Institutional Aspects of Privatization

The Case of Viet Nam

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PREFACE

The ADB Institute aims to explore the most appropriate development paradigms for Asia composed of well-balanced combinations of the roles of markets, institutions, and governments in the post-crisis period.

Under this broad research project on development paradigms, the ADB Institute Working Paper Series will contribute to disseminating works-in-progress as a building block of the project and will invite comments and questions.

I trust that this series will provoke constructive discussions among policy-makers as well as researchers about where Asian economies should go from the latest crisis and current recovery.

Masaru Yoshitomi
Dean
ADB Institute
ABSTRACT

Privatization in the sense of transfer of ownership and control rights of the state-owned-enterprises (SOEs) has been either minimal or ineffective in many transition economies, including Viet Nam. One major barrier in this respect appears to be the general absence or weakness of an appropriate institutional infrastructure. Institution building, however, is extremely difficult and a painstakingly slow process. Although Viet Nam has attained some notable progress in this regard, many anomalies and shortcomings persist. For example, the laws relating to property rights, foreign investment and corporate governance are still not clearly defined and/or suffer from many inadequacies. The judiciary is also undeveloped and the enforcement of laws is extremely weak. There is no competition policy. Restructuring of enterprises has been few and far between. A stock market is yet to be established. And there is no worthwhile social safety net to protect the interests of any retrenched labor.

This creates an important policy dilemma. On the one hand, privatization is urgently warranted to help the desired switch-over to a market economy. On the other hand, institutional weaknesses dictate a slower approach to avoid such serious problems as possible pilferage of state assets and replacement of SOEs by corrupt, private monopolies. This policy dilemma which does not lend itself to any easy resolution, gives rise to several major questions relating to SOE reforms, the pace and sequencing of the privatization program and any alternative mechanism to crack the institutional barriers.

This paper argues that given the inherent difficulty in building up an appropriate, market-oriented institutional infrastructure, a better policy option for the country may be to stimulate a robust private sector growth. This calls for “leveling the playing field” by the abolishment of special incentives to large SOEs and making them face hard budget constraints. More importantly, measures should be taken urgently to: (i) privatize the small SOEs, along with mainstreaming and strengthening the existing private sector enterprises, (ii) streamline the foreign investment laws and regulations to attract greater FDI inflows, and (iii) encourage the emergence of such other innovative entities as township and village enterprises (TVEs). These are all expected to infuse greater competition in the economy. Trade liberalization should play an important role in this frame by helping lower or break the protective walls. To offset possible economic and social disruptions in the process, it would be necessary to introduce social safety net schemes, although it must be pointed out that only a vigorous growth of the non-state enterprises can provide a more lasting solution to the problem by absorbing the surplus labor force.
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Institutional Aspects of Privatization: The Case of Viet Nam

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Although notable progress has been made in Viet Nam with respect to the reform of state-owned enterprises (SOE), the legal framework, and other organizational arrangements, it will still not be easy to overcome the institutional barriers to privatization, particularly for large enterprises. While sustained efforts should continue in this regard, a better policy option for the country may be to try to stimulate a robust private sector growth. On the one hand, this will call for “leveling the playing field” by the abolishment of special incentives to large SOEs and making them face hard budget constraints. On the other hand, measures should be taken on an urgent basis to: (i) privatize the small SOEs, along with mainstreaming and strengthening the existing private sector enterprises, (ii) streamline the foreign investment laws and regulations to attract greater FDI inflows, and (iii) encourage the emergence of innovative entities such as township and village enterprises (TVE). These are all expected to infuse greater competition in the economy. Trade liberalization should also play an important role by helping lower or break the protective walls. To offset possible economic and social disruptions in the process, it would be necessary to introduce adequate safety-net schemes.

1. Introduction: Setting the Issues

Privatization is usually considered a critical element in the transition process of socialist countries. The basic rationale in this regard is provided by the positive role it can play in promoting a market economy and in supporting the growth of a healthy and competitive private sector\(^1\). Survey findings, however, demonstrate that privatization, in the sense of transfer of ownership and control rights of the state-owned-enterprises (SOEs), has been either minimal or ineffective in many transition economies (Guislain, 1997). The reasons, of course, vary from country to country. While they may often relate to a lack of strong political will and absence of technical expertise and resources, the more serious handicap for successful privatization appears to be the general absence or weakness of an appropriate institutional infrastructure\(^2\).

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\^1\ The traditional arguments relate to fiscal and efficiency considerations.

\^2\ Institutions ‘consist of formal rules and informal standards of behavior and of their enforcement characteristics’ (North, 1992, p.4). The focus of this paper will be on formal institutions only partly for the sake of analytical convenience, but also because of the fact that informal behavioral and organizational arrangements...
Institution building, however, by its very nature is an extremely difficult task. Not only new rules have to be established but new organizational arrangements have also to be made to ensure that such rules can be duly enforced. Obviously, it is often a painstakingly slow process, even under the best of circumstances. This gives rise to an important policy dilemma for the transition countries. On the one hand, privatization is warranted on an urgent basis, as any undue delay may give opportunity to various stakeholders with strong vested interests to build up serious resistance against the transformation process. On the other hand, economic and practical considerations dictate that privatization of SOEs can possibly best be implemented by calibrating the program so as to be in tune with the slower pace of institutional reforms. Otherwise, it may cause “privatization shocks” leading to possible pilferage of state assets, economic disruption, and political and social antipathy against the program itself\(^3\). This policy dilemma, which apparently does not lend itself to any easy resolution, gives rise to several major practical questions. Broadly, such questions involve both the nature of policy interventions and also a time frame for the implementation of reforms. They may be stated as set out below.

First, how to proceed about SOE reforms and the privatization program? The issues here will essentially include the ownership and management structure of SOEs and the basic features and constraints facing the privatization process. The SOE reforms issue is intimately related to the privatization program for at least two reasons. First, the reformed SOEs may ideally be viewed as a transitional arrangement of corporate governance before appropriate institutions are set in place; the alternative being “insider control” and asset-stripping caused by information asymmetry. Secondly, the enhanced operational efficiency of these enterprises due to improved management systems facilitates the eventual transfer of these enterprises to the private sector.

The second question is: what are the major institutional obstacles to privatization and what kind of sequencing is necessary in this regard? More specifically it means, should privatization precede institutional development, should it be the other way around or, alternatively, would it be a better option for privatization and institutional development to proceed simultaneously? The argument for simultaneity appears strong since privatization and private sector growth itself creates the demand for good laws and organizational structure on the one hand, and the existence of relevant institutions facilitate privatization on the other\(^4\). However, two types of problems may be involved in this regard. First, such an interactive process cannot be generalized to all types of enterprises or to all sectors of the economy. Particularly, privatization of the larger enterprises with more complicated governance structure may create more problems if not preceded by the appropriate

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\(^3\) See also note 5.

\(^4\) In other words, privatization and institutions are normally expected to reinforce each other. One example of such reinforcement is provided by a stock market’s role in transferring shares which helps the privatization process. That is, if many industries are privatized it will warrant the setting up of a stock market. Similarly, the existence of a stock market facilitates the privatization program by helping raise funds. Another example could be the relationship between FDI laws, FDI inflows and privatization. As is well known, FDI facilitates the privatization process by providing funds, while privatization is itself used, on the other hand, as a tool to attract such inflows. For instance, at the initial phase, Hungary and Poland brought in 86% and 64%, respectively, of their total foreign investments by means of privatizing SOEs.
institutional reforms. The second issue is more practical in nature in that it may be extremely difficult to determine the exact intervention point which can give rise to the desired interaction. Otherwise, a vicious circle can emerge: privatization is not possible because the appropriate institutions are not there; and appropriate institutions cannot be built up because, in the absence of privatization, there is no demand (pressure) for such institutions.

This leads us possibly to the most fundamental of all questions: is it possible to break the institutional barriers, for example, by changing the economic incentive structure such as to encourage the growth of a vibrant private sector, and attracting large scale FDI inflows? Related questions are: can similar effects be attained by introducing trade liberalization measures and exposing domestic enterprises to increased international competition? And, what role can be played in this regard, for example, by the highly successful, middle-of-the-way, Chinese-style township and village enterprises (TVEs)?

Obviously, it is not possible in this short paper to rigorously address all these issues. Moreover, we also do not pretend to have answers at this stage to the various questions raised. Therefore, we have deliberately set our objective at a rather modest level. In general, we propose to examine the following analytically separable but organically-linked issues in the context of Viet Nam:

(i) SOE reforms and the privatization or equitization program,
(ii) Growth of market supporting institutions, and
(iii) Development of a vibrant private sector.

Our aim is two-fold: (i) to come out with a set of logically consistent policy suggestions which can help improve the institutional environment to facilitate privatization in Viet Nam; and (ii) to help change the economic incentive structure such as to render the need or urgency for privatization largely redundant, mainly by spurring healthy private sector growth.

Therefore, the paper is organized as follows. Section 2 develops a simple conceptual framework for this study. Section 3 is devoted to provide a review of SOE reforms in Viet Nam and its current governance structure. Section 4 critically analyses the privatization program, pointing out in particular some inherent obstacles in the process. Special focus on institutional barriers is next provided in section 5 with reference to the incentive structure in the economy, which results from the legal and regulatory framework and the prevailing general policy environment in the country. The possible impact of private sector growth, FDI, and trade liberalization on the transition process is briefly discussed in section 6. Finally,

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5 As experience in many transition economies has shown—most exemplified by post-Soviet Russia—this has usually led to replacement of government bureaucrats by the infamous oligarchs’ club, who were engaged more in building their own fortunes at the cost of the enterprises, and where sharp production declines occurred as a consequence.

6 TVEs or “rural enterprises”—which are mainly engaged in the production of consumer goods for domestic and international markets, and are neither state-owned in the classic sense nor privately-owned in the capitalist sense—have been the most dynamic component in the post-reform PRC economy (World Bank, 1996). Their contribution to GDP rose from 13% in 1985 to 31% in 1994. The nature of TVEs is still evolving in terms of ownership and control, and currently three main types are in existence: (i) Genuine collective owned enterprises; (ii) Partnership between local officials and private entrepreneurs; and (iii) Privately-financed and operated enterprises seeking political shelter. For further details, see for example, Woo (1997).

7 The ADB Institute is currently engaged in research on a comparative study of privatization experiences in People’s Republic of China and Russia, which hopefully will yield important lessons for Viet Nam’s future policy directions. See further section 7.
section 7 encapsulates the major findings and makes some policy inferences by way of providing concluding remarks.

2. Conceptual Framework

We use a simplified conceptual framework for the study, as shown in chart 1. The framework has its embryonic origin in Aaron Tornell (1999). First, for the sake of analytical convenience, the SOEs are classified into two broad groups, depending on whether they are small or relatively large. The smaller ones, such as retail shops and restaurants, are easier to privatize, as the repercussions are likely to be minimal both in social and economic terms. They are also not big enough to command what Kornai (1992) refers to as a soft budget constraint. Moreover, privatization of a large number of small SOEs as quickly as possible will help promote the growth of a competitive private sector, which in turn will reinforce the demand for appropriate institutional reforms.

