

future reform of SOEs.

6-2 Analysis of Enterprise Law of 2000

Actual legal framework for domestic business activities is composed by SOE Law, Foreign Investment Law, Enterprise Law, Law on Cooperatives and related decrees and other legal documents.

The Enterprise Law was enacted in January of 2000, and up to March 2001, Decree Nr. 2²¹ and Nr. 3²² were promulgated as implementing provisions. Until 1999, establishment of business entities was under license system but after the enactment of the Enterprise Law and Decree nr. 2 the system shifted to be by registration at the registrar of company and about 200 license requirements were abolished.

The Enterprise Law is highly appreciated by international aid agencies, domestic companies and foreign investors. In this Law, innovative ideas based on market economy for Viet Nam are introduced. Until the end of 1999, establishment of business was governed by different laws and regulations. Therefore, the legal process of setting up private businesses was quite complex. It took time and money especially because endorsement of chairman of the communist party was required before registering at MPI.

The form of business permitted to establish under the Enterprise Law are limited liability company, shareholding company, private company and partnership. After the enactment of the Enterprise Law, establishment of non state owned enterprises under private initiative is increasing significantly. The Enterprise Law is also applied to equitized and corporatized ex SOEs.

However, the issue of property rights related to SOE reform has not yet find practical solution. The most important issues are 1) the right of the founder, 2) the right over fixed asset and 3) clear definition of the right to interfere in the managerial affairs of those SOEs transformed into shareholding companies.

Article nr. 1 of SOE Law defines about SOE but in the case of shareholding company and limited company under the Enterprise Law, practical answer on which would be the applicable law is not yet found in the following cases: 1) those enterprises with state predominant share corresponding to more than 50% of total capital and 2) those companies limited having one member. In those cases, whether the state as the owner investor should follow the SOE Law or the Enterprise Law remains unclear. Basically we could say that the state should follow the Enterprise Law, but article 52 of SOE Law clearly determines that if the state holds shares at enterprises established under the laws other than the SOE Law the state can interfere to the enterprise's affairs corresponding to the capital amount invested in such enterprises. This provision practically negates the article 1-2) of the Enterprise Law.²³ Actually, we can't find any 100% state owned shareholding company but if such a case appears, there will probably be a discussion on the applicable law

²¹ Decree 02-2000-ND-CP on Business Registration

²² Decree 03-2000-ND-CP Providing Guidance for the Implementation of the Law on Enterprises

²³ According to article 1-2) of the Enterprise Law, SOEs, former SOEs transformed into shareholding company or limited liability company and those companies owned by political organization or sociopolitical organization should comply with the Enterprise Law.

and it is important to solve the potential conflict of this legal jurisdiction.

SOE follows the SOE Law concerning its scope of business, management of assets and capital. However following the process of reform, various forms of SOEs is appearing. Equitized SOEs are still under the influence of SOE Law in accordance with the state capital invested and it is important to clear cut the scope of application of the SOE Law for the future. It is recommendable and reasonable, if the state holds part of the capital of the enterprise, the state should comply with the Enterprise Law.

Article 46 of Section 2 of the Enterprise Law refer to the socio political organization which are permitted to be the sole owner of SOEs transformed into company limited having one member. Decrees 388 and 50 determine the activities of those socio political organizations. The policy direction of transforming the remaining large number of SOEs into companies limited having one member applying the Enterprise Law is already clearly expressed by the government. The role of the Enterprise Law will become more and more important as the key legal document to regulate the players of the market economy.

6-3 Analysis of Decree on Equitization of SOEs (Decree Nr.44)

Article nr 1-2) of Section 1 of the Enterprise Law determines that SOEs transformed into limited liability company and shareholding company should comply with the Enterprise Law. Detailed instructions related to the transformation process of the SOEs are determined in Decree nr. 44 of June 1998. Furthermore, those business areas not subject to equitization are also determined at the attachment to the Decree nr.44 (refer to the attachment 2).

The number of equitized SOEs is about 400. the pace of equitization remains slow . Despite the government audacious plan of equitizing 1,000 SOEs during 2000 the result is not promising.

Major factors which are considered deficiency of the decree on equitization are as follows: 1)time consuming agreement on the final value of SOE due to unclear criteria of valuation practiced by the Ministry of Finance; 2) delay of policy direction toward bad debt issue; 3) ineffective governmental instrument to cope with redundant labor for those SOEs without voluntary capacity to tackle the problem; 4) amount corresponding to the sale of share is kept by the state and not commissioned to the transformed enterprise.

In addition, due to the low level of internal capital accumulation and insufficient disclosure of information toward potential investors are also creating barriers to attract investment capital from general public. To cope with this problem, the government issued Prime Minister's Decision 145²⁴ and Circular 132²⁵ of the Ministry of Finance allowing foreign investors to acquire shares corresponding to up to 30% of the legal capital of concerned SOE. However, business sector of which foreign investors are permitted to acquire shares under this Decision is limited to those consumer goods sector not considered important to the state (refer to attachment 3).

²⁴ Decision 145-1999-QD-TTg on the Issuance of Regulation on the Sales of Shares to Foreign Investors

²⁵ Circular 132-1999-TT-BTC Guiding the Sale of Shares to Foreign Investors

Furthermore, at the stage of pilot equitization²⁶ under the Decree 28, criticism arose toward massive acquisition of the shares by the management to avoid such a public reaction, provision limiting the number of shares to be acquired by managerial cadres was included in Decree 44. Due to this limitation, incentive for equitization reform led by capable and interested managers was considerably battered.

Equitization of SOE under the Decree on equitization emphasizes the consensus among workers and their initiatives. The equitization plan can not be implemented without agreement with the labor union organized under the communist party. It means structural deficiency of the equitization since majority of workers tend to oppose to the reform itself.

Since the pace of the equitization remains slow against expectation of the government, there is voices demanding amendment to the Decree 44 on equitization. The government considers too early the idea since it will have significant influence over the draft amendment of the SOE Law and draft decree on implementation of the Enterprise Law.

In this area, ADB, CIDA, AusAid, EU and other aid agencies are providing technical assistances by engaging with individual SOEs selected by CERD to implement equitization relying on expertise of international consultants.

6-4 Analysis of Decree on Lease, Management Contract and Sale of SOEs

Decree 103 of 1999 made possible the reform of small scale SOEs under financial difficulty by way of management contract, lease, auction to the public and sale. However, those small SOEs with low importance to the state suffering from chronicle loss find real difficulty in attracting interested managers or investors. Therefore no example of already transformed SOEs exists except those in the course of pilot transformation under technical assistance of ADB.

According to the implementing provisions of the Decree 103, those SOEs concerned follow the criteria for transformation into shareholding company or co-operative. In the case of SOE having capital of more than 50 billion Dong it could be transformed into shareholding company.

Experimental auction was implemented by AusAid assistance toward SOEs under Haiphong People's Committee from 2000. However, after the determined period for the project completion, no one was successfully transformed by this auction process.

6-5 Background analysis of corporatization of SOEs

The Enterprise Law approved by the National Assembly in June 1999 includes provision on company limited having one member to transform SOE to 100% state-owned limited liability company. However, the Enterprise Law does not include the detailed provision related to the criteria of transformation of SOEs

²⁶ Legamex of Ho Chi Minh City was selected for pilot equitization but failed due to criticism toward dominance of the General Manager and his family over the shares issued.

into limited company having one member. The government instructed MPI (specifically CIEM) to draft the detailed implementing provision to determine the procedure for registration under the Enterprise Law and organizational structure to be adopted after the transformation. The draft is not yet completed as of March 2001.

This process design is considered vitally important because large number of remaining SOEs will eventually be subject to this instrument²⁷. The actual major instrument of SOE reform is equitization (based on Decree 44/1998ND-CP). This measure basically means partial privatization but majority of SOEs are not in situation to permit direct equitization (privatization). Furthermore, not all of those SOEs are suitable for equitization. To serve as recipient for those SOEs, there is necessity to create the form of the company limited having one member owned 100% by the state organizations to give time for preparation toward equitization or other forms of transformation. By transforming SOEs to limited company having one member, those enterprises will redefine their capital under the Enterprise Law and will clear cut the rights and responsibility of owner investor and management. According to CIEM, the pre-requisite for transformation into limited company having one member are as follows

- clarify legal procedure to transform SOEs into company limited having one member
- to those SOEs transformed into company limited having one member, determine the rights as the independent legal person and at the same time, determine the legal rights of the state as the owner
- determine basic criteria for management structure of company limited having one member
- design practical procedure for transformation of SOE into company limited having one member
- select type of SOEs subject to transformation into company limited having one member

What CIEM emphasizes on this measure to transform into company limited having one member is clarification and systematization of the interference right of the state over SOEs concerned. There is no clear definition whether to deem the Ministry of Finance or line ministry as the owner of SOE capital. Since indication of capital source at the time of establishment is not defined, determination of exactly which government agency should take investment responsibility is also not defined. It means that the right of interference and ownership is not related to the capital investor. Therefore, when the SOE is running successfully, several governmental agencies maintain the right of interference by using the governmental agency status but once the SOE is in difficulty, structural deficiency is revealed to determine which governmental agency is practically responsible for. To remedy such a deficiency, the concept of transforming into company limited having one member arose. Transformation of SOE into company limited having one

²⁷ This measure set target toward transformation of those enterprises established specifically by fatherland Front, Communist Party and its subordinate organizations (Youth League, Hero Mothers, Association of Retired Soldiers, etc.). It seems that there is general fear to lose actual preferential treatment by following the draft decree to be implemented uniformly under the Enterprise Law.

member means realistic and innovative reform instrument by determining investor agency in the government, defining right and responsibility of such an agency and determining agency to bear direct responsibility over the investment.

The Enterprise Law comprises with only five provisions for company limited having one member (refer to attachment 4). Therefore, relationship between the state and the management should be defined for those SOE subject to this instrument. Specifically, treatment of accumulated debt and appointment criteria of managers should be clearly defined.

If we search for the positive aspect of this reform measure, provided that (all) SOEs are transformed into company limited having one member²⁸, there will be improvement at the level playing field since all forms of enterprise shall comply with the same Enterprise Law.

In the case of company limited having one member, owners will be either SOE, state agency or sociopolitical organizations. According to article 240 of the Civil Code, sociopolitical organizations are defined as communist party, (labor) union, youth league, business association and other forms of organization. According to SOE Law, it should be applied to the portion of share owned by the state in company limited having one member. Under actual legal framework, the right of interference of line ministries is still quite significant.

Provided that the registration, financial reporting and other requirements are applicable to companies having one member, there is positive effect for separating the ownership and management right from the state at certain extent. It means that under Enterprise Law, the state receives the status of limited liability member and the founding member. The asset of the company limited having one member will be registered in the form of capital invested by the state and therefore transparency concerning state investment will be endorsed.

ADB is providing technical assistance to implement SOE transformation into company limited having one member responding to the request of CERD from 2000. Based on the result of this pilot project, detailed procedure will be designed for transformation of SOEs into company limited having one member.

Considering from the longer term, almost all remaining SOEs will be transformed into company limited having one member but further improvement of management of state asset should be introduced. The state should limit to own the value of the enterprise up to the value invested and give up the direct ownership over the asset belonging to the enterprise facilities.

We can't ignore the linkage of company limited having one member with amendment to the SOE Law. Discussion among government officials is still ongoing with conservative faction insisting on the improvement and enlargement of SOE Law and reformist faction insisting to abolish the SOE Law after transformation of all SOEs under the forms regulated in the Enterprise Law. Therefore, opinion on selection criteria of SOEs to be transformed into company limited having one member differs significantly from one

²⁸ CIEM calls this process "corporatization"

agency to the others including its size, financial status, etc. For example, one of GC manager thinks that only GCs should bear the form of company limited having one member. One of research institute official feels that such a reform should be limited to small and medium SOEs. The other government official says that all those SOEs owned by governmental agencies should be subject to this transformation, and so on.

The policy direction on this reform is not yet defined since the draft decree on company limited having one member was repealed by the Standing Committee in December 2000. It is worth of observation on how next Party Congress (to be held in April 2001) will consider this issue.

6-6 Policies related to debts and redundant workers at SOEs

The lack of suitable policy measure to cope with accumulated debt and redundant labor issue were long considered biggest obstacles for the smooth implementation of SOE reform.

About 720,000 workers lost their job at the SOEs as a result of SOE reform and restructuring implemented from 1989 to 1992. They received retirement allowance provided from the state budget and SOE budget based on Decree 176. Those workers were absorbed by newly established SOEs and by increasing foreign investment companies at that time. While economic growth was stable by increasing demand for Vietnamese product and export, the business result of SOEs was also promising. In such a circumstances SOEs contracted new borrowings from financial institutions to renovate equipments and recruited new workers without paying attention to repayment capacity for the future. After the financial crisis of 1997, foreign investment in Viet Nam shrunk dramatically and SOEs again faced financial difficulties and needs for reducing the labor power. The government thus enacted Prime Minister Decision 177²⁹ and Decision of the Finance Minister 95³⁰ in an attempt to solve this situation.

Basically, the decision 177 of the Prime Minister regulates the establishment of reform funds³¹ addressing those SOEs to be equitized under Decree 44. Soon after the issuance of this decision, Decision 95 was issued by the Ministry of Finance to enlarge the scope of its application to those small scale SOEs to be transformed into shareholding companies, limited liability companies or co-operatives under Decree 103 by way of lease, sales, management contracts, etc.. In addition, decision 177 of the Prime Minister puts more focus on provision of funds to induce the workers to buy shares issued at the time of equitization and measures to solve the redundant labor issue. However, the decision 95 of the Minister of Finance also

²⁹ Decision 177-1999-QĐ-TTg on Organization and Operation of Funds for Support of State Enterprise, Restructure and Equitization

³⁰ Decision 95-2000-QĐ-BTC promulgating the Regulation on Management, Collection, Remittance and Use of State Enterprise Restructure and Equitization Support Funds

³¹ Article 1, Decision 177 of the Prime Minister on "establishment of equitization support fund at SOEs under direct management of the central government, local people's committee and restructured SOEs under GCs

³² Article 14, Section 2 of Decision 95 of the Ministry of Finance on support fund for payment of debt at SOEs subject to reform by way of management contract, sale and lease.

includes solution to solve the bad debt problems³².

The type of funds to be established based on the decision 77 of the Prime Minister and the Decision 95 of the Ministry of Finance are as follows:

1. training and retraining of redundant labor force for re-employment
2. subsidy for those who choose voluntary retirement
3. financial support to the employees to buy shares at the equitized enterprises
4. injection of fresh capital to strengthen the capital base of SOEs subject to reform
5. to solve bad debt problems of SOEs subject to reform

Those funds are established at central level, local people's committee level and GC 91 level and will be managed and controlled in accordance with each level's reform plan.

The source for establishment of the funds are expected to be the follows:

1. capital collected from selling of state owned shares of SOEs
2. dividend revenue from shareholding enterprises and limited liability companies corresponding to the share owned by the state
3. revenue from the sell of the stock and assets of SOEs and debts settlement
4. revenue from the sale of residual assets of SOEs winded up
5. donation from organizations, individuals and assistance from international organizations
6. allocation from the state annual budget

Considering the actual pace of SOE reform, the resource from 1 to 4 above shall be insignificant and the establishment of funds at first phase will exceeds the financial capacity of the government. The decision 177 of the Prime Minister established the fund for SOEs to be equitized. However, since it is difficult to find the capital source, establishment of the fund itself is looked with skepticism.

The mechanism is to automatically release the necessary amount after the approval of reform plan of each SOE. Priority will be given to the training and retraining of redundant workers, social allowance for retired and laid off workers but in the case of SOE reform at the local people's committee level suffering from accumulated debt, the amount to be allocated will be too small to produce significant effect. In addition, SOEs taking decision for reform are very limited provided that after the equitization they will loose the financial support from the government. Especially in the case of SOEs at local level suffering from accumulated losses, realistic policy approach on the distribution of the funds should be established.

The creation of SOE reform funds is innovative and will certainly speed up the reform process when administered properly and it is reasonable to consider that the major source for the funds would come from international contribution on 4) and budget allocation on 5).

If these funds become available in practice at the first phase, realistic solution to solve the redundant labor will be put in place. Financial burden related to retirement allowance for voluntary retirement, retraining of workers and social security will also be lightened.

However, major international assistance capital source should be the World Bank, ADB, IMF, IFC and bilateral assistance and thus, severe negotiation over SOE reform is expected in the future.

