THE POLITICS OF ECONOMIC REFORM IN VIETNAM: A CASE OF STATE-OWNED-ENTERPRISE EQUITIZATION

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SUMMARY

The focus of this thesis is on Vietnam's "***co phan hoa***" or equitization process – the Vietnamese version of privatization. While Vietnam started transferring partially the State ownership in a few state-owned enterprises to the private sector in 1992 in a pilot program, equitization was formalized only in 1996 as a nation-wide reform measure and became the mainstream reform program by the end of the 1990s. By 2008, or more than a decade of equitization, less than twenty percent of State ownership in the state-owned enterprises system was transferred to the private sector. In most of equitized state enterprises, the State still keeps dominant shares and thus retains largely the control over these companies. The overall process of equitization was thus often characterized with sluggishness, or "gradualism" as in contrast to "big-bang" cases of privatization. More interestingly, the pace of equitization was not monotonous but rather "non-linear" and fluctuated over time. In particular, equitization sped up significantly twice, first between the late 1998 and 2002 and then between 2003 and 2006.

Instead of just focusing on "gradualism", the author of this thesis is also interested in explaining the "non-linearity" aspect of Vietnam's equitization process. Furthermore, instead of submitting to the current views that are polarized between policy-driven and process-driven arguments, I examine the impacts of both policies and process, as well as the interactions between them on the equitization process. In so doing, I introduce the dual dynamics model which is composed from the Fragmented Authoritarianism model, various theories on government – business interactions, and the Garbage Can theory, to

examine the equitization process at two levels: the inter-bureaucracy politics at the macro level and the State patrons-enterprise interactions at the micro level. These two levels correspond with the two main stages of a policymaking cycle in equitization: the formulation and/or revision of equitization policies and the implementation of equitization policies and feedbacks.

The main findings of this thesis are as follows. The process of making equitization policies in Vietnam can be characterized with authority fragmentation and instability. These characteristics have led to continuous bargaining and negotiations among an increasing range of State actors and agencies in order to reach consensus over policy changes at the macro level (*the macro dynamics*). As a consequence, policy changes are often slow and incremental, and sometimes unpredictable. Meanwhile, in the stage of policy implementation and feedbacks at the micro level, bargaining also takes place between the State patrons and their subordinate enterprises due to their different preferred strategies of equitization (*the micro dynamics*). As a result, the actual implementation of the equitization mandate at the micro level has been also slow and incremental in order to suit the interests of both the State patrons and enterprises. Last but not least, the interactions between the macro and micro dynamics have resulted in various twists and turns within the equitization process. While the slow implementation of the equitization mandate at the micro level triggers new rounds of bargaining among bureaucratic agencies at the macro level over possible policy changes to accelerate the equitization process; the resultant slow and often ambiguous policy changes, in turns, shape the way in which different State patrons and enterprises adjust their preferred equitization strategies.

LIST OF ABBREVIATIONS

BERD – Board of Enterprise Reform and Development

BOE – Board of Equitization

DATC – Debt and Asset Trading Corporation

DEF – Department for Enterprise Finance

DRV – the Democratic Republic of Vietnam

FA – Fragmented Authoritarianism

GC – General Corporation

GDP – Gross Domestic Products

JSC – Joint Stock Company

MARD – Ministry of Agriculture and Rural Development

MOF – Ministry of Finance

MOLISA – Ministry of Labor, Invalids, and Social Affairs

NSCERD – National Steering Committee of Enterprise Reform and Development

PPC – Provincial People's Committee

SBV – State Bank of Vietnam

SCIC – State Capital and Investment Corporation

SOE – State-Owned-Enterprise or State Enterprise

SSC – State Securities Commission

VCP – Vietnamese Communist Party

INTRODUCTION

Privatization in Transitional Economies: Big Bang versus Gradualism

The wave of privatization has swept the world for almost three decades. Starting with developed countries, privatization now becomes "a widely applied economic policy" in transitional economies, ranging from the former Soviet Union members, socialist Eastern European countries, Argentina, and a few other Latin American nations, and more surprisingly, China and Vietnam.[1] Privatization, a process of transferring the State ownership in the State owned companies into the hand of the private sector, has been seen as "a complete reshuffling of the extant interest structure concerning not only governments, but also managers, workers, and creditors."[2] According to John Nellis, during the last twenty five years, thousands of firms formally owned by the State in the above-mentioned transitional economies have been transferred to the private sector, bringing about US $400 billion in sales proceeds. Besides the resultant relief for the State Budget and other positive macro-economic impacts, improved corporate governance and efficiency were also observed in privatized firms.[3]

There has existed different patterns of privatization among transitional economies in both pace and sequence of reform. Russia and other post-communist Eastern European

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[1] John Nellis, **"Privatization: a Summary Assessment**", *SAIS Review*, Summer-Fall 2007, pp.21-22

[2] Guy Liu, Pei Sun, and Wing Thye Woo, **"The Political Economy of Chinese-Style Privatization: Motives and Constraints"**, *World Development*, Vol. 34, No. 12, pp. 2016-2033, 2006, p. 2017-18

[3] Nellis (2007), pp.3-29

countries attempted to liberalize the market and introduce private ownership altogether. The privatization process in these countries, thus, was a rapid, wholesale transfer of state ownership into the private sector within a short period of time. On a contrary, China started with market liberalization first and followed with the transfer of State ownership into the private sector with a much slower pace and more limited scope.[4] This is seen as contrasting sharply to the big-bang mass privatization approach adopted by the Eastern European and former Soviet Union countries.

Although China embarked on SOE reform as early as in the late 1970s, it took almost thirteen years for the shareholding system program, the Chinese version of privatization, to become a mainstream reform measure in 1997. The idea of the shareholding system originated from the rural sector with the very first of joint stock companies dated back to as early as in 1979. The establishment of industrial shareholding companies had taken place since 1984 on an experimental basis. The evolution of the shareholding system option was thus gradual and incremental in nature. The State ownership in the SOE system dwindled slowly through two ways: converting the State ownership into individual shares and further diluting the State ownership by issuing new shares. The share of the State ownership in the SOE system in China remained roughly 50% by the

[4] Sumon Bhaumik and Saul Estrin, **"How Transition Paths differ: Enterprise Performance in Russia and China"**, Discussion Paper No. 1484, January 2005, p. 1

mid 2000s.[5] While small and medium-sized enterprises were allowed to privatize, the State basically retained control over large-scale, strategic enterprises.[6]

Another gradualist characteristic that distinguishes the Chinese approach in privatization is the exercise of "dual-track transition"; whereby not only one single reform measure (for example, privatization) was attempted at one time, but different programs, including both new and old systems, were tried simultaneously until the new reform measure could replace the old system completely. In the case of "big-bang" reform as in Russian privatization, the old system had been destroyed before the new system took place.[7]

The difference between Russian "big-bang" versus Chinese "gradual" approaches, as well as the normative implication of such difference, cast the full attention of observers and became a hot topic of debate among scholars in the 1990s. Questions and comments regarding the impact of these two transition paths on the firm performance and macro-economic picture were numerous, such as:

> "The noticeable success of the Chinese strategy and the failure of the Russian strategy to make non-energy firms and industries a major force in the global

[5] Compiled from Ma Y. Shu, **"The Chinese Route to Privatization: The Evolution of the Shareholding System System"**, *Asian Survey*, Vol. 38, Issue 4 (1998), pp. 379-397, and Ma Y. Shu, "**China's Privatization: From Gradualism to Shock Therapy"**, *Asian Survey*, Vol. 48, Issue 2, pp. 199-214

[6] Liu et al (2006), p. 2016

[7] Ma (1998), p. 397, and Ma (2008), p. 212

> market make a comparison of micro evidence about the impact of these strategies on firm performance an interesting exercise."[8]

> "Does it make any difference that some developing countries have lagged the leading privatizers?"[9]

Arguments have been made both for and against the two approaches. However, towards the late 1990s, it seemed that the more successful picture of the "gradual" approach, reflected through the case of China, over the chaotic situation in, say, Russia, won more approval for both economic and political reasons.[10] For most of the 1990s, China remained to succeed economically whereas Russia went down the other way. However, by the early 2000s, or ten years after the shock therapy were applied, Russia surprisingly has experienced rapid and sustained economic growth. Recent efforts of former President Putin to re-insert the state control in a number of important industries, such as energy, which were privatized and sold off in rush to the so-called oligarchs during the 1990s, led to the question if Russia has reversed its "big-bang" approach in privatization.[11]

[8] Bhaumik and Estrin, p.1
[9] Nellis (2007), p.7
[10] Ibid.
[11] For further information on the possible reversal of Russian approach in privatization, one can refer to Marc Champion, "**Threat to Russian Privatization Seen"**, *The Wall Street Journal*, 01 February 2009; Peter Rutland, "**Post-socialist states and the evolution of a new development model: Russia and China compared"**, paper presented at the International Seminar on Globalization and Eurasia, Jawaharlal Nehru University, New Delhi, 9-12 November 2008; or Sadrel Reza, "**Privatisation and private sector growth in China and Russia: a comparison from the institutional perspective"**, *China: An International Journal*, September 2007, pp.276-307.