In case of larger SOEs, however, the picture is more complicated. There are serious dangers of information asymmetry, insider control and asset stripping, unless the management remains accountable and is properly monitored. It may be better under such circumstances to adopt a two-stage approach to privatization. That is, while small SOEs are privatized expeditiously, there should be a delay in the case of larger SOEs till such time when there is improvement in their corporate governance both by means of restructuring and by imposing hard budget constraints. However, as experiences in many countries show, even hard budget constraints and enterprise downsizing,—let alone liquidation of irretrievable, loss-making SOEs,—may not always be easy options. Considerations of unemployment and social stability often make these decisions politically unpalatable. In such cases, they should preferably be accompanied by adequate social safety nets, and also increased absorptive capacity for the potentially unemployed through the growth of private and other non-state enterprises.

While privatization is considered important in a transition country for a switch-over to the market economy, a more positive role is probably played by how robustly the private sector grows either simultaneously with or even preceding full privatization, especially of large SOEs. For the growth of the private sector, including foreign participation and FDI inflows, what is needed is a competitive environment and a “level playing field” vis-à-vis the SOEs on the one hand, and the existence of appropriate rules and regulations and a judicial system to enforce them on the other. Often, institutional growth and private sector development may reinforce each other, although under more favorable circumstances (e.g., with strong political commitment and previous experience of a market economy or with a less centralized planning system), a strong growth of the private sector may help break this

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8 Although his focus is essentially confined to policy reforms.
9 But not rigorously defined, using any of the standard criteria of total employment, capital investment or sales turnover. The classification is used rather loosely, mainly on the basis of whether the governance structure is simple or relatively more complex (as in the case of larger enterprises where the managers do not own a significant share of the firm). In Viet Nam, of course, there is a four-fold classification based on both employment and capital investment. Thus, there are micro-enterprises (with less than 5 laborers or less than VND 100 million of capital); small enterprises (with employment size between 5 to 50 laborers or capital between VND 100 to 300 million); medium enterprises (with employment between 50 and 300 laborers or capital between VND 300 million to 1,000 million); and finally, large enterprises (with employment size above 300 or capital investment exceeding VND 1,000 million). See World Bank (1995).
10 I.e., they usually do not have the power to extract fiscal transfers from the government.
interactive frame, making privatization of large SOEs per se, at least not an immediately indispensable component of the transition process.

Chart 1: Conceptual Framework

3. SOE Reforms as an Interim Measure?

One strong argument in favor of privatization is that the huge losses incurred particularly by the larger SOEs are unsustainable. But since privatization without the appropriate institutional infrastructure can also be economically harmful, the next best option may be to reform them so as to turn them into profitable entities (Qian, 1999). This may be viewed as an interim measure or even as a supplementary mechanism in generating a competitive market environment in the context of an emerging private sector.

3.1 The Reforms
Viet Nam’s reform of SOEs has sought to retain state ownership of strategic, large-scale firms and improve their performance by establishing market-oriented incentives, particularly for business state enterprises\textsuperscript{11}. The important relevant reform measures, implemented over time, beginning with the *doi-moi* (renovation) program in 1986, include the following:

(i) Managerial autonomy has been granted to SOEs, with freedom to set output prices, to disburse bonuses, and retain some profits to fund enterprise-wide social services. In other words, some control rights have ended up with SOE managers.

(ii) Restrictions on investment expenditure have been eased; and most prices, including the exchange rate of the Vietnamese dong (VND)\textsuperscript{12}, are now allowed largely to be determined by market forces.

(iii) There has been progress in the development of policies and legal framework for SOEs. For example, the Law on SOEs in 1995 guarantees legal independent status to these enterprises to enable them to operate in accord with market principles.

(iv) Direct subsidies to SOEs have been greatly reduced, by reforms introduced in 1987 and 1989. For example, from VND 12.9 billion in 1988, industrial subsidies fell to negligible amounts by 1989.

(v) A large number of SOEs were liquidated or merged with other SOEs as a result of the hard budget constraints and the re-registration requirement of a Decree in 1991, which allowed only financially viable/potentially profitable enterprises to re-register. This led to a sharp decline in the number of SOEs from 12,300 of the pre-reform days to around 6,000 by April 1994\textsuperscript{13}.

(vi) There has been some major restructuring in SOEs in 1995/96, when half of them were grouped under a number of holding companies, known as General Corporations, covering such industries/sectors as electricity, coal, petroleum, cement, shipping, airlines, rubber, coffee, food, post and telecommunications, textiles and garments, etc\textsuperscript{14}. Corporatization in Viet Nam refers to reorganizing the relatively larger SOEs, so that they emulate as far as possible, the private sector behavior and are run on the basis of commercial principles. This has been an important step taken in Prime Minister’s Decisions 90 and 91 of 1994. Decision 90 created 64 general corporations, each with at least 5 voluntary members and minimum legal capital of VND 100 billion; while Decision 91 called for much larger corporations with at least 7 SOE members and a minimum legal capital of VND 1,000 billion\textsuperscript{15}, and resulted in only 18 such corporations. The objective of corporatization has been to give SOEs a legally defined sphere of autonomy, although ownership was still retained by the government.

\textsuperscript{11} Vietnamese laws differentiate business SOEs from public/defense-oriented enterprises. See section 5.

\textsuperscript{12} With regard to foreign exchange, since February 1999 Viet Nam has followed a *de facto* crawling peg exchange rate restricting daily fluctuations to 0.1\% from the target rate - the target being the average of the trading rates on the previous day’s interbank market (Vietnam Banking Review, 1999).

\textsuperscript{13} Recent estimates put the number at about 5,500 (NGUOI VIET, 1999). Note that more than 3,500 firms were merged with other SOEs between 1990 and 1994, when closure totaled around 2,400 enterprises.

\textsuperscript{14} For further information on General Corporations, see Appendix A.

\textsuperscript{15} According to a survey, by end of 1994, Viet Nam had, in VND millions, a total of 1,237 SOEs with capital exceeding 10,000, while it had 767 SOEs with capital between 5,000 to 10,000, 2,284 with capital between 1,000 to 5,000 and 1,585 with less than 1,000. See General Statistical Office (1998).
Since the formation of the corporations, there have been several changes in their control and management system. The current organizational structure of the corporate management system in Viet Nam can broadly be represented as in Chart 2.

In Chart 2, note that the CCEMR (Central Committee for Enterprise Management Renovation) was created in June 1998 to work as the national coordinating agency for enterprise reform under the chairmanship of a Deputy Prime Minister and its office is located directly in the powerful OOG (Office of Government). It is responsible for all enterprises of various ownerships in planning, restructuring and reforming, including the equitization process\textsuperscript{16}. The other important agency known as GDMSCAE (General Department for Management of State Capital and Assets at Enterprises), which was set up in the Ministry of Finance in 1995, is the supervising and controlling authority over corporations and SOEs. It provides guidelines and instructions to SOEs in asset valuation, appointing the audit agency and related financial issues. The line ministries, and provincial and city governments also provide technical and economic instructions relating to specific activities in the equitization process of the SOEs.

\textbf{Chart 2: Corporate Management System in Viet Nam}

\begin{center}
\includegraphics[width=\textwidth]{chart2.png}
\end{center}

Insofar as individual SOEs are concerned, the governance system is represented by a three-level management hierarchy as shown by Chart 3. Under the relevant state agency, a Board of Management is set up\textsuperscript{17}, under which the General Director along with other branch directors (for large SOEs) of the enterprise handle daily business operations. The Chairperson and members of the Board are nominated by the government body that proposed the

\textsuperscript{16} Equitization is the other name for privatization in Viet Nam. See section 4 for details.

\textsuperscript{17} However, small SOEs are not required to form a Board of Management. They only have a managing director.
establishment of the enterprise. They are then appointed, dismissed, rewarded and disciplined by the Prime Minister or such person authorized by him. The Board nominates and the Prime Minister or his designee appoints the General Director. In general, the Board of Management performs the function of managing the activities of the enterprise, approving the business plans formulated by the General Director and acting as a liaison between the company and the state. The General Director, who is also a Board member and may even be the Chairman, is the legal representative of the enterprise and elaborates long and short-term business plans submitted to the responsible state agency. He also submits proposals on the salary of the employees, unit price of products and conducts other daily affairs of the SOE. The fact that the state retains ultimate power for itself in company affairs and at times interacts directly with the General Director limits the authority of the Board, on the one hand, and frequently permits the former to act more freely, without being subjected to strong managerial and monitoring control over the daily operations of SOEs. On the other hand, the relationship between the General Directors and their Management Boards is not very clearly delimitated in functional terms, which poses a serious obstacle to effective management of state enterprises in Viet Nam (VNS,1999a). Further, as we shall shortly see, political interference in corporate affairs also acts as a handicap to the General Director’s management decisions.

Chart 3: Organizational Structure of SOEs in Viet Nam

3.2 The Counter Reforms, Quasi-subsidies, and SOE Performance

It has probably been relatively easier to introduce market-oriented reforms in Viet Nam because it had never really consolidated central planning, although it largely followed the Soviet economic system. For example, as opposed to 20,000 commodities under mandatory planning in Russia and 500 in pre-reform PRC, in Viet Nam the number was only 100, which decreased dramatically to as low as eight in 1987 (Ryan and Wandel, 1996). However, in spite of the reforms in SOE governance structure, which initially appear to have favorably impacted on SOE performance, government policies and certain other situations and contexts were tantamount to providing “quasi-subsidies” to state enterprises and have largely

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18 See, for example, Ohno, 1995.
negated the consequences of the reform measures. The following points, for example, are worth highlighting in this regard:

(i) Various financial supports and incentives from the government are provided to SOEs on easy terms and conditions. As a result, half of formal credits goes to these enterprise as well as, indirectly, a large share of the government budget (World Bank, 1998). This can be contrasted with stringent collateral requirements for the private sector, which must come up with collateral to cover 130 percent of the loan, and face strict repayment conditions. There are also discriminations, as below, relating to land use rights and foreign trade transactions in favor of SOEs, which often “force” foreign investors to enter into joint ventures with these favored state enterprises.

(ii) There are injections of huge fresh investments by the government in SOEs, particularly in the northern region, which is evidenced by the fact that even after reforms, this sector has continued to remain dominant, accounting for 42 percent of Viet Nam’s GDP and nearly two-thirds of its industrial output\(^\text{19}\). Another factor that hampers rational investment decisions is frequent cross-subsidies of constituent firms. Moreover, diagnostic audits of SOEs by independent auditors, which can monitor changes in their bank credit, external debt, and budgetary support are currently absent in Viet Nam\(^\text{20}\).

(iii) Not only is there fresh injection of funds, many ad-hoc measures, such as temporary import bans, special borrowing facilities even for loss-making SOEs, write-off of overdue loans to state-owned commercial banks, have also been introduced to support SOEs from time to time. This has resulted in the growth of substantial “quasi-subsidies,” which create a moral hazard problem in that SOEs receive a critical lifeline by virtue of the nexus with government, party officials, and the banking system. Under such circumstances, hardly any firm has been forced to undergo bankruptcy\(^\text{21}\), since the re-registration requirement of 1991.

(iv) Allocation of business finance is still made to individual companies even though they have been grouped under corporations. Financial control remains cumbersome as three different agencies are entitled to control assets of a single business: the ministry which owns the business; the management board of the business; and the Finance Ministry.

(v) There is no competition policy in Viet Nam. Monopoly power is enjoyed by SOEs in many industries where private sector entry is prohibited. These enterprises are also much more concentrated in highly protected non-traded and import-substituting activities (World Bank, 1995). Moreover, since the state is both the owner and regulator of SOEs, this adversely affects their governance system.