6-7 Other related laws

6-7-1 Bankruptcy Law

There is a drafting team for amendment of Bankruptcy Law. The actual Bankruptcy Law is in the situation of codified but not applied regulation. The main reasons are said to be as follows: 1) legal fundament of the provisions is vague; 2) petition for declaration of insolvency imposes burden of proof to the third party; 3) workers do not file petition for bankruptcy with fear of losing their jobs; 4) creditors do not file petition for bankruptcy with fear of bearing responsibility for contracting bad debt; 5) management does not want to recognize responsibility for the failure; 6) the value of assessment to prove the bankruptcy is more expensive than the residual value of the bankrupt enterprise; 7) non existence of clear authority and uniform procedure at the economic court over bankruptcy cases; 8) no clear distinction between civil procedure and criminal procedure toward bankruptcy cases.

Under actual circumstances of which ownership and management rights are not clearly distinguished, it is difficult to impose self-discipline to SOE managers. Even at the court trial, it is difficult to attribute clear responsibility over managerial decision on disposal of the enterprise assets. Depending on the situation, civil trial is transformed into criminal trial under the charge of misuse of the state asset. If it is not possible to clear cut the responsibility of owner and management, line ministries with fear of bearing responsibility for the failure, end up providing subsidy before bankruptcy going through process.

Economic court is in charge of bankruptcy cases of SOEs but such a case is quite rarely brought for the court settlement. The legal procedure for abstention effort such as reorganization or corporate restructuring should also be established. In addition, judges and officials at economic courts should be trained to understand the procedure for bankruptcy of SOEs. It is practically impossible for the economic court to be independently involved in the bankruptcy cases of SOEs since unpredictable interference from the government is still permitted. Concerning the proceedings, under the situation where comprehensive civil or criminal procedure law are yet to be enacted, economic court fears criticism from employees and line ministries to adjudicate bankruptcy of SOEs. Before adjudication of bankruptcy, the economic court does not have budget to proceed on the assessment of the bankrupt entity. Lack of independence of the judiciary is one of the obstacles.

It is expected that the draft amendment of the Bankruptcy Law will be examined at the General Assembly during 2001. It is required to streamline procedure and simplify the Law in order to transform it to a practical regulation easy of application especially for SOEs.

6-7-2 Labor Code

Labor Code in Viet Nam is the most advanced labor law in the world. However, if we compare with the actual reality of Vietnamese labor market, huge gap is recognized. The actual Labor Code will fit to the matured market economy with matured labor market and in addition, the state should have certain economic power to implement perfectly the established provisions.

According to the Labor Code, basically all enterprises should have a labor union, however it will be difficult to impose to those small scale enterprises. Labor union are organized without exception in the case of 100% SOEs.

One chapter is devoted to the function of labor union in the Labor Code. Almost all workers understand the basic principle of the Labor Code.

In addition, representative from labor union is entitled to participate in the management of GCs and SOEs. The role of the representative of labor union are; 1) inspection of management role 2) participate in the managerial decision by way of voting right; 3) represent workers at business plan and business strategy.

Vietnamese labor market is still in its infant stage when considering the labor conscience, willingness for pursuing the job, etc. If Viet Nam try to enforce this modern Labor Code in actual circumstance, the burden on those SOEs in the course of the reform will be quite significant. Since the conscience of workers did not change much from the time of planned economy at SOEs, the compliance to the Labor Code will serve as the obstacle to the early adaptation of workers to the market economy.

The government should, for the certain extent, refrain from strictly enforcing the Labor Code by enacting temporary legal measures while the SOEs are in the course of the reform. However, to avoid possible social insecurity it is not possible to pursue premature and drastic reform. The reform should follow the necessary step by confirming the results from each step establishing the mechanism to absorb the cost of the next stage of the reform.

The decision 177 of the Prime Minister³³ of 1999 and the decision 95 of the Minister of Finance³⁴ of 2000 determine such a mechanism.

However, instead of relying on this enterprise reform fund, SOEs should graduate from this system as soon as possible and establish the environment to comply independently to the actual Labor Code. It is not possible to think separately on the issue of cutting the redundant labor and improving labor productivity.

In 1990 the number of SOEs was 12,000 and in 2000 this number has dramatically decreased to 5,700. As a result, the number of employees at SOEs also decreased significantly in the process of SOE

³³ Decision of the Prime Minister NO 177-1999-QĐ-TTg on organization and operation of Fund for arranging and Equitizing State-Owned Enterprises

³⁴ Decision No. 95-2000-QĐ-BTC promulgating the Regulation on Management, Collection, Remittance and use of State Enterprise Restructure and Equitization Support Funds

reform, huge number of workers lost their jobs. According to the figures provided by Viet Nam General Confederation of Labor – VGCL, until 1992, almost 700,000 workers were laid off of which 40% were reemployed getting stable job positions, 40% were reemployed but not in stable job positions and remaining 20% are still unemployed. The unemployment rate is increasing caused by recent economic crisis and actual average rate is 7.3%. The most alarming unemployment figure is 14% of construction workers and 15% of machinery industry.

7. Assistance from international organizations and Japanese bilateral cooperation

The observation of international agencies stationed in Hanoi over SOE reform in Viet Nam is quite skeptical and they express strong concern over reform using limited company with one member as an instrument of transformation. Majority of opinion says that transformation of SOE into limited company having one member will further strengthen the state dominance and interference over the management even after the transformation and it merely means that the state will hold the SOE as they are by changing only the form of its existence without significant change in its governing structure.

World Bank and IMF are going to choose different approach by enhancing pressure from trade and commercial transaction aspects, therefore not touching directly in the issue of SOE reform itself. The intention is to improve the actual commercial transaction and contract law in line with US based UCC.

ADB will continue providing technical assistance toward equitization and privatization to pursue reform of SOEs.

The legal reform assistance from Japan started when inflation turned to remain under control in 1991. Responding to the request from Vietnamese government to provide technical assistance on Civil Code and Commercial Code, project under JICA's "Policy Assistance Program" was established in 1995. The first phase finished in December 1999 and the second phase started in 2000 for further improvement of the Civil Code, human resource development and provision of office equipment. However no substantial assistance related to business law field is so far provided. In Viet Nam, Ministry of Justice plays quite limited role over drafting, enactment and implementation of laws and regulations. Such a function is scattered at the ministries in charge of respective legal areas. Since JICA's legal assistance determines the Ministry of Justice as a counterpart, there is no possibility to extend an assistance over enterprise related laws and regulations including SOE Law which are under the jurisdiction of MPI

8. Issues and recommendations related to legal aspects of SOE reform

The new Enterprise Law is not exactly similar to the ones of other developed nations with peculiar regulations and articles. It is not common to have voting preferential shares in Company Laws of civil law countries but

this could be the reflection of the government intention to keep the state rights over those equitized SOEs. Due to such peculiar provisions, the Enterprise Law reserves possibility of development against the original concept of company law of guaranteeing the free market operation. This aspect will also be reflected to the separation of ownership and management of transformed SOEs under the Enterprise Law.

The issues related to SOE reform from the legal aspect are as follows:

- lack of practical regulations to cope with redundant labor problems at SOE reform
- provisions related to financial independence, responsibility of sole owner and responsibility of management are not included in Section 2 of limited company having one member of the Enterprise Law
- legal framework concerning capital contribution and the owner (shareholder) is not clear enough at the draft decree on limited company having one member
- decrees 90 and 91 on General Corporations need to be amended to streamline its reforms
- model company charter for GCs needs to be amended to follow the reform
- provision on merging corporation, capital contribution by the state, consistency with decree on limited company having one member are needed to be clearly defined in the draft amendment of SOE Law.
- economic contract regulation needs to be amended in compliance with the contract relationship change following the SOE reform
- clear definition should be introduced on what aspect of economic transaction should be treated under the criminal prosecution
- discrimination between State holding shares and other form of share ownership should be minimal
- no provisions related to rights of SOEs over shareholding of their subsidiaries
- no indication related to regulation on financial reporting of limited companies having one member. There is fierce resistance over actual draft on financial reporting regulation toward non SOEs being prepared by the Ministry of Finance.

We can not ignore the influence of the amendment of SOE Law and the upcoming implementing provisions of the Enterprise Law and monitoring is needed to foresee how it will be reflected to the future of SOE reform.

Viet Nam asks for assistance to promote legal improvement in the area of Civil Code, Civil Procedure Law, Criminal Law, Criminal Procedure Law and other economic law areas but on the area of Trade Law and Company Law, it is seemed that preference is given to work independently without interference of foreign assistance.

In relation with SOE reform, there is strong determination of the government to develop the enterprise related laws along with the SOE Law closely linked up with the state's economic policy. Therefore, effort on

time consuming consensus building among MPI, Party Congress, Standing Committee of the General Assembly and ministries is considered essential to determine the future of SOE reform

The actual situation of SOE reform is quite unstable but from legal point of view, we can resume our recommendation into the following five points:

- 1) To amend the SOE Law and limit its application only to public utility enterprises.
- 2) To apply Enterprise Law to those existing SOEs by transforming them into shareholding companies or limited liability companies.
- 3) To urgently establish the management with transparency and predictability by strengthening the regulation on financial reporting, business management scheme and defining the right and responsibility of investors related to SOE to be transformed into limited liability company.
- 4) To introduce different articles which define clearly the scope of responsibility and rights of the State as the shareholder to complement the actual Enterprise Law.
- 5) Build up the mechanism of which the public can monitor the result of the State investment (e.g. compulsory reporting to the National Assembly on the financial result of SOEs).

10. Conclusion

In this paper, we tried to find the solutions to overcome the unstable business environment by analyzing and classifying several legal framework surrounding the SOE reform in Viet Nam.

By pursuing SOE reform, SOEs will acquire larger self determination rights in return of loosing the umbrella in the form of state protection. However, larger self determination rights means, at the same time, that the business risk will also increase. There is an need for acquiring know how and skills to bear the risks. In addition, there is also needs to recognize and understand the change in the legal framework at the changing business environment.

The legal framework to regulate the market economy in Viet Nam is not yet in its completed form. Even after the change of applicable law from SOE Law to Enterprise Law, actual Enterprise Law is still a premature law to foresee the future development of the market economy.

This means that for those enterprise managers there is a requirement not only to cope with the managerial risk but also to cope with the market risk caused by unstable legal system in evolution. The direction of lifting up the state protection and therefore to withdraw from interdependent relationship, enterprises should contribute to establish the practical market rules as the main players of the market economy. The restructured ex-SOEs will play the principal role in the market since private sector enterprises are still in its infant stage of development. Therefore, who are able to contribute more to the establishment of the rule based market are those transformed SOEs. Those ex-SOEs should actively develop recommendations to the government as the key players of the market instead of waiting and asking for special or preferential treatment to the state. The

legal development in those developed market economy nations is marked by demand from the actual players of the market economy on rule making and enforcement and the establishment of market regulation by the government responding to such an action.

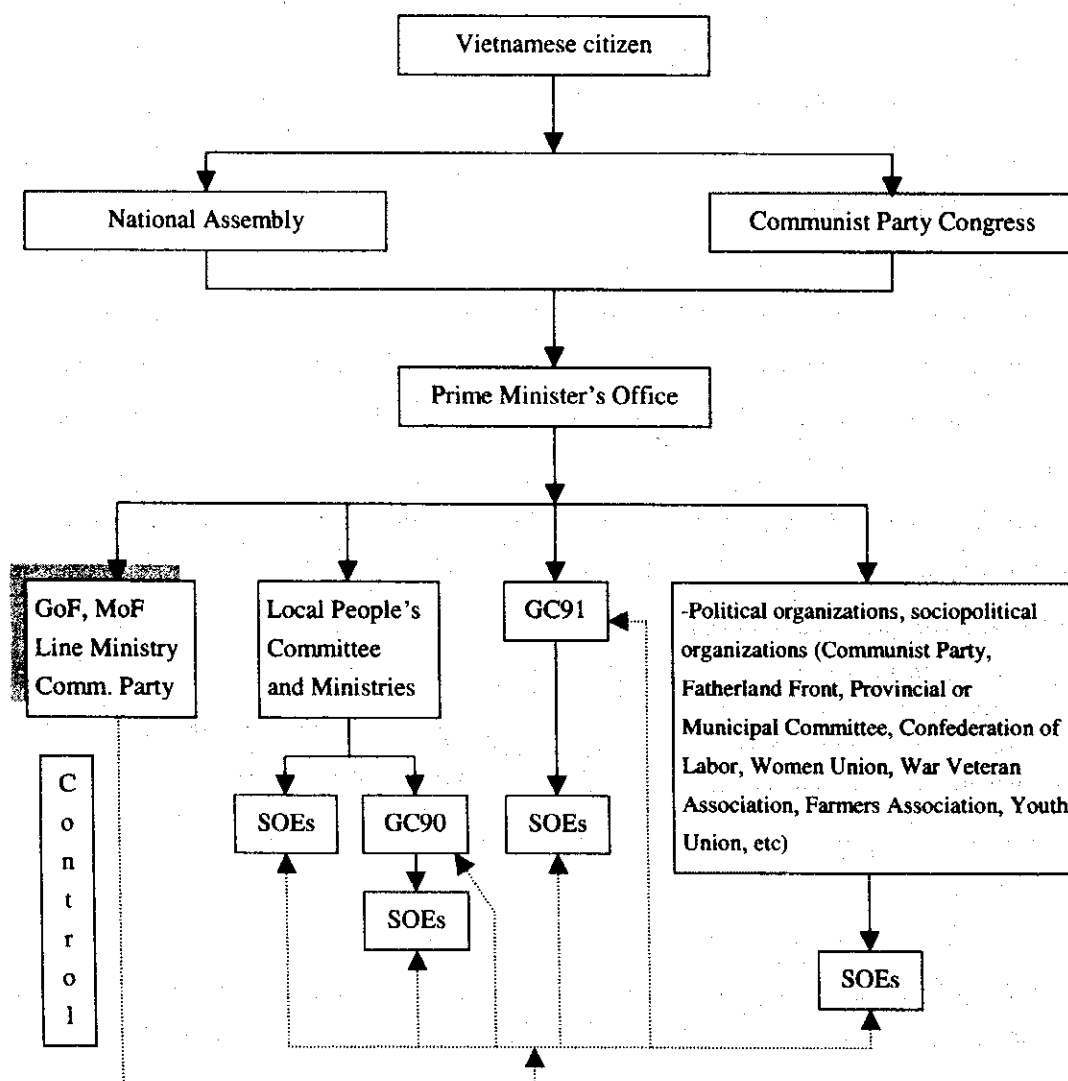
The law should be transparent and reliable worth of compliance by the people and should not only be the instrument of the state control. We can not forget that the major rule makers should be the enterprises which are the pillars of the market economy. Actual SOEs are comparable to adolescents in search of independent life from their parents. They want to be independent but still are not sure of being able to survive alone. The direction of SOE reform is already determined. This is the road for self discipline and financial independence. This is the road paved for SOEs. But at the same time, it is indispensable that the SOEs cooperate and participate to enlarge and pave this road. The government is not able to carry the SOEs demanding for protection and not contributing to the wealth of the state anymore. SOEs which became large after restructuring and re-arrangement should try hard to play the key role at the maturing market by pursuing internal voluntary reform from now on. The managers of SOEs should be determined, not only to learn from the practical business environment but also to carry on their role of creating the legal framework suitable for their market economy.

Viet Nam, along with reference of several models from developed countries, is trying to develop the concerned laws with large margin for the State to intervene in the practical management and influence over the shareholders meetings of those transformed SOEs.

IMF, World Bank and ADB recommend the introduction of Anglo-American model of corporate governance. However, Viet Nam is in search of management mechanism to prevent the misuse of the state assets rather than strengthening the shareholders right concerning state owned shares over SOEs. Here, we should recognize the difference of the perception between the objective of Vietnamese enterprise management and the expected governance mechanism to be introduced by international aid agencies. Only after understanding such a different perception, design of fair and efficient SOE management system will be possible.

SOE reform in Viet Nam is not yet in the full implementation stage. It is still in its experimental stage. Number of experiments ended up in failure and different market approaches such as SME development also appeared. The actual search for consistent, uniform and reliable legal environment for different forms of enterprises will still continue for the near future.

Control mechanism of Vietnamese SOEs established by laws and regulations
(according to the Constitution, Civil Code, SOE Law, Enterprise Law,
Law on Government Organization and other regulations)



Supplementary provisions
(Attached to Decree Nr. 44/29 June 1998)

Criteria of selection of SOEs to be equitized

I. Existing SOEs not to be equitized

- Public Utility SOEs defined in Decree Nr 56 –CP of 2nd October 1996
SOEs with state capital of more than 100 billion requires the approval of the Prime Minister or the Government for equitization. SOEs with state capital up to 100 billion require approval from ministers, Local People's Committee or People's Committee under the direct control of the central government.
- Manufacturing of products and services which are under the state monopoly such as explosives, hazardous chemical products, nuclear products, imprinting of money and bills, infrastructure building of domestic and international transmission network.