One of the issues in making comparative analysis between the two above-mentioned approaches is that the big bang cases so far outnumbered the gradual cases. China seemed to be the single gradual case in comparison with a bunch of transitional economies following the big bang approach. In this regard, the investigation of other similar cases following the same gradual approach of China would be worth doing and promise to shed greater lights on the comparative studies/analyses on different transitional paths adopted among different transitional economies.

Vietnamese-style Privatization or Equitization

The above discussion leads us to the case of Vietnam and its *co phan hoa* or equitization process – the Vietnamese version of privatization. *Co phan hoa* in Vietnam is the process of transferring the State ownership in the state enterprise system into the collective of State enterprise employees and managers, as well as outside investors. Equitization in Vietnam can take the following forms: (1) keeping state shares intact and issuing new shares; (2) selling part of the existing state shares in together with issuing new shares; and (3) selling off all state shares in together with issuing new shares.[12] Despite numerous attempts by Vietnamese politicians and policymakers to claim the vague distinction between equitization in Vietnam and the process of privatization taking place elsewhere in the world, equitization in Vietnam is essentially a process of privatization,

[12] Compiled from various Decrees to regulate the equitization process in Vietnam, especially the latest Decree 109 in 2007 (Article 4)

involving mainly the transfer of state ownership over the production and services activities into the hand of the private sector.[13]

From the policy perspective, equitization has been one main ingredient within the overall package for reforming the State sector in Vietnam. Formal efforts to reform the system of state enterprises in Vietnam started as early as in the late 1970s, which, however, were confined mainly into granting increased autonomy to managers of State enterprises in running their business without changing the ownership structure within the system. The issue of transforming the ownership structure in the SOE system was raised only in the late 1980s and initially implemented in the form of a trial program in the early 1990s. The equitization mandate was then formalized into a nation-wide program in 1996 and subsequently regulated under Governmental Decrees. Initially, the program targeted mainly small and medium-sized, non-strategic State enterprises. It then expanded to cover large State enterprises, including the different State-owned giants- General Corporations from the late 1990s

The pattern of transition in Vietnam, in general, fits as a "gradual" case, despite some initial remarks over "big-bang" aspects of the reform process.[14] As has been discussed, it

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[13] For different perspectives about equitization in Vietnam and its relationship with the privatization process elsewhere in the world, see, for example, Hoang Cong Thi and Phung Thi Doan, **Co phan hoa cac doanh nghiep nha nuoc o Vietnam (Equitizing State-owned enterprises in Vietnam)**, Special Information, Institute of Finance Science, Ministry of Finance, 1992, or Vu Thanh Tu Anh, "**Vietnam – The Long March to Equitization"**, Policy Brief #33, The William Davidson Institute at the University of Michigan, April 2005, p.4. While debates over the definition of equitization are easily found among policymakers, researchers, and scholars, so far no Governmental Decrees to regulate the equitization process have attempted to provide an official definition for the term.

took almost ten years since the term “equitization” was first coined in an official text for the measure to be formally legalized and become a mainstream SOE reform measure. Also, despite the formalization of the equitization mandate in the mid-1990s, the process of converting state ownership in the SOE system into private ownership has moved slowly. By 2008, i.e. more than a decade of equitization, less than twenty percent of State ownership in the state-owned enterprises system was transferred to the private sector. In most of equitized state enterprises, the State still keeps dominant shares and thus retains largely the control over these companies.[15] The overall process of equitization was thus often characterized with sluggishness, or “gradualism” as in contrast to “big-bang” cases of privatization.[16] More interestingly, the pace of equitization was not monotonous but rather “non-linear” and fluctuated over time. In particular, equitization sped up considerably twice, first between the late 1998 and 2002 and then between 2003 and 2006. After 2006, however, the pace of equitization slowed down significantly.

The Dual Dynamics Model and Vietnam’s Equitization Process

All of the above-mentioned facts imply that Vietnam, in addition to China, could be an interesting case in gradual privatization. However, Vietnam has not yet become a noticeable case in comparative studies conducted on transitional economies. In fact, Vietnam has been long conflated with China due to the close proximity between the two countries, the striking similarities regarding the history, culture, and socio-economic

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[14] For further information on whether the reform process in Vietnam is “big bang” or gradual, see Adam Fforde, **“From Plan to Market: the Economic Transitions in Vietnam and China compared”**, in *Transforming Asian Socialism: China and Vietnam compared,* edited by Anita Chan, Jonathan Unger, and Benedict Tria Kerkvliet, 1999, pp.43-72

[15] National Steering Committee of Enterprise Reform and Development (NSCERD)’s and Ministry of Finance (MOF)’s reports, 2006

[16] See Vu (2005)

structure, and finally the recent similar pattern of transition. Profound studies on the equitization process of Vietnam would thus provide necessary background for making it a valid case in comparative analysis on different transition pathways.

The current literature on Vietnam points to two polarized explanations about the sluggish process of equitization. The rational statist approach assumes that the State of Vietnam is a single, coherent actor in making the equitization policies and implementing them accordingly, and thus, the slow pace of equitization has been mainly due to policy irrationalities and delays. The "reform as a process" approach, at the other end of the continuum, disregards the role of the State in the process and instead explains the sluggishness of the official equitization process as mainly due to the strong resistance from both the local States, including the line Ministries, and SOE managers and employees. The main weakness of the above-mentioned approaches, in my opinion, is that both of them overlook the following dynamics in the equitization process: (i) the set of bargaining and negotiations among bureaucratic units over the formulation and/or revision of equitization policies; and (ii) the interaction between the enterprises and their direct State patrons over the implementation of the equitization mandate. Therefore, the main argument I would like to make in this thesis is that the above-mentioned dynamics, the inter-bureaucracy politics and government-enterprise interactions, as well as their interactions with each other, are keys in explaining both "gradualism" and "non-linearity" in the equitization process in Vietnam.

In so doing, I develop a dual dynamics model to explain the above-mentioned dynamics in the equitization process in Vietnam. The dual dynamics model is built from the theoretical framework of the Fragmented Authoritarianism model, various theories on state-enterprise interactions, and the Garbage Can theory. The dual dynamics model analyzes the equitization process at two levels: macro and micro. The macro dynamics is defined as the bargaining and negotiations among different State agencies involved in the making of equitization policies. The micro dynamics is defined as the interactions between the State patrons and their subordinate enterprises over the actual implementation of the equitization mandate at the enterprise level. While the Fragmented Authoritarianism model is employed to explain the macro dynamics and various theories on state-enterprise interactions are applied to explain the micro dynamics given the assumption about a rather stable authority structure at one certain point in time; the framework of the Garbage Can theory is used to shed light on the interaction between the macro and micro dynamics when the above-mentioned assumption is no longer hold.

The application of the model of dual dynamics in the SOE equitization process in Vietnam, however, is not assumption-free and thus having limitations of its own. First, by assuming that each organization unit – or State actor has coherent interests in equitization, the model does not attempt to look further into the power struggle within these organization units. For example, the conflation of the Department of Enterprise Finance – the coordinator in making equitization policies within the Ministry of Finance (MOF) – as representative for MOF would not be always correct. Certain observations point to the tension over various, sometimes even opposite, interests within the same body of Ministry of Finance, among which those of the Department of Enterprise Finance is just one.[17] Another example is the ignorance of the inter-bureaucracy politics at local-levels. The interaction among different functional departments and between them and the Provincial People's Committee, as well as between the Party and the Bureaucracy at the local levels proves to be more dynamic and diverse than often assumed in this thesis. Second, due to the limited information access and other constraints, the model also lacks an adequate analysis of elitist perspectives over equitization. Preliminarily empirical evidences imply, to a certain extent, the significant role of political leaders in the equitization process.[18] Bearing these limitations in mind, the author hopes that follow-up research could be effectively conducted given the solid foundations well laid off in and important contributions made by this thesis.

