briefly ECs feature high labor turnover rates, relatively short service, hiring employees based on potential capability, and relatively strong emphasis on individual performance to determine wages and internal promotion. This reminds us that parachutist ratio is high and reputation among employees are given much importance in effecting general managers in ECs, though are not matters of personnel management. Of course, it would be rash to correlate these features directly to good business performance. However these features may be related to the relatively low absenteeism rate and high production and labor productivity per employee of ECs. They may also be related to the difference in business performance between different categories of enterprise. Since the numbers surveyed were limited however, we did not test this as a hypothesis by multiple regression analysis.

5. Production systems

Based on the survey of the enterprises regarding product technologies, production technologies and production control, we will describe below the present situation of production systems in Vietnamese SOEs. However that it should be remembered that it is extremely difficult to come to meaningful conclusions due to the difficulty of making a detailed survey of this subject in such a short period of time.

(1) Product technologies

Product development, basic design and other product technologies are examined first. We checked whether the enterprises had special product development divisions to outline product concepts, set development targets (cost, quality and basic specifications), and prepare production targets and schedules. However, it was virtually impossible for us to make on-the-spot surveys at SOEs in Viet Nam. Accordingly we evaluated the situation at these enterprises with a 5-point scale, allotting 5 points to a reply confirming that there was a specific product development division, 3 points to a reply that there was division partly in charge of product development, and 1 point to a reply that there was no product development division.

The average score thus obtained was 3.81 points for all 43 enterprises surveyed, 2.64 points for 11 ECs, and 4.22 points for 32 NECs (of which there were 4.15 points for PCs and 4.26 points for NPCs).

We also evaluated capability for basic designing and making design changes by a 5-point scale, allotting 5 points to a reply that the enterprise performed basic designing and made design changes for all products, 4 points to a reply that the enterprise performed basic designing and made design changes for most products, 3 points to a reply that the enterprise performed basic designing and made design changes for parts of products, 2 points to a reply that the enterprise relies on outsourcing and 1 point to a reply that the

enterprise doesn't perform basic designing or make design changes.

The average score thus obtained was 3.87 points for all 40 enterprises surveyed, 3.8 points for 10 ECs, and 3.9 points for 30 NECs (of which there were 4.2 points for 12 PCs and 3.7 points for 18 NPCs).

Consequently, the enterprises in Viet Nam have not averaged 4 points or a satisfactory overall level, in the fields of product development, basic designing or other product technologies. However, it can be said that NECs are at a little higher level than ECs, presumably because the former are mostly larger in scale and have a longer history of operation among SOEs in Viet Nam.

(2) Production technologies

To look at production technologies, we evaluated the capability to design and manufacture dies and tools on a 5-point scale, in which 3 points were allotted to an enterprise which could design simple dies and tools and 2 points to an enterprise which could design and manufacture tools.

The average score thus obtained was as low as 2.3 points for all 41 enterprises surveyed, 2.2 points for 13 ECs, and 2.3 points for 28 NECs (of which there were 2.4 points for 11 PCs and 2.2 points for 17 NPCs). There were no large differences between different categories of enterprises.

(3) Production control

What were the levels of production control? Levels of process control, a part of production control, were reviewed on a 5-point scale by allotting 5 points to an enterprise that was excellent, 4 points to an enterprise which was good and 3 points to an enterprise which was fair.

The average score thus obtained was as high as 3.7 points for all 48 enterprises surveyed, 3.9 points for 14 ECs, and 3.6 points for 34 NECs which were a little lower than that of ECs.

Turning to the level of work standardization, one of the most important factors that support the level of work control, a part of production control, by the same 5-point scale used to evaluate process control.

The average score obtained was as high as 3.7 points for all 48 enterprises surveyed, 3.9 points for 14 ECs which was higher than the overall averages, and 3.6 points for 34 NECs.

We also checked on the skills of workers involved in such production activities, by a 5-point scale by allotting 5 points to a reply that workers were multi-skilled and able to propose improvement plans, 2 points to a reply that workers were simple-skilled at a low level, and 1 point to a reply that workers had just started training.