II. The state will hold dominant or preference shares at the time of equitization of following SOEs:

- Public utility SOEs having capital of more than 100 billion
- Extraction of rare metals
- Large development of mineral resources
- Technical services related to oil extraction
- Fertilizers, pesticides and chemical products
- Large production of non-metal and rare mineral products
- Large production of electricity and distribution
- Maintenance of aircrafts
- Post and telecommunication services
- Railway transportation, air transport and sea transportation
- Printing in large scale, publication and manufacturing of alcohol, beer and tobacco
- Investment banks and banking for poor
- Large scale businesses related to energy and oil production

III. Those SOEs not mentioned above can be transformed into shareholding company without dominant or preferential shares hold by the state or other ownership forms.

Prime Minister

Phan Van Khai

State-owned sectors which are permitted to sell shares to foreign Investors
(Attachment to the Decision of Prime Minister 145-1999-QD-TTG on 28 June 1999)

1. Garment
2. Shoes
3. Leather products
4. Production and processing of agricultural and fish products
5. Other consumer goods
6. Production of construction materials
7. Road transport, domestic water transport, container transport
8. Development of educational materials
9. Toys
10. Hotel, trading, service
11. Machine manufacturing
12. Export of the above products

Legal provisions on single owner limited liability companies
(Law on Enterprises Section 2, Articles 46, 47, 48, 49, 50)

Company limited having one member

Article 46 Company limited having one member (Cong ty trach nhiem huu han mot thanh vien)

1. A company limited having one member is an enterprise owned by an organization (herein after called company owner). The owner shall be responsible for due payables and other property obligations of the company limited by charter capital of the enterprise.
2. A company owner has right to transfer all or a part of charter capital of the company to another organization, individual.
3. A company limited having one member shall not be allowed to issue share to the public.
4. A company limited having one member has its own juridical person from the date of being issued with business registration certificate.

Article 47 Rights and obligations of a company owner

1. A company owner shall have following rights:
 - a) Determine the contents of the Charter of the company, to amend, modify the Charter of the company;
 - b) Determine company management organization structure, appoint, terminate, remove management positions of the company stipulated in the article 49 of this Law;
 - c) Decide the adjustment of charter capital
 - d) Decide investment measures having the value equal to or more than 50% of total value of the assets recorded in accounting books of the company;
 - e) Decide to sell the property having the value equal to or more than 50% of total value of the assets recorded in accounting books of the company;
 - f) Organize to monitor and assess business operation of the company;
 - g) Decide the distribution of profits;
 - h) Decide the re-organization of the company;
 - i) Other rights stipulated in this Law and the Charter of the Company
2. A company owner shall have following obligations:
 - a) Contribute capital in full and in time as registered;
 - b) Comply with the Charter of the company;

- c) Comply with the provisions of laws on purchasing, selling, borrowing, lending, leasing and leasing to between the company and the owner;
- d) Implement other obligations in accordance with provisions of laws.

Article 48 Restrictions of the rights of a company owner

1. A company owner shall not be allowed to withdraw by himself/herself a part of or whole charter capital.
2. A company owner shall be only allowed to withdraw capital through the manner of transferring a part of or whole charter capital to another organization or individual.
3. A company owner shall not be allowed to withdraw company's profits when the company have incapability to pay due payables and other property obligations.

Article 49 Company management organization structure

1. Subject to business lines, the structure of internal management organization of a company limited having one member consists of the Board of Directors, Director (General Director), Company's President and the Director (General Director).
2. Powers and duties of the Board of Directors, Company's President, the Director (General Director) of a company having one member are stipulated in the Charter on the basis of the provisions of this Law and other provisions of relevant laws.

Article 50 Increase, reduce of charter capital

A company limited having one member may increase, reduce charter capital through the manners of:

1. Increasing, reducing of charter capital of company owner;
2. Adjusting charter capital in respective with the value of assets of the company.

Relevant laws and regulations related to SOE reform

No.	ISSUED AGENCIES	TITLE OF DOCUMENTS
I	LAW	
1.	National Assembly	Law on State-Owned Enterprises in 1995
2.	National Assembly	The Civil Code in 1994
3.	National Assembly	Law on Enterprises in 1999
II	RESOLUTION	
	Standing National Assembly Committee	No.60/1998/NQ-UBTVQH10 dated 28 August 1998 on promulgation of democratic regulations in state-owned enterprises.
III	DECREEs	
1.	Government	No.18/CP dated 13 May 1995 making detailed provisions on the implementation of the rights and obligations of domestic agencies assigned and rented land by the State.
2.	Government	No.34/CP dated 27 May 1995 on the obligations, rights, and organization of the General Department of State Capital and Assets Management in SOEs.
3.	Government	No.39/CP dated 27 June 1995 issuing the Charter Model of State General Corporations.
4.	Government	No.64/CP dated 9 October 1995 issuing temporary regulations on the organization and activities of leasing companies in Viet Nam.
5.	Government	No.92/CP dated 19 December resolving the interests of workers in bankrupt enterprise.
6.	Government	No.96/CP dated 27 December making detailed providing on the implementation of Law on Turnover Tax and the Law on Amending and Supplementing the Law on Turnover Tax.
7.	Government	No.28/CP dated 7 May 1996 on transferring some state-owned enterprises into joint-stock companies.
8.	Government	No.50/CP dated 28 August 1996 on the establishment, reorganisation, dissolution, and bankruptcy of state-owned enterprises.
9.	Government	No.56/CP dated 2 October 1996 on the public service state-owned enterprises.
10.	Government	No.59/CP dated 3 October 1996 issuing the Regulations on financial management and business accounting in SOEs. - Regulations on financial management and business accounting in SOEs (promulgated in conjunction with the Decree No.59/CP dated 3 October 1996 of the Government).
11.	Government	No.25/CP dated 26 March 1997 on amending some articles of the Decree No.28/CP dated 7 May 1996 on transforming some SOEs to joint-stock companies.
12.	Government	No.28/CP dated 28 March 1997 on renovating of salary and income management in SOEs.
13.	Government	No.38/CP dated 28 April 1997 on amending and supplementing some articles of the Decree No.50/CP dated 28 August 1996 of the Government on the establishment, reorganisation, dissolution, and bankruptcy of SOEs.
14.	Government	No.110/1997/ND-CP dated 18 November 1997 on supplementing the salary coefficient of managerial title and allowances of the enterprises leaders (promulgated in conjunction with the Decree No.26/CP dated 23 May 1993).
15.	Government	No.44/1998/ND-CP dated 29 June 1998 transforming a SOE to a joint-stock company.
16.	Government	No.48/1998/ND-CP dated 11 July 1998 on stock and stock market.
17.	Government	No.51/1998/ND-CP dated 18 July on amending, supplementing some articles of Decree No.87/CP dated 19 December 1996 making detailed provisions on implementing managerial decentralization, preparation, accept and payment of state budget.
18.	Government	No.57/1998/ND-CP dated 31 July making detailed provisions of Trade Law on import, export activities, intermediary exchanging agent with foreign countries.

19.	Government	No.61/1998/ND-CP dated 3 October 1998 on the inspection, examination activities in enterprises.
20.	Government	No.82/1998/ND-CP dated 3 October 1998 issuing the list of legal capital of credit institutions.
21.	Government	No.84/1998/ND-CP dated 12 October 1998 making detailed provisions of implementing Law on Special Consumption Tax.
22.	Government	No.90/1998/ND-CP dated 7 November 1998 issuing the regulations of oversea loans and payment management.
23.	Government	No.100/1998/ND-CP dated 10 December 1998 on financial regulations of the State Bank of Viet Nam.
24.	Government	No.102/1998/ND-CP dated 21 December 1998 on amending, supplementing some articles of Decree 28/1998/ND-CP of the Government making detailed provisions on Law on VAT.
25.	Government	No.07/1999/ND-CP dated 13 February 1999 on promulgating the democratic regulations in SOEs. - The democratic regulations in grassroots.
26.	Government	No.10/1999/ND-CP dated 01 March 1999 on supplementing Decree No.195/CP dated 31 December 1994 of the Government providing the details and guiding the implementation of some articles on working, rest time according to Labour Code.
27.	Government	No.11/1999/ND-CP dated 3 March 1999 on the prohibited circulation goods, trade services not to be carried out allowed, goods and services to be limited in trading (if it is trading it have to comply with certain conditions).
28.	Government	No.22/1999/ND-CP dated 14 April 1999 regulating oversea investment of Vietnamese enterprises.
29.	Government	No.17/1999/ND-CP dated 29 March 1999 on assigning, transferring, leasing out and rerenting, heritating procedures of land use right and mortgage, capital contribution by the value of land use.
30.	Government	No.27/1999/ND-CP dated 20 April 1999 on amending and supplementing the Regulations on financial management and business accounting for SOEs (promulgated in conjunction with Degree No.59/CP dated 03 October 1996 of the Government).
31.	Government	No.84/1999/ND-CP dated 28 August 1999 on reorganizing the General Department of State Capital and Assets Management in SOEs under the management of the Ministry of Finance.
32.	Government	No.103/1999/ND-CP dated 10 September 1999 on assigning, selling, contracting out, and leasing state-owned enterprises.
33.	Government	No.03/2000/ND-CP dated 03 February 2000 on guidelines for implementation of the Law on Enterprises.
34.	Government	No.10/2000/ND-CP dated 27 March 2000 on the regulation of minimum salaries in SOEs.
IV	DECISIONS OF THE PRIME MINISTER	
1.	Prime Minister	No.90-TTg dated 7 March on continuing SOE arrangements.
2.	Prime Minister	No.91-TTg dated 7 March on the experimental establishment of general corporations.
3.	Prime Minister	No.51/TTg dated 21 January 1995 regulating basic depreciation regime on fixed assets in SOEs.
4.	Prime Minister	No.397/TTg dated 7 July 1995 on the transformation of managerial obligations of state capital and assets.
5.	Prime Minister	No.185/TTg dated 28 March 1996 on carifying SOEs into special class.
6.	Prime Minister	No.186/TTg dated 28 March 1996 on promulgating the list of SOEs in special class.
7.	Prime Minister	No.548/TTg dated 13 August 1996 on the establishment Steering Committee of Equitisation accordance with Degree No.28/CP dated 07 May 1996 on transformation of some SOEs to joint-stock companies.
8.	Prime Minister	No.745/TTg dated 8 October 1996 on ranking of SOEs in the special class.

9.	Prime Minister	No.1021/TTg dated 1 December 1997 on establishing Working Group on Arrangement of SOEs in Hanoi and Ho Chi Minh city.
10.	Prime Minister	No.1085/1997/QD-TTg dated 15 December 1997 on supplementing members to Working Group on Rearrangement of SOEs in Hanoi and Ho Chi Minh city.
11.	Prime Minister	No.51/1998/QD-TTg dated 16 January 1998 on supplementing members to Working Group on Rearrangement of SOEs in Hanoi and Ho Chi Minh city.
12.	Prime Minister	No.225/1998/QD-TTg dated 21 January 1998 on issuing regulations on publicized finance of state budget of all levels and funds setting up from contributed sources by people.
13.	Prime Minister	No.68/1998/QD-TTg dated 27 March 1998 on allowing the experimental establishment SOEs in training and research institutes.
14.	Prime Minister	No.83/1998/QD-TTg dated 15 April on the salary regime and allowance of members of Board of Directors, and Supervisor Committee in General corporations and large-scales independent SOEs.
15.	Prime Minister	No.111/1998/QD-TTg dated 29 June 1998 on the establishment of National Committee on Enterprise Reform.
16.	Prime Minister	No.113/1998/QD-TTg dated 6 June 1998 on transforming Northern, Central and Southern airports into public service SOEs.
17.	Prime Minister	No.635/1998/QD-TTg dated 22 July 1998 on leader members of National Enterprise Reform Committee.
18.	Prime Minister	No.764/1998/QD-TTg dated 24 August 1998 on the establishment of Export Awarded Fund.
19.	Vice-Prime Minister- Head of National Enterprise Reform Committee	No.01/1998/QD-DMDN dated 19 September 1998 on promulgation of the Regulations of organisation and operation of National Enterprise Reform Committee.
20.	Prime Minister	No.111/1998/QD-TTg dated 29 September 1998 on the members of leadership on National Enterprise Reform Committee.
21.	Prime Minister	No.205/1998/QD-TTg dated 19 October 1998 issuing regulations of exemption tax stores.
22.	Prime Minister	No.212/1998/QD-TTg on promulgating regulations for outside territory stores.
23.	Prime Minister	No.225/1998/QD-TTg dated 20 November 1998 on the promulgation of Regulations on making public of financial situation of state budget at all levels and other funds contributed by citizens.
24.	Prime Minister	No.254/1998/QD-TTg dated 30 December 1998 on executing of export and import activities in the year 1999.
25.	Prime Minister	No.24/1999/QD-TTg dated 13 February 1999 on ranking of SOEs into special class.
26.	Prime Minister	No.122/1999/QD-TTg dated 10 May 1999 issuing Regulations on the criterion and norm of using car in administrative offices and SOEs.
27.	Prime Minister	No.145/1999/QD-TTg dated 28 June 1999 issuing Regulation on selling shares to foreign investors.
28.	Prime Minister	No.150/1999/QD-TTg dated 8 July 1999 on the general inventory of and reevaluation of assets in SOEs.
29.	Prime Minister	No.177/1999/QD-TTg dated 30 August 1999 on organization and operation of Fund for Arranging and Equitizing State-Owned Enterprises.
30.	Prime Minister	No.187/1999/QD-TTg dated 16 September 1999 on reforming the organization and management mechanism of state managed forestry.
31.	Prime Minister	No.208/1999/QD-TTg dated 26 October 1999 on amending, supplementing Regulations on criterion and norms of using car in administrative offices and SOEs, accompanied with Decision No.122/1999/QD-TTg dated 10 May 1999 issued by Prime Minister.
32.	Prime Minister	No.119/1999/QD-TTg dated 1 December 1999 on organizing Mission Group of establishing an experimental scheme of general corporations investment into member enterprises.

33.	Prime Minister	No.233/1999/QD-TTg dated 20 December 1999 on issuing Guaranty Regulation by Government for foreign debts of enterprises and financial institutions.
34.	Prime Minister	No.51/2000/QD-TTg dated 3 May 2000 on assigning the target of equitization and ownership diversification of SOEs (1st stage), in the year 2000.
35.	Prime Minister	No.55/2000/QD-TTg dated 22/5/2000 on authorising the rights to decide selling, contracting out and leasing SOEs whose state capital from VND 1 trillion up to less than 5 trillion.
36.	Prime Minister	No.72/2000/QD-TTg dated 21 June 2000 on ratifying the list of specially ranked SOEs.
V	INSTRUCTIONS	
1.	Government Prime Minister	No.262/TTg dated 02 May 1995 on assigning the preparation of implementing regulations of Law on SOEs.
2.	Government Prime Minister	No.272/TTg dated 03 May 1995 on accelerating the organization, rearrangement of Union of Enterprises, general corporations.
3.	Government Prime Minister	No.500/TTg dated 25 August 1995 on accelerating the reorganization and rearrangement of SOEs.
4.	Government Prime Minister	No.573/TTg dated 23 August 1996 on facilitating general corporations established by Prime Minister to stabilise activities.
5.	Government Prime Minister	No.748/TTg dated 10 October 1996 on the implementation of Regulations of financial management and business auditing in SOEs promulgated in conjunction with Decree No.59/CP dated 3/10/1996 of the Government.
6.	Government Prime Minister	No.135/TTg dated 4/3/1997 on drafting Regulations of the Board of Directors and Control Committee in general corporations and SOE with Board of Directors.
7.	Government Prime Minister	No.658/TTg dated 20 August 1997 encouraging the implementation of SOE equitisation process.
8.	Government Prime Minister	No.20/1998/CT-TTg dated 21 April 1998 on the enhancement of SOE rearrangement and renovation.
9.	Government Prime Minister	No.10/1999/CT-TTg dated 29 April 1999 on solving enterprises' petitions.
10.	Government Prime Minister	No.12/1999/CT-TTg dated 10 May 1999 on the revision of the implementation of Law on SOEs.
11.	Government Prime Minister	No.15/1999/CT-TTg dated 26 May 1999 on the completion of organisation performance of general corporations.
12.	Government Prime Minister	No.20/1999/CT-TTg dated 20 July 1999 on the implementation of Law on Enterprises.
VI	DECISIONS OF MINISTERS	
1.	Governor of the State Bank of Viet Nam	No.104/QD-NH5 dated 02 May 1995 on the promulgation of Charter Model of Financial companies in General corporations.
2.	Minister of Ministry of Finance	No.1215 QD/TCCB dated December 1995 authorizing some tasks of enterprise's financial management to the General Department of State Capital and Asset Management.
3.	Minister of Ministry of Finance	No.838 TC/QD/TCND dated 28 August 1996 on the promulgation of "Model of Financial Regulations of State General Corporations".
4.	Minister, Head of Central Steering Committee of SOE Equitization	No.01/CPH dated 4 September 1996 on procedures for transforming SOEs to joint-stock companies.
5.	Minister of Ministry of Finance	No.861 QD/TCCB dated 14 September 1996 assigning the tasks to General Department of State Capital and Asset Management.
6.	General Director of General Department of State Capital and Asset Management	No.838/TCND/QD/VP dated 4 October 1996 making provision on some contents, responsibilities of management and the authority of dealing with financial issues of General Department of State Capital and Asset Management.