A Note on Methodology

In this thesis, I use a combination of different methods, including extensive literature review, interviews, fieldwork, and a multiple case study. Needless to say, literature review plays a significant part in making the author of this thesis more familiar with the current scholarly on "Doi Moi" in general and SOE reform in particular. Furthermore, a broader literature on economic reform in transitional economies, especially the Chinese experience, helped me substantially in building up a solid theoretical framework for the particular case of Vietnam.

[17] Author's interviews with different Departments and agencies within Ministry of Finance during fieldtrips in Vietnam in 2007. For examples, the State Securities Committee did have different views over different equitization issues from those of the Department of Enterprise Finance; however, they complained that sometimes their views were just ignored by the Department of Enterprise Finance and they had to raise the issue to their Finance Deputy Minister in charge.
[18] Author's interviews with MOF officials during fieldtrips in Vietnam in 2007

Interviews form another equally, if not more, important part of this research. During the period between 2006 and 2007, I conducted about eighty interviews and talks with different people in different agencies, organizations, and companies, both in Singapore and Vietnam. I tried to take advantage of being full-time resident during my study in Singapore to meet up and maintain regular discussions with a number of Vietnam scholars as well as the then Vietnam Ambassador in Singapore. Back to Vietnam, having the advantage of being a former government officer at Ministry of Finance, I managed to meet up with people in the State organs who are directly making equitization policies and who are really concerned with the equitization process in Vietnam. Among these State agencies and other organizations are, but not limited to, various Departments at Ministry of Finance, including the Department for Enterprise Finance, State Securities Committee, and State Budget Department, State Bank of Vietnam, Ministry of Agriculture and Rural Development, Central Institute of Economic Management, Debt and Asset Trading Corporation, and State Capital and Investment Corporation, People's Committees of Hanoi, Bac Giang Province, and Tuyen Quang Province, including their functional departments in charge of finance and/or planning issues, and finally the Asian Development Bank and the World Bank in Vietnam. Discussing with people from these agencies and organizations helped me to better form a real picture of equitization in Vietnam at the peak level. The information collected from these interviews provided me with a solid foundation on how the politics of inter-governmental agencies actually took place in Vietnam.

To explore the interactions between enterprises and their direct State patrons in implementing the equitization mandate, I conducted a small-scale case study with a number of SOEs going through equitization during the early 2000s. Although the case study method has a number of limitations[19], it is still the most suitable approach for the author of this thesis due to the following reasons. First, the small scale and limited financial support mean that the case study method is the most relevant approach for the author to get into an in-depth understanding and analysis of the real-life equitization process at the micro-level. Furthermore, formerly being a government officer working in the field of finance and possessing necessary background in corporate finance and business administration also enable the author to herself conduct interviews with SOE managers of different levels and thus to enrich the data collection. Finally, instead of focusing on one single case, the author opted to conduct a multiple case study in order to avoid the common risk of making false generalization from a single-case study and to provide comparative perspectives from the cases.

While conducting the above-mentioned multiple case study in 2007, I was lucky to have access to people in a number of SOEs whose equitization experience was so real and so vivid by the time I talked to them. Most of people that I interviewed at the firm-level were holding some management positions. Some hold the highest positions, the General

[19] Robert K. Yin, "**Case Study Methods**", COSMOS Corporation, revised drafted, January 20, 2004, going to appear in the 3rd edition of *Complementary Methods for Research in Education*, American Educational Research Association, Washington, DC, forthcoming. For example, if compared with other research methods such as surveys, experiments, quasi-experiments, economic and statistical modeling, histories, developmental methods, and research syntheses, one of the biggest problems with the case study method is the risk of making false generalizations from non-representative cases. Interestingly, despite these limitations, the case study method has so far managed to attain "routine status as a viable method for doing research".

Director, Deputies, or Chief Accountant while other were responsible for the personnel and remuneration issues, or led the labor union in their companies. I also managed to include others in my interviews too, ranging from junior workers to retirees, in order to explore their different perspectives about the equitization that took place within their own companies. This helped me substantially in selecting the most relevant cases of equitized SOEs for the case study conducted in the thesis. Last but not least, I managed to have partial access to an official survey data on equitization created by an accredited research institute, which I used extensively to verify the findings of the selected cases that I had.

Thesis Organization

The thesis is organized as follows. The first chapter lays the background of the privatization process in Vietnam and discusses in specific the equitization process, policy developments, main outcomes, and issues. In so doing, the chapter highlights two important features of the equitization process in Vietnam – "gradualism" and "non-linearity". Chapter II subsequently studies different explanations offered by the current literature about Vietnam's equitization. It then discusses the main weaknesses of these explanations and introduces the dual dynamics model. The dual dynamics model, a combination of various theories drawn mainly, but not exclusively, from the Chinese experience, analyzes the interactions between different actors involved in the equitization process at both macro and micro levels as well as the interactions between two levels. Chapter III focuses on the power structure within the equitization process, characterizing it with both authority fragmentation and instability. These two features are keys in explaining the pattern of interactions at both macro and micro levels in the equitization process. Chapter IV then investigates the macro dynamics, or the interaction among various State actors during the stage of formulating and/or revising equitization policies, through the case of establishing and restructuring Funds to support the equitization process. Chapter V, on the other hand, examines the micro dynamics or the interactions between the enterprises and their direct State supervisors over the actual implementation of the equitization mandate. Finally, the Conclusion will end the whole thesis with brief discussion of the main findings of the thesis and future research agenda.

Chapter I Equitization in Vietnam: an Overview

The purpose of this chapter is to provide an overview about the equitization process in Vietnam. Despite the fact that the term “equitization” appeared in the legal texts of SOE reforms as early as in 1987, it took at least five years for the first batch of state enterprises to be equitized and another five years for equitization to finally become an official reform program. The equitization pace remained very slow even when the mandate was formalized in 1996 and only picked up two years later. The number of enterprises going through equitization accelerated considerably during the period between 1999 and 2006 but slowed down after 2006. The overall process of equitization has been, however, sluggish. By 2008, more than a decade of equitization, the State ownership in the SOE system reduced only by less than twenty percent. Vietnam’s equitization is thus considered as an illustration of “gradualism” rather than a “big-bang” case in privatization. The chapter aims at verifying such statement about “gradualism” in Vietnam’s equitization. For that purpose, the rest of this chapter is organized as follows. The first section, Section I.1, analyzes extensively the process of reforming state enterprises in Vietnam - the context that gave rise to the equitization program. Section I.2 discusses the evolution of the equitization policy in Vietnam in details while Section I.3 examines the equitization outcomes and main issues. Section I.4 ends the chapter with a brief conclusion.

I.1- The Context of Equitization in Vietnam

I.1.1- History of State Owned Enterprises

The history of state (owned) enterprises in Vietnam is closely attached to the history of the modern state of Vietnam since 1945. Despite national independence claimed by Ho Chi Minh, the Communist leader, on 2 September 1945, the country remained divided into different regions under the control of different forces. The French and Communists struggled over the control of the Northern half, whereas the South fell largely under the French control in the disguise of the monarch government. In this context, the very first state enterprises were then set up in the late 1940s in Viet Bac – a northern, mountainous area of Vietnam, by the resistance government under Ho Chi Minh's leadership. These state production units, during the resistance war between 1945 and 1954 against the French, produced mainly weapons, goods and services for the army and the resistance government. A number of enterprises working on mining, mechanics, printing, and textiles were also established during this period.[20]

I.1.1.1- The Democratic Republic of Vietnam (DRV) Model and Early State-owned Enterprises

Soon after the Dien Bien Phu victory in 1954, the North Vietnam, under the control of the Communist Party, imposed the centrally planning mechanism in the economy, commonly known as the Democratic Republic of Vietnam (DRV) model. The DRV model followed the Soviet approach to industrialization and planning, emphasizing the leading role of

[20] Dang Phong, **History of the Economy of Vietnam: 1945-2000**, *Volume 1: 1945-1954*, Vietnam: Social Science Publishing House, 2002, pp. 232-298

State sector and the development of heavy industries with large-scale, capital-intensive projects undertaken mainly by state enterprises.[21] As a result, private economic activities were largely banned and private enterprises were nationalized. The annual contribution of the private sector to the Gross Domestic Product (GDP) reduced sharply from more than 30 percent in the late 1950s to less than 10 percent from 1965 onwards.[22] It is interesting to note that, similar to the case of China, whereas the process of nationalization of private businesses in Vietnam took place in a "big-bang" manner, the reversal process of privatization has been rather incremental and gradual.