(vi) Many SOEs suffer from labor redundancy; in some firms workers only work 15 days a month (AFP, 1999).

(vii) Political interference in corporate management reduces autonomy of production decisions. It is an open secret, for example, that the General Director of an SOE and

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\(^{19}\) These figures vary depending on whether foreign invested sector is lumped with SOEs or not.

\(^{20}\) Officially, so far the government budget has been kept a state secret in Viet Nam. The budget was published for the first time on 10 June 1999, but defense spending has remained a secret.

\(^{21}\) Only one company, namely Tamexco—the commercial arm of the Communist Party of Tan Binh District in Ho Chi Minh city—which was at the center of Viet Nam’s biggest corruption trial, has been declared bankrupt effective May 1, 1999.
the Secretary of the Communist Party have almost equal ground in an enterprise, and that the former is often constrained to follow Party orientations.

It is no wonder, therefore, that even after reforms and the liquidation/mergers of thousands of loss-making SOEs, three-fifths of the currently existing state enterprises are still incurring huge losses (Mitsui, 1997). And their total debt is estimated to exceed the fixed assets of the enterprises by one-and-a-half times. There are allegations that managerial autonomy without adequate accountability, particularly at the earlier stages, allowed managers and workers to embezzle SOE profits.

Such a sorry state can be sharply contrasted with the stellar performance of the post-reform overall economy as shown by Figures 1 through 3. Thus, real GDP grew by 6-7 percent per capita between 1990 and 1997, being led by very dynamic export growth. There also occurred structural changes in the economy, with the share of industry exceeding that of agriculture by 1994. At the same time, inflation fell because of tight monetary policy, positive real interest rates and a decline in state budgetary deficit.

![Figure 1. Real GDP and Sectoral Growth Rates](image)

Source: See Appendix table 1.

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22 According to a more recent report, 30% of SOEs are losing money (AFP, 1999).
23 Thus making them vulnerable to financial insolvency.
24 Along with growth, the percentage of households below the poverty line (that would have just allowed them enough for their food and other basic needs) fell from above 50 percent to less than one-third during the same time period.
25 Facilitated by FDI inflows, setting up of export processing zones, and private sector participation due to significant relaxation of the state trading system. Banking reforms also helped: the previous monobank was dismantled and replaced by a two-tier banking system, which separated the functions of the central bank from the commercial banks. Other positive factors in this regard have been some reforms in foreign currency regulation and exchange rate management.
It is clear, therefore, that the economic scene in the 1990s improved significantly not because of, but in spite of, the SOEs. Reformed SOEs may be better than unreformed ones.

The economy was driven essentially by export growth (representing two-fifths of GDP), and growth in investment (representing more than a quarter of GDP). SOEs’ share in the economy increased from just above 32% in 1990 to around 40% by 1998 and continued to be dominant because of the huge increase in fresh investments in the sector. The share of non-state sector declined over the same period (see section 6), partly reflecting the relative decline in agriculture in the economy (from above 40% to less than 24%; see GSO, 1995 and 1998a), where the state has a minimum stake (less than 3%). But probably caused more importantly by disparately low share of investible funds and the distorted incentive structure against the private sector. However, we do not have detailed statistics to examine or substantiate this.
But this is not good enough. And, as a matter of general principle, unless corrective measures can be urgently taken to further improve the SOE governance system, there is no economic rationale to rely on them even as a transitional institutional arrangement for running the industrial sector: although it should still be viewed as an essential component of the privatization process.

4. The Privatization (Ownership Transfer) Program in Viet Nam: The Reality Check

If reformed SOEs are not good enough, the alternative should obviously be their orderly privatization through primarily ownership transfers. It is, of course, not argued here that privatization can be used like a magic wand and is beneficial for all sectors, at all times, and for all countries under different circumstances. In theory also, whether ownership is retained by the government or not is irrelevant from the productivity point of view because whatever the private sector can do for effective corporate management can be mimicked by public sector firms (Fama, 1988; Hart, 1983). But in reality, if a government is inept, corrupt and not benevolent or contracts are incomplete, publicly owned firms will perform poorer (Sappington and Stiglitz, 1987). This occurs, so the argument goes, essentially due to the agency problem, as government is only an abstract owner and as a result there is often no effective monitoring and control of such enterprises, which can encourage insider control on the one hand. On the other hand, there are no positive incentives for managers and workers as they may not be entitled to the benefits of improved performance of state enterprises. Moreover, note that even if the government is otherwise efficient, its limited material and administrative resources may still be over-stretched in being involved in SOEs in a poor country like Viet Nam. These all explain why ownership transfers or privatization may assume great significance in practical terms.

Since Viet Nam is determined to retain its socialist orientation—notwithstanding its avowed aim to achieve a “multisector economy in accordance with the market”—privatization and private sector growth are still considered as very sensitive issues. That is at least one fundamental reason why they do not use the term privatization, even though 100 percent divestment is now allowed in certain cases. The euphemism in Viet Nam is in fact equitization, which basically means turning SOEs into shareholding companies by sale of shares.

4.1 Equitization Program

A chronological description of the progress with equitization in Viet Nam, along with some basic features of the program follows:

(i) The decision in favor of pilot equitization was first initiated in 1990, but actual implementation began in 1993 following government Decision 202-CT of June

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27 Although other forms of privatization, such as subcontracting public service to a private party, management contract, lease of SOEs (or transfer of control), build own and transfer (BOT) projects, etc. are also sometimes popular.

28 Multisector refers in this context to a mixture of enterprises owned by state, joint-stock companies, private companies, and individual enterprises.
Initially, the progress was extremely slow as only 5 businesses had been equitized by May 1996. Since then, however, there has been some notable improvement and by April 1999, the number of equitized enterprises had risen to 160\(^{30}\). There is a current plan for faster equitization: announced targets for 1999 and year 2000 respectively being 400 and 1,000 SOEs. However, although the slated enterprises overwhelmingly appear to be the smaller sized firms, there are still doubters on privatization who would prefer a slow-down. They cite the disastrous “big bang” Russian experience on the one hand and the importance of state-owned companies at the early stages of growth in Korea and Taipei, China on the other. Moreover, another argument which is offered against speeding up the pace of privatization is that if the “crown jewels” are sold off too rapidly, only foreigners would be able to afford to buy them.

(ii) The country has restricted guidelines for equitization: to qualify, firms should be small or medium sized, must be profitable or potentially profitable, and should not have any strategic importance. Apparently, therefore, Viet Nam is following the two-stage privatization approach, i.e., smaller SOEs first to be followed later by larger SOEs, although the policy direction is not yet entirely clear\(^{31}\).

(iii) Four forms of equitization or combinations thereof are allowed. They are equitization through: (a) capital increase to attract additional funds for the development of an enterprise; (b) sale of part of the state shares in an enterprise; (c) detachment and equitization of part of an enterprise which meets the conditions for equitization; and (d) since June 1998, the sale of the entire available share capital owned by the state in the enterprise in order to turn it into a joint stock company.

(iv) Decree 44 of June 1998 also puts an end to the experimental period as well as voluntary aspect of self-privatization, including “spontaneous privatization”\(^{32}\), which through a lack of transparency of transactions in many Eastern European countries led to inequitable insider arrangements and other corrupt practices.

(v) Moreover, along with a procedure for outright sale of enterprises, provision has also been made recently to write-off some “irretrievable” debts owed to the state by insolvent SOEs that have been targeted for privatization.

To sum up, despite some arguments to the contrary in certain policy circles, sustained attempts have been made over the past few years to streamline and expedite the privatization process in Viet Nam. Not only an increasing number of enterprises have been targeted for equitization, some new provisions have also been added which allow outright sale of SOEs, put an end to the voluntary aspect of self-privatization, and provide special incentives to

\(^{29}\) Which also provided for formation of enterprise groups or general corporations/state corporations since 1995, as discussed in section 3.

\(^{30}\) Of which 140 SOEs have state capital value under VND 10 billion. According to a more recent estimate, the number of equitized firms had gone above 190 as of June 1999. Another survey on 14 equitized enterprises shows that the number of employees before equitization exceeded 300 in only three enterprises (MPDF, 1998).

\(^{31}\) According to a recent report, Viet Nam is submitting a draft law to the government for sale of smaller enterprises in which the government has less than a one-billion VND investment. Some 1,500 SOEs are likely to be affected by such a decree (AP, 1999). Note that some East European and FSU transition countries also have separate laws providing for different procedures for smaller as opposed to larger SOEs.

\(^{32}\) In spontaneous privatization, the initiative is taken by the management and employees of the enterprise. The idea is that this approach will provide incentive to enterprises to privatize as they themselves would be able to take the initiatives.
insolvent enterprises slated for privatization. Further, a decision has been recently taken to continue revising and supplementing institutions in equitization to better address relations regarding benefits, and boost SOEs’ appeal to shareholders (VNA, 1999).

4.2 The Reality Check

In spite of the various measures adopted to speed up equitization, several stumbling blocks remain in the way, including:

(i) There is a clear lack of adequate technical expertise and finance, which is compounded by the absence of proper documents describing the valuation process of the enterprises, pricing/bidding mechanisms, and requirements for public disclosure and reporting of equitized enterprises. Since there is no compulsory external auditing of SOEs, prospective shareholders do not have access to reliable, independent information on the financial condition of enterprises;

(ii) A large number of ministries/agencies are involved in the equitization process. Moreover, policies and procedures for equitization are not often clearly spelled out which cause inconsistencies and delay. For example, there is considerable confusion regarding which industries are to be treated as “strategic”, so as to remain outside the operation of the privatization process.

(iii) There are restrictions on equitization both in regard to entry to several industries and also the kind of stake the private sector can hold. Entry barriers, for example, have been set up in such sectors as local and international telecommunications networks, toxic chemicals, etc., while the government retains a majority stake (i.e. special share) in companies involved in some other important activities (e.g. fertilizers, chemicals and pharmaceuticals). (See Appendix B for details.)

(iv) There are also caps on private sector holdings of shares. No individual is allowed to own more than 5 percent and no institution more than 10 percent of all shares of enterprises where the state holds controlling shares. The respective share limits, however, are double in minority government-owned enterprises.

(v) The incentive structure is distorted against privatized SOEs. Although decrees in 1996 and 1998 allow SOEs to retain some existing privileges even after equitization (e.g., enterprise incentives in the form of borrowing rights from commercial banks at favorable interest rate and employee incentives, including entitlement to purchase some specified shares on credit), the perceived risks in the form of foregone benefits (e.g., due to discriminatory land, credit and trade policies, besides some assured perks) still appear higher for the stakeholders;

(vi) The state retains a sizeable stake in most companies and the mixed ownership pattern dominates the governance structure of equitized enterprises. The multiple ownership of shares is usually at a ratio of 40-50 percent for employees, 30-40 percent for the state, and about 20 percent for outside buyers, including other SOEs. Experience has shown that with the divergent interests of the state, insiders, and outsiders, it remains unlikely that there will emerge coherent, influential coalitions across these groups which can oblige managers to act in the best interests of the owners of capital. This absence of unitary control rights within firms is likely to allow the emergence of both
“milking” and “voracity” effects, which adversely affect efficiency enhancing investments.

(vii) Local people’s committees still have some say in management affairs of equitized enterprises, which make rational investment decisions very difficult.