7.	Minister of Ministry of Finance	No.995/TC-QD/TCDN dated 01 November 1996 on the amendment, supplement of "Model of Financial Regulations of State General Corporations" promulgated in conjunction with Decision No.838 TC/QD/TCDN dated 28 August 1996.
8.	Minister of Ministry of Labour-War Invalid and Social Affairs	No.238/LDTBXH-QD dated 08 April 1997 on the promulgation of the sample of wage book of SOEs.
9.	Minister of Ministry of Finance	No.832/TC/QD/CDKT dated 28 October 1997 on the issue of Regulations of internal audit.
10.	General Custom Office	No.50/1998/QD-TCHQ dated 10 March 1998 issuing document and guidelines of custom procedures for export and import commodities.
11.	Minister of Ministry of Trade	No.0385/1998/QDD-BTM dated 28 March issuing regulations of solving procedures between the Ministry of Trade and organizations and individual in dealing with the license of import and export commodities; setting up of foreign representatives in Viet Nam.
12.	Governor of the State Bank of Viet Nam	No.324/1998/QD-NHNN1 dated 30 September 1998 on promulgating lending regulations of credit organizations.
13.	State Security Committee	No.04/1998/QD-UBCK3 dated 13 October 1998 on promulgating organization and performance regulations of security company.
14.	State Security Committee	No.05/1998/QD-UBCK3 dated 13 October 1998 on promulgating organization and performance regulations of security company and control fund company.
15.	Ministry of Finance	No.1405/1998/QD-BTC dated 19 October 1998 on amending item 3, Article 4 issuing the provisions on limited prices of land renting by domestic organization promulgated in conjunction with Decision No.1357/TC-QD-TCT dated 10 December 1996 of the Minister of Ministry of Finance.
16.	Ministry of Trade	No.1291/1998/QD-BTM dated 20 October 1998 issuing the regulations of managing and using the Export-awarded Fund.
17.	Minister of Ministry of Finance	No.1461/1998/QD-BTC dated 20 October 1998 on the definition of the value of equitized SOEs.
18.	Minister of Ministry of Finance	No.101/1999/QD-BTC dated .../.../1999 on the promulgation of Regulations on management and use of transportation means in administrative agencies and SOEs.
19.	Minister of Ministry of Finance	No.38/2000/QD-BTC dated 14 March 2000 issuing and announcement of the application of Viet Nam accounting standard and auditing system.
20.	Minister of Ministry of Finance	No.95/2000/QD-BTC dated 9 June 2000 on the promulgation of the Regulations of management, collection and use of the Fund for Support, Rearrangement and Equitization of SOEs.
VII CIRCULARS		
1.	Ministry of Finance	No.36/TC/TCDN dated 27 April 1995 guiding the depreciation regulation of fixed assets in SOEs.
2.	Ministry of Planning and Investment	No.03/BKH-QLKT dated 27 February 1996 guiding the criteria of clarifying of large independent SOEs having the Board of Director.
3.	Joint-Circular the State Bank of Viet Nam- Ministry of Finance- and Ministry of Justice	No.01 TT-LB dated 03 July 1996 of Inter-Ministries guiding the procedures on asset mortgage and deposit applying for SOE and the procedures of notaration of mortgage, deposit and guarantee contracts of bank loans.
4.	Ministry of Finance	No.47/TC/TCT dated 17 August 1996 guiding on the implementation of Decree No.39/CP dated 27 June 1995 and Decree No.28/CP dated 07 May 1996 on registration fees.
5.	Ministry of Finance	No.50/TC/TCDN dated 30 August 1996 guiding o financial issues, selling and issuing of shares in transforming SOEs to joint-stock companies in accordance with Decree No.28/CP dated 7 May 1996 of the Government.
6.	Ministry of Labour-War Invalid and Social Affairs	No.17/LDTBXH-TT dated 7 September 1996 guiding on the policies for workers in SOEs to be transformed to joint-stock company in accordance with Decree No.28/CP dated 7 May 1996 of the Government.

7.	Ministry of Finance	No.70 TC/TCDN dated 5 November 1996 guiding on the distribution of after-tax profit and management of SOE funds.
8.	Ministry of Finance	No.73 TC/TCDN dated 12 November 1996 guiding on the preparation, making public and examining of annually financial report in SOEs.
9.	Ministry of Finance	No.75 TC/TCDN dated 12 November 1996 guiding on the management and use of capital and assets in SOEs.
10.	Ministry of Finance	No.76 TC/TCDN dated 15 November 1996 guiding on the regulation of turnover, cost, and products and services price of SOEs.
11.	Ministry of Planning and Investment	No.01 BKH/DN dated 29 January 1997 guiding on the implementation of Decree No.56/CP dated 2 October 1996 of the Government on the public service SOEs.
12.	Ministry of Finance	No.06 TC/TCDN dated 24 February 1997 guiding on financial management regulations in public services SOEs.
13.	Ministry of Labour-War Invalid and Social Affairs	No.13/LDTBXH-TT dated 10 April 1997 guiding on the preparation of unit cost-based salary and management of wages and incomes in SOEs.
14.	Ministry of Labour-War Invalid and Social Affairs	No.14/LDTBXH-TT dated 10 April 1997 guiding on the preparation of labour norm in SOEs.
15.	Ministry of Finance	No.25 TC/TCDN dated 15 May 1997 guiding on the procedures and principles of dealing with financial issues in dissolving SOEs.
16.	Ministry of Planning and Investment	No.08 BKH/DN dated 11 June 1997 guiding the implementation of Decree No.50/CP dated 28/8/1996 of the Government on establishment, reorganization, dissolution and bankruptcy of SOEs and Decree No.38/CP dated 28/4/1997 of the Government on amending and supplementing some articles of Decree No.50/CP.
17.	Ministry of Finance	No.44 TT/TCDN dated 8 July 1997 guiding the dealing with exchange difference of SOEs.
18.	Ministry of Finance	No.57 TC/TCDN dated 22 August 1997 amending, supplementing Circular No.76/TC/TCDN dated 15 November 1996 of Ministry of Finance on guidance of turnover, cost and cost-price of products and services of SOEs.
19.	Ministry of Finance	No.64 TC/TCDN dated 15 September 1997 guiding the regulations of formation and use of the reserve of in stock depreciation, spare of bad debts, reserve of stock depreciation of SOEs.
20.	Ministry of Finance	No.68 TC/TCDN dated 25 September 1997 guiding the management of the use of the State's financial supports for SOEs.
21.	Inter-Circular the State Bank of Viet Nam Ministry of Finance	No.3/1997/TTLT/NHNN-BTC dated 22 November 1997 guiding the disposition outstanding debts of state-owned banks by reorganizing the activities of banks after inspection.
22.	Inter-Circular MOF-the State Bank of Viet Nam	No.90/1997/TTLT-BTC-NHNN dated 19 December 1997 guiding the financial management regulations of public service SOEs in the exploitation and protection of irrigational works.
23.	Inter-Circular MOF-Ministry of Transportation and Communication	No.97/1997/TTLT-BTC-GTVT dated 31 December 1997 guiding the financial management regulations of public services SOEs in registration and control fields.
24.	Ministry of Finance	No.98/1997/TT-BTC dated 31 December 1997 providing the equipment, management and use of telephone, fax in the state agencies.
25.	Ministry of Finance	No.14/1998/TT-BTC dated 05 February 1998 guiding financial management regulations and business account of self-auditioning SOEs.
26.	Ministry of Finance	No.24/1998/TT-BTC dated 26 February 1998 guiding the management and use of reinvested capital of SOEs.
27.	Ministry of Finance	No.32 /1998/TT-BTC dated 17 March 1998 guiding the implementation of tax policies and budget collection of public service SOEs.

28.	Ministry of Finance	No.40/1998/TT-BTC dated 31 March 1998 guiding on the regulations of management, allocation and distribution of state budget expenditures by the State Treasury.
29.	Ministry of Finance	No.41/1998/TT-BTC dated 31 March 1998 guiding on the regulations of concentration, management of state budget collections by the State Treasury.
30.	Ministry of Finance	No.52/1998/TT-BTC dated 16 April 1998 guiding the organisation of internal auditing body in SOEs.
31.	Inter-Circular MOF- Ministry of Transportation and Communication	No.56/1998/TTLT-TC-NN dated 23 April 1998 guiding the financial management regulations of public service SOEs in shipping security field.
32.	Ministry of Finance	No.104/1998/TT-BTC dated 18 July 1998 on guiding financial problems in the process of transforming a SOE to joint-stock company (in accordance with Decree No.44/ND-CP dated 29 June 1998 of the Government).
33.	State Bank of Viet Nam	No.06/1998/TT-NHNN1 dated 15 August 1998 guiding on the implementation of some issues relating to banks in the process of transforming SOEs into joint-stock companies.
34.	Ministry of Labour- War Invalid and Social Affairs	No.11/1998/TT-LDTBXH dated 21 August 1998 guiding on the policies for workers in the process of transforming a SOE to a joint-stock company in accordance with Decree No.44/1998/ND-CP dated 29 June 1998 of the Government.
35.	Ministry of Finance	No.117/1998/TT-BTC dated 22 August 1998 guiding on the implementation of preferences of tax and fee in accordance with the Article 13 of Decree No.44/1998/ND-CP dated 29 June 1998 on transforming a SOE into a joint-stock company.
36.	Ministry of Finance	No.18/1998/TT-BTM dated 28 August 1998 guiding on the implementation of Decree No.57/1998/ND-CP dated 31 July 1998 of the Government on import-export activities, intermediary agent when trading with countries.
37.	General Custom Office	No.03/1998/TT-TCHQ dated 29 August 1998 guiding on the implementation of Chapter III of Decree No.57/1998/ND-CP dated 31 July 1999 of the Government provided the detailed implementation of Law on Trade on the custom procedures for foreign commodities.
38.	General Custom Office	No.04/1998/TT-TCHQ dated 29 August 1998 guiding on the implementation of Chapter I and Chapter IV of Decree No.57/1998/ND-CP dated 31 July 1998 of the Government provided the detailed implementation of Law on Trade on the custom procedures for foreign commodities.
39.	General Custom Office	No.06/1998/TT-TCHQ dated 03 September 1998 guiding on the registration, management and use of enterprise' code in im-export activities.
40.	State Bank of Viet Nam	No.07/1998/TT-NHNN1 dated 28 September 1998 guiding the implementation of some issues relating to banks in transforming a SOE into a joint-stock company (in accordance with Decree No.44/1998/ND-CP dated 29 June 1998).
41.	Ministry of Finance	No.130/1998/TT-BTC dated 30 September 1998 guiding on the transferring, receiving and dealing with financial problems of SOEs during the course of merger processes.
42.	Joint-Circular Government Personnel Department-MOLISA- MOF	No.06/1998/TTLT-TCCP-BLDTBXH-BTC dated 20 October 1998 guiding the implementation of Decision No. 83/1998/QD-TTg dated 15 April 1998 of the Government on the wages and allowances of the members of Board of Director, members of Supervisor Committee of State Corporations and large-scaled independent SOEs.
43.	Ministry of Trade	No.1311/1998/QD-BTM dated 31 October 1998 promulgating regulations by export replacement and temporary import.
44.	General Custom Office	No.10/1998/TT-TCHQ dated 19 November 1998 guiding on the custom procedures for trading by tax-exemption commodities in accordance with Decision No.205/1998/QD-TTg dated 19 October 1998 of the Prime Minister.

45.	Inter-Circular MOF- Ministry of Transportation and Communication	No.154/1998/TTLT-BTC-BGTVT dated 4 December 1998 guiding on the regulations of financial management of public service SOEs in domestic shipping field.
46.	Ministry of Finance	No.157/1998/TT-BTC dated 12 December 1998 guiding on the implementation of imposing VAT on credit and banking activities.
47.	General Custom Office	No.13/1998/TT-TCHQ dated 14 December 1998 guiding on the management of import tax and VAT on material import activities for producing export goods.
48.	Inter-Circular MOF- Ministry of Transportation and Communication	No.161/1998/TTLT-TC-GTVT dated 16 December 1998 making guidance on the financial management and allocation and payment in public service SOEs in infrastructural railway repair field.
49.	Ministry of Finance	No.163/1998/TT-BTC dated 17 December 1998 guiding the implementation of Law on VAT in air-shipping services.
50.	Ministry of Finance	No.164/1998/TT-BTC dated 17 December 1998 guiding the implementation of Law on VAT in postal and communication services.
51.	Ministry of Finance	No.168/1998/TT-BTC dated 21 December 1998 guiding on the implementation of Decree No.84/1998/ND-CP dated 12 October 1998 of the Government making the detailed provisions of Law on Special Tax.
52.	Ministry of Finance	No.171/1998/TT-BTC dated 22 December 1998 making guidance on the implementation of internal audit in SOEs.
53.	Ministry of Finance	No.174/1998/TT-BTC dated 24 December 1998 guiding on the imposing VAT on postal and communication services.
54.	Ministry of Finance	No.175/1998/TT-BTC dated 24 December 1998 guiding on the implementation of Decree of No.102/1998/ND-CP dated 24 December 1998 of the Government amending, supplementing some articles of Decree 28/1998/ND-CP dated 11 May 1998 of the Government promulgating detailed implementation of Law on VAT.
55.	Ministry of Finance	No.180/1998/TT-BTC dated 26 December 1998 guiding on the supplement of VAT accounting.
56.	Ministry of Finance	No.181/1998/TT-BTC dated 26 December 1998 guiding on VAT accounting in infrastructural constructions, agricultural, forestry manufacturing and processing.
57.	Ministry of Trade	No.21/1998/TT-BTM dated 24 December 1998 guiding on implementing the regulations for trading exemption tax commodities promulgated in conjunction with Decision No.205/1998/QD/TTg dated 19 October 1998 of the Prime Minister.
58.	Inter-Circular Government Committee of Prices- Ministry of Industry	No.08/1998/TTLT-VGCP-BCN dated 28 December 1998 on the steel prices' managerial mechanism.
59.	Ministry of Finance	No.187/1998/TT-BTC dated 29 December guiding on the supplements to VAT in postal and communication services.
60.	Ministry of Finance	No.189/1998/TT-BTC dated 30 December 1998 guiding on the implementation of internal-audit in SOEs.
61.	Ministry of Finance	No.191/1998/TT-BTC dated 31 December 1998 guiding on the VAT accounting in infrastructural constructions, agricultural, forestry, manufacturing and processing.
62.	Inter-Circular MOLISA-Ministry of Finance	No.18/1998/TTLT-BLDTBXH-BTC dated 31 December 1998 making guidance on the clarification of salary fund when SOEs fail to make the budget and profit contributions.
63.	Inter-Circular MOLISA-Ministry of Finance	No.17/1998/TTLT-BLDTBXH-BTC dated 31 December 1998 providing guidance on ranking of SOEs.