The central state invested in setting up a number of new manufacturing factories and industrial zones focusing on heavy industries within the First Five Years Plan (FYP) between 1961 and 1965. Investment in industrial sector had resultantly grown at a rate three times higher than that of the agricultural sector during the same period. State enterprises newly established by the Central State often used imported technologies and machinery from the former socialist countries, especially the former Soviet Union and China. Due to the technological and capital advantages, these centrally managed enterprises quickly dominated most of strategic industries and services sectors in the economy. State enterprises established by local governments (provinces and centrally-

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[21] See, for example, Fforde and de Vylder (1996); Fredrik Sjoholm, "**State owned enterprises and Equitization in Vietnam"**, Working Paper 228, August 2006, p.14; and Dang (2002)
[22] Luong Xuan Quy, **Co cau thanh phan kinh te o nuoc ta hien nay: Ly luan, thuc trang, va giap phap (Contemporary economic structure in Vietnam: Theories, reality, and solutions)**, Vietnam: National Political Publishing House, 2001, p. 60

managed municipalities) operated, on a contrary, in the trading and services sectors under small and medium scale with low productivity and quality.[23]

The share of industrial production in national income increased from 18.2 percent in 1960 to 24.2 percent in 1974, with most growth occurring prior to 1965.[24] If the State and joint State-private sector accounted for merely 18 percent of the total industrial output of the North economy in 1957, they dominated the total industrial output by the early 1960s. Similar picture was seen in the agricultural sector with the dominant role of cooperatives.[25] The escalating war with the Southern regime during the next decade between 1965 and 1975 caused serious damages to a number of large-scale, central state enterprises. However, most of small and medium-sized state enterprises under the local governments were rather safe and received investment from the local governments in order to meet the local demands. Vu Minh Trai (2000) summarizes the main characteristics of the state-enterprise system in the North during this period as: (i) non-profit orientation, (ii) serving mainly the demand of the warfare economy, (iii) planning mechanism, working under the "top-down" system of orders; and (iv) no clear stipulations on the rights and responsibilities of State employees and managers in state enterprises.[26]

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[23] Ngo Quang Minh, **Kinh te Nha nuoc va Qua trinh doi moi Doanh nghiep Nha nuoc (The state sector and the process of reforming state-owned enterprises)**, Vietnam: National Political Publishing House, 2001, p.81

[24] Brian Van Arkadie and Raymond Mallon, **Vietnam: a Transition Tiger**, Caberra: Asia Pacific Press, 2003, pp.38-40

[25] Vu Minh Trai, **Thuc trang va giai phap sap xep lai cac Doanh nghiep nha nuoc thuoc thanh pho Ha Noi**, Vietnam: National Political Publishing House, 2000, pp. 13-15

[26] Ibid., pp.39-45

Table 1.1: GDP Composition during 1960-1975 by economic sectors (unit: percent)[27]

Economic sector	1959	1965	1975
GDP, of which accounted by:	100	100	100
- State enterprises and State-private joint ventures	38.4	45.5	51.7
- Cooperatives	28.2	44.6	40
- Individuals, Households, Private sector	33.4	9.9	8.3

As mentioned earlier, the DRV model legalized only two economic components: the State sector in industrial production and trading and the cooperatives in agriculture and related services. In this regard, state enterprises were considered just as production units that produced goods and services for the State in accordance with the legally binding State plans.[28] The State, through its top planning apparatus, i.e. *Uy Ban Ke hoach Nha nuoc* or the State Planning Commission (SPC), and its local branches, in fact, set all the following targets for state enterprises: (i) total output value; (ii) output of main products; (iii) technical advancement; (iv) growth rate of labor productivity; (v) total wage fund; (vi) capital investment; (vii) total number of workers; and (viii) main material and equipment. State enterprises were, during this period, provided with both fixed and non-fixed capital directly from the State Budget, and considered as entirely owned and managed by the State and its delegated agencies.[29]

[27] quoted from Luong Xuan Quy, **Co cau thanh phan kinh te o nuoc ta hien nay: Ly luan, thuc trang, va giap phap (Contemporary economic structure in Vietnam: Theories, reality, and solutions)**, Vietnam: National Political Publishing House, 2001, p. 60

[28] As such state enterprises in Vietnam were commonly termed as xi nghiep nha nuoc (or state enterprises), not cong ty nha nuoc (or state companies), meaning they were just integral part of the state machinery, rather than an autonomous business entity. See Ngo (2001), p.74

[29] For further information about the DRV model in the North Vietnam during 1954-1975, see Nguyen Tuan Anh, **Prospects for Vietnam's Industrialisation: Lessons from East Asia**, Friedric-Ebert-Stiftung with INSAN, 1996, Ngo (2001), or Various authors, **Cai cach doanh nghiep nha nuoc: thuc tien Vietnam va kinh nghiem the gioi (Reforming state-owned-enterprise system: Vietnam situation and world experiences)**, Vietnam: National Political Publishing House, 1996, and Fforde and de Vylder (1996)

There existed two sorts of inherent weaknesses within such a rigid planning system of the DRV model in North Vietnam during the period between 1954 and 1975. First, problems were found during the process of formulating the plans. The plans were prepared by the State supervising agencies, not by the production units or state enterprises, and thus they often did not reflect the real needs and capacity of both the economy and the producers. Second and more importantly, the plans, once formulated, were never fully implemented. The State was unable to secure the sufficient amount of inputs and materials for its enterprises due to various difficulties ranging from the limited financial capacity to the destructive impact of the war. In addition, excessive centralized economic planning and disregard of market mechanisms led to substantial constraints on the state enterprises, repressed their autonomy and initiatives, and created no incentives for them to strive for efficiency. As a result, the state enterprises faced the problem of low morale and serious inefficiency. In most of the cases, the state enterprises did not meet the legally binding output targets set in the plans, or their products and goods were of very low quality.[30]

These inherent weaknesses of the DRV model were deepened by the warfare conditions. The impact of the warfare on the Northern economy was multifaceted, but overall, the protracted military struggles during the period between 1945 and 1975 contributed significantly to Vietnam's sharp decline in income per capita and thus its relative position in the region.[31] Within the above-mentioned period, the two wars, i.e. the Resistance war

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[30] For a discussion about the inherent weaknesses of the DRV model, one can refer to the existing vast literature on SOE reform in Vietnam, for examples, Fforde and de Vylder (1996), Dang Phong and Melanie Beresford, **Authority Relations and Economic Decision-Making in Vietnam: an Historical Perspective**, NIAS, 1998, Ngo (2001), or Nguyen (1996)

[31] If by the end of the World War II, Vietnam's per capita income was around 85% that of South Korea, and 80% that of Thailand and Indonesia, that figure dropped sharply during the wartime to

against the French and the war against the Southern, US-backed regime, physically damaged the manufacturing factories and other production units in the North to a substantial extent and thus imposed hazardous impacts on the Northern socio-economic foundations.[32] During the intensive fighting period from 1972 to 1975, paddy production fell from 7.1 million tonnes in 1972 to 5.3 million tonnes in 1975, while labor productivity fell by 11 percent during the same period. In addition, during the whole period between 1945 and 1975, the North had to concentrate most of its energies on military struggles and thus a heavy commitment of resources directed to military activities. Investment priorities were given to serve the needs of the war, particularly, to industries directly supporting the war such as mechanical engineering, iron and steel, coal and electricity.[33]

Given that environment, in order to survive, SOEs, instead of being merely the implementer of the State plans, opted for a number of informal survival strategies, including barter and networking among each other, seeking patronage from the local governments, or interfaced with informal market arrangements, “cho den” or black markets. Interestingly, these survival skills were employed by Vietnam’s SOEs to even a greater extent than those in China, Russia, or other former communist countries, perhaps due to the specific conditions imposed by the warfare.[34]

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about only 25% that of South Korea, 40% that of Thailand, and 50% that of Indonesia by the end of the war in 1975. See Van Arkadie and Mallon (2003) for more details.