The average score was 3.2 points for all 44 enterprises surveyed, 3.64 points for 11 ECs, 3.06 points for 33 NECs (of which there were 3.06 points for PCs and 3.05 points for NECs). This implies that the workers at ECs were close to the 4-point level, or they were multi-skilled and able to solve minor problems in production lines. In contrast, those at NECs were at the 3-point level meaning that they were simple-skilled but at a high level.

We examined to what extent job rotation was practiced for employees by a 5-point scale, allotting 5 points to a reply that it was implemented frequently, 2 points to a reply that it had been tried but not accepted by employees, and 1 point to a reply that it had not been planned at all.

The average score was 4 points for 12 ECs meaning that job rotation was implemented sometimes, and 3.7 points for 29 NECs, lower than 4 points though higher than 3 implying that job rotation was implemented sometimes.

The period for on-the-job training for employees was 3.3 months at ECs and 3.2 months at NECs, virtually the same.

The capabilities of workers and the division for the maintenance of machines and equipment are as follows. The score of 30 NECs was 3.0 points on a 5-point scale, indicating that periodic maintenance was practiced, but preventive maintenance was not. In contrast, the score of ECs was 3.4 points. The score of 4 points indicates that the company was capable of corrective maintenance and preventive maintenance. The average score was 3.1 points for all subject enterprises, 3.4 points for 12 PCs, equivalent to the score of ECs, and as low as 2.7 points for 18 NPCs.

As to the question of whether the criteria for hiring and wages for maintenance workers are different from those for other workers, eight ECs replied positively and five negatively. In contrast, 12 NECs replied positively and 17 negatively.

Table 19 shows the distribution of the ***procurement years*** of production facilities that objectively support the deployment of production activities at different categories of enterprises.

Table 19 Years when production facilities were installed

	All (37)	Equitized (10)	Non-equitized(27)	Equitization - planning (10)	Non-equitization - planning (17)
1996-2000	38%	22%	46%	49%	42%
1991-1995	26	43	19	21	18
1981-1990	18	12	20	19	22
1971-1980	6	8	5	5	4
-1970	12	15	11	6	14

In the case of ECs, the distribution of years when production facilities were installed was: 43 percent in 1991-1995 and 22 percent in 1996-2000 (in total 65 percent since 1991), while the corresponding figures for NECs were 19 percent and 46 percent (65 percent in total). The ratio of production facilities procured during the last five years (1996-2000) was larger at NECs, PCs and NPCs than at ECs.

(4) Differences of production systems between equitized companies and non-equitized companies

Production activities and present production system conditions at different categories of SOEs in Viet Nam have been discussed above. The difference between ECs and NECs may be summarized as follows.

In the field of production technologies, and with regard to the product design aspect in particular, NECs are at a higher level, while the both are at the same level in production technologies. With regard to production control, ECs seem to be at a higher level. Average age of production facilities (the objective conditions for production activities) are slightly younger at ECs than at NECs, and among NECs at PCs rather than at NPCs.

One of the most interesting facts is that labor productivity per employee is far higher at ECs than at NECs, as explained in the section about business performance.

The defective product ratio at 10 ECs of 2.9 percent is considerably lower than the corresponding figure of 4.1 percent, at 26 NECs. However, the defective product ratio at PCs where the production facilities are the newest, is as high as 4.8 percent, indicating that the age of production facilities does not correspond to the defective product ratio.

Table 20 Defective product ratio

All (38)	Equitized (12)	Non-equitized (26)	Equitization-planning (10)	Non-equitization-planning (6)
3.7%	2.9%	4.1%	4.8%	3.6%

There will be no strong objections to regarding labor productivity and the defective product ratio as two indices representing comprehensively the performance of production activities and the production system.