64.	Ministry of Labour-War Invalid and Social Affairs	No.03/1999/TT-LDTBXH dated 9 January 1999 on revising of poverty standard under Circular No.11/TT-LDTBXH dated 21 August 1998 on the policies for workers in the process transforming SOEs to joint-stock companies in accordance with Decree 44/ND-CP of the Government.
65.	Ministry of Finance	No.23/1999/TT-BTC guidance on the formation and checking of financial reports in 1998 of SOEs.
66.	Ministry of Finance	No.62/1999/TT-BTC dated 07 June 1999 guiding on the management, use of capital and assets in SOEs.
67.	Ministry of Finance	No.63/1999/TT-BTC dated 07 June 1999 guiding the management of turnover, costs and products and services price in SOEs.
68.	Ministry of Finance	No.64/1999/TT-BTC dated 07 June 1999 guiding the regulation of after-tax profit distribution and management of funds in SOEs.
69.	Ministry of Finance	No.65/1999/TT-BTC dated 07 June 1999 guiding the implementation of financial public of SOEs.
70.	Ministry of Finance	No.66/1999/TT-BTC dated 07 June 1999 guiding on the formation and amendment of the Financial Regulations of State Corporations.
71.	Ministry of Labour-War Invalid and Social Affairs	No.23/1999/TT-BLDTBXH dated 04 October 1999 guiding on the implementation of reducing weekly working-time in SOEs.
72.	Ministry of Finance	No.132/1999/TT-BTC dated 15 November 1999 on guiding the sales of shares for foreign investors.
73.	Ministry of Finance	No.08/2000/TC-TCDN dated 19 January 2000 on amending, supplementing Circular No.63/1999/TT-BTC dated 7 June 1999 of Ministry of Finance on guiding the management of turnover, cost and price of products and services of SOEs.
74.	Ministry of Labour-War Invalid and Social Affairs	No.07/2000/TT-BLDTBXH dated 29 March 2000 guiding some articles on labour of Decree No.103/1999/ND-CP dated 10 September 1999 of the Government on assigning, selling, contracting out and leasing of SOEs.
75.	Inter-Circular MOLISA-Ministry of Finance	No.10/2000/TTLT-BLDTBXH-BTC dated 04 April 2000 guiding on supplement guidance for Inter-Circular No.17/1998/TTLT-BLDTBXH-BTC dated 31 December 1998 on ranking of SOEs.
76.	Ministry of Finance	No.47/2000/TT-BTC dated 24 May 2000 guiding on financial issues in assigning, selling SOEs.
77.	Inter-Circular MOLISA-Ministry of Finance	No.11/2000/TT-BLDTBXH-BTC dated .../.../2000 guiding on the implementation of wage and allowance adjustment in enterprises.
78.	Ministry of Finance	No.51/2000/TT-BTC dated 2 June 2000 guiding on financial issues in contracting out, leasing of SOEs which provided in Decree No. 103/1999/ND-CP dated 10 September 1999 of the Government.
VIII OFFICIAL LETTERS		
1.	Viet Nam General Confederation of Labour	No.1104/LTD dated 13 September 1996 on guiding the contents of Trade-union activities in transforming SOEs to joint-stock companies in accordance with Decree No.28/CP dated 7 May 1996 of the Government.
2.	National Steering Committee of Equitisation	No.3731/CPH dated 22 October 1996 ...
3.	Government	No.6755/KTTH detailed 31 December 1996 on postponing the regulations of mobilising capital limit of SOEs in accordance with Article 11 of Decree No.59/CP.
4.	Ministry of Finance	No.1310 TC/TCDN dated 24 April 1997 on the working-capital provision in 1997 for SOEs.
5.	National Committee on SOE reform	No.02/DMDNTW dated 5 October 1998 on answering the problems during the equitisation process.
6.	Ministry of Labour-War Invalid and Social Affairs	No.4320/LDTBXH-TL dated 29 December 1998 on guiding the regulations of wage payments in enterprises.

7.	Ministry of Trade	No.0975/TM-XNK dated 31 December 1998 on the list of MNF countries and special preferences in trade relationship with Viet Nam.
8.	Ministry of Trade	No.7280/TM-PC dated 31December 1998 guiding on the regulations of commodity sources in order to apply Decree No.94/1998/ND-CP.
9.	Ministry of Labour-War Invalid and Social Affairs	No.549/1999/LDTBXH-CSLDVL dated 27 February 1999 on the implementation of poverty standard.
10.	Government Office	No.12/VPCP-DMDN dated .../... 1999 correcting the Regulation of Democratic implementation in SOEs (promulgated in conjunction with Decree No.07/1999 ND-CP dated 13 February 1999).
11.	Government	No.06/CP-DMDN dated 28 January 1999 on the approval of the comprehensive programme of SOE arrangement.
12.	Viet Nam General Confederation of Labour	No.686/HD-TLD dated 9 June 2000 guiding on the responsibilities of Trade-union in implementation of Decree No.103/1999/ND-CP of the Government on assigning, selling, contracting out and leasing of SOEs.
IX	GUIDING DOCUMENTS	
	General Department for Management of State Capital and Assets in Enterprises	Guiding the procedures of mortgage and deposit in lending capital from bank.
	National Steering Committee of Equitisation	Guiding the formation of comprehensive programme of SOE arrangement.

General Corporations and State-Owned Enterprise Reform in Viet Nam

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Introduction

State-owned enterprises (SOEs) account for 44% of industrial output and 30% of GDP in Viet Nam in 1999. Compared to their significance in the Vietnamese economy, however, few empirical researches have been made on Vietnamese SOEs. In place of a scientific appraisal of SOEs' performance and the effect of reform, a routine image of SOEs and a routine policy recommendation are shared by aid donors, which claims that "Vietnamese economic goals remain seriously threatened by a large number of loss-making SOEs," "The Government's plan to equitize, divest or close one-third of the 5300 SOEs in the coming three years is an important step, which if implemented firmly can make a very positive contribution," "In the meantime, it is vital that the SOEs be subjected to greater discipline and transparency." (The World Bank et. als. [2000] pp.9-10) But have the past reforms been useless in improving Vietnamese SOEs' productivity? How are Vietnamese SOEs governed at the moment and which aspects of SOE governance must be strengthened in order to put them under greater discipline? These questions must be addressed before reaching any recommendation to SOE reform.

One of the key factors to be assessed in answering these questions is the effect of General Corporations (GCs), or *Tong Cong Ty*, on the efficiency and autonomy of SOEs. General Corporations are intermediate institutions between the government and SOEs. They were established since 1994 by reorganizing the former "Enterprise Unions" which also were intermediate institutions. The function of these institutions, however, were to be changed from agents of the state planning apparatus to enterprise groups that could be compared to Korean *chaebols*.¹

The function and effect of GCs were largely neglected in previous reports on Vietnamese SOEs. In the Vietnamese Government's development strategy, however, GCs are assigned a major role. In the draft Ten Year Socio-Economic Development Strategy for 2001-2010, it is stipulated that "SOEs shall be the leading actors in developing production of important materials and in high-tech industries. [The state will] take control of economic groups in petroleum, electricity, coal, airlines, railways, marine transport, telecommunications, mechanics, construction materials, fertilizers, banking, insurance and auditing." In the

¹ A brief outline of GCs is described in Marukawa [1999]. For the details of the history and operations of GCs and enterprise unions, see Jerneck [1995],[1997].

additional document of this draft, it is also stipulated that "In order to make GCs strong pillars of national economy, their management must be modernized and improved." On the other hand, some Vietnamese economists denounce GCs as being "monopolies," or "small ministries" instead of being corporate groups, suggesting that there has not been a major change in their function since the time of Enterprise Unions. In any case, taking their presence in the state sector and the importance attached to them in the Development Strategy into consideration, a policy recommendation on SOE reform is incomplete without an assessment of the present function of GCs and a proposal for GCs.

The purpose of this paper is to explore the present function of GCs, and assess the effect they had on the profitability and productivity of SOEs. The paper first begins by a description of how decision-making power and profit are shared between SOEs, GCs and the government. Next it discusses whether the present distribution of decision-making power and profit is conducive to the improvement of efficiency and profitability of SOEs. In the third part of the paper, an assessment of productivity growth since the formation of GCs is made. Finally, it makes proposals for the improvement of the structure of GCs.

The study is based on interviews to eleven GCs and seventeen member SOEs of GCs, and a questionnaire survey to 212 GC members throughout Viet Nam. The interviews were made by the author in December 1999 and August 2000, and the questionnaires were distributed and collected by the Central Institute for Economic Management in September and October 2000.

1. Decision-making rights of the government, general corporations and state-owned enterprises

GCs cover a large proportion of Vietnamese state sector. The seventeen major GCs which are supervised directly by the Prime Minister, or "GC91s", organize a total of 563 SOEs (9% of all SOEs in Viet Nam), 603 thousand employees (35% of all SOEs) and the total of their capital amounts to 83,282 billion VND (56% of all SOEs)(See Table 1). "GC91s" occupied 36% of the total revenue of all SOEs in 1997, while the seventy-six GCs which are supervised by central ministries and provincial people's committees, or "GC90s", occupied 18%. GC91s made up 64% of all the before-tax profit of SOEs, while GC90s made up 17%. (CIEM [2000]). These figures apparently imply that GCs have substantial power over the domestic economy.

But at the same time it is true that there are many doubts about the importance and necessity of GCs. Some SOE managers and economists in Viet Nam interviewed by the author regard GCs as redundant entities that have little authority over SOEs. These remarks, however, are not enough to prove that GCs are meaningless entities. It is necessary to identify what kind of power the GCs have over their subsidiaries and to what extent. It is also necessary to identify to what extent the GCs have autonomy from the government.

Table 1 Viet Nam General Corporations (Decree 91-Ttg.) data of 1999

Name	Abbreviation	No. of affiliated enterprises	Affiliated companies	Capital (VND bill)	Number of employees	Business turnover (VND bill)	Pre-tax profit (VND bill)	Budget contribution (VND bill)	Market Share in the industry (%) *1 Data of 1997
Electricity of Viet Nam	DVN	45	Power plants, power service companies, transmission companies	23,610	64,700	13,815	1,950	2,088	108.5
Viet Nam National Coal Corporation	VINACOAL	41	17 coal mines, 3 coal processing and trading companies, travel agent, coal trading and forwarding company, beer and beverage company, mining chemicals company, mining engineering institute, 2 coal selecting companies, 4 coal mine machinery factories, scho	1,235	76,091	4,015	8	192	104.3
Viet Nam National Textile and Garment Corporation	VINATEX	49	20 textile mills, 4 wool mills, 18 garment factories, 4 textile machinery factories, 2 applied institutes, financial company etc.	4,603	92,852	6,583	80	204	29.7
Viet Nam Paper Corporation	VINAPIMEX	19	9 paper mills, chemicals and materials factory for paper industry, trading companies, 2 match factories etc.	1,068	12,700	2,304	43	125	42.5
Viet Nam National Tobacco Corporation	VINATABA	12	5 cigarette factories, 2 tobacco factories, package printing and materials factory, trading company, tobacco machinery factory, materials and service company	1,151	9,157	5,730	.85	1,215	104.9
Viet Nam Steel Corporation	VSC	11	Thai Nguyen Iron and Steel Co., Southern Iron Co., Da Nang Iron Co., Metallurgy Co. of Bac Thai, Hanoi, Quang Ninh, Hai Phong, Ho Chi Minh, VSC-POSCO Iron Co., Kyoei-VINA Iron Co. etc.	2,432	19,830	5,520	49	233	105.9
Viet Nam National Chemical Corporations	VINACHEM	40	Apatite Co., Pirite Co., Fertilizers Co., Pesticides Co., Chemicals Co., Rubber Co., Battery Co., Soap Co., Detergent Co., Synthetic Paint Co., Industrial Gases Co., Institute of Industrial Chemistry, Workers' Schools, 19 joint ventures etc.	1,530	35,000	5,200	130	204	52.3
Viet Nam General Rubber Corporation	GERUCO	35	21 Rubber companies, Investment consulting and construction co., Rubber production and export co. etc.	3,738	80,000	1,948	143	218	
Viet Nam National Coffee Corporation	VINACAF	57	37 coffee farms, etc.	1,235	21,560	1,800	55	55	34.6

Name	Abbreviation	No. of affiliated enterprises	Affiliated companies	Capital (VND bill)	Number of employees	Business turnover (VND bill)	Pre-tax profit (VND bill)	Budget contribution (VND bill)	Market Share in the industry (%) *1 Data of 1997
Viet Nam Southern Food Corporation	VINAFOOD II	34	23 food companies, 3 food processing and management companies, etc.	854	14,900	12,543	76	50	
Viet Nam Northern Food Corporation	VINAFOOD I	34	30 food companies, food processing and management companies, etc.	1,609	6,800	3,573	80	75	
Viet Nam Post and Telecommunications Corporation	VNPT	85	Telephone equipment co., Post and telecom equipment co., Long distant telephone co., International telephone co., Computing and data communication co., Post co., Post and telecom construction co., Schools, 8 joint ventures	14,272	96,892	13,067	2,900	1,991	
Viet Nam National Shipping Lines	VINALINES	21	7 shipping companies, Haiphong Port, Saigon port, Quangninh port, 15 service companies (trade, labor cooperation, trade centers), 8 joint ventures	2,905	22,300	2,306	135	230	
Viet Nam Shipbuilding Industry Corporation	VINASHIN	26	12 dockyards, 4 ship repairing works, electronic equipment co., shipping co., etc.	253	9,500	765	4	25	
Viet Nam Airlines Corporation		19	Vietnam Airlines, Air services co., Airport ground services, Aircraft maintenance center, Air petrol, etc.	1,602	10,817	6,797	339	774	
Viet Nam Oil and Gas Corporation	PETROVIETNAM	18	Processing and distribution co., Gas co., Engineering and construction co., Drilling mud co., Trading co., Tourist and service co., Insurance co., etc.	13,828	13,930	30,676	5,587	15,176	105.4
Viet Nam National Cement Corporation	VNCC	17	Hoang Thach Cement co., Haiphong Cement co., Bim son Cement co., Hatien 1 Cement co., Hatien 2 Cement co., Dong nai roof construction material co., Danang building materials co., Cement gypsum co., Materials transport co., Technical materials co., Chin Fo	7,357	16,302	5,819	580	632	44.5
Total of 17 GCs		563		83,282	603,331	122,461	12,244	23,487	

*1 Business turnovers of GCs include those of other industries, thus they may exceed 100 percent.

(Source) Nguyen Manh Hung, *Cac co quan chinh phu doanh nghiep lon cua nha nuoc & du bao nhu cau co ban cua thi truong*, Hanoi, Nha xuất bản thống kê, 1998.

Central State Enterprise Reform Committee, Summary Report on Reform and Development of State Enterprises, 2000

In order to assess the distribution of power between SOEs, GCs and the government, I selected twelve different aspects of decision making in enterprise management (See Table 2). In the followings of this paper and in the tables, "SOEs" refer to the members or subsidiaries of GCs, "GCs" refer to the headquarters of GCs, and "the government" include such ministries as Ministry of Finance (MOF), Ministry of Labor, Invalids and Social Affairs (MOLISA), Ministry of Planning and Investment (MPI) and the line ministry of GC. I also categorized the decision-making process of SOE management in Viet Nam into four types. (1) SOE makes decisions on its own without seeking approval of GC or of the government. (2) SOE proposes decisions and GC approves or disapproves them without consulting the government. (3) SOE proposes decisions, GC approves them, and GC seeks the approval of the government. (4) GC proposes decisions and seeks the approval of the government, and after the approval, GC lets its subordinate SOEs implement the decision.

Table 2 Distribution of decision-making power between the government, GCs and SOEs

The case of VINATEX

	Gov't	GC	SOE
Inward investment			
Capacity expansion using retained profits			A
Establishment of a new factory		G	L
Large scale investment	G	G	L
Production plan	G	G	L
Prices			A
Procurement of materials			A
Sales			A
Personnel			
of high ranking officials		G	L
of middle managers and below that			A
Employment			A
Total Wages	G	G	L
Distribution of wages and bonus	G		L

A: Full Autonomy, L: Limited Rights. Need approval from upper authorities, G: Rights to approve or disapprove

(Source) By the author. Based on interviews.

Investment decision-making

The current government regulations on investment decision making divide SOE investments into three groups, A, B and C, according to the size and importance of the investment. Investments are also classified by the source of capital: State budget capital, credit guaranteed by the state, and profits retained by SOEs. Investments that use state budget capital need the approval of the Prime Minister, or of government ministries, or of the local people's committee, regardless of their size. For investments that use credit guaranteed by the state, GCs have the authority to decide group B and group C investments by themselves in the case of GC91s, while in the case of GC90s GCs can only decide group C investments by themselves. SOEs can decide those investments that use their retained profit and fall under the category of groups B and C (CIEM [2000]). The distribution of investment decision-making power as stipulated in the regulations is indicated graphically by (A) of Figure 1.

Figure 1 Investment decision making power of SOEs, GCs and the Government

(A) The regulation

		Source of capital				
		State budget capital	Bank loans		Retained profit	
			With gov't guarantee	Without gov't guarantee		
size	A	Gov't				
	B	Gov't	GC	SOE		
	C					

(B) The reality

		Source of capital			
		State budget capital	Bank loans		Retained profit
			With gov't guarantee	Without gov't guarantee	
size	A	Gov't			
	B	Gov't	GC		SOE
	C				

(Source) By the author. Based on interviews

But the actual distribution of decision-making power is like (B) of Figure 1. The sphere of investments which SOEs can decide at their sole discretion is much smaller than what is stipulated in the regulations, while GCs have much larger decision-making power.