(viii) Finally, the weakness or absence of appropriate market-supporting institutions, which will be detailed in the next section, put the privatized enterprises at a disadvantage vis-à-vis the SOEs.

To sum up, the pace of privatization in Viet Nam is constrained both by technical and policy related problems. On the one hand, the involvement of a large number of ministries/agencies without adequate resources at their command, the absence of independent external auditing and inadequate disclosure, all discourage prospective private shareholders by making the equitization process non-transparent, cumbersome and risky. On the other hand, government policies favoring multiple ownership of equitized enterprises, entry barriers for private sector in several industries and caps on shareholdings have distorted the incentive structure against privatization per se.

These factors easily explain why privatization has been slow in Viet Nam and how the enterprises selected so far have been the smaller entities. Even then it is interesting to note that the post-privatization performance, based on survey data of 14 equitized firms, appears to be satisfactory in terms of profitability as well as growth in revenues, and contributions to the state budget (MPDF, 1998). Obviously, efficiency of such firms could be further improved by overcoming such technical problems as inadequacy of working capital, absence of investment capital financing, cumbersome customs procedures for imported goods, etc. (Perkins, 1999). But a major question in this respect is still posed by the following institutional core-constraints, which appear intractable at times and act as a serious brake on the reform process itself.

5. Institutional Foundations: Weakened Incentives for Privatization?

Over the nineties, there has been some commendable progress in several areas of the institutional framework in Viet Nam. However, the foundations for privatization still remain quite fragile relating to such important aspects as (i) property rights, (ii) legal framework, (iii) industrial regulatory measures, (iv) capital market development, (v) the privatization process, per se, and (vi) social safety nets.

(i) Property Rights:

34 The milking effect occurs when various stakeholders, with divided control over a firm (and acting non-cooperatively), try to maximize their respective share of returns. This will not necessarily mean that they will try to appropriate the entire capital stock at once and drive it to zero, because the firm may have a higher rate of return as compared to other alternatives, and there are also break-up costs. Hence, the appropriation will occur at inefficiently high rates, although aggregate capital may still grow, albeit at an inefficiently low rate. The voracity effect occurs when there is an increase in the physical return to capital but it does not induce more investment and higher growth rate because at the same time there occurs an increase in the equilibrium appropriation rate, which means that the rate of return faced by each agent after appropriation by others remains unchanged (Tornell and Lane, 1999).
In Viet Nam, the right to own private property is now officially recognized, and there are a number of statutes and decree-laws which are meant to protect the possession, use, and transfer of private property. In practical terms, however, such rights are very restricted. For example, land can be assigned to individuals on long leases according to the 1992 Constitution and land-use rights are made transferable (to usufruct but not to dispose); but the Land Law of 1993 reiterates the principle of the indivisibility of state ownership of land. Another decree in 1995 transformed all land-use rights on commercial properties into land lease or rentals only, including the ones which were previously assigned for long-term use. There is also discriminatory treatment in this regard between the private sector and SOEs. While the latter receive long-term use rights from the government to large areas of land in prime locations, the former face severe constraints in respect of whatever they are granted in the course of transfer, exchange, lease, inheritance and mortgage.

Similarly, while there is provision for the protection of share-ownership rights by the state in accordance with law, various kinds of restrictions remain on the extent of private share holdings, in addition to confusion on the role of different groups of owners on enterprise management decisions. Furthermore, there is provision for expropriation of such protected intellectual property if it is considered to be in the country’s “vital interests,” although current law provides for the rights to possession, use, and transfer over intellectual property. Finally, there is also resistance to private business from local authorities, who continue to interfere in equitized enterprises.

Overall, therefore, property rights are not yet well established in Viet Nam. Without secure property rights in the absence of an adequate legal basis, property transactions become uncertain. This means that there is no incentive for the private sector to generate any dynamic growth by reallocating resources to their highest valued use. It is, therefore, necessary in most transition economies first to create the rights in the form of a contract-related law for transfer of property rights, i.e. a law of contract, and a right infringement-related law for protection of property rights, i.e. a law of torts.

(ii) Legal Framework:

The critical importance of a well-designed legal system for a market economy has recently been underlined by some major ADB studies (ADB, 1998 and 1999b). To build it up, the government machinery—which includes the executive, legislative and judiciary branches—has a pivotal role to play both in setting up the relevant framework and institutions, and also in enforcing the laws to support private sector development. First, the government has to begin with constitutional provisions which, among other things, establish ownership rights, titling procedures, arrangements for the transfer of property, and the rights and processes of succession. On this foundation, a system of civil and commercial law should then be developed that specifies what types of companies and partnerships can be established, organized and governed, what rights are held by shareholders and others, and what types of

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35 Five distinct forms of property are currently recognized: state property, collective property, private (including joint ventures), individual property, and family property.

36 This is in sharp contrast to developed market economies, where ownership rights are well established and smoothly functioning, and so such rights can be simply transferred to the private sector through a privatization program.
assets and liabilities they may have (Rana and Hamid, 1995)\textsuperscript{37}. Finally, the executive and the judiciary must ensure that the rule of law prevails.

In developed market economies, there are sophisticated corporate laws and regulations to ensure that those in charge of corporate businesses act responsibly to run enterprises in the best interests of all relevant stakeholders. If managers and their enterprises are inefficient, competitive product markets will threaten their existence and financial markets act as a conduit for mass “exit” by providers of corporate capital. In sharp contrast, in a developing country with low GDP/capita, quality of the legal environment both in terms of legal systems and more importantly, enforcement mechanisms, is found to be poor (La Porta et. al. 1998)\textsuperscript{38}. This also implies, ceteris paribus, that firms in these economies face high transaction costs.

In Viet Nam, it is worth recalling, that a fairly comprehensive body of laws have already been formulated (Bentley, 1999). These include: (i) the Civil Code 1996 which is the cornerstone of the country’s legal system; (ii) Commercial Code 1997 which aims at providing a comprehensive legal framework for commercial activity; (iii) Law on Foreign Investment, with a view to protecting the legal status of foreign companies by means of guarantees of repatriation of profits and capital and against nationalization; (iv) Law on Companies 1990, which provides the basis for establishment of both limited liability company and shareholding company; (v) Law on Private Business 1991, which allowed the private sector to be formally involved in business activities for the first time in many years; (vi) Law on Enterprise Bankruptcy 1994, according to which an enterprise can be declared bankrupt in case of significant losses due to inappropriate management, and inability to repay debts when due; both debtors and creditors can initiate proceedings in this regard; (vii) Land Law 1993, provides details on the hierarchy of ownership and rights to inherit, use and transfer; (viii) Law on State Owned Enterprises (LSOE) (1995), which having gone through a process of 15 redrafts, guarantees the legal independent status of SOEs and is aimed at enabling them to operate in accordance with market principles. LSOE separate commercial/profit-oriented or state business enterprises (which are to operate on a profit basis and without subsidies) from those engaged in public services and defense/security activities (which are eligible for subsidies).

The above is indeed an impressive list. However, several general problems remain with this legal framework. First, the laws often suffer from inadequately drafted provisions, and in this respect remain incomplete and confusing (e.g. the land law, as already seen). Second, they have evolved separately (e.g., company law and the private enterprise law\textsuperscript{39}) and therefore, there is a lack of coherence among the various laws. It is quite possible that even when enterprises are engaged in similar activities, they are treated under different rules. This warrants the issuance of other legal decrees and decisions, which may even be contradictory to each other, giving rise to the problem of what is known as “law dropping”. For example, at present there are more than a hundred legal documents issued by various government agencies, which have important bearings on SOE operations (MPI and JICA, 1998). This, coupled with the fact that the right of enacting laws and by-laws is distributed at several

\textsuperscript{37} Moreover, labor and social security laws are necessary to establish employers’ and workers’ rights and responsibilities.

\textsuperscript{38} Also see Khan (ADB Institute Working Paper 3, 1999) for confirmation of this point in relation to the corporate governance of family businesses in Asia.

\textsuperscript{39} In May 1999, the Viet Nam National Assembly adopted a new Business Law—to be effective from January 2000—which merges, amends, and supplements the Company Law and the Private Enterprise Law.
agency levels and each agency issues multi-layered legal documents\(^{40}\), makes the legal environment very complex. Third, as earlier pointed out, there are also restrictive provisions in some laws, as in the case of FDI which virtually forces foreign collaboration with the SOEs\(^{41}\). Fourth, some relevant laws are still to be enacted in Viet Nam, like an anti-monopoly law to ensure market competition.

Another serious problem is that, despite formal institutions, the legal environment and culture continues to be unstructured and informal. Laws exist on the books but enforcement of laws is extremely weak\(^{42}\), resulting in what is known as “law nihilism”\(^{43}\). Although the notion of “due process of law” can be seen reflected in both substantive and procedural laws, in practice, few people believe in due process. As there are few lawyers, the trial procedures are rudimentary, the judiciary is relatively undeveloped and also not independent of the Communist Party. As a result, investors and private sector often avoid bringing their litigation to courts and prefer to settle their disputes among themselves or with the help of the district People’s Committee, regarded as more effective than courts (Thuyet, 1995). On the whole, therefore, it can be safely asserted that the legal framework in Vietnam has not yet been sufficiently developed. Consequently, the inadequacies and complexities in the system cause increased transaction costs, and hence pose disincentives against the healthy growth of private sector business.

(iii) **Industrial Regulatory Measures:**
In Viet Nam, there is a myriad of administrative regulations which affect investors at all phases of business operations. Such measures usually cover a broad spectrum of activities in the realm of entry of new firms, their location, policies on monopolies, approval to raise capital and issue prospectuses, technology acquisition, etc. Not only is the regulatory regime and its procedures cumbersome, the involvement of different ministries, agencies, directorates, and often the police department renders the economic environment difficult, if not overtly hostile, particularly for private enterprises. While the approval procedures for projects wholly supported by Vietnamese is time consuming and needs security clearances before registration preceding project evaluation, SOEs usually face much less regulatory impediments. Another related problem is that the regulatory measures are changed frequently, and often expressed in highly ambiguous terms. Again, all these drawbacks result in increased transaction costs for private sector businesses.

(iv) **Stock Market Development:**
Capital markets facilitate transfer of shares, help raise investible funds and can improve corporate governance by supplying relevant economic information to stakeholders and, at the same time, by restraining corporate enterprise managers and shareholders on the other\(^{44}\). In

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\(^{40}\) For example, the National Assembly deals with the Constitution, Codes, Laws, and Resolutions; the Standing Committee of the National Assembly deals with Resolutions, Statutes, and Ordinances; the President of the State issues Orders, and Decisions; the Prime Minister issues Directives, and Decisions; and the Office of the Government makes Announcements, and issues Notices.

\(^{41}\) For further details on FDI, see next section.

\(^{42}\) For example, fewer than 40% of court rulings in 1993 and 1994 were actually enforced (World Bank, 1996).

\(^{43}\) I.e., laws do exist but are not observed.