ECs have reached a higher level than NECs in terms of performance indices (above) despite the fact that they are at a lower level in terms of production and product designing technologies and have production facilities of almost the same age as that of NECs. This may be influenced by better production control. It may be inferred that the higher level of ECs in production activities has been realized by the better line control capability of plant supervisors as seen in Table 21, active job rotation and the formation of multi-skilled blue-collar workers as mentioned above, and backup by expert maintenance workers from maintenance divisions. However, we could not make it clear if the type of skill of blue collar workers at ECs is like a Jack of all trades before the specialization occurs, or like a Japanese type of multiple skilled workers advanced from a specialized single skill worker.

Table 21 Line control: capability levels of plant supervisors *

All (28)	Equitized (11)	Non-equitized (17)	Equitization-planning (7)	Non-equitization-planning (10)
3.79	4.00	3.65	3.86	3.50

* 5: Extremely high; 4: High; 3: Ordinary; 2: Low; 1: Extremely low

6. Outcomes and problems of equitization

In our survey, we asked the enterprises about the results of equitization (independent of the judgment and evaluation of state-owned enterprise executives on the concrete factors discussed in the previous chapters), and how equitization had changed the autonomy of decision-making rights of executives with regard to investment, dismissal, wage systems and promotion of managers.

We also asked how equitization had changed the motivation of employees and managers, and improved the speed and quality of decision-making, the quality of products, sales and costs.

Replies were evaluated on a 5-point scale that ranged from very improved to very deteriorated. In the results, improvements on average were recognized on all indices. However, this fact in itself does not mean that improvement was due to equitization. We surveyed the changes in the same indices of non-equitized enterprises during the past two years, for which a number of object enterprises replied that these indices had improved. This fact itself indicates that the right for autonomy of decision-making for top management had effectively been delegated in SOEs throughout the country by line ministries.

We then compared the degree of improvement in autonomy of decision-making for management and business profitability between ECs and NECs. The average score on five aspects of autonomy of decision-making for management using a 5-point scale was 3.83 points for ECs and 3.84 points for NECs, with no significant difference between the two.

The average score for seven items that were deemed to affect business profitability was 3.92 points for ECs and 3.69 points for NECs. A t-test proved that the difference was statistically significant at a confidence level of 5 percent. The score for improvement of business profitability was 4.20 for ECs and 3.67 for NECs. A t-test proved that the significance level for the difference had not reached 5 percent. As mentioned above, the data we used was limited. Therefore, we must not generalize about the effects of equitization in Vietnamese SOEs based on these findings. On the other hand, however, we must accept the findings in the survey as indicators as mentioned above.

Through equitization and privatization, it was politically expected; the efficiency of the enterprises will improve; management and employees gradually acquire increased incomes; and government finances improve. This expected process was reasonable itself. Among the enterprises surveyed as well, although they were limited in number, performance of ECs rapidly improved, supported to a large extent by organization and management characteristics, personnel and labor management characteristics, formation of relative advantages of production activities and production systems, and the expansion of management autonomy as discussed above. This appears to support the progressive and important steps, as constituting an evolutionary process, to a considerable degree.

Privatization of SOEs has been accompanied by a number of difficulties even in capitalist countries where markets have developed. In the transitional economy of Viet Nam, privatization will cause much more friction

and confusion and in wider ranges.

The following problems were recognized by the survey as the minimal ones.

First, it has not been sufficiently recognized that what merits equitization are given to the present management and employees of existing SOEs, at large ones in particular. Top Managements are afraid to lose their posts and vested rights after equitization. Employees of SOEs, where employment is guaranteed, do not like to shift to ECs where employment is comparatively unstable.

Second, those who want to purchase stocks are not served on an equal basis when stocks are released. In the case of preferential sales to employees, they can only purchase up to 10 stock per year during the period of their work. Stock prices are different for different employees. Those who have worked for an enterprise for 10 years or over, for example, can buy stocks at a price 30 percent lower than the normal price. The conditions for stock purchase are also different depending on salary levels and positions of employees. It is useful to some extent to have a system under which management and employees can purchase stocks of their own companies on a preferential basis within a certain limits. However giving discounts reduces government income and results in a transfer of national assets to a limited number of people.