The distribution of decision-making power, however, differs between GCs. Among the eight GCs which gave me clear answers to this issue, two GCs, namely, VNCC and TVN (See Table 1 for the meanings of the abbreviations.), said that all types of investments regardless of their size needed to be approved by the GCs, and for the larger ones, by the government. In these cases SOEs have no autonomy on investment decision-making. Six GCs, namely, VINATEX, VNPT, VINACHEM, VINACAFE, SUNIMEX and EVN, on the other hand, admitted that SOEs could determine some sorts of investments. SOE's autonomy, however, is much limited than what is stipulated in the regulations. In the case of VINACAFE, for example, subordinate SOEs can only decide investments up to 500 million VND (36 thousand US dollars) even when they use retained profits. In the cases of VINATEX and VINACHEM, SOEs can decide only additional installments of equipments to existing plants with their retained profits.

The scope of autonomy of SOEs is not the same even among the SOEs that belong to the same GC. Seven VINATEX-member SOEs had autonomy in, respectively, "investments up to 1 million US dollars, but the bidding process of those investments over 500 thousand US dollars must be supervised by VINATEX," "addition of equipment," "investments that fall under group C," "investments up to 500 million VND (36 thousand US dollars)," while two other VINATEX members had no autonomy at all. There seems to be no rule that governs the scope of autonomy of each enterprise. The reason why the two SOEs under VINATEX had no autonomy was perhaps because they had almost no profit, which made them impossible to retain profits to reinvest. But besides this, I couldn't find any relationship between the scope of autonomy and the size and profitability of each enterprise. The scope of autonomy also varied in the case of VNPT members.

The questionnaire survey provides more general information on the decision-making power of SOEs. Table 3 shows the result of the survey of 212 SOEs which are members of GCs. It is noteworthy that 45% of the respondent SOEs are not allowed to decide to invest on their own even when they borrow money

without the guarantee of GCs, and 34% cannot decide on their own even when they use their own retained profit. According to the aforementioned regulation, SOEs must have full autonomy in deciding investments in these cases. Even independent accounting enterprises are not completely independent in making decisions, although they seem to have relatively more discretion than other types of SOEs, namely dependent accounting enterprises and non-productive units. This impression can be confirmed by the value of the “degrees of discretion”² shown in Table 3.

Table 3 SOEs' autonomy on investment decision-making

Source of investment funds Degree of autonomy	All SOEs(N=212)			Independent accounting SOEs (N=134)		
	Borrowed by the SOE, subject to the guarantee of GC	Borrowed by SOE	Accumulated by SOE	Borrowed by the SOE, subject to the guarantee of GC	Borrowed by SOE	Accumulated by SOE
SOE decide at its sole discretion	8	93	120	7	78	83
Subject to approval of GC	125	81	63	81	45	45
Subject to approval of the Government	8	5	2	7	5	2
SOE is only consulted for its view	27	10	6	10	2	2
SOE can not decide	4	2	2	0	0	0
Number of respondents	164	182	185	99	121	124
Degree of discretion						
SOEs	0.50	0.76	0.83	0.54	0.85	0.86
GCs	0.53	0.28	0.21	0.50	0.21	0.20

(Source) Questionnaire survey of 212 GC member SOEs.

GCs have much larger discretion on investment decisions than stipulated in the regulations. The scope of discretion varies among GCs, however, and the largest case is EVN, which can determine investments up to 600 billion VND (43 million US dollars) without the approval of the government. The second largest is GERUCO, which can decide up to 200 billion VND (14 million US dollars), but this discretion is given only when it invests in agricultural projects. When GERUCO invests in industrial projects their discretion is limited to 15 billion VND (1 million US dollars). VINATEX and VINACAFE have discretion up to 100 billion VND (7 million US dollars), and SATRA has discretion up to 20 billion VND (1.4 million US dollars). VNCC and TVN have authority to decide investments of group B and C, but the actual upper limit value of their discretion was unclear. It is said that Ho Chi Minh City People's Committee has authority to decide investments up to 150 billion VND, so EVN and GERUCO have greater autonomy than Ho Chi

² “The degree of discretion” is a coefficient calculated from the data shown in Table 3. The total decision-making power that shall be divided among SOEs, GCs and the government is defined to be equal to unity, and this value is distributed to the three actors according to their involvement in the decision-making process. When the respondent SOE selected “SOE decide at its sole discretion,” a value of 1 is given to SOE, and when it selected “Subject to approval of GC,” 0.5 is given to SOE and 0.5 to GC. In the case of “Subject to the approval of the government,” 1/3 is given to SOE, 1/3 to GC, and 1/3 to the government, and in the case of “SOE is only consulted for its view,” 1/3 to SOE and 2/3 to GC, and in the case of “SOE cannot decide,” 0 to SOE and 1 to GC. In the last two cases, it is presumed in the calculation that GCs have authority to make decisions without seeking approval of the government, but actually it is unclear whether GCs can decide on their own or not.

Minh City. It appears that GC91s have greater autonomy than GC90s, and GCs with larger capital have greater autonomy than smaller ones.

The variance in the scope of autonomy among GCs and among SOEs is a prominent feature of Vietnamese state sector compared to that of China, where decision-making rights are well-defined according to the status of government organs and enterprises. In Viet Nam, even the scope of autonomy of SOEs belonging to the same GC differs, and there seems to be no rule governing the determination of the scope. The lack of rule suggests that GCs have a free hand in giving or not giving autonomy to subordinate SOEs, which can be a major source of power for them.

Business plans

The government uses plans or targets to govern GCs. The government gives GCs plans of turnover, profit, tax payment, and production volume. The total wage budgets of GCs are related to the fulfillment of plans and targets. If they cannot reach the target, their wage budget will be cut. If the manager failed to attain the targets for several consecutive years, s/he might be dismissed.

All of the eight GCs I interviewed received targets from the government. There are usually several targets, but annual turnover and profit are always included. Some targets reflect the specific business of GCs: for example, production volume of coal (TVN), production volume of cement (VNCC), value of exports (VINATEX, SATRA), and area of cultivation (GERUCO). These plans usually come from MPI, but in some cases, from the Ministry of Industry (MOI). Most GCs are given targets of their amount of tax payments ("budget contributions") from MPI or MOF, which include payments of value added tax, corporate income tax and capital use tax. The importance of this target, however, had diminished between my first field research in December 1999 and my second field research in August 2000. SOEs responded that tax payment was a strict target in 1999 and the wage budget was linked to the fulfillment of this target. But it became a "guideline" or "indicative plan" in 2000, because along with the introduction of value added tax in 1999 (Tajika [2000]), the correlation between the attainment of turnover target and the attainment of tax target became stronger so that tax targets would be redundant when GCs had turnover targets.

After receiving the targets from the government, GCs subdivide these targets and give them to subordinate SOEs. All of eight VINATEX-member SOEs and six VNPT-member SOEs I interviewed responded that they received turnover targets or growth rate targets of turnover from GCs. Seven VINATEX members and three VNPT members among them received targets on the amount of tax payment. Other targets these SOEs received included the amount of profit and the frequency of telephone calls.

Table 4 shows the responses to the questionnaire survey on whether SOEs have autonomy in determining enterprises' business plans. 74% of the SOEs couldn't decide business plans on their own and needed the approval of GCs and/or the government. The actual autonomy of SOEs may be even smaller than Table 4 indicates, since there seems to be a tendency of SOEs to exaggerate their scope of autonomy. The influence of

GCs to the business plans of subordinate SOEs can be seen in the SOEs' response to another question asking SOEs to select the degree of influence the GCs have on enterprises' planning activities from "strong," "moderate," and "weak." 111 SOEs out of 205 respondents selected "strong," 76 selected "moderate," and 18 "weak." If we evaluate the grip of each GC to its subsidiaries by giving weights (3 to "strong", 2 to "moderate" and 1 to "weak") to these responses and calculate the average, VINAFOOD1, VNCC, VINATABA and VNPT had the tightest grip, while VINACAFE and GC90s were the loosest (Table 5).

Table 4 SOEs' autonomy on business plans

Types of SOEs	All SOEs	Independent accounting SOEs	Dependent accounting SOEs	Non-productive units
Degree of autonomy				
SOE decide at its sole discretion	57	45	12	0
Subject to approval of GC	134	88	44	2
Subject to approval of the Government	1	0	0	1
SOE is only consulted for its view	13	1	11	1
SOE can not decide	0	0	0	0
Number of respondents	199	130	66	3
Degree of discretion				
SOEs	0.65	0.69	0.57	0.56
GCs	0.38	0.34	0.44	0.67

(Source) Questionnaire survey of 212 GC member SOEs.

Table 5 The degrees of GCs' influence to enterprise management

	Planning	Investment	Finance	Organization	Personnel	Wages and bonuses	Average
All SOEs	2.5	2.4	2.4	2.4	2.3	2.2	2.4
VINALINES	2.0	1.4	1.9	2.1	2.1	1.7	1.9
VSC	2.3	2.3	2.7	2.3	2.3	2.0	2.3
EVN	2.6	2.4	2.4	2.7	2.7	2.4	2.5
GERUCO	2.5	2.4	2.5	2.3	1.9	2.0	2.3
VINACAFE	1.7	1.7	1.9	1.9	1.7	1.8	1.8
TVN	2.4	2.4	2.4	2.1	2.1	2.1	2.3
VINAFOOD2	2.2	2.2	1.8	2.2	2.2	2.2	2.1
VINAFOOD1	3.0	2.6	2.8	2.5	2.5	2.7	2.7
VNCC	3.0	3.0	3.0	2.5	2.0	3.0	2.8
PETROVIETNAM	2.3	2.3	2.3	2.7	2.3	2.0	2.3
VNAirlines	2.1	1.9	2.0	2.4	2.3	2.0	2.1
VINATABA	3.0	3.0	2.0	2.0	2.5	2.5	2.5
VINACHEM	2.4	2.3	2.0	2.3	2.1	2.0	2.2
VINATEX	2.2	2.5	2.2	2.2	2.2	2.1	2.2
VNPT	2.8	2.8	2.8	2.6	2.5	2.6	2.7
GC90s	1.7	1.7	1.5	1.8	1.8	1.7	1.7
Others	2.0	2.5	2.0	2.5	2.5	2.0	2.3

* The indicates the average of SOEs' evaluation of GCs' influence. The scores were calculated by giving weights to the evaluation, as 3 to "strong", 2 to "moderate", and 1 to "weak."

(Source) Questionnaire survey of 212 GC member SOEs.

The practice of setting plans through the hierarchy of the government, GCs and SOEs suggests that GCs and their subordinates are still governed by the planning system, and GCs act as agents of state planning

apparatus.

Prices

According to the Law on State Enterprises, promulgated in 1995, a SOE has the right "to decide at its own discretion the buying and selling prices of the products and services, except those products and services of which the State is to decide the prices." (*Viet Nam Law and Legal Forum*, June 1995)

But our questionnaire survey suggests that in some sectors this right of SOEs is substantially restricted by GCs and/or the government. Table 6 summarizes the responses to the question on the autonomy in setting prices. It is noteworthy that about a half of the respondent SOEs cannot decide prices on their own. The scope of autonomy differs a great deal among various sectors. The degrees of discretion (See footnote 1 for the meaning of this index) of SOEs belonging to different GCs are shown in Table 6. While SOEs belonging to the steel industry (VSC), cereal distribution (VINAFOOD 1 and 2), textile and garment industry (VINATEX) and GC90s have almost full autonomy, SOEs belonging to the electricity sector (EVN), coal industry (TVN), tobacco sector (VINATABA), and post and telecommunications industry (VNPT) have small discretion. The result of post and telecommunications sector, one of the most restricted sectors, is also shown in Table 6, where only nine out of sixty-eight SOEs have rights to set prices by themselves.

Table 6 SOEs' autonomy on prices of products and services

Degree of autonomy \ Types of SOEs	All SOEs	VNPT members
SOE decide at its sole discretion	95	9
Subject to approval of GC	52	24
Subject to approval of the Government	7	4
SOE is only consulted for its view	33	24
SOE can not decide	11	9
Number of respondents	191	68

Degree of discretion		Size of samples
SOEs	0.70	
GCs	0.32	
VINALINES	0.88	7
VSC	1.00	3
EVN	0.37	10
GERUCO	0.74	8
VINACAFE	0.89	11
TVN	0.54	14
VINAFOOD2	1.00	6
VINAFOOD1	0.97	8
PETROVIETNAM	0.83	3
Vietnam Airlines	0.80	5
VINATABA	0.42	2
VINACHEM	0.92	12
VINATEX	0.98	11
VNPT	0.43	68
GC90s	0.98	20
Others	0.78	4

(Source) Questionnaire survey of 212 GC member SOEs.

One of the reasons for the small discretion in specific sectors is the government's restriction on prices of certain products and services. The government restricts the prices of cement, electricity and paper for newspapers. Besides this, GCs may have their own price policy, restricting the pricing behavior of member SOEs. VINATEX and VINACHEM have minimum price regulations on internal trade among members in order to protect suppliers of materials. TVN has a price list of coal by which member SOEs must abide. GERUCO has a minimum export price for the purpose of avoiding price competition among member enterprises.

Trade partners and competition among GC members

Just as the Law on State Enterprises stipulates, most SOEs covered in our survey have the autonomy to select their market and from whom to buy their inputs, but when they export their products or import their inputs their discretion becomes smaller (Table 7). The large discretion of SOEs on marketing and procurement, however, may not be an indication that GCs respect SOEs' rights, but rather a reflection of the fact that GCs are yet to establish controls over the marketing of subordinate SOEs. A SOE complained to me that its parent GC was trying to force it to import materials through a GC-related importer, even when cheaper sources of materials were available. Another GC was forcing its subordinate SOEs to export and import through its subordinate trading company, in order for the GC headquarters to have its own source of income.

Table 7 SOEs' autonomy on market

Degree of autonomy \ Types of markets	Domestic market	Export and import	Market for inputs
SOE decide at its sole discretion	138	72	131
Subject to approval of GC	33	55	27
Subject to approval of the Government	0	3	0
SOE is only consulted for its view	7	13	4
SOE can not decide	1	5	1
Number of respondents	173	143	158

(Source) Questionnaire survey of 212 GC member SOEs.

The proportion of intra-GC trade to total sales and procurement of SOEs is quite high, though it is unclear whether this is the result of GC's control or the result of free trade. SOEs sold 43% of their products to other GC members, and bought 28% of their inputs from them (Table 8). The high proportion in some GCs may reflect their vertically integrated and monopolistic structure. For example, EVN is consisted of power plants, transmission companies, electric equipment companies and power service companies, and it monopolizes domestic power production and supply (See Table 1). Since there are no other trade partners, it is natural that the intra-GC trade rate will be very high. VNPT is in a similar situation. VINATEX also has a vertically integrated structure, with spinning, weaving and apparel enterprises and textile machinery

enterprises, but since the market shares of VINATEX members are not monopolistic in these markets, the intra-GC trade rate is low.

Table 8 The percentage of intra-GC sales and intra-GC procurement to total sales and procurement

	Sales	N	Procurement	N
All SOEs	43%	117	28%	101
VINALINES	24%	6	23%	3
VSC	10%	2	32%	2
EVN	79%	7	66%	4
GERUCO	45%	3	9%	3
VINACAFE	66%	9	33%	5
TVN	56%	14	45%	8
VINAFOOD2	8%	5	7%	5
VINAFOOD1	20%	2	16%	2
PETROVIETNAM	45%	2	10%	2
Vietnam Airlines	29%	5	10%	4
VINATABA	54%	2	35%	2
VINACHEM	20%	9	15%	9
VINATEX	26%	10	21%	13
VNPT	66%	27	42%	26
GC90s	14%	13	4%	11
Others	48%	1	43%	2

(Source) Questionnaire survey of 212 GC member SOEs.

The abovementioned monopolistic structure may not necessarily lead to monopolistic behaviors by GCs, because there may occur intra-GC competitions. Most GCs have many SOEs among their members that provide similar products and services, because GCs derive from Enterprise Unions established in industries. In the cases of VINATEX, VINACAFE and VINAPIMEX, there are fierce competitions among their members. In other words, these GCs haven't reorganized the structure they inherited from Enterprise Unions yet into a more strategic corporate structure that have synergy among its members rather than competition. Even in the case of VNPT, which seems to have a stronger grip of subsidiaries than other GCs, the GC cannot cease the competition among its subordinate companies. In the cases of VNCC and VINACHEM, however, GCs are trying to avoid internal competition by dividing the market by area (VNCC) or by products (VINACHEM).