[32] Vu (2000), pp.39-45

[33] Van Arkadie and Mallon (2003), p.40

[34] See Dang and Beresford (1998)

Markets, or "black markets" in the formally centralized, planning economy of Northern Vietnam, were in fact never erased completely but existed illegally to provide consumers with goods and services insufficiently produced in the State plans.[35] Goods sold on "black markets", dominated by illegally *tu thuong* or private traders, at prices which were many times higher than the official prices. Sources of these goods came from either illegal smuggling or state enterprises. Due to such huge differences between the official prices and the "black markets" prices, there existed a close connection between private traders, State officers, and State enterprises to ensure the provision of goods and services for the "black markets". For example, state enterprises, instead of using the inputs provided by the state to produce the legally binding output target, sold them to private traders at much higher prices than the nominal prices set by the state. Or state enterprises also sought to illegally sell their final products on the "black markets". In either case, state enterprises just simply reported to their State supervisors that they could not meet the output targets due to some other "objective" reasons. The collaboration between state enterprises and their direct state supervisors shielded the state enterprises, in most of the cases, from being penalized for not meeting the output targets. The price differences, now becoming huge economic rents, were certainly shared among the private traders, state enterprises, and their direct State supervisors.[36]

[35] See Dang and Beresford (1998) and Fforde and de Vylder (1996), Fforde (2006)

[36] For domestic sources about the illegal "black market" in Vietnam during this period, one can refer to archive sources of the Youth Newspaper, access online at tuoitre.com.vn. Foreign sources include Fforde and de Vylder (1996)

Table 1.2: A snapshot about state and joint state-private sector in North Vietnam, 1974[37]

Criteria	The State and joint State-private sector
Percentage of GDP (%)	47.5%
Percentage of the total industrial output (%)	72.2%
Total number of state enterprises, of which	1,375 enterprises
- under central management	337 enterprises
- under local governments	1,020 enterprises

Due to the combination of the above-mentioned factors, the model of orthodox Marxist-Leninist, centrally planning economy in North Vietnam was not fully implemented and thus "was never effectively subjected to the same level of centralized control as in the former USSR and Eastern European centrally planned economies".[38] The net result was that, during the wartime, the State proved unable to control economic activities to the degree it planned while the state enterprises, instead of being just implementers of the state plans, went beyond that boundary to become more decentralized and possess a certain degree of managerial autonomy. Such characteristics, together with the flux of foreign aids and grants, helped prevent the Northern economy from collapsing during the wartime period.[39]

I.1.1.2- National Re-unification and the State Enterprises

The North-South war ended in 1975 with the Vietnam Communist Party (VCP) claiming control over the whole country. The Communists decided to expand the DRV model nation-wide, leading to a wave of confiscation and nationalization of Southern private

[37] Vu Minh Trai (2000), pp. 13-15

[38] Van Arkadie and Mallon (2003), p.42

[39] Ibid., the North received an enormous amount of aids and grants from the socialist bloc, in which the former Soviet Union and China were the two biggest sponsors. If foreign aids and grants accounted for just 25 percent of the total state budget in the early 1960s, this figure increased to almost 70 percent in the late 1960s.

businesses after 1975. The end of the war also fostered the establishment of new state enterprises, especially at provincial and district levels. As a result, the number of centrally managed state enterprises increased from 620 enterprises in 1976 to 740 in 1985, whereas the number of locally managed state enterprises jumped from 1,400 in 1976 to 2,000 in 1980 and 2,700 in 1985.[40] The private sector existed mainly under the form of household business activities, whereas large-scale private businesses were banned. The state enterprises had since had monopoly in all important economic sectors and contributed substantially to the Gross Domestic Product and industrial output during this period.[41]

Table 1.3: State enterprises by levels of management[42]

Number of state enterprises	1976	1980	1985
Under the central management of line ministries	620	714	740
Under the local management of provincial and centrally-managed municipal authorities	1,373	2,000	2,742
Total number of state enterprises	1,993	2,714	3,842

Table 1.4: Growth rate of the State sector, 1976-1985[43]

Sectors	Units of calculation	1976	1985	Annual, Average Growth Rate
State owned enterprises and other units				
State owned Plantations	Plantations	115	414	22%
State-owned industrial enterprises	Enterprises	1,913	3,060	6%
State-owned retail outlet	Shops/retail outlets	6,663	13,087	9.6%
Gross Domestic Products	VND millions (according to 1982 fixed prices)	76,100	121,200	5.9%

[40] Compiled from different sources, including Vu (2000) and Luong (2001)
[41] Ibid.
[42] compiled from various sources, such as Vu Minh Trai (2000) and Luong Xuan Quy (2001)
[43] quoted from Luong Xuan Quy, 2001, p.65; last column added by the author

Centrally managed state enterprises were often major manufacturing factories producing important goods and services such as oil and gas, electricity, coal, machinery and equipment while state enterprises under the management of local governments were mainly engaged in producing consumer goods, foodstuff, and farm tools for local needs.[44] A form of grouping enterprises in similar sectors – Unions of Enterprises also took place in late 1970s with the purpose of preparing sectoral plans and assigning tasks to enterprises; however, these Unions played a rather unnoticeable role and did not supersede the independent status of their enterprise members.[45]

I.1.2- Fence-breaking Activities and the Partial SOE Reform Efforts

I.1.2.1- Fence-breaking Activities in State Enterprises

In response to the above-mentioned Soviet-style policies and plans imposed by the State, local officers and production units, including the agricultural cooperatives and state enterprises, engaged in the so called *"pha rao"*, or fence-breaking, activities. *Pha rao* activities, dated back to the early 1960s, became increasingly popular in every corner of the economy since the late 1970s. By then, aids and grants from the socialist bloc to sustain Vietnam's warfare economy had been reduced substantially, clearly exposing the inherent weaknesses of the DRV model.

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[44] Nguyen (1996), p.25

[45] Adam Fforde, "**Vietnamese State Owned Enterprises: "Real Property", Commercial Performance, and Political Economy"**, Working Papers Series No. 69, The Southeast Asia Research Centre, City University of Hong Kong, 2004, p. 7 (Fforde (2004-A))

There has been a variation of views over fence-breaking activities in Vietnam. For some scholars, fence-breaking activities were private activities and spontaneous moves towards production and trade outside the official channel.[46] Fforde terms these activities as spontaneous adaptations and bottom-up reform processes, referring to the phenomenon of agrarian cooperatives and industrial SOEs expanding their own account activities by diverting resources into areas that permitted them to access to free markets. The existence of fence-breaking activities thus led to the existence and growth of free markets in the DRV model and the eroded power of state monopolies. As a consequence, an important characteristic of Vietnam before the 1980s is the "coexistence of planned and unplanned activities, quite illegally, but nevertheless to a certain extent accepted".[47] Others adopted a more statist view about fence-breaking activities, pointing to the very trial nature of fence-breaking activities before they were officially sanctioned by the State decrees. These scholars, including a number of leading Vietnamese intellectuals and economists, asserted that fence-breaking activities or local initiatives in violation with formal State rules and regulations, in actuality, were often received some sort of guarantee from some top political leaders in the Politburo. There thus existed some "embryonic" collaboration between some top political leaders, heads of local authorities, and economic units in experimenting with fence-breaking activities before their official nation-wide implementation.[48]

[46] Van Arkadie and Mallon (2003), p. 49

[47] Fforde and de Vylder (1996), pp. 60-61

[48] Fence-breaking activities are now widely acknowledged by both foreign and domestic sources. For foreign sources, you can refer to Fforde and de Vylder (1996). For domestic sources, you can refer to Dang and Beresford (1999), or the series "**Dem truoc Doi Moi**" (or The Night before Doi Moi) on The Youth newspaper, online access at http://www.tuoitre.com.vn/Tianyon/Index.aspx?TopicID=528

Fence-breaking activities started in the agricultural cooperatives as "various models of contracts between the cooperative and individual households for output, work points and expenses were implemented in different localities".[49] In the North, attempts to get over the rigidity of the collective system emerged very early, back to even the 1960s with the experiment of a contractual system in Vinh Phuc province. Kim Ngoc, the then Provincial Party Secretary, allowed limited family-based production until he was disciplined by the central government.[50] By the late 1970s, the deep reduction in foreign aids and grants, the involvement in Cambodia, and the border war with China had exhausted the flows of resources coming through the state administrative supply system. As mentioned earlier, the inherent weaknesses of the DRV model, namely the resource constraints and coordination problems, became the most visible then. Consequently, experiments outside the plans, or fence-breaking activities, mushroomed among state economic units.[51] Doan Duy Thanh, Party General Secretary of Hai Phong city, started piloting Kim Ngoc's contractual system in a village of more than 90,000 hectares of agricultural land. The results were so remarkable that in 1980 the practice was allowed to be applied to all collectives in Hai Phong. Doan Duy Thanh was later quickly promoted to the post of Deputy Prime Minister in charge of economic-financial matters.[52]

As was mentioned earlier, state enterprises in industries and trading businesses tried to get around the constraints of the DRV planning system by selling or bartering their products among each other or on the "black markets". They used the raised revenues to

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[49] Gareth Porter, **Vietnam: the Politics of Bureaucratic Socialism**, Cornell University Press, 1993, p. 122

[50] Beresford and Dang (1998)