Among the enterprises surveyed, the extent of stock owned by executives was more limited than we expected, presumably due to the system limiting possession by executives. Although unlimited stock possession by executives may be problematic under a socialistic government, it is undeniable that the existing system lacks incentives for the emergence of capable executives and excellent managers.

There was the case of an external investor who wanted to buy stocks of an equitized company using bank loans. The bank agreed, but the equitized company refused to sell stock. So in reality there may be informal restrictions, on genuine external investors buying stock in ECs.

Third, there are quite a few employees who do not have enough money to buy stock offered to employees. The stock not bought by these employees will be sold to other employees who can afford to buy them or to external investors. The right to purchase stock is often bought and sold between employees. Therefore, some enterprises lend money to employees to buy stocks using welfare funds or depreciation allowances. This is understandable as a stopgap measure, but will compromise the effective use of these funds for their primary purposes.

Fourth, stock that may be acquired by foreigners is strictly limited to 30 percent of the total, and is only available in limited industries. This may be one of the political options for the purpose of protecting national industries and keeping SOEs under governmental control in a transitional economy. However, in Viet Nam the accumulation of funds is limited and financial autonomy is necessary for SOEs to be independent of the national budget and state-owned commercial banks. So this will be a political problem to be solved sooner or later.

Fifth, there is an administrative problem, in that equitization is being promoted with different expectations at different levels of the central government, local governments and SOEs which are involved in its

implementation. Among other things, the appraisal of enterprise assets, which is a prerequisite for equitization, is a matter of conflict both in reality and potentially. Even if organizations are integrated into a joint team, it will take a lot of time to balance different interests and avoid confusion at different levels. Discount sales prices for the assets of SOEs will also cause an outflow of national assets. One option would be to adopt a tender offer system.

Sixth, only a limited number of enterprises are listed at the stock exchange that was established and started business recently. Companies do not want to be listed at the stock exchange, since they are required to release additional information after they are listed. We heard that unofficially, in reality, it was difficult for investors to buy and sell stock at the stock exchange, unless they had personal connections. This is an issue to be addressed by the Vietnamese government so as to operate the stock exchange more effectively, and increase opportunities for the participation of foreign investors.

The government must at least pay attention to the above points in order to attain their basic purposes in promoting the equitization of SOEs. The intention of establishing the international competitiveness of Vietnamese enterprises and industries, which may be main target of the equitization of SOEs, will not be achieved by equitizing SOEs and creating independent limited liability companies alone. This is necessary, but not sufficient in itself. An adequate transformation will not be obtained, as far as Viet Nam remains in the 'mythology' of proprietary system.

7. Medium and long-term problems in the reform of SOEs: conclusions

(1) Problems

We will describe below the problems Viet Nam will encounter in the medium and long term and make some theoretical assessment of them.

In our survey of personnel in the Vietnamese government, the ultimate target of the reform of Vietnamese SOEs was not thoroughly explained, and different replies to the same question were often obtained from different organizations. Superficially at least, the reform of Vietnamese SOEs seems ad hoc, not based on a coherent theory or philosophy.

Nevertheless when the present conditions of Vietnamese SOEs are observed, we find that quite a few SOEs have been equitized at least formally. In addition, some have been transformed into independent limited liability companies. Extremely inefficient SOEs are supposedly dealt with by the Bankruptcy Law, though its actual application has not been confirmed. Vietnamese SOEs, formally monolithic and undistinguished from other governmental organizations such as line ministries and local governments, have been separated from the government by being registered under the State-Owned Enterprise Law. The next step is for them to be registered again as stock companies or independent limited liability companies under the Enterprise Law.

What should be noted here is the fact that equitization is an intermediate target, insufficient in itself, for the purpose of improving the efficiency of SOEs and ultimately establishing international competitiveness. It should be realized that equitization has been successful so far, as shown in our survey of a limited number of enterprises. It is true that changed ownership is necessary but, it is insufficient for enterprise reform, because the ownership does not mean unlimited authority on the company. The government, as the owner of the independent limited liability companies can dispose of their real assets and is influential to this extent, but cannot control directly the management or employees who are working at the company.