Table 9 shows the result to the question about SOEs' main competitors in the domestic market and the severeness of competition they face. It is remarkable that more than half of the SOEs face competition with members of the same GC. TVN, VINATABA and VINACHEM have a high rate of intra-GC competition, and in the case of VINACHEM the competition is also very severe. On the other hand, those GCs that have little internal competition, namely, EVN, GERUCO, VN Airlines and VNPT, may possibly be monopolizing the market.

Table 9 The degree of competition and main competitors in the domestic market

	Severe-ness of compe-tition*	Which are the main competitors? (multiple choices)						N
		SOEs of the same GC	SOEs outside the GC	Non-SOEs	Foreign invested enterprises	Imported goods	Smuggled goods	
All SOEs	2.8	52%	73%	63%	39%	29%	33%	180
VINALINES	3.7	57%	86%	86%	57%	0%	0%	7
VSC	4.0	67%	67%	100%	67%	67%	0%	3
EVN	2.0	25%	50%	50%	75%	50%	25%	4
GERUCO	2.6	29%	86%	43%	0%	14%	29%	7
VINACAFE	2.5	57%	57%	86%	43%	0%	0%	7
TVN	2.9	85%	62%	23%	0%	23%	15%	13
VINAFOOD2	3.5	33%	50%	100%	33%	33%	33%	6
VINAFOOD1	3.3	13%	63%	100%	0%	0%	13%	8
VNCC	3.5	50%	100%	50%	100%	50%	0%	2
PETROVIETNAM	3.3	67%	33%	33%	0%	0%	0%	3
VNAirlines	2.4	33%	100%	50%	17%	0%	17%	6
VINATABA	3.0	100%	50%	50%	0%	0%	100%	2
VINACHEM	3.4	75%	67%	67%	58%	75%	58%	12
VINATEX	2.9	58%	92%	75%	58%	42%	83%	12
VNPT	2.4	47%	78%	55%	39%	22%	20%	64
GC90s	3.4	55%	68%	77%	68%	64%	77%	22
Others	3.5	50%	50%	100%	0%	0%	50%	2

* Average score of SOEs' evaluation. Very severe=4, Severe=3, Less severe=2, No competition=1

(Source) Questionnaire survey of 212 GC member SOEs.

Personnel and employment

The top managers of GCs and subordinate SOEs are appointed according to the Model Charter³ of GCs with little exception. The system described in the Model Charter is as follows: the top managing body of a GC is the Board of Management, the members of which are appointed by the Prime Minister in the case of GC91 and by the head of the supervising authority in the case of GC90. The Director General, who is the head of the acting management, is also a member of the Board of Management that is appointed by the Prime Minister (in the case of GC91). The supervising authority, based on the proposal from the Board of Management, appoints Deputy Director Generals, who are not the members of the Board. The top managers of GC-member SOEs, namely the General Director, Deputy General Director and the Chief Accountant, are appointed by the Board of Management of the GC, and the rest of SOEs' officials are appointed by the General Director of the SOEs.

The above rule was followed by every GCs and SOEs I interviewed with only one exception; in this case the GC also appointed the division chiefs of the SOE. In our questionnaire survey 80% of the SOEs can appoint department managers by themselves, which is consistent with the Model Charter, but 18% of them need to ask GCs for approval, which contradicts with the Charter.

Although the rule of appointing personnel is the same for all GCs and SOEs, the perception to the

³ Every charter of GC91s is promulgated from the Government, and the contents are almost the same. See, for example, "Charter of Organization and Operation of Viet Nam Posts and Telecommunications Corporation" (Decree No. 51-CP, 1995).

strength of GC's influence on personnel matters differs among SOEs. Table 5 indicates that SOEs under EVN, VINATABA, VINAFOOD1 and VNPT regard that GCs have rather strong control on personnel matters, while SOEs under VINACAFE and GC90s perceive a loose control. This suggests that there may be a difference in the actual implementation of the rules.

The rights of SOEs to recruit and dismiss their workers, which are stipulated in the Law on State Enterprises, seem to be guaranteed in most cases. I found no cases in the interviews where SOEs were interfered by GCs on labor matters except for one case in which the SOE, located in Central Viet Nam, was encouraged by the GC to employ as many people as possible. This is because the GC intended to promote employment in the underdeveloped area. In the questionnaire survey, 94% of the SOEs have the autonomy in recruitment and 98% have the autonomy in dismissal of their workforce. VINACOAL, however, seems to have a policy to restrict the autonomy of member SOEs. Five SOEs out of fifteen members of VINACOAL need to ask for the approval of the GC when they recruit workers.

Wage budget and distribution of wages

The wage budget, or total wage, is one of the indicators which the government uses as a means to control GCs and SOEs. The wage budget is negotiated between MOLISA and GCs every year. The wage budget is linked to other indicators that represent the performance of the GC. In the case of VINATEX, for example, the percentage of total wage to annual turnover is negotiated between MOLISA and the GC. VINATEX, in turn, will control the amount of wage budget of its members by determining the percentage of total wage to annual turnover of each member.

However, the indicator to which the wage budget is linked is not always the turnover. In the case of VNPT, for example, the frequency of telephone calls was used as a variable to determine the wage budget in the case of a telephone service company, and production volume of a specific product in the case of a manufacturing enterprise.

In VINACAFE, the wage budget of the GC as a whole is linked to the amount of coffee beans produced in the same year. VINACAFE negotiates with MOLISA every year about the ratio of wage budget to the amount of coffee beans produced. In the cases of TVN, VNCC, GERUCO, and EVN, the value of coal production, the volume of cement production, the volume of rubber production, and the amount of electricity generated are used respectively as variables that determine their wage budget.

The Law on State Enterprises gives SOEs the right to distribute wages and bonuses to their workers at their sole discretion. Despite this Law, however, SOEs don't have a free hand to pay wages. Many SOEs complain that they are restricted by the regulation which MOLISA promulgated in the 1980s that confines the highest wage of a SOE within three times of the average wage. It seems that the discretion of SOEs is also restricted by GCs, since the SOEs responding to our questionnaire evaluated that there is "more than moderate" influence from GCs to SOEs wages and bonuses (Table 5). In another question more than half

of the SOEs responded that they could not decide wage payments on their own (Table 10). These results suggest that in many SOEs the enterprise's right on wage and bonus distribution is substantially limited by GCs. In this aspect, GC acts as an agent of the government that assures the fulfillment of the wage target.

Table 10 SOEs' autonomy on wage payments

Degree of autonomy \ Types of SOEs	All SOEs	Independent accounting SOEs	Dependent accounting SOEs	Non-productive units
SOE decide at its sole discretion	99	65	32	2
Subject to approval of GC	100	66	30	4
Subject to approval of the government	4	4	0	0
SOE is only consulted for its view	9	4	5	0
SOE can not decide	1	1	0	0
Number of respondents	204	132	66	6

(Source) Questionnaire survey of 212 GC member SOEs.

The Distribution of profits

The Model Charter of General Corporations stipulate that GCs are "entitled to manage and utilize capital, land, natural resources and other resources of the State" and "to redistribute the resources it receives from the State to their member units to be used and managed by the latter." This suggests a structure in which GCs are wholly state-owned enterprises and GCs are in turn holding companies of their member units, the capital of the latter are reinvestment of the capital GCs received from the State. If we regard GC as the owners of SOEs' capital, GC must have the right to share the profits generated by member SOEs, and the State in turn must have the right to share GC's profits.

According to a government circular,⁴ the profit of a SOE, which is the surplus of its revenue after deducting costs and value added tax, are to be distributed as follows: First, corporate income tax, which is 25-35% of profit, and capital use tax, which has no fixed rate to the profit but determined by the government in advance, must be paid. Secondly, if there are capital contributors other than the state, dividends must be paid to these contributors. Thirdly, the remaining profit must be distributed in the following funds: 10% to financial reserve fund, 50% to development investment fund, and 5% to severance allowance reserve fund. The rest of the profits can be put into reward fund and welfare fund, but the maximum deduction level for these two funds are two to three months salary. If there are remaining profits after deducting for the above funds, the rest must be put into development investment fund. GCs have the right to concentrate a part of enterprise funds to make GC's own funds.

The actual distribution of profits in SOEs is shown in Table 11. These figures are calculated from the questionnaire survey by omitting the loss-making firms and firms that provided only partial or inconsistent

⁴ "Guiding the Distribution of After-Tax Profits and Management of Funds in State Enterprises" (Circular No. 64/1999/TT-BTC).

information, and by complementing the incomplete data using other information on the questionnaire survey.

Table 11 Distribution of profits in SOEs (Average)

	Budget contribution	Financial reserve fund	Development investment fund	Reward and welfare fund	GC fund	Others and omissions	N
1995	34.9	0.5	26.3	31.1	4.1	3.1	144
1998	43.9	4.1	22.5	15.0	8.2	6.3	164
1999	40.3	5.0	24.2	15.8	8.1	6.6	158

(Source) Questionnaire survey of 212 GC member SOEs.

We can summarize our findings from the survey as follows: First, the government's portion of profits ("budget contribution"), namely the corporate income tax and capital use tax, is 34.9% to 43.9% of total profit. This ratio is consistent with the above regulation and my interviews. The government's portion in each GC, however, shows a great diversity. The government's portions in TVN, VINATEX, VINAFOOD and VINALINES are very high compared to the average. This high ratio seems to result from the low profitability of these industries.

Secondly, the portion that is contributed from enterprises' profits to GCs is rising. This may be an indication that GCs' grip to their member SOEs has become tighter. There is also a great difference in this percentage between GCs. VINAFOOD2, PETROVIETNAM and VNPT concentrate a large portion of SOEs' profits. On the other hand, some GCs, such as VINALINES, GERUCO and TVN collect only a small portion of SOEs' profits.

Thirdly, the portion distributed to reward and welfare fund showed a considerable drop since 1998. In total, the government's portion and the GC's portion have risen, the SOE's portion (financial reserve fund and development investment fund) has slightly risen and the employee's portion has dropped.

The exact measurement of GC's portion, however, is not an easy task. This is because SOEs' contributions to GCs come not only from their after-tax profits but they are also deducted from their revenue as costs. In the case of VINATEX-member SOEs, no portion of SOEs' profits is contributed to the GC, but the payments to the GC are included in SOEs' costs. SOEs pay a fixed portion of their annual turnover. The actual ratio was 0.05% to 0.2% of the turnover, and it is negotiated every year. In GERUCO, also, the contributions to the GC from member SOEs are deducted as costs, which amount to 0.45%-1.3% of turnover. These GCs say that MOF has allowed the SOEs to deduct this payment as costs. In SATRA, a GC90 under the jurisdiction of Ho Chi Minh City, payments to the GC are made both from the cost and from the after-tax profit, i.e. 0.7% of sales and management expenses and 20% of after-tax profit. VNPT collects 2 to 10% of members' after-tax profit. VINACAFE collects 10% of after-tax profit and 30% of depreciation funds, and VNCC collects 3% of after-tax profit, 50 to 60% of development investment fund, and the entire depreciation

fund. In EVN, the GC's revenue consists of funds collected from members' development investment funds and the price differentials that the GC charges upon the electricity which is sold from its dependent-accounting power plants to independent-accounting power service companies. In SUNIMEX, a GC90 under Ho Chi Minh City, funds are collected irregularly. The GC holds a meeting of the directors of members to discuss and determine the collection of funds whenever the GC needs money for large investments.

Considering the complexity of profit sharing between SOEs and GCs, the aforementioned result in Table 11 may not correctly reflect the real distribution. But since it is difficult to let SOEs describe the intricate system of profit sharing in the questionnaire, we must satisfy with the available data for further analysis.

2. The distribution of rights and enterprises' profitability

I have described in the previous section how decision-making power and profits are shared between the government, GCs and SOEs. In this section and the next section the relationship between the distribution of power and profits and enterprise efficiency is explored.

The economic theory of firm teaches that to combine residual rights of control and residual returns provides strong incentives to the efficient use of an asset (Milgrom and Roberts, 1992). Based on this theory, many economists argue that it is impossible to realize the optimal combination of residual rights and residual returns within the confines of public ownership. Therefore, they argue, it is imperative to privatize SOEs as quick as possible in order to realize the optimal ownership structure (Woo [1997], Blasi, Kroumova and Kruse [1997], Lipton and Sachs [1990])

But the experience of privatization in Russia tells us that rapid privatization may be followed by a long period of economic difficulties before reaching the "optimal ownership structure." These difficulties may even create political pressures to revert to the old system. Russia's difficulties can be explained at least in part by the underdevelopment of its market system. Optimal allocation of ownership and resources will not easily be achieved without a well-developed market system, but both developing countries and transitional economies lack such a system (Ishikawa [1997]). Therefore the creation and development of a market system must come first, and after the market system is mature enough so that a smooth reallocation of resources and ownership rights through market transactions can be expected, large scale privatization may lead to an ideal result.

The creation of a market system and the improvement of its function is a time-consuming process which needs the actions of both the government and economic actors. The government must establish market institutions such as the stock exchange and make laws and legal structure that govern the market, but on the other hand economic actors who act in the market and create spontaneous institutions must also emerge. In this context, the reform of state-owned enterprise into a more market-oriented entity is a meaningful measure to create economic actors of the market. State-owned enterprises can be a vital part of the market economy by

having the autonomy to transact in the market and the incentive to gain profit from the transactions in the market (Groves, Hong, McMillan and Naughton [1994]). Even when the ownership structure remains unchanged, the transfer of managerial rights from the state, and the introduction of incentives to SOEs may create a significant change in enterprise performance. The effect may be both positive and negative, depending on the amount and combination of managerial rights and incentives given to the enterprise. This is why I focused on the distribution of control rights and profits.

We found in the last chapter that in Viet Nam the rights of GC-member SOEs is substantially limited by GCs, and GCs are in turn subject to the control of the government, especially in production planning, investment and wage. The information can be summarized as Table 2.

Will enterprise behavior change if the distribution of rights between SOEs and GCs is changed? Table 12 shows the relations of SOE's rights, GC's rights and the distribution of enterprise profits. SOEs' autonomy is measured by the average "degrees of discretion" (See footnote 1) on the determination of investment, business strategy, business plans, prices and wages, whereas GCs' rights is measured by the SOE's evaluation of GC's influence (See Table 5). First, there is a negative correlation between the SOE's discretion and GC's influence: the more autonomy SOE has, the less influence GC has. Secondly, the more autonomy SOE has, the portion of reward fund in enterprise profit rises and GC fund's portion falls, but there is no relation with development fund's portion. Thirdly, the more influence GC has, reward fund's portion falls and GC fund's portion rises. This result suggests that SOEs increase remuneration to their employees when they have more autonomy, and GCs grab more when their influence to SOEs is larger. But neither of them increases enterprise development fund when they have larger rights.

Table 12 Correlation between degree of discretion, GC's influence and profit distribution

(139 samples)

	Degree of discretion of SOE	Influence of GC	Development fund's portion	Reward fund's portion	GC fund's portion
Degree of discretion	1				
Influence of GC	-0.393	1			
Development fund's portion	-0.013	0.061	1		
Reward fund's portion	0.211	-0.172	0.333	1	
GC fund's portion	-0.196	0.159	-0.170	-0.234	1

(Source) Questionnaire survey of 212 GC member SOEs.

Table 13 shows the relationship between SOE's profitability and SOE's rights, GC's rights and the distribution of enterprise profits. The samples are divided into two groups, SOEs under VNPT and other SOEs, because the extraordinary high profit rate of VNPT members, which must be the result of their monopoly, makes it impossible to explain the profitability of all SOEs in a single equation. The three equations in Table 13 share similar features: larger development fund's portion and smaller reward fund's portion contribute to profitability. No relationship, however, was found between SOE's discretion, GC's influence and profitability.

Table 13 Regression analysis of SOEs' profitability

Dependent variable	Profit/ Asset	Profit/ Turnover	Profit/ Asset
	Non-VNPT 1999	Non-VNPT 1999	VNPT 1999
Degree of discretion of SOE	-0.127 (-1.31)	-0.094 (-1.34)	0.092 (1.13)
Influence of GC	-0.004 (-0.12)	-0.006 (-0.25)	-0.037 (-1.03)
Development fund's portion	0.284*** (3.15)	0.114* (1.75)	0.032 (0.43)
Reward fund's portion	-0.187 (-1.55)	-0.139 (-1.61)	-0.216** (-2.02)
GC fund's portion	-0.036 (-0.41)	-0.059 (-0.92)	-0.056 (-0.66)
Adjusted R2	0.115	0.041	0.028
N	1	72	67

Note. *, **, and *** represent 10 percent, 5 percent, and 1 percent significance levels, respectively.