[51] Fforde and de Vylder (1996), pp.12-13

[52] Beresford and Dang (1998)

buy input supplies which were not sufficiently provided by the State or to pay bonuses to their workers. For example, a number of state enterprises in various locations in Northern Vietnam attempted to set up direct transactions with either suppliers or customers with no intermediaries assigned by the State authorities. Or state enterprises also started working out extra activities outside the State plans. As a result of such mushrooming of fence-breaking activities, state enterprises increasingly "ignored planned allocative mechanisms and sought out suppliers and customers, threatening central control over resource allocation".[53]

Fence-breaking activities were also numerous in the South. In the trading areas, local state enterprises also tried to end the state's central trade monopoly by developing regional trading corporations, especially out of Ho Chi Minh City.[54] For example, in the late 1970s, when farmers refused to sell rice to the State at extremely low State procurement prices, the Food Production and Distribution Company in Ho Chi Minh City, under the support of the City's Party Secretary and Chairman, offered to buy rice at the "black market" rates, and thus was able to feed its urban population. Similarly, instead of producing according to the State plans, numerous SOEs managed to produce goods for the "black markets" and thus, supplemented cash income to their employees.[55]

<u>I.1.2.2- State's Partial Efforts to Reform the SOE System during 1979-1985</u>

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[53] Fforde and de Vylder (1996), p.138, and Adam Fforde, **Vietnamese State Industry and the Political Economy of Commercial Renaissance**, Chandos Publishing, 2007, p.25

[54] Martin Rama, "**Making Difficult Choices: Vietnam in Transition"**, Working Paper no. 40, 2008, Commission on Growth and Development, p. 17

[55] Compiled from the series "**Dem truoc Doi Moi" (or The Night before Doi Moi**) on The Youth newspaper, online access at http://www.tuoitre.com.vn/Tianyon/Index.aspx?TopicID=528

The State was not totally ignorant of weaknesses within the DRV model. In fact, a pilot program to reform the state enterprises already begun in the late 1960s with three State enterprises. However, as attentions were re-directed towards the deepened war with the Southern regime, reform efforts were not sustained in subsequent periods. Formal reform efforts were re-started in 1979 with the Resolution of the Sixth Plenum of the Fourth Party Congress which accepted the parallel existence of the private economic sector and markets to a certain degree together with the centrally planning mechanism and the dominant public economic sector.

The two main ideas of reform endorsed by the Central Committee in August 1979 were: (i) the contract system in agriculture which was later announced in Directive 100 in 1981 to allow farmers to sign contracts with cooperatives and to sell their "leftover" produce on the free markets after completing the legally binding output targets; and (ii) the Three Plan system stipulated in Decree 25 in 1988, allowing state enterprises to have extra activities (Plans II and III) in addition to the legally binding state plans (Plan I). Decree 25 was, therefore, one among the initial State attempts to sanction "fence-breaking" measures in reforming the centralized bureaucratic planning economic system.[56] The result of such partial reform efforts was the recovery in state industrial output in the early 1980s, especially in sectors and industries which were highly elastic to market demand and whose inputs were available domestically.[57]

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[56] Le Dang Doanh, "**He qua luat phap cua cai cach doanh nghiep nha nuoc" (Legal perspectives of SOE reform)**, in Various authors, *Cai cach doanh nghiep nha nuoc: thuc tien Vietnam va kinh nghiem the gioi, (Reforming state-owned-enterprise system: Vietnam situation and world experiences),* Vietnam: National Political Publishing House, p. 141
[57] Fforde and de Vylder (1996), pp.138-139

However, the State retreat its partial reform efforts towards liberalization after 1981 and tried to re-insert the planning system back. For example, the Fifth Party Congress in 1982 initiated a range of reform-repressing activities, including the dropping of the often-dubbed reformist Nguyen Van Linh, the then Party Secretary in Ho Chi Minh City, from the Politburo.[58] The last straw, the "*gia-luong-tien"* or centralized price-wage-monetary reform in 1985, pushed Vietnam into one of its most severe financial and economic crisis in the twentieth century. Instead of abolishing the two-tier price system and let the markets play their roles in setting the prices of goods and services, the State decided to adjust the official prices of key commodities at "acceptable" levels, aiming at both reducing the State subsidies for state enterprises on the one hand and avoiding any sudden increases in the prices of consumer goods and services on the other hand. The price adjustment was accompanied with wage increases and the issuance of new currency. However, problems existed both in the formulation of such policy as well as its implementation, causing disastrous impacts on the economy. Within a very short period of time, state enterprises suddenly found themselves keeping inadequate cash. They thus needed to borrow more in order to finance their continued production activities. Prices, wages, capital supply, and government deficits all suddenly increased rapidly, creating powerful inflationary pressures and destroying the value of the Vietnamese dong. At its peak, the inflation rate in Vietnam thus reached almost 800% in 1986.[59]

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[58] Porter (1993), p. 142

[59] This description based on Porter (1993), pp. 143-144. For further information, one can refer to, say, Borje Ljunggren, "**Vietnam's Second Decade under Doi Moi, in Vietnam: Reform and Transformation"**, Conference Proceedings edited by Bjorn Beckman, Evan Hansson and Lisa Roman, Center for Pacific Asia Studies, 1997, pp.9-36

I.1.3- "Doi Moi" and the SOE Reform Agenda

Responding to the crisis, in the Sixth Party Congress in December 1986, the then newly-selected Party General Secretariat Nguyen Van Linh announced the implementation of "Doi Moi" strategy, or reform and renovation. Doi Moi sought to renew the DRV model and open up the economy to the private sector and the outside world. Year 1986 was then often hailed by most Vietnam researchers and scholars as "a turning point in the reform process".[60] It indeed marked one of the most important moments in the modern history of Vietnam. The significance of the Sixth Party Congress in 1986 was reflected through the fact that: although the transitional process and reform efforts did take place earlier, it was the Sixth Party Congress that confirmed the dominance of market-oriented reforms. During the first half of the 1980s, back and forth efforts to reform the state enterprises system were seen in different, sometimes opposite, directions with high possibility of returning to the rigid planning system. However, from the late 1986 onwards, the trajectory of reform was definitely set with no return to the centrally planning economy.[61]

Although Doi Moi is often regarded as Vietnam's own reaction to its domestic crisis, it, by all means, took place in a rather "favorable" international politico-economic context. At the time Vietnam started to reform its centrally-planning system, the trend for reform had already emerged and well-established on the global scale.[62] This trend, for the post-communist countries, was meant to solve the systemic crisis within the socialist

[60] Dennis A. Rondinelli and Jennie Litvack, "**Economic Reform, Social Progress, and Institutional Development: a Framework for Assessing Vietnam's Transition"**, pp.1-30, in *Market Reform in Vietnam: Building Institutions for Development*, Quorum Books, 1999, pp.20-21

[61] Fforde and de Vylder (1996), pp.125-171

[62] Le Huu Tang and Liu Han Yue (eds.), **Economic Reform in Vietnam and China: a Comparative Study**, The Gioi Publishers, 2006, pp. 255-261

mechanism, and thus had different impacts on Vietnam over different stages of Doi Moi. It would be fair to say that Vietnam, in the beginning of its Doi Moi process, was mainly influenced by what happened in the then former Soviet Union until the late 1980s, although it also kept a close watch on the Chinese experience in reform. However, since the early 1990s when the former Soviet Union collapsed while the Sino-Vietnam relationship was re-normalized, the trajectory and content of reform in Vietnam have shared explicitly similar features with those of China, especially in the field of SOE reform.[63]

I.1.3.1- The Evolving Agenda of "Doi Moi"

The early reform program initiated by the Sixth Party Congress in late 1986 sought "to stabilize the economy and to continue to construct the prerequisites needed for socialist industrialization in the next stage" through three key programs of development of staples and non-staples food production, consumer goods production, and exports. In addition, the reform program also sought to shift the economic activities towards more commercial basis, allowing voluntary exchanges based upon calculation by both parties of the economic costs and benefits involved. Doi Moi tried to strengthen the State and collective sectors on the one hand while grasping the potential of other economic components on the other hand.[64] To realize these targets, a series of decrees between 1987 and 1988 were issued to improve the operation of internal markets, conferred greater freedom upon state enterprises and gave back much economic power to farmer families in cooperatives.

[63] External influences over the launch and content of Doi Moi in Vietnam have been widely discussed among Vietnam scholars. For reference, one can see, for example, Le and Liu (2006) or Dang and Beresford (1998).
[64] Fforde and de Vylder (1996), pp.125-171

Policy towards the non-state sectors was also liberalized, though in practice very little changed. Since 1986, the reform package had been evolving over time, covering agrarian decollectivization and price liberalization, SOEs and banking reforms, trade liberalization, facilitating the development of a private sector, attracting Foreign Direct Investment (FDI), fiscal decentralization and taxation reform, public administration, and other areas.