Some physical assets may be fixed, but employees are mobile, they do not have to work if they do not want to work, and they can leave the enterprise. Even the government cannot force the people to work. What is important is to give adequate incentives to top managements and employees.

In addition, independent limited liability companies or stock companies with large amounts of stock owned by employees tend to cause a different type of management of typical stock companies in capitalist countries. Several problems are expected to emerge from this.

First typically there is the 'soft budget constraint' problem related to insider control which will be referred to later.

Second, the stocks of Vietnamese ECs are mostly sold to the executives and employees of the relevant enterprise. According to our survey, of 13 ECs there were eight companies where the executive and employees had 50 percent or more of the company stock. The next largest shareholders were GCs and local governments, which controlled a majority of an enterprise's stock in some cases. Consequently, if we dare to say so, the corporate management of ECs in Viet Nam is close to a variant of the model of worker-controlled enterprises. The problems of such an enterprise model should be recognized.

Third, the corporate management of national enterprises is closely connected, not only to the economy and economic systems, but also to the history and culture of the country. Viet Nam seems more familiar with China than with the capitalist countries or former socialist countries. However, success is not assured even in China. From the viewpoint of the market economy beyond proprietary system, capitalistic countries are far ahead of China. Given the ultimate target of establishing the competitiveness of Vietnamese enterprises, especially in international markets, Viet Nam should learn from the experience of capitalist countries. In an transitional economy, however, the reckless introduction of a market system may be praised in theory, but is doubtful whether it would yield fruitful results in reality, especially when the cases of East European countries are taken into consideration.

Based on the above, we may consider the problems of pseudo employee-controlled enterprises that will emerge when most of stock is owned by personnel in the enterprise after equitization. And we also have to consider how it may be possible to politically interface the introduction of a market system with the reform of SOEs.

(2) Soft budget constraint and insider control

It is theoretically possible for an enterprise to have an efficient management even if its owner is the government. In this case however, it is required to (1) promote the entry of other domestic or foreign enterprises if the enterprise is monopolistic, and (2) stop providing the enterprise with subsidies and make it adopt a completely self-supporting accounting system. Of course, the ECs and independent limited liability companies that are conceivable in Viet Nam at present, must be aware of the possibility of bankruptcy if their financial situation worsens.

However, here emerges the so-called problem of the soft budget constraint in economics. Budgets must be finalized in advance, and not be altered during implementation. Even if an equitized or independent limited liability company has fallen into deficit, therefore, it must not be compensated, as determined by policy. In this case, executives will manage seriously and moral hazards will not take place.

However it will be extremely difficult to thoroughly implement such a policy in reality especially in a transitional economy. Even if an enterprise goes bankrupt due to insolvency, the responsibility of the government is legally limited to the amount of its investment. In political terms, however, the government may be required to compensate for debtors' losses irrespective of the legal status. In such cases, the government may attempt to respond beyond budgetary limits. If the executive or employees understand this they may not work seriously, while awaiting relief from the government. This will cause a moral hazard.

The problem of the soft budget constraint can be solved by the complete privatization of SOEs and the introduction of a market system. If this policy remains incomplete at present because it cannot be achieved at one stroke during the transitional process, it is necessary to steadily reduce the scope for legal and administrative discretion by the government and keep it limited.

When the ordinance was issued to accelerate the equitization of Vietnamese SOEs in and after 1998, there seems to have been grave concern about the rigid credit system formed between SOEs and state-owned commercial banks. However as mentioned above, incomplete equitization and privatization are still prevalent. It is not certain either, to what extent the rigid credit system that connects SOEs and state-owned commercial banks has been reformed in the direction of an open system. When various factors are taken comprehensively into consideration, it is apparent that preferential treatment of SOEs is still guaranteed by the bank credit system.