\(^{44}\) Capital markets, however, cannot be effective in the absence of a well-functioning banking system (because of shortage of working capital, trading and underwriting facilities, etc.) and well-defined property rights, both of which are relatively weak in Viet Nam.
Viet Nam, the idea of a stock market was mooted back in 1991 but it has been postponed repeatedly. One problem is the shortage of the number of qualified firms eligible for listing by meeting the criterion of showing two consecutive years of profit. Only four privatized firms currently meet this requirement. Some other impediments for prospective shareholders are that they are not allowed to transfer their shares during the first three to five years after a company’s equitization, and that there are caps on foreign shareholdings in listed companies.\textsuperscript{45}

(v) Privatization process:
We basically address two issues here: (a) transparency in privatization deals, and (b) pre-privatization restructuring of firms.

(a) Transparency means providing all investors with equal access to information during the privatization process. The extent of information disclosure, however, varies depending on which privatization methods are in use. For example, auctions are open and involve selling to the highest bidder, in public. They, therefore, appear to be more transparent than, say, competitive bidding by tender. Public share offers, with extensive disclosure documents, are similarly considered very transparent, and have been widely used in the United Kingdom’s privatization program, and more recently in some of the larger transactions, such as the sale of minority stakes in Korea’s electric power company (KEPCO), Mexico’s telecommunication company (Telmex), and Brazil’s Usiminas steel company. However, since privatization is a complex exercise, for which careful planning and preparation is necessary, it can be a very challenging task particularly in countries with weak legal and bureaucratic institutions and traditions. Under such circumstances, it may not always be easy to ensure transparency regarding the sale of shares. Government decisions in the end are also not always guided by transparency considerations alone.\textsuperscript{46} Additionally, they must take into consideration consumers’ and workers’ best interests as well. Similarly, government has to aim at avoiding the creation of “phony owners”, and hence, the highest bidder may sometimes have to be legitimately disqualified if he appears to be rather inexperienced and suspect. Likewise, reliable methods such as public share offer may not be always practically feasible for transition countries in the absence of formal stock exchanges or effective capital market regulations. In such situations, a well-publicized and well-run tender process, based on adequate information and clear evaluation criteria and documented procedures may be the most transparent method.

According to Decree no. 44, the sale of shares in Viet Nam is to be publicly notified and carried out at enterprises to be equitized or through commercial banks, financial companies and stock exchange departments and centers. But other methods are also used as, for example, through negotiations in the case of the Binh An Water Corporation (a 100 percent foreign-owned BOT company), or through competitive bidding as in the case of Phu My 2.2 power plant (a part of the Phu My gas complex in southern Viet Nam). However, the

\textsuperscript{45} According to the Prime Minister’s decision in 1999, total foreign shareholdings in listed firms will be capped at 20%, with individual foreign organization’s share being limited to 7% and single foreign investor’s to 3% of the available equity.

\textsuperscript{46} Many problems, for example, were created in Mali and Zaire because buyers were chosen without due regard to their ability to run the enterprises or even to meet the purchase price. Chile’s first round of privatization also suffered from similar problems. Greater transparency in such cases may have to be forsaken, in favor of negotiations, in order to avert otherwise unfair or politically-motivated criticisms.
involvement of too many parties, at different levels and localities, with many overlapping functions for finalizing the implementation process for equitization causes the negotiations between buyers and government to be often lengthy and cumbersome.

(b) A pre-privatization restructuring agenda may have several dimensions. For example, it may involve horizontal and vertical break-up of an enterprise, and a new form of governance for the split-up units. Such a decision to “unbundle” an enterprise before privatization may emanate from a desire to avoid the emergence of a private monopoly. Questions of course may arise as to the manner in which such enterprises should be broken up, and also into how many units they should be divided. The answers will vary depending on whether common networks are vital to the industry, such as electricity, gas, water, rail, etc., or not so vital. Usually, it is in the latter case that SOEs should be broken up into as many independent firms as possible (Tornell, 1999). Moreover, note that piecemeal privatization may be the only feasible option in cases involving relatively large, complex and expensive enterprises, which require huge capital investment.

Again, since investors usually shy away from debt-burdened enterprises and labor redundancy, some limited restructuring relating to balance sheet strengthening (e.g., by injecting fresh capital) and organizational changes such as closures, workforce reductions, and transfers of social services may expedite the privatization process. But, on the other hand, attempts at reforming/restructuring enterprises before actual transfers may slow down the privatization process, either because such an exercise is time consuming and has budgetary implications, or as happened in the case of Zambia, it restricts the freedom of the prospective future owners (CIPE online). However, it is also quite possible that instituting necessary structural changes will be very difficult once companies pass over to multiple ownership. In any case, such rehabilitation prior to privatization was favored in the 1970s and 1980s, as for example, in the early privatizations in Chile and with the British privatizations of the Thatcher era.

In Viet Nam, although there is provision for equitization through detachment of a part of an enterprise, no specific guidelines have been formulated for pre-privatization restructuring of firms. Anyway, some care is taken to see that the firms selected for equitization do not suffer from substantial debt burden, significant social facilities, or excessive redundant workers. But so far no major attempt appears to have been made with a view to providing sufficient incentives to prospective private sector buyers.

(vi) Social Safety Nets:
Privatization not only introduces market competition but it has distributional effects as well. On the one hand, it may be likened to a pro-poor intervention as it is expected to raise efficiency, increase employment and remuneration packages of workers. On the other hand, large-scale retrenchment of workers can occur, which will cause social tension and antipathy.

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47 From the purely fiscal point of view, restructuring may be considered desirable by the government if the current sales value of the restructured firm—less the current cost of restructuring it—is greater than the current sales value of the un-restructured firm.

48 One obvious reason which can be cited to explain this is that until now most equitized firms have belonged to light industry and services sector. The enterprises which have been selected for privatization for the next two years are also dominated by relatively smaller establishments. In future, however, restructuring and recapitalization may be required for equitization of heavy industries which now receive heavy protection.
to the program unless accompanied by adequate social safety nets or if not absorbed by the vigorously growing private and other non-state enterprises. The safety nets should include short-term job creation measures along with other social schemes and early retirement/redundancy/unemployment benefit programs. Retention of public employees for a given period in the privatized enterprises is also another option. In the medium-term, training and retraining schemes should be so devised as to help the redundant labor force be re-engaged in small businesses of their own, for which other promotional measures will also be necessary. The longer run policies should include a social security system and other regional development schemes to address local problems.

Obviously, effectiveness of the social safety nets will significantly depend on the availability of adequate resources for the implementation of the various schemes. Usually, developing/transitional economies find it difficult to transfer funds from other expenditure heads of the government budget to meet social needs. One way of addressing this issue, therefore, may be to siphon off a part or whole of the sale proceeds received from the privatized enterprises for social sector programs, as was done, for example, in the case of the Solidarity Pact in Mexico. This, however, will be possible only if there is minimal or no need to use privatization to solve fiscal imbalances. As an alternative measure, in a number of transition countries, a strong social component was introduced by distribution of shares to all adults under mass privatization programs (Leiberman, et. al., 1997). Additionally, donor assistance has also proved useful in devising meaningful social programs in many developing economies.

In Viet Nam, substantial downsizing of the workforce may be necessary to raise the competitive efficiency of SOEs because they are currently estimated to be overstaffed by a factor of 20-30 percent. However, it has been stipulated by Decree no. 44 that the equitized enterprises have to arrange jobs for all workers of the old enterprises. And, if anyone becomes redundant due to equitization (e.g., due to restructuring), he/she will be entitled to allowances or re-training/training for new jobs with funding taken from money collected from selling shares (after spending a part on all requirements arising during the process of equitization). However, not surprisingly, funds for compensation and retraining of retrenched labor are considered inadequate because of competing budgetary demands.

In sum, in spite of the improvements over time, private property rights are yet to be clearly defined in Viet Nam, the legal framework suffers from many anomalies, and the judicial system remains weak, which mean laws cannot often be enforced. Other problems relate to the cumbersome industrial regulatory regime, the absence of stock market, use at times of arbitrary privatization methods, no effective pre-privatization restructuring of firms, and lack of any effective social safety nets. In other words, the incentive structure in the overall institutional framework in the country is such that it works both against privatization and more generally, against the growth of a vibrant private sector.

Traditionally, family ties and social values have acted as important mitigating factors in such crisis situations. But their importance is gradually waning with the passage of time.

Under this arrangement, used by many transition countries, including Russia, Mongolia, Kazakhstan and the Czech Republic, vouchers/coupons are distributed amongst all eligible adults, who can then use them to bid for shares in joint-stock companies.

Part of sale proceeds should also go to add more capital to the equitized enterprise in accordance with approved formula.

Recently, a number of donors, notably Sweden and the World Bank, have offered to finance the costs of a well-designed social safety net.
6. Private Sector Growth: Bypassing or Facilitating Privatization?

Given that SOE reforms may not be effective as a transition mechanism, and privatization may be either difficult to implement or lead to more serious problems because of institutional constraints, the burning question is: is there any way out? According to some, the key challenge in this regard may be to allow the private sector to flourish, which may be a precondition for, and even more important than, ownership transfers (Haggard, 1996).

In Vietnam, in spite of the many policy reforms, the economic environment, as already noted, still remains significantly biased against the private sector vis-à-vis the SOEs, which is manifested in discriminatory incentive structure of both financial and institutional nature. Consequently, although some regional variation can be noticed between the north and the south, Vietnam's overall global and regional rankings in regard to policy towards private enterprise and competition turn out to be very poor: the figures respectively being 49 (out of 60) and 13 (out of 16) for as recent a period as 1994-1998 (Dow Jones, 1998). This poor showing can at least partly be explained by the ideological struggle that is still going on within the nation's communist leadership. On the one hand, there is a reformist “government bloc”, which argues for separation between the government and the party and puts greater emphasis on the role of the private sector in economic activities. According to this bloc, the country has “no choice but to continue on the path to reform”. At the other end of the spectrum there is a more conservative “party bloc”, which is weary of the negative effects of reforms such as, official-level corruption, cross-border smuggling, counterfeit money, producing and selling fake goods, illegal forestry, and drug trafficking. Such criminal activities have gone up markedly in Vietnam as the existing legal and judicial systems, the police force, customs and border officials find it difficult to cope with the increasingly sophisticated corruption practices in a liberalized economic environment. These have generated bitter complaints from the conservative quarter about “hostile forces” trying to “ideologically sabotage” the state. Under such circumstances, direct support and incentives for private sector development may not be an easy option. In fact, because of negative incentives, there has already occurred a decline in the share of the non-state sector in industrial production from above 32 percent in 1990 to 22 percent in 1998.

One has, therefore, to look for alternative and more innovative means to break the deadlock. Broadly speaking, the following four possibilities can be explored: (i) promoting township and village enterprise-type small and medium firms (TVEs), and similar other entities; (ii) privatization of small SOEs; (iii) encouraging the foreign-invested sector by providing it with better incentives; and (iv) liberalizing the foreign trade so as to infuse greater competition in the economy. These elements are expected to force the large SOEs either to privatize or run on commercial principles or simply go bankrupt.