Doi Moi proved to be a remarkable economic success. From one of the poorest countries in the world, Vietnam has become one among the fastest growing economies in the region as well as in the world. Economic achievements started to be noticed since 1989, when Vietnam, for the first time, produced food excess and exported rice. Once suffered from serious food shortage and famine, Vietnam rose to one of the top rice exporters in the world, just in the matter of a few years. The revival was not only witnessed in the agricultural activities but also industrial and services sectors during most of the 1990s, coupled with massive inflows of Foreign Direct Investments (FDI) pouring into the country. As a consequence, Vietnam reached consistently high GDP growth rates during the first half of the 1990s at around 7 to 8 percent on average. The GDP growth rate dropped during the Asian financial crisis from 1997 to 1998, but not lower than 4 percent per annum. The economy revived by the late 1990s and maintained at about 6 to 7 percent rate of growing in the early 2000s. Macroeconomic conditions have been kept stabilized with controlled inflation (often below 10 percent as compared to the peak of nearly 1,000 percent in end 1980s), rather stable exchange rates, and manageable unemployment situation.[65]

I.1.3.2- SOE Reform in "Doi Moi"

For state enterprises, reform measures can be grouped into the following categories: (i) commercialization; (ii) re-registration, re-arrangement, liquidation and mergers; (iii) corporatization; and (iv) equitization.[66] The former two measures were mainly carried out during the first ten years since the launch of Doi Moi in 1986. Commercialization aimed at subjecting state enterprises towards a more commercial basis through granting increased autonomy and subsequently correspondent responsibility to State-owned enterprises over their financial performance. Re-registration, re-arrangement, liquidation, and mergers meanwhile sought to streamline the SOE system by requesting enterprises to re-register with their State supervisors. Through this exercise, inefficient and loss-making SOEs were forced to close down or merge with profitable and often bigger enterprises of the same sectors. Corporatization and equitization, after a few years of trial period, became official measures to restructure the state enterprises system in 1994 and 1996, respectively. Corporatization sought to form large-scale state-owned conglomerates through grouping existing enterprises of same sectors and purposes. In essence, the first three reform measures deal mainly with the "operational" principles of the central-

[65] Compiled from various sources, including various reports by the World Bank, IMF, ADB, and governmental reports over various years

[66] For a comprehensive review of SOE reform measures taken during this period, please refer to UNDP Vietnam, "**The State as Investor: Equitization, Privatisation, and the Transformation of SOEs in Vietnam"**, *UNDP Vietnam Policy Dialogue Paper*, Oct. 2006, pp. 1-17; Vu Quoc Ngu, "**The State-Owned-Enterprise Reform in Vietnam: Process and Achievements"**, *ISEAS Visiting Researchers Series* No. 4, 2002; or George Abonyi, "**Policy Reform in Vietnam and the Asian Development Bank's State-owned Enterprise Reform and Corporate Governance Program Loan"**, *ERD Working Paper* Series No.70, 2005

planning economy in Vietnam, which was to grant increased autonomy to the managers in state enterprises, reduce the interventions by different State agencies in their daily operations, trim down the number of state enterprises, and carry out organizational restructuring in these state enterprises to make them more efficient and market-oriented. The last measure, equitization or transfer of the public ownership in state enterprises into the private sector, was the only one to seek modifications to the "definitional" principle of socialism.[67]

1987-1990: Commercialization of state enterprises

During the period between 1987 and 1990, the Ministers' Council issued Decision 217 in 1987, Resolution 50 in 1988 to revise and amend Decision 217, and finally Resolution 27 in 1989 on the Statute of State Enterprises.[68] These legal documents tried to deal with various issues in the management of the state enterprise system, including the planning, inputs and outputs, cost-accounting practices, prices and pricing, credits and subsidies,

[67] Fforde (1999) defined that the socialist project was based on two sets of principles- definitional and operational. Definitional principles are more fundamental, defining socialism in terms of public ownership of the means of production, central planning, and distribution according to labour, while operational principles set rules and regulations for a normal operation of the socialist project, such as a central monopoly of foreign trade, a state monopoly over the domestic circulation of goods, cooperative production in agriculture and the handicraft industry, planning of industrial production, state control of finance and credit, state determination of virtually all prices (including state-sector wages) and planned allocation of labor. Also, according to Fforde (1999), socialist countries, such as China and Vietnam, were tempted to deal with reforms in operational principles rather than definitional principles in the beginning. For examples, early "partial" reforms – such as China's rural reforms and the late 1970s and Vietnam's reform of 1980-81 – attempted to tackle the operational rather than the definitional principles: that is, they attempted to strengthen socialism by modifying the operation of the system. This could happen most easily in three areas: freeing up domestic and foreign trade from administrative controls; permitting greater participation in markets by SOEs; and allowing a return to family-based farming." (pp. 45-46). For further discussion on the different nature/essence of SOE reform measures in Vietnam in different time periods, see, for example, Ngo (2001), or Institute of Economics, **Doi moi va phat trien cac thanh phan kinh te (Reform and develop different economic sectors)**, Vietnam: National Political Publishing House, 1993

[68] Ngo (2001), p. 97

distribution, labor, salary and recruitment, and state management in state enterprises.[69] State enterprises during this period were basically classified into two main categories: (i) state enterprises producing strategic goods and services grouped under the thirty five unions of enterprises, and (ii) non-strategic enterprises. The former group accounted for about half of the total industrial output produced by the whole state-enterprise sector. These thirty five enterprise unions covered a wide range of areas, from coal, electricity, steel, chemicals, and fertilizer, transport and communications, to textiles, paper, household goods, and electronic products. As a result, the State still kept its tight control over this group of enterprises through three legally binding target: (i) quantity and quality of strategic products distributed to specific purposes stipulated by the State (State Planning Commission), including the defense and export purposes, (ii) total output/sales value, including the export volume, and (iii) contributions to the State Budget. For the remaining, non-strategic enterprises, only one legally binding target- the contribution to the State Budget – was now assigned.[70] All in all, the reduction of the number of legally binding targets from nine in the early 1980s to three for state enterprises in strategic sectors and one for the remaining enterprises marked a substantial step towards abolishing the planning mechanism.

In addition, state subsidies to state enterprises, including the price subsidies through the dual pricing system, were abolished. The prices of most of goods and services, except some certain strategic products, were allowed to be determined by the markets. New cost-accounting practices were applied in the system of state enterprises in replacement for the

[69] Decision 217 of the Ministers' Council in 1987
[70] Ibid.

previous accounting system. Prior to 1987, an enterprise's profits were often pre-determined as a percentage markup on approved input costs and thus higher costs automatically implied higher profits for the enterprise. In the new cost-accounting system, the profit was calculated as the difference between the actual costs and revenues.[71]

Enterprise managers were also given increased autonomy in making decisions related to production and investment, inputs procurement, output distribution, and recruitment. For example, regarding the recruitment issue, in contrast to the previously rigid plan on the number of workers and the value of their wages imposed by the State superiors, state enterprises were now able to recruit as many workers as they wished provided they managed to pay salaries.[72]

Decision 217 also decentralized the State authority to local governments to a substantial degree by allowing them, including the district and communal authorities, to set up their own SOEs. Such decentralization resulted in a rapid increase in the total number of SOEs from slightly above 3,000 in 1985 to more than 12,000 by the end of the 1980s, among which 60 per cent were state enterprises under the management of provincial and district authorities. The majority of these enterprises was of very small capital scale and often experienced financial troubles after a few years of operation. Most of local state

[71] Ibid., and Fforde and de Vylder (1996), pp.158-161
[72] Decision 217, 1987

enterprises established by local governments were not capitalized by the State Budget but sustained by bank loans.[73]

Assessments of SOE reform efforts in the late 1980s therefore paint a mixed picture. On the one hand, the increased autonomy granted to state enterprises helped a number of them to operate more efficiently and profitably. However, a majority of state enterprises, especially the local ones, turned into inefficient and made consecutive losses. The industrial output produced by the state sector recorded a negative growth rate in 1989, mainly due to the dismay performance of local state enterprises.[74]

Table 1.6: Industrial Output Growth (%), 1989-1993[75]

Year/Timeline	1989	1990	1991	1992	1993
Industry: share of GDP		19.0	19.8	21.7	21.5
Total industrial output	-3.3	3.1	10.4	17.1	12.1
State industry	-2.5	6.1	11.8	20.6	13.3
- Central state enterprises	5.9	15.3	15.5	23.1	14.1
- Local state enterprises	-36.1	-20.0	-41.6	-31.1	-2.3
Private (non-State)	34.5	10.4	26.7	16.9	10.2

By 1988, it was evident that partial reform through decentralization and management improvement in the state enterprises was not sufficient. About 4,600 out of 12,000 state enterprises in 1989 were making losses.[76] At the end of 1991 the overdue debts owed by state enterprises to state banks and among each other were estimated at about 10 trillion VND (or US$ 900 million), equal to 11 percent of the country's gross social product and

[73] Van Arkadie and Mallon (2003), pp. 124-125, and Ngo (2001), pp. 97-99
[74] Fforde and de Vylder (1996), pp.158-161 and Ngo (2001), p.99
[75] quoted from Fforde and de Vylder (1996), table 7.2
[76] Rondinelli and Litvack (1999), pp. 20-21

nearly equivalent to Vietnam's total 1990 export earnings. About 12,000 state enterprises still held 75 percent of the country's assets and used 86 percent of the bank credit, but they generated only 26 percent of gross domestic product and could provide jobs for less than one-third of the country's labor force.[77] In addition, Vietnam's inability to obtain sufficient amounts of foreign aid and the demise of Soviet assistance in the early 1990s also made the task of further reforming the state enterprises more urgent.