N= the total sample size.

T-statistics are in the parentheses

(Source) Questionnaire survey of 212 GC member SOEs.

If the enterprise put more money in the development fund at the expense of a smaller remuneration, the profit rate will increase. But neither the expansion of SOE autonomy nor the increase of GC's influence contributes to the rise of the portion of development fund. One interpretation of this result is that a change in the distribution of rights between SOE and GC has no effect on enterprise profitability. But a more likely interpretation is that such change does have effects on enterprise profitability, but the effects are sometimes positive and sometimes negative, depending on the type of market. This hypothesis is examined in the next section.

3. Enterprise's autonomy and productivity

Measuring enterprise efficiency by the profit rate had difficulties because the profit rates in Viet Nam's industries seemed to be seriously affected by the market structure of industries. In this section, we try to measure efficiency by total factor productivity (TFP).

The measurement of TFP requires a complete set of price indices, but this is lacking in Viet Nam. Instead, I use the volumes and values of main products of the enterprises covered in the questionnaire survey to calculate the prices of various products and services. Our sample size is not big, but since it covers a wide range of industries, price indices of many products and services could be derived. (Table 14) Giving weights according to the input matrix of 1992 China's Input-Output Table to each price index, the aggregate capital price index was calculated. Regression analyses are made from panel data of 79 manufacturing and mining enterprises among the survey of 212 SOEs, covering the years 1995, 1998, and 1999. The analysis estimated production function as well as TFP growth and the differences of efficiency caused by the differences in

enterprise autonomy and GC's influence. I use a Cobb-Douglas production function,

$$\ln(Y/L) = c + \beta \ln(K/L) + \sum a_i A_i + \sum g_i G_i + \sum f_i F_i + \varepsilon$$

where Y represents output (in 1995 prices), K is total asset of enterprise (deflated by the capital price index calculated in Table 14), and L is the number of employees. Due to the lack of data on value-added and fixed capital, I use output and total asset instead. Therefore, in this equation K includes both fixed capital and material inputs. A_i is a dummy variable that represents time (1998 and 1999), and G_i represents the GC (or industry) to which the enterprise belongs. F_i represents potential determinants of productivity, such as the age of enterprise, whether the enterprise is an "independent accounting unit" or not, enterprise's liability to capital ratio, the ratio of contract labor to total employment, enterprise's evaluation of the fierceness of competition, the degree of enterprise autonomy, which is the average of the "degrees of discretion" on all the aspects of managerial decision-making illustrated in Table 2, the degree of labor redundancy, which is the average of enterprise's evaluation of redundancy in 4-point scores, and the degree of GC's influence measured in the same manner as Table 5.

Table 14 Price indices

	1995	1998	1999	Weight*
Manufacturing				
Steel	100	101	102	0.161
Electricity	100	100	100	0.048
Paper	100	106	119	0.052
Rubber	100	64	35	0.017
Coal	100	110	126	0.005
Cereal	100	106	103	0.028
Cement	100	98	92	0.099
Petroleum	100	100	100	0.037
Tobacco	100	98	94	0.005
Chemicals	100	100	99	0.195
Textiles	100	159	162	0.115
Post and telecom products	100	111	103	0.021
Electric equipment	100	100	100	0.044
Electronic machinery	100	128	118	0.025
Machinery	100	245	248	0.000
Ceramic	100	104	99	0.004
Agriculture	100	161	201	0.034
Service				
Shipping	100	95	89	0.011
Telecommunications	100	139	125	0.010
Agriculture				
Rubber	100	58	55	0.011
Coffee	100	93	100	0.000
Cereal	100	117	103	0.080
Capital price index	100	110.8	110.2	

* Price indices of each sectors are multiplied by the weights to obtain the aggregate Capital Price Index.

(Source) Calculated from the data of questionnaire survey of 212 GC-member SOEs.

Table 15 Production function of Vietnamese SOEs

	Model 1	Model 2	Model 3	Model 4	Model 5	Model 6	Model 7	Model 8
Constant	0.626*** (2.73)	-0.135 (-0.46)	-0.343 (-0.73)	-0.455 (-0.96)	-0.250 (-0.63)	-0.864* (-1.96)	1.509** (2.35)	-0.951 (-0.82)
ln (K/L)	0.855*** (16.10)	0.799*** (14.01)	0.813*** (13.50)	0.843*** (13.90)	0.820*** (13.91)	0.837*** (14.11)	0.762*** (11.50)	0.968*** (8.72)
Year:								
1998	0.0628 (0.50)	0.0751 (0.77)	0.0725 (0.74)	0.0550 (0.56)	0.0616 (0.64)	0.0575 (0.58)	0.0948 (0.64)	0.0001 (0.00)
1999	0.0387 (0.31)	0.0722 (0.74)	0.0656 (0.66)	0.0484 (0.49)	0.0598 (0.61)	0.0540 (0.54)	0.0685 (0.46)	-0.0189 (-0.10)
GC:								
Electricity								
Cereal		1.36*** (4.87)	1.35*** (4.96)	1.24*** (4.52)	1.26*** (4.69)	0.758** (2.09)		
Chemicals		0.403*** (3.15)	0.402*** (3.10)	0.367*** (2.84)	0.364*** (2.85)	0.458*** (3.40)		
Textile and apparel		-0.354** (-2.35)	-0.351** (-2.30)	-0.319** (-2.08)	-0.326** (-2.14)	-0.259 (-1.64)		
Post and telecommunications		0.109 (0.76)	0.091 (0.62)	-0.051 (-0.32)	-0.0194 (-0.13)	0.0193 (0.12)		
Electric technical equipment								
Electronic and informatic		0.454** (2.38)	0.454** (2.54)	0.400** (2.25)	0.445** (2.39)	0.524*** (2.91)		
Plastic		0.913*** (4.09)	0.899*** (3.99)	0.746*** (3.26)	0.782*** (3.41)	0.889*** (3.83)		
Industrial ceramic and glass								
Engine and agricultural machinery		-1.38*** (-5.29)	-1.42*** (-5.29)	-1.42*** (-5.34)	-1.36*** (-5.23)	-1.38*** (-5.30)		
Coal		-0.209 (-1.46)	-0.181 (-1.17)	-0.126 (-0.78)	-0.159 (-1.05)	-0.281* (-1.72)		
Firm's characteristics:								
Age of firm		0.00461 (1.36)	0.00444 (1.32)	0.00597* (1.73)	0.00553 (1.64)	0.0044 (1.23)		
Independent accounting unit		0.919*** (5.36)	0.904*** (5.12)	0.519** (2.35)	0.569*** (2.62)	0.611*** (2.78)		
liability to capital ratio		-0.0236** (-3.16)	-0.0240** (-3.19)	-0.0214** (-2.82)	-0.0211** (-2.79)	-0.0223** (-2.93)		
contract labor ratio		0.0521 (0.28)						
Degree of competition				0.0878 (1.41)	0.0986 (1.57)	0.0613 (0.97)		
Degree of enterprise autonomy			0.241 (0.60)	0.343 (0.84)			-0.132 (-0.23)	1.018 (1.25)
Degree of labor redundancy						0.236** (2.40)		
Degree of GC's influence					0.0342 (0.32)		-0.265* (-1.75)	0.332* (1.78)
Adjusted R2	0.531	0.718	0.719	0.726	0.725	0.708	0.470	0.599
N	233	233	230	227	230	219	155	72

Note. *, **, and *** represent 10 percent, 5 percent, and 1 percent significance levels, respectively.

N= the total sample size. T-statistics are in the parentheses.

(Source) Calculated from the data of questionnaire survey of 79 GC-member manufacturing and mining SOEs.

The result of regression analysis shown in Table 15 tells us that, first, TFP (coefficients of time dummies) of SOEs has grown during the period from 1995 to 1998, although the coefficients are not significant. The annual growth rate of TFP was 1.9% to 2.5% during the period from 1995 to 1998, and 1.0% to 1.8% during the period from 1995 to 1999. These figures are lower than many estimates of TFP growth in Chinese state industries during the 1980s, which range from 2.4% (Jefferson, Rawski and Zheng [1992]) to 4.5% (Groves, Hong, McMillan and Naughton [1994]), but still positive. This result suggests that there was a slow but positive progress of enterprise productivity since the establishment of GCs.

The second point that draws our attention is that neither the degree of enterprise autonomy nor the degree of GC's influence has significant influence on SOEs productivity. If we divide the samples into two groups according to the fierceness of competition they are experiencing, however, significant influence of these factors can be detected. Model 7 of Table 15 shows the result of a regression of 53 SOEs which experience low to medium competition (those that selected "severe," "less severe," and "no competition" to the question on domestic market competition), and Model 8 shows the result of 24 SOEs which suffer "very severe" domestic market competition. It is remarkable that the coefficient of the GC's influence is significantly negative in the case of low to medium competition, but significantly positive in the case of very severe competition. This result is interesting because it underpins the hypothesis posed in the previous section that a change in the distribution of rights between SOEs and GCs leads to a change in enterprise performance, but the direction of change is the opposite depending on the types of market. When SOEs are in a highly competitive market, a tighter grip by the GC will lead to a higher productivity, but when the market is not so competitive, a larger GC's influence decreases productivity, possibly because this strengthens monopoly.

Some other interesting results must be pointed out. First, the more leveraged SOEs are, the less productive. Secondly, those SOEs which face fierce competition tend to be more productive, although the coefficient is not significant. Thirdly, those SOEs which perceive more labor redundancy tend to be more productive. The management's perception of labor redundancy is not equal to the actual labor redundancy. This result may be interpreted that SOEs which have stricter perception on their labor redundancy tend to exercise more effort to improve productivity.

Conclusion

Through the detailed description of the role of GCs in the first section, we confirmed that GCs have strong influences to subordinate SOEs that they cannot be neglected in the discussion on Vietnamese SOE reform. They exercise a strong control on SOEs in investment, production planning, personnel, wages and pricing. The portion they collect from SOE's profit is also rising.

But GC's strong control on SOEs does not necessary mean that they have become a consolidated business group that can be compared to the business groups of Korea and other Asian countries. The main purpose of

GC's control is to fulfill the plans received from the government, and in this sense GCs can still be regarded as agents of the state planning apparatus. The high incidence of internal competition among the members of GCs indicates that, although GCs have significant control on certain aspects of SOE management, they haven't exercised their control to reorganize the internal structure to create synergy among their members.

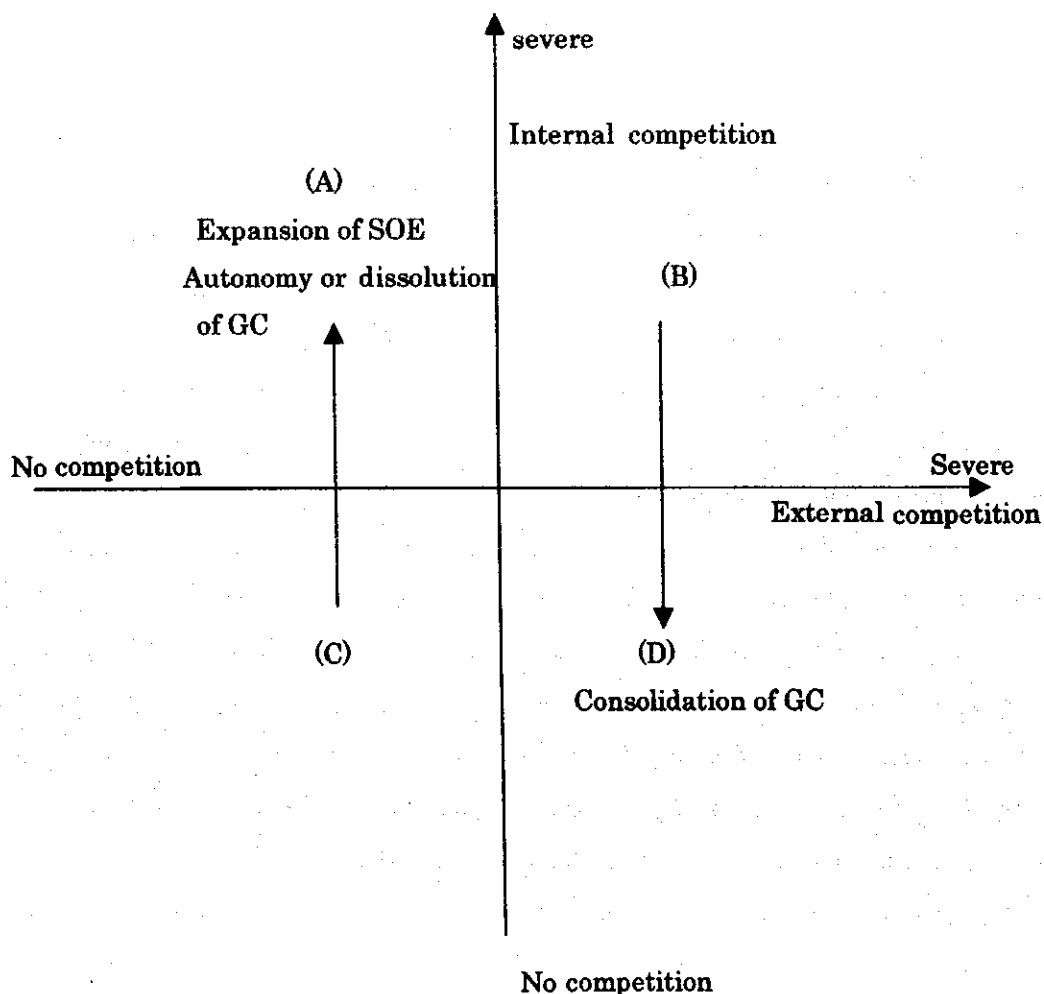
This observation leads to the first policy recommendation of this paper: The behavior of GCs must change from that of an agent of state planning apparatus to a business corporation. To induce GCs to change their behavior, the government-GC relationship must change. The government must stop giving plans on investment, production, and wages to GCs, and instead govern GCs through a corporate-like governance structure, in which the state acts as a major shareholder of GC. In order to make such a structure, the reorganization of GC headquarters into a joint stock corporation, introducing private shareholders beside the state, may be meaningful. At the same time, incentives must be given to the managers of GCs to let them maximize GC's profit. Professional managers, instead of bureaucrats, must be in charge of GC management. They must be compensated, selected or dismissed according to their performance, while at the same time a effective system to monitor their performance must be introduced.

The analysis in the second section indicates that if SOEs have incentive to increase the portion of development fund in their profit their profitability may increase. But neither simply expanding enterprise autonomy nor simply increasing the influence of GC induces the increase of development fund. The productivity analysis in the third section provided similar results, but it showed that the effect of an increase in GC's influence leads to opposite results depending on the fierceness of competition: when the enterprise faces very severe competition the increase of GC's influence leads to higher productivity, but when the enterprise faces moderate or little competition the increase of GC's influence leads to lower productivity.

These analyses lead to the second policy recommendation of this paper: The direction of GC's internal power structure reform may differ according to the competitive environment. When members face very fierce competition, especially with enterprises outside the GC, including both domestic and foreign ones, a consolidation of GCs with stronger influence of the headquarters to member SOEs may lead to higher efficiency, provided that GC headquarters has incentive to behave like business corporations. But when the competition is not so fierce, especially when competition with enterprises outside the GC is weak, a consolidation of GCs may lead to even weaker competition, causing the decrease of enterprise productivity. In this case, it is better to expand the autonomy of SOEs, or even dissolve the GC and let SOEs be free to compete on their own. This recommendation is illustrated in Figure 2. There are two destinations of GC reform: If there is fierce competition inside the GC, but there are few competitors outside (Case (A) in Figure 2), SOE's autonomy must be expanded or the GC must be dissolved in order not to hinder competition. If there is severe competition from outside the GC((C) and (D)), the consolidation of GC, provided that it be followed by substantial restructuring of GC's structure, including streamlining its internal structure and adjusting internal duplications, may enhance its capability to compete in the market. If competition is weak both inside and outside of the GC (B), there is a

serious problem of monopoly. SOE's autonomy must be expanded or the GC must be dissolved to create competition.

Figure 2 The direction of GC's reform



(Source) By the author.

In short, my recommendations on GC reform propose the introduction of two different kinds of incentives. One is internal incentives, which the owner of GCs, the government, provides to the GC. It may include a performance-based compensation to the managers of GCs and a system to monitor their performance. The GCs, in turn, may provide incentives to their subordinate SOEs. Another kind of incentives can be called external incentives, which is actually the pressure of competition. Internal incentives lead to the rise of efficiency only when the GC is exposed to external pressure of competition.

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