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53 For historical reasons, the southern region is more open and market-oriented as compared to the north.
54 The nature of corruption appears to have become more sophisticated and organized in recent years. Particularly disturbing has been wide-scale illegal environmental destruction and increasingly complicated drug cases involving major criminal syndicates. For example, more than 8,000 drug trafficking cases have been dealt with by the courts in 1999 alone (VNS, online 1999b).
55 See Table 1.
56 Unless, of course, the government is determined to keep them alive at any cost.
(i) Promoting TVEs:
These enterprises have one big advantage in that they need local government patronization—
not necessarily local government ownership and control—and hence, can help take much
steam out of the ideological debate\(^{57}\). However, in PRC the TVEs grew spontaneously,
facilitated by administrative and financial decentralization on the one hand, which allowed
subnational governments to retain locally generated revenues (Qian, 1999), and on the other
hand, by the surplus for investment that was generated in agriculture in post-reform PRC with
a reversion to household farming from the previous commune system beginning in 1978. In
that sense, they may not be easily replicable, although efforts can still be made to emulate
them insofar as the importance of liberal entry, competition, hard budget constraints, and
appropriate fiscal incentives for local governments are concerned (World Bank, 1996).

Alternatively, or simultaneously, one can think of the potential of the cooperatives,
which can get a boost if sufficient patronage is provided to them in terms of credit, inputs,
and marketing facilities. However, in practical terms, it appears that most non-farm
cooperatives have been allowed to transform themselves into private enterprises since 1989,
and the number of such cooperatives have accordingly declined in Viet Nam from about
50,000 in 1988 to only 6,000 by 1993. Considered against this backdrop, prospects appear to
be brighter for the so-called informal sector as compared to the cooperative enterprises.
Against many odds, there has already developed a tradition of small scale private enterprises
in the country, which, however, often remain “hidden” in the “underground” to avoid
cumber some regulations and the attention of the tax administrators. According to a recent
estimate (World Bank, 1998), about 800,000 household enterprises have sprung up in Viet
Nam in the informal sector which has become very dynamic in terms of creating jobs and
savings, although it still remains a minor component of the economy. For a healthy growth of
this sector, it should be mainstreamed and encouraged, by extending it special credit and
other incentive measures, including a more liberal investment environment.

(ii) Privatization of Small SOEs:
A fast-track approach to privatize the smaller SOEs, as earlier indicated, is important at least
on two counts. First, privatizing a large number of SOEs would have a demonstration effect
in that the government would appear serious about its will in assigning the market a greater
role in running business enterprises. Second, this creates a constituency for institutional and
other economic policy reforms by way of enlarging and strengthening the private sector.
Since small SOEs are politically not very strong, it may also be relatively easier for the
government to privatize these enterprises without meeting any serious resistance from the
various stakeholders, and hence, with minimal social repercussions. Recently, Viet Nam has
been making efforts to speed up the equitization of smaller SOEs based on several years of
accumulated experiences. It is probably time now to infuse further momentum in that
process\(^{58}\).

(iii) Foreign-Invested Sector:
The Foreign Investment Law in Viet Nam was introduced at the end of 1987. Since then it
has been revised several times in 1990, 1992, 1996, and 1998, and the current incentive

\(^{57}\) With local government control, sometimes they are also viewed as a kind of localized socialism, and hence
more acceptable to the conservative groups.

\(^{58}\) See note 31 about an announced draft law in this regard in Viet Nam.
package for FDI, including guarantees against nationalization and guarantee for repatriation of capital and profits, appears comparable to other Asian countries. This has already resulted in an impressive inflow of FDI, with total commitments having peaked in 1996 at US$8.7 billion (i.e., more than one-third of total investment of the country). Consequently, the contribution of the foreign-invested sector in industrial production rose above 30 percent in 1998 from a negligible amount in the early nineties.\(^59\)

The performance could possibly have been better but for the many restrictions placed on the sector. For example, FDI is encouraged only in industries which are labor intensive, export-oriented, and domestic raw material intensive.\(^60\) A second aspect of the issue relates to the specific forms in which FDI participation is permitted, which are joint venture enterprises and contractual business cooperation.\(^61\) There is foreign participation, although on a limited scale, also in fenced Export Processing Zones—with 2 percent of total FDI flows—and in Industrial Parks, with 6 percent of total FDI (Ishii, 1997).\(^62\) Another serious restriction is posed by a provision in the foreign direct investment law, under which foreign share in joint ventures should be 70 percent in foreign exchange while the Vietnamese partners should contribute at most 30 percent of total capital. This combined with the discriminatory land law which favors SOEs (which enjoy exclusive entitlement to land use rights and also have significant political clout), virtually forces the foreign investors to collaborate with these enterprises,\(^63\) who make their part of the contributions typically by provision of land. One major adverse fallout of this restrictive device is the overstatement of the costs by foreign partners, most of which they provide in any case in the form of debt, not equity. The anecdotal information is that such overstatement is typically between 30 to 50 percent of stated investments in industries (HIID, 1997, p.10).\(^64\) Moreover, the present law does not cover all aspects of legal framework for FDI and the procedure for processing foreign investment proposals also remains too complicated, with involvement of multiple agencies both at the central and local government levels. A further discouraging feature of the FDI regime is that profits must go proportionately (i.e., proportionate to share ownership) to SOE partners, although the latter’s contribution to the collaborative enterprise is often very passive. Again, there are specific problems relating to repatriation of capital and profit remittances as the law does not explicitly guarantee the conversion of the Vietnamese currency.\(^65\) Additionally, the SOE partners and foreign participants in joint ventures are...
forced to take major decisions on a consensual basis in spite of their highly disparate equity shares. A new complication has been added in 1998 by a provision in the labor decree that requires all foreign businesses to hire workers through state agencies only.

As a result, in spite of some earlier successes achieved particularly in the services sector (e.g., hotels) and light consumer industries, the initial optimism of foreign investors appears recently to have been replaced by pessimism and withdrawal. According to one estimate, perhaps as many as 45,000 of the 60,000 expatriates once based in Hanoi have already gone back home (Evans, 1999). Total FDI commitment accordingly has since significantly declined: affected and aggravated by the Asian crisis, fall in demand for tourism-related services, and a decline in property prices, where considerable foreign investments had been made.

To counter the situation, in 1998, the government introduced some incentive schemes, including tax incentives, export incentives, duty free imports, and foreign currency assistance to attract capital from abroad. Restrictions on ownership and domestic sales were also eased. According to a decision signed by the Prime Minister, foreign individuals and institutional investors are allowed as from July 1999 to buy a maximum stake of 30 percent in an equitized SOE. The decision also permits foreign shareholders’ participation in the management of the company, the use of their shares as collateral for bank loans, and all other entitlements to the benefits offered to Vietnamese shareholders.

Some other steps were announced earlier in March 1999 to gradually lower a variety of business costs of foreign firms. One measure, for example, is expected to enable foreign firms to denominate wages for local staff in dong, from July 1, 1999 in place of the current system of denoting them in U.S. dollars. These are all positive developments, although shortcomings remain, as we have seen, in some restrictive provisions of the foreign investment law and foreign exchange regulations. All the same, ultimately, the true test of the various reform measures will lie in their actual implementation, without which it will not be possible to enhance the country’s ability to compete for attracting foreign capital (ADB, 1999a).

(iv) Foreign Trade Liberalization:
Trade liberalization exposes domestic industries to international competition and forces them to improve their efficiency level or to go out of business. Viet Nam has already significantly opened up its economy, which is evidenced by the fact that its trade (export + import) – GDP ratio has risen from only 12 in 1986 to 83 in 1997. This has been brought about mainly by major changes in the foreign trade regime, including exchange rate policy, decentralization of

Moreover, since Viet Nam is concerned to protect its foreign currency reserves, foreign investors are required to “balance” their foreign exchange (that is, to have surplus of foreign currency receipts over expenditure) before they are allowed to repatriate profits (Lovell White Durant, online).

66 Although actual disbursements from past commitments have increased (see Table 1). However, fresh commitments in 1997 were half of the 1996 level. In 1998, commitments were 60% lower than in 1997. Note that FDI investment usually amounted to around 40% of commitments.

67 Previously, a maximum of around 20% could be bought by all outside shareholders, including other SOEs. See generally sub-section 4.2. Also see note 45 for caps on foreign shareholdings in listed companies.

68 Foreigners are also allowed to repatriate local dividends or profits abroad after they pay all required taxes (Saigon Times Daily, 1999).

69 But this policy shift will apply only to wholly-owned foreign firms and joint ventures, leaving a question regarding representative offices and branches of foreign banks and law firms.
foreign trade controls, decontrol of export and import prices, and removal of quotas. Viet Nam has also signed a trade agreement with the European Union, and quotas for textiles and garments to the EU markets have been granted to Vietnamese exporters.

Meanwhile, in 1998 the country joined ASEAN and APEC, and is in the process of signing a normal trade relations agreement with the United States. Joining ASEAN also means committing to implement the Common Effective Preferential Tariff Scheme (CEPT) for the realization of the ASEAN Free Trade Area (AFTA). Under CEPT/AFTA scheme, which is based on a reciprocal, product-by-product approach, Viet Nam will have to eliminate all quantitative restrictions on products on which it receives CEPT concessions. CEPT also requires the commitment to harmonize customs, and investment regulations and procedures. Tariff rates for many items should be reduced to the range of 0-5 percent by the year 2006. Similarly under APEC, although commitments and obligations are not binding, it is likely to provide another set of pressures for reform.

These all dictate that the large SOEs, which are now heavily concentrated in import-substituting industries and operate under high protective walls, should drastically readjust their business strategy in order to be able to run profitably. This will urge the authorities to further reform and strengthen the SOEs, which will reduce the compulsion for their privatization (by letting them face true market competition). However, it must be remembered that a fast-track trade liberalization may also entail considerable social cost if, due to mounting fiscal pressure, the government is unable to bail out an increasing number of insolvent firms, and is forced to allow them to go bankrupt.

Be that as it may, from all indications, it appears that Viet Nam is taking preparatory steps to join the rule-based international trade regime under the WTO within the next five years or so. Towards that end, the country, in fact, has reduced its maximum nominal tariff from 200 in 1995 to 60 percent in 1999. The variation and number of rates have also gone down, though the average rate has gone up marginally from 13 to 16 percent over the same period (Institute of Economics, 1999).

Due to the lack of detailed statistical information, it is not possible for us to make any serious forecast about the possible impact that a liberalized trade regime may have on Vietnamese industries. From the country’s industrial structure, as shown in Appendix tables 2 and 3, it appears that, apart from minerals, in total terms there is significant concentration of production in processing industries (mainly foodstuffs and beverages, followed by non-metallic mineral, machinery, wood products, and textiles), when measured by capital size. Most of them are also heavily labor intensive. Similarly, apart from agricultural products and mineral fuels, Vietnamese trade structure is dominated by light-industrial (exports) and intermediate goods (imports), as shown in Table 4.

Since imports are concentrated from the ASEAN region and PRC, there is a possibility of increased competition from those countries after trade liberalization. Looking

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70 Note that the sharp rise in the ratio in 1989 and 1990 occurred due to a steep increase in rice exports and in crude oil. The decline in 1991 is explained by reductions in bilateral assistance from and rapid decrease in trade with the former CMEA (Council for Mutual Economic Assistance) countries.

71 The ready-to-sign bilateral trade agreement with the United States was postponed in 1999, and no specific time frame was made to sign the agreement, although according to the Prime Minister the country’s 79 million people needed to feel the heat of foreign competition.