Among the problems of Vietnamese SOEs that have arisen in relation to the above, there is a phenomenon which should be called a 'pseudo' soft budget constraint. Although the subsidies provided to SOEs by the government have steadily decreased, they have accumulated increased debt loans from state-owned commercial banks. They have absorbed most of their domestic currency credit through state-owned commercial banks (57 percent by 1998) and 90 percent or more of their overseas currency credit provided by domestic commercial banks, by taking advantage of their privilege to obtain overseas currency credit.

According to the 1999 IMF report, the ratio of assets to debts of 5,249 SOEs reached 58.9 percent and the ratio of payment date overdue loans was 5.9 percent. The growth rate of credit for SOEs reached over 21 percent in 1998⁵.

Subsidies to SOEs from the national budget are seemingly being cut. However in the background the soft budget constraint problem in a broad sense is prevalent, because the state-owned banks are providing SOEs with excessive credit with the approval of the National Central Bank of Viet Nam. This is a phenomenon that occurs with SOEs connected to each other traditionally. Under insider control, credit is being provided in a way in which arbitrariness cannot be eliminated.

Therefore with regard to the proper management of SOEs after equitization, it is an important condition that state-owned commercial banks can execute an autonomous checking function as a fund provider for SOEs.

(3) Problems of Worker-Controlled Enterprises (Model)

In 'equitizing' SOEs in Viet Nam, the whole or a majority of the stock of the enterprise is sold to employees. Therefore, they have characteristics close to those of worker-controlled enterprises. In Vietnamese SOEs, the general meeting of employees has traditionally maintained a management function. In some socialistic countries in the past, autonomous management by workers was expressly prescribed. The transitional period from socialism to capitalism also saw the same corporate management in some countries. Germany and a number of other capitalist countries have a system to have employees participate in management. The European Union has decided to follow this system.

Enterprises where workers have a comparatively strong voice in managerial decision-making have specific characteristics when compared with other enterprises, especially those aiming to maximize profits⁶.

First, communications from executives to member workers are strengthened.

Second, member workers are likely to provide more information to executives. This is true especially in the transmission of data which executives can use to the disadvantage of workers. Because workers are confirmed that executives would not use such information to disadvantage them. As communication from workers to executives increases, enterprises can improve the working environment as desired by workers while cutting labor costs.

Third, enterprises can improve the creativity of workers and subsequently create a more innovative environment.

Such a model of a worker-controlled enterprise can theoretically be assessed hypothetically in terms of the per capita income maximization in the sense that it aims at maximization of employee utility⁷.

⁵ International Monetary Fund Staff Report, No99/55

⁶ Lazear, Edward P. (1998) *Personnel Economics for Managers*. John Wiley and Sons. Translated by Yoshio Higuchi and Toku Kiyoka, Nihon Keizai Shimbunsha, 1998.

If shareholders exist, the profit (level) attributable thereto is exogenously given to employees as a fixed cost, which generates plural workers who participate in the enterprise to co-work with each other.

We assume here that the law of decreasing returns for additional inputs of labor holds good for the volume of production $f(y)$ and the product price (p) is determined under complete competition. In this case, the per capita income w of member workers is obtained by subtracting the above fixed cost from the total income $pf(y)$, and dividing the resultant value by the number of workers.

Therefore,

$$w = (pf(y) - c) / y$$

The condition to maximize w is

$$pf'(y) = (pf(y) - c) / y$$

Therefore, the maximum per capita income for member workers is realized only when the marginal product of labor (value) is equal to the average income of workers.

Looking at this in a different way, the most advantageous number of co-working participants (i.e. the number of employees) for existing employees of the relevant enterprise is the input of labor corresponding to the intersection between the decreasing marginal product (goods) curve and the upward convex average productivity (goods) curve on the coordinate system in which the ordinates are taken as labor productivity and the abscissas as the input of labor or the number of workers. In profit maximizing enterprises on the other hand, the quantity of employment is determined at the point where the marginal product of labor is equal to the wage ratio which is a parameter exogenously determined in the labor market and input of labor increase.

When a nonmember worker is added to a worker-controlled enterprise (model), it has the merit to expand the scope of co-work, if the worker contributes to the enterprise over the existing average income of workers. The expanded magnitude of co-work or the number of employees will reduce the above fixed cost borne by each worker.