72 I.e., the standard deviation of tariff rates as a percentage of the mean of those tariff rates.

73 With which it also has large unofficial trade and smuggled imports, which are causing some disruptions particularly to smaller enterprises. This also warrants formalization of such trade.
again at the export destination, we find that since it is dominated by Japan, EU and ASEAN, increased competition from other developing countries exporting similar products to those markets is highly likely. Liberalization of trade with the United States can open up new opportunities for Viet Nam as at present only around three percent of its total exports is directed to that market\textsuperscript{74}. Much, however, will depend on improvements in its productive efficiency, which is currently at a very low level\textsuperscript{75}. It clearly follows that large SOEs will find it difficult to survive in a liberalized environment, unless they can become internationally competitive. The alternative in that case will be increasing reliance on a robust private sector growth, which is better equipped to face new challenges and exploit the latest opportunities. However, the transition scenario may not be as smooth or as simple as depicted here because, unless properly managed, trade liberalization may cause severe disruptions both in terms of output and employment declines, with longer-term implications on the country’s growth prospects.

The donor agencies can, of course, play an important facilitatory role in this regard by providing both financial resources and necessary technical assistance. Presently, a number of key donors, including ADB, World Bank, IMF\textsuperscript{76}, UNDP and the Government of Japan are actively engaged in helping the Vietnamese economy cope with a number of major reform measures, including SOE restructuring, legal framework, and private sector development. In December 1999, ADB approved loans to Viet Nam totalling US$100 million for SOE and corporate governance reforms, including plans for a “one-stop shop” approving foreign investments, as well as a clearing house to identify priorities and formulate an integrated reform program with time-bound targets for the improvement or closure of loss-making enterprises.\textsuperscript{77}

Further efforts may now be needed to address the complex trade sector issues in terms of the basic strategy that should be followed, including the desired pace and sequence of liberalization.

7. Summary and Conclusions

The major findings of this paper can be summarized as set out below:

1. Although direct cash subsidies have been virtually withdrawn, SOE reforms have been accompanied by various other quasi-subsidies, which along with political interference, have caused a majority of these enterprises to remain as inefficient and loss-making entities.

2. Privatization has been slow and targeted basically to the smaller units, partly because the state wants to retain its socialist orientation and draw inspiration from the earlier successes of large industrial conglomerates in countries like Korea and Taipei,China. Moreover, the

\textsuperscript{74} Not shown in the table.
\textsuperscript{75} According to the Global Competitiveness Survey (GCS), 1999 carried out by the World Economic Forum (Davos), Viet Nam’s position was 48\textsuperscript{th} in the competitiveness scale out of a total of 58 countries covered (ADB, 1999c).
\textsuperscript{76} The IMF, however, suspended all its supports and facilities for the last three years because of its concern over unfulfilled reform promises made by the Vietnamese government.
\textsuperscript{77} ADB News Release No. 139/99 – Viet Nam Moves to Reform State-Owned Enterprises (ADB online).
“unleveled playing field” in terms of a distorted incentive structure in favor of the SOEs has not allowed the emergence of a vibrant private sector.

3. The booming foreign-invested sector, which played a crucial role for several years in the post-reform period, is still faced with some restrictive clauses in foreign investment laws and foreign exchange regulations that, combined with the Asian crisis, have recently been discouraging commitments on FDI inflows.

4. Finally, in spite of very impressive legal reforms over the last decade, there exist many anomalies and inconsistencies in the system. A matter of greater concern in this regard is the weakness in the judicial system, which makes enforcement, predictability and rule of law extremely difficult. Such institutional shortcomings, coupled with the political interference that pervades the entire economic decision-making process in the country have adversely affected the pace of privatization and private sector growth in Viet Nam.

Under these circumstances, both short- and long-run measures are needed, particularly in two major directions. The first set of measures should quickly aim at the following:

(i) Early privatization of smaller- to medium-sized SOEs, along with mainstreaming and strengthening all existing private sector enterprises. This is expected to generate competition in the economy and create demand for appropriate, market-oriented institutional reforms.

(ii) Relaxing the regulatory restrictions on foreign investment and changing the overall incentive structure so as to attract increasing FDI inflows. This should be so designed as to encourage foreign participation in new sectors/industries and release it from forced collaboration with SOEs.

(iii) Encouraging the growth of innovative enterprises like the TVEs, which are neither purely state-owned nor purely private entities and therefore, are unlikely to face intractable ideological resistance and instead be able to secure incentives and protection from local government institutions.

(iv) Liberalizing foreign trade in order to create a more competitive environment in the economy in general and for the large SOEs in particular. This should help enhance the efficiency of the private enterprises and also put pressure on large SOEs to undertake further reform and restructuring measures in order that they are truly run on the basis of market principles. In particular, this will call for modernization of corporate governance arrangements of SOEs by changing both: (a) internal incentives, which include managerial autonomy, managerial accountability, proper monitoring, etc., and (b) external incentives, such as product market competition, absence of special treatment relating to taxation, credit, inputs, foreign trade, etc. Reformed SOEs are not considered as a substitute for privatization nor is it intended as a transitional measure unless these enterprises can make a real turn-around. All the same, such efforts can prove very helpful for future privatization by improving the performance of the state enterprises.

The other set of measures should, of course, be more focused on institutional reforms and institution building processes over the long run. This will cover a broad spectrum ranging from legal and judicial systems to industrial regulation and capital market institutions. In this
regard, one major issue that deserves special attention is the distributional effects of SOE reforms, privatization, and trade liberalization measures, which have the potential to cause social antipathy, unrest, and resistance towards such programs, particularly when accompanied by economic disruptions due to large-scale retrenchment of the workforce. It is, therefore, necessary to incorporate social safety-nets, including short-term direct support measures (i.e. redundancy and unemployment benefits), in addition to medium-term skill upgradation and longer-term retraining and redeployment schemes. However, in a developing country like Viet Nam, serious fiscal constraints are unlikely to permit the adoption of comprehensive social safety nets by the government. It is, therefore, only the vigorous growth of non-state enterprises (e.g., TVEs, privatized enterprises and other private entities, together with foreign-invested sector), which can really hope to absorb the surplus labor for a more lasting solution to the problem.

In order to be able to successfully resolve the dilemma relating to privatization that was raised at the beginning of this paper, the identification of further details and specificities of an action program is a basic imperative. That warrants, first, the determination of an appropriate research agenda. At the ADB Institute, it has been decided to make a comparative study of the underlying institutional features of the “big bang” vs. the “gradualist” experiences in PRC and Russia, with a view to drawing relevant policy lessons for Viet Nam and other transition economies. But as is well known, mere policy suggestions are never enough. Hence, the next important step should be to devise an operational strategy—including sequencing of intervention measures in an intertemporal context—so as to be able to implement the chosen policies effectively and in an orderly fashion. However, given Viet Nam’s limitations in terms of expertise and resources in this regard, obviously donor assistance will remain of vital importance for the foreseeable future.
Appendices

Appendix A: Corporatization of SOEs in Viet Nam

The following industries have been corporatized:

- Heavy industries:
  - Electric power
  - Oil and gas
  - Coal
  - Cement
- Plantation industries:
  - Rubber
  - Coffee
- Others:
  - Maritime and air transportation
  - Post and communications
  - Textiles
  - Tobacco
  - Food and food processing
  - Paper
  - National commercial banking

Characteristics of 64 General Corporations under Decision No. 90:
- Incorporated in ministries, branches or provinces, under the decision of line ministries and provincial People’s Committees
- Administered by line ministries and People’s Committees
- Having legal capital of VND 500 billion and at least 5 member SOEs

Characteristics of 18 General Corporations under Decision No. 91:
- Established in a number of key industries
- Administered by Central Government
- Having legal capital of VND 1,000 billion and at least 7 member SOEs
- Having in their organizational structure a financial company as one of the members.

18 General Corporations under Decision No. 91:
1. Vietnam Power Corporation
2. Vietnam Coal Corporation
3. Vietnam Cement Corporation
4. Vietnam Steel Corporation
5. Vietnam Gem, Gold and Precious Stone Corporation
6. Vietnam Petroleum Corporation
7. Vietnam Post and Communication Corporation
8. Vietnam Airline Corporation
9. Vietnam Marine Corporation
10. Vietnam Textile Garment Corporation
11. Vietnam Tobacco Corporation
12. Vietnam Paper Corporation
13. Vietnam Rubber Corporation
14. Vietnam Coffee Corporation
15. Northern Food-Stuff Corporation
16. Southern Food-Stuff Corporation
17. Vietnam Chemical Corporation
18. Vietnam Steamship Corporation

Source: MPI and JICA (1998)
## Appendix B: Sectoral/Industrial Restrictions on Privatization of SOEs

- **SOEs that are not allowed for privatization in Viet Nam** are those involved in the following activities:

  Those producing public goods or services (in case these enterprises are equitized, it is necessary to obtain the permission from the Prime Minister for those having capital of more than VND 10 billion, or from ministers or Chairperson of the People’s Committee at Provincial level).

  Those producing the following goods and services that the state has monopoly power over:
  - explosive materials
  - toxic chemicals
  - radioactive substances
  - money and other certificates bearing a face value
  - national and international telecommunication network

- **SOEs that are allowed for privatization but the state would hold majority stake** or so-called special shares when being equitized are those involved in the following activities:

  - production of public goods or services having more than VND 10 billion of capital;
  - exploration of rare and precious ores;
  - exploration of mineral resources on a large scale;
  - technical and service activities for oil and gas exploration;
  - production of fertilizer, insecticide, medicine, chemicals and pharmaceuticals;
  - production of metallurgy and precious metal on a large scale;
  - power generation, transmission and distribution on a large scale;
  - repair of airplanes;
  - postal and telecommunication services;
  - railways, air and sea cargo transportation;
  - printing, publishing, production of alcohol, beer and tobacco on a large scale
  - Investment Bank and Bank for the Poor;
  - petroleum trading on a large scale.

- **SOEs that are allowed for any forms of equitization** are the ones not belonging to the above mentioned categories.