For member worker, it is desirable to limit the magnitude of co-work, since the law of decreasing returns works on the labor units to be added against a certain amount of capital. Therefore, worker-controlled enterprises potentially have the possibility of under-production in an aspect. In contrast, increases in the price of product will increase the volume of production and employment at profit maximizing enterprises. In short, the wage ratio is a parameter exogenously determined for profit maximizing enterprises, while it is an objective function for labor-controlled enterprises.

If all other conditions are the same, the investment level of labor-controlled enterprises becomes lower

⁷ See the following for worker-controlled enterprises:

Masahiko Aoki and Tadayuki Itami, *Economics of Enterprises*, Iwanami Shoten, 1985

Ryutaro Komiya, *The Modern Chinese Economy*, University of Tokyo Press, 1989

Naoki Matsumoto, *Analysis of the Economy of Worker-Controlled Enterprises*, Kukikusa Shobo, 2000

than that of profit maximizing enterprises, which causes the so-called the problem of under-investment.

It takes time for investment to yield profits. In the meantime, shareholders may retain the stock or sell it in the market at the price that reflects the future profits to be generated by the investment. In contrast, present workers do not necessarily stay at enterprises during the entire period from investment to profit. Therefore, workers distribute business profits among themselves rather than appropriating them for future investment.

In addition, newly employed workers--nonmember workers benefit from investment, although they have no direct connection with it in the past. For these reasons, labor-controlled enterprises do not generate the investment that will lead to future development. In fact it is thought that investment stagnated at labor-controlled enterprises in Yugoslavia.

As explained above, the system to transfer stocks to workers on a preferential basis tends to cause under-investment, and under-production, and consequently makes enterprises inefficient, compared with other enterprises where shareholders and workers are systematically separated. Viet Nam needs to make policies with these problems borne in mind.

(4) Equitization of SOEs: systematic introduction of competitive conditions and promotion of market competition, and construction of market economy system

1) Overview

From the viewpoint of business efficiency, even under a market economy system it is admitted for central and local governments to have 100 percent of the stock of an enterprise. In the railway and power supply industries, that are subjected significantly to an effect of increasing returns relating to scale, the government in a number of countries imposes regulations or entrusts business to SOEs because free competition will lead to natural monopolies. In Viet Nam as well, such industrial sectors are excluded from equitization.

However, such political thinking is no longer acknowledged nowadays. In fact the market economy system is now also being introduced into such industries. Japan has begun to liberalize the retailing of power. Railway enterprises are criticized for their easy resort to fare increases whenever they fall into deficit. For these enterprises, profits are often determined by the comprehensive cost system, surcharging profit on top of cost at a fixed ratio. Under this system, the larger the cost, the larger the profit, eliminating any incentive for cost reduction. To compensate for this it is necessary to have a price cap system setting an annual ceiling for price rises based on the rate of inflation and other factors. As long as the price rise is under the ceiling, any amount of profit may be approved. If costs are cut, profit increases under this system as an incentive for management. It is a concern that under this system expenses to ensure safety will also be cut. However, that is another kind of problem. The price cap system only makes the conditions for competition the same as those for private enterprises.

It is not certain whether China regards the equitization of SOEs as a political option following after the policy to delegate decision-making rights to enterprises (executives). This seems to have been perhaps influenced by the unexpected stagnation of enterprises owned by the all people on one hand and the unexpectedly rapid development of township and village enterprises on the other.

In contrast, it may be that Viet Nam has generally been oriented toward making SOEs legally independent, whether by equitization after strengthening the decision-making rights of the management, or by the introduction of independent limited liability companies, regardless of performance of actual system changes.

Under the independent limited liability company system, promoted in parallel with equitization, enterprises appear to acquire legal autonomy from the line ministries. However it is not certain to what extent the introduction of the system provides enterprises with autonomy, as far as they depend solely on the government (owner) for investment. Under the independent limited liability company system, what is expected is only the preparation and disclosure of independent financial statements (balance sheets and profit and loss statements) and the possibility of external evaluation based on the statements. As the only investor is the government or a government organization, it is more difficult to detect insider control in connection with executives at an independent limited liability company than at equitized SOEs. If we expect a virtual change to some extent, it is the point to integrate enterprises owned by political and socio-political organizations into a corporation.

In our survey, it was proved that equitization in Viet Nam was a reality, though in part, while restricted by a number of factors. The survey confirmed differences in performance, personnel and labor management and production between ECs and NECs that were more or less supported by expanded rights of autonomous management for ECs.

As known already, the initial stage of the reform of SOEs in Viet Nam before equitization was the delegation of managerial decision-making rights from line ministry to executives of SOEs. This corresponds with the delegation of rights to SOEs promoted in China on a large scale since the end of the 1970s. The policy in China was to expand autonomous management rights of enterprises and improve incentive systems, aiming at the improvement of productivity. Different views are seen in China on this policy. While praising the effect of improving the productivity of SOEs, J. Ling, C. Fang, and L. Zhore point out that the separation of ownership (by the state) from management caused an 'asymmetrical' acquisition of information on enterprise management by line ministry, resulting in opportunistic behavior by executives, a drain on national assets and increased enterprise deficits. They attribute this situation to the lack of an information index (average profit ratios or average cost levels in the same industry) based on sufficient and fair market competitions⁸. This truly is a poignant criticism of ownership system reform mythology and vividly indicates the negative results in comprehensive terms brought about by insider

⁸ Ling, J., Fang, C. and Zhore, L., *State-owned Enterprise Reform in China*, 1998

control of corporate actions, without the guidance which is given in an objective sense to each enterprise through the experience of market competition.

With regard to the introduction of market economy systems, concrete models are different in different capitalist countries. The Anglo-American economic system is systematically close to the complete competition market system oriented to the realization of the Walrasian equilibrium with optimal resource distribution as described in school textbooks of economics. By contrast, the systems in Japan and the European Union countries, including Germany, are different.

As globalization progresses, it has been strongly suggested that the Anglo-American model is the universal one representing the globalization of economic progress. From this viewpoint structural reform is required in Japan with regard to various systems. The systematic features in Japan, which were highly evaluated until the 1980s, are now regarded as the cause of economic chaos. Will the economic system in Japan merge into the Anglo-American model? Even if it does, it is not clear whether the economic and corporate systems in Japan will regain and maintain an international competitiveness.

In countries with a transitional economy, existing institutions are not there to be modified or strengthened, but must be created to some extent by political will. The equitization or privatization of SOEs is a political measure of that kind, not to be disregarded. In fact, ECs in Viet Nam are spontaneously oriented toward autonomy and market economics unlike NECs, even though they are still regulated by the line ministries. This was a fact found in our limited survey of ECs. This orientation, in this sense, should be maintained. A more important issue is how to promote thoroughly the equitization of SOEs that are far greater in size than those covered in our survey. Although the policy is to reform the core enterprises in Vietnamese industries, it will encounter strong resistance from vested interests inside and outside of the enterprises.

2) Promotion of policies interlocked with equitization

Equitization is an effective means of improving the efficiency of SOEs and establishing their competitive power, and it is therefore significant to promote it as mentioned above. As emphasized repeatedly above, however, it is one of the necessary conditions but not the sufficient condition for achieving improvement of efficiency and the establishment of the international competitiveness of SOEs in Viet Nam.

Therefore it is necessary for Viet Nam to positively promote other policies for the systematic introduction of a market economy system in parallel with equitization.

First, ECs must be deprived of a number of protectionist facilities hitherto extended to SOEs. We were not able to obtain data to distinguish ECs and NECs in this regard due to limited opportunities for acquiring the necessary information. However, SOEs are still protected by various measures by the government. So they still keep enormous competitive advantages against private enterprises.

Some SOEs still maintain a monopolistic position in the market. At such enterprises, the motivation to improve efficiency is weak. In the Commercial Law, for example, it is stipulated that the government