Source: VNA (1999)
### Tables

**Table 1: Key Economic Indicators of Viet Nam**

<table>
<thead>
<tr>
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<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>GDP at current prices (bil dong)</td>
<td>41955</td>
<td>76707</td>
<td>110535</td>
<td>136571</td>
<td>170258</td>
<td>228892</td>
<td>272036</td>
<td>313623</td>
<td>368690</td>
</tr>
<tr>
<td>Exchange rate (dong/US$, average)</td>
<td>–</td>
<td>9247</td>
<td>11179</td>
<td>10640</td>
<td>10978</td>
<td>11037</td>
<td>11032</td>
<td>11745</td>
<td>13300</td>
</tr>
<tr>
<td>GDP per capita ($)</td>
<td>–</td>
<td>157</td>
<td>156</td>
<td>176</td>
<td>217</td>
<td>280</td>
<td>319</td>
<td>335</td>
<td>352</td>
</tr>
<tr>
<td>Total Investment</td>
<td>6747</td>
<td>11884</td>
<td>21608</td>
<td>34655</td>
<td>49483</td>
<td>58800</td>
<td>–</td>
<td>–</td>
<td>–</td>
</tr>
<tr>
<td>Real GDP growth rate (%)*</td>
<td>5.1</td>
<td>6</td>
<td>8.6</td>
<td>8.1</td>
<td>8.8</td>
<td>9.5</td>
<td>9.3</td>
<td>8.1</td>
<td>5.8</td>
</tr>
<tr>
<td>Agriculture</td>
<td>1.6</td>
<td>2.2</td>
<td>7.1</td>
<td>3.8</td>
<td>3.9</td>
<td>4.8</td>
<td>4.4</td>
<td>4.3</td>
<td>2.7</td>
</tr>
<tr>
<td>Industry</td>
<td>3.9</td>
<td>9</td>
<td>14</td>
<td>13.1</td>
<td>14</td>
<td>13.6</td>
<td>14.5</td>
<td>12.6</td>
<td>10.2</td>
</tr>
<tr>
<td>Services</td>
<td>10.8</td>
<td>8.3</td>
<td>7</td>
<td>9.2</td>
<td>10.2</td>
<td>9.8</td>
<td>8.8</td>
<td>7.1</td>
<td>4.2</td>
</tr>
<tr>
<td>Inflation rate (CPI)</td>
<td>67.5</td>
<td>67.6</td>
<td>17.5</td>
<td>5.2</td>
<td>14.4</td>
<td>12.7</td>
<td>4.5</td>
<td>3.6</td>
<td>9.2</td>
</tr>
<tr>
<td>Real interest rate (%, yearly)*</td>
<td>1.97</td>
<td>–12.06</td>
<td>22.44</td>
<td>17.22</td>
<td>3.76</td>
<td>5.46</td>
<td>5.53</td>
<td>6.30</td>
<td>–</td>
</tr>
<tr>
<td>Long term lending</td>
<td>40.6</td>
<td>39.2</td>
<td>38.6</td>
<td>37.1</td>
<td>27.4</td>
<td>26.2</td>
<td>25</td>
<td>24.2</td>
<td>23.4</td>
</tr>
<tr>
<td>Shares in industrial production (%)</td>
<td>67.6</td>
<td>68.5</td>
<td>70.3</td>
<td>71.7</td>
<td>72.4</td>
<td>50.3</td>
<td>49.3</td>
<td>48</td>
<td>46.2</td>
</tr>
<tr>
<td>State sector</td>
<td>22.4</td>
<td>23.1</td>
<td>24.2</td>
<td>25.4</td>
<td>28.8</td>
<td>29.9</td>
<td>31.3</td>
<td>32.6</td>
<td>33.4</td>
</tr>
<tr>
<td>Non-state sector</td>
<td>36.9</td>
<td>37.7</td>
<td>37.1</td>
<td>37.5</td>
<td>43.7</td>
<td>43.8</td>
<td>43.6</td>
<td>43.2</td>
<td>42.5</td>
</tr>
<tr>
<td>Percentage of GDP (%)</td>
<td>7.2</td>
<td>2.3</td>
<td>2.4</td>
<td>4.8</td>
<td>1.5</td>
<td>0.5</td>
<td>0.2</td>
<td>0.6</td>
<td>–</td>
</tr>
<tr>
<td>Reserves, excl. gold (mil $)</td>
<td>–</td>
<td>–</td>
<td>646</td>
<td>908</td>
<td>1062</td>
<td>1513</td>
<td>2156</td>
<td>–</td>
<td>–</td>
</tr>
<tr>
<td>Money supply (M2) (bil dong)</td>
<td>11358</td>
<td>20301</td>
<td>27144</td>
<td>32288</td>
<td>43006</td>
<td>52710</td>
<td>64678</td>
<td>–</td>
<td>–</td>
</tr>
<tr>
<td>Growth rate (%)</td>
<td>–</td>
<td>78.7</td>
<td>33.7</td>
<td>19.0</td>
<td>33.2</td>
<td>22.6</td>
<td>22.7</td>
<td>–</td>
<td>–</td>
</tr>
<tr>
<td>% of GDP</td>
<td>27.1</td>
<td>26.5</td>
<td>24.6</td>
<td>23.6</td>
<td>25.3</td>
<td>23.0</td>
<td>23.8</td>
<td>–</td>
<td>–</td>
</tr>
</tbody>
</table>

*Nominal rate deflated by (CPI) inflation rate. Sources: UNDP (1999), ADB (1998), and JICA (1998)
### Table 2: Number of Enterprises by Capital Size and Industry Groups (up to 31 Dec 1994)

<table>
<thead>
<tr>
<th>Industry Groups</th>
<th>Total</th>
<th>Capital&lt;1000 &amp; non-defined</th>
<th>1000&lt;capital&lt;5000</th>
</tr>
</thead>
<tbody>
<tr>
<td>Total</td>
<td>11339</td>
<td>7181</td>
<td>2453</td>
</tr>
<tr>
<td><strong>Mineral Industry</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Coal, mild coal, peat</td>
<td>38</td>
<td>8</td>
<td>18</td>
</tr>
<tr>
<td>Crude oil, natural gas, petrol-exploited services</td>
<td>6</td>
<td>1</td>
<td>1</td>
</tr>
<tr>
<td>Ores</td>
<td>22</td>
<td>2</td>
<td>12</td>
</tr>
<tr>
<td>Stone &amp; other minerals exploitation</td>
<td>232</td>
<td>137</td>
<td>70</td>
</tr>
<tr>
<td><strong>Processing Industry</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Foodstuffs &amp; beverages</td>
<td>3200</td>
<td>2621</td>
<td>346</td>
</tr>
<tr>
<td>Cigarettes &amp; rustic tobacco</td>
<td>28</td>
<td>2</td>
<td>6</td>
</tr>
<tr>
<td>Textiles</td>
<td>417</td>
<td>225</td>
<td>77</td>
</tr>
<tr>
<td>Tanning and dyeing fur products</td>
<td>384</td>
<td>158</td>
<td>141</td>
</tr>
<tr>
<td>Tanning &amp; processing leather products</td>
<td>137</td>
<td>48</td>
<td>30</td>
</tr>
<tr>
<td>Wood products</td>
<td>656</td>
<td>467</td>
<td>125</td>
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<tr>
<td>Paper</td>
<td>198</td>
<td>126</td>
<td>40</td>
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<tr>
<td>Coke, oil and nuclear</td>
<td>3</td>
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<td>0</td>
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<tr>
<td>Chemical products</td>
<td>290</td>
<td>96</td>
<td>86</td>
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<tr>
<td>Rubber &amp; plastic products</td>
<td>226</td>
<td>127</td>
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<tr>
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<td>907</td>
<td>161</td>
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Note: With exchange rate in 1994: 1 USD = VND 10,978 => VND 1000 mil = 91,091.27 USD; VND 5000 mil = 455,456.37 VND 10,000 mil = 910,912.73 USD

Table 3: Number of Enterprises by Labor Size and Industry Groups as of 1 July

<table>
<thead>
<tr>
<th>Industry</th>
<th>Total</th>
<th>10&lt;labor&lt;100</th>
<th>11&lt;labor&lt;100</th>
<th>101&lt;labor&lt;500</th>
<th>501&lt;labor&lt;1000</th>
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<tr>
<td><strong>Total</strong></td>
<td>689962</td>
<td>669849</td>
<td>16623</td>
<td>2933</td>
<td>397</td>
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<tr>
<td><strong>Mineral Industry</strong></td>
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<td></td>
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<tr>
<td>Coal, mild coal, peat</td>
<td>34675</td>
<td>33919</td>
<td>506</td>
<td>194</td>
<td>39</td>
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<tr>
<td>Crude oil, natural gas, petrol-exploited services</td>
<td>31</td>
<td>7</td>
<td>14</td>
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<tr>
<td>Ores</td>
<td>34165</td>
<td>33599</td>
<td>412</td>
<td>129</td>
<td>22</td>
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<tr>
<td><strong>Processing Industry</strong></td>
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<td></td>
<td></td>
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<tr>
<td>Foodstuffs &amp; beverages</td>
<td>496288</td>
<td>482183</td>
<td>11934</td>
<td>1774</td>
<td>275</td>
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<tr>
<td>Cigarettes &amp; rustic tobacco</td>
<td>31</td>
<td>187</td>
<td>20</td>
<td>14</td>
<td>3</td>
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<tr>
<td>Textiles</td>
<td>04978</td>
<td>44180</td>
<td>576</td>
<td>162</td>
<td>37</td>
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<tr>
<td>Tanning and dyeing fur products</td>
<td>08276</td>
<td>82179</td>
<td>388</td>
<td>239</td>
<td>45</td>
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<tr>
<td>Tanning &amp; processing leather products</td>
<td>03791</td>
<td>3501</td>
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<td>Wood products</td>
<td>122601</td>
<td>121583</td>
<td>882</td>
<td>123</td>
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<td>01243</td>
<td>935</td>
<td>261</td>
<td>38</td>
<td>5</td>
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<tr>
<td>Coke, oil and nuclear</td>
<td>062</td>
<td>46</td>
<td>13</td>
<td>2</td>
<td>1</td>
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<tr>
<td>Chemical products</td>
<td>01942</td>
<td>1556</td>
<td>282</td>
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<tr>
<td>Rubber &amp; plastic products</td>
<td>02670</td>
<td>2301</td>
<td>332</td>
<td>33</td>
<td>3</td>
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<td>Non-metallic mineral</td>
<td>029106</td>
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<td>033516</td>
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<td><strong>Others</strong></td>
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<td>153747</td>
<td>4183</td>
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<td>12560</td>
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<td>992</td>
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Table 4: Structure of Trade

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<tbody>
<tr>
<td>Trade (export + import)–GDP Ratio</td>
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<td></td>
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<td>51.80</td>
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<td>67.38</td>
<td>78.49</td>
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Structure of exports (%)

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<td>Heavy industrial products &amp; minerals</td>
<td>25.66</td>
<td>33.40</td>
<td>37.00</td>
<td>33.97</td>
<td>28.80</td>
<td>25.28</td>
<td>28.74</td>
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<td>Light industrial &amp; handicraft goods</td>
<td>26.44</td>
<td>14.38</td>
<td>13.54</td>
<td>17.64</td>
<td>23.14</td>
<td>28.44</td>
<td>28.96</td>
<td>36.72</td>
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<td>Agricultural products</td>
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<td>32.07</td>
<td>30.81</td>
<td>31.58</td>
<td>32.04</td>
<td>29.76</td>
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<td>Forest products</td>
<td>5.26</td>
<td>8.41</td>
<td>5.46</td>
<td>3.27</td>
<td>2.75</td>
<td>2.82</td>
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<td>Aquatic products</td>
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<td>11.92</td>
<td>14.31</td>
<td>13.72</td>
<td>11.40</td>
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<td>8.51</td>
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<td>0.02</td>
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Structure of imports (%)

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<td>Machinery &amp; equipment</td>
<td>21.80</td>
<td>21.50</td>
<td>23.50</td>
<td>31.10</td>
<td>25.70</td>
<td>33.10</td>
<td>27.60</td>
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<td>Fuels &amp; intermediate goods</td>
<td>64.30</td>
<td>61.90</td>
<td>60.90</td>
<td>56.80</td>
<td>57.80</td>
<td>56.10</td>
<td>63.40</td>
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<td>Consumer goods</td>
<td>13.90</td>
<td>16.60</td>
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<td>9.00</td>
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Export and Import flows, 1990-97

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<td>27.2</td>
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<td>22.9</td>
<td>23.1</td>
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<td>Australia + New Zealand</td>
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<td>0.7</td>
<td>1.8</td>
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Import Source (%)

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<td>Australia + New Zealand</td>
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<td>1.1</td>
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<td>17.5</td>
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<td>15.9</td>
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Note: * including, Hong Kong, China; and Taipei, China.

Sources: Institute of Economics (1999); UNDP (1999); World Bank (1999); The International Center for the Study of East Asian Development (1999).
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