1991-1994: Re-registration, re-arrangement, liquidation and mergers of state enterprises

Re-registration, re-arrangement, liquidation and mergers thus started in 1991 in order to tackling the issue of restructuring state enterprises. To provide guidelines for this process, the Ministers' Council issued a number of decisions and decrees, among which Decision 315 in 1990 and Decision 388 in 1991 were the most noticeable.[78] By 1994, the number of state enterprises was brought down to around 6,300, after 2,000 were forced to close down and 3,000 to merge with each other. Another wave of re-arrangement was promulgated in 1994, which further brought down the number of state enterprises to 5,500 by the late 1997. This measure also boosted the average capitalization scale for SOEs from VND 3.1 billion before 1990 to VND 11.5 billion by end 1997, while reducing substantially State subsidies for loss-making SOEs.[79]

Despite the above-mentioned results, the reform measures applied during the early 1990s still failed to improve the efficiency of the state enterprises to a substantial extent. By the

[77] Doan Van Hanh, **Cong ty Co phan va chuyen Doanh nghiep Nha nuoc thanh Cong ty co phan**, **(Joint Stock Companies and Tranforming State-owned enterprises into Joint-stock companies)**, Vietnam: Statistical Publishing House, 1998, pp. 109-110

[78] Ngo (2001), pp. 100-101

[79] Doan (1998), pp. 109-110

mid 1990s, only about 20 to 25 per cent of the state enterprises, most of which were central enterprises, managed to make profits whereas at least 40 percent were making losses. For those able to make profits, the ratio of profit to fixed capital reached the average rate of only seven per cent and merely three percent for industrial production. Overall, state enterprises during this period could only operate at less than half of their expected capacity. Meanwhile, loss-making enterprises accounted for almost 40 percent of the total fixed assets invested by the State in the system and 33 percent of total state labor force.[80]

The question of how to improve the efficiency of the state enterprises thus was not simply solved by commercializing and trimming down the state enterprises. The thorny issues of in reforming state enterprises, i.e. the unclear ownership structure and inefficient corporate governance, remained untouched.[81] For example, one of the most urgent problems with the state enterprises was attenuated ownership. State enterprises were officially owned by the State, all the assets and capital were provided by and belonged to the State. However, in reality, the ambiguous owner, the State, did not point to anyone in specific, leading to basic problems of the principal-agent relationships. Most of State assets and capital provided to enterprises were not maintained and exploited properly. Misuses and losses of state assets and capital became common. One of leading research institutes in Vietnam makes the following comments on the use of State assets and capital in state enterprises during this period:

[80] Vien Kinh te hoc (1993), pp. 41-43
[81] Ibid., and Le (1996), Fforde and de Vylder (1996), pp.125-171

> "The situation of rolled-over debts, non-performing loans and payment defaults was very popular and serious among state enterprises. During the past few years, many enterprises took the advantages of certain loopholes in the new management system, which was incomplete and incomprehensive, in order to buy and sell the same state assets several times to get illegal profits, to make false revenues claims, to distribute goods improperly within the enterprises in order to benefit a few individuals at the loss of state assets… Enterprise finance and state assets thus had never been so mis-managed …"[82]

In addition to the misuse of state assets and capital, state enterprises also collaborated with local cadres and local branches of state-owned banks to secure bank loans in replacement for dwindled state subsidies. As was mentioned earlier, the overdue debts owed by state enterprises to state banks and among each other reached 10 trillion VND (or US$ 900 million) by the end 1991, equal to 11 percent of the gross domestic product and nearly equivalent to Vietnam's total 1990 export earnings.[83]

Corporatization

Given the increasingly urgent context of reforming state enterprises by the mid 1990s, the State made its move first with the official mandate of corporatization. The Prime Minister issued Decision 90 and 91 in 1994 to transform former unions of enterprises and General Corporations as well as to establish new General Corporations in strategic sectors. The main purpose was to up-scale strategic state enterprises into a model similar to the South

[82] Vien Kinh te hoc (1993), pp. 41-43
[83] Doan (1998), pp. 109-110

Korea's *chaebols*.[84] The new model of General Corporations and business groups (for the purpose of the thesis, which are thereafter referred under the common name of General Corporations) could be placed under the direct management of the Prime Minister (91-GCs) or line Ministries and local governments (90-GCs).[85] State enterprises grouped under those GCs become their dependent members, reporting directly to the GCs. GCs were headed by a Board of Management, daily run by a Board of Directors, and supervised by an Inspection Board. Most of these executive positions were appointed by the Prime Minister for 91-GCs and line Ministers and the Provincial People's Committee (PPC) Chairmen for 90-GCs.[86] By late 1990s, there were seventeen 91-GCs and more than seventy 90-GCs in Vietnam, with nearly 2,000 enterprise members across the country, accounting for 70 percent of the total State capital invested in state enterprises.[87]

The Millennium turn marked a second wave of corporatization, in which GCs were required to transform into business groups or holding companies (also called "mother-child" model in Vietnam). The mother companies – transformed from GCs – would make financial investments in their child companies (subsidiary and/or associate companies) based on sound feasibility studies, instead of providing capital subsidies to their SOE members as GCs often previously did based on administrative priorities and orders. The mother-child model was set as the preparatory stage for GCs to transform fully into

[84] Masina P. Pietro, **Vietnam's Development Strategies**, Routledge Contemporary Southeast Asia Series, 2006, p.114
[85] GCs are named after the Prime Minister's Decisions to establish them, i.e. Decisions 90 and 91 in 1994
[86] Prime Minister's Decisions 90 and 91 in 1994
[87] MOF and NSCERD reports, 2006

economic groups.[88] By mid 2006, seven 91-GCs completed the transformation into economic groups and six other 91-GCs and thirty-eight 90-GCs were allowed by the Prime Minister to also transform into the economic group model.[89]

Table 1.7: Number of state enterprises until the mid-2000s[90]

Number of SOEs	**2001**	**2005**
Central SOEs	n-a	307
Local SOEs	n-a	1160
91 GCs (members)	17 (591)	17 (301)
90 GCs (members)	79 (1014)	79 (408)

Note: n-a: data non available
The numbers of 90-GC and 91-GC members in the bracket dropped due to equitization and other transformation measures such as merger and acquisition, closure, etc.

I.2- Equitization Policies: Origin and Evolution

I.2.1- The Pilot Equitization Program: 1987-1995

Intentions to equitize SOEs were initially mentioned in the blueprints of the Vietnam Communist Party (VCP) as early as in late 1980s under such terms as "transformation of forms of ownership", "transformation into other forms of ownership (including leasing to collectives or individuals", or "allowing collectives or individuals to lease or buy"[91]. Pilot equitization program was then proposed by the Government in its first official decree to reform the state enterprises system during the Doi Moi period, Decision 217 in 1987.[92] However, no state enterprises were equitized then. Explaining the reason why such a

[88] Interview with Dr. Tran Tien Cuong, Head of the Board on Enterprise Reform and Development Studies, Central Institute of Economic Management (CIEM) by VnExpress on August 2004, access online at http://www.vnexpress.net/GL/Kinh-doanh/2004/08/3B9D5ADC/
[89] NSCERD report, 2006
[90] compiled from various sources, including MOF (2006) and NSCERD (2006)
[91] Various resolutions of the Sixth VCP Congress meetings during 1986-1990, access at Vietnam Communist Party's website: www.cpv.org.vn
[92] Article 22, Decision 217, 1987

policy failed to take off during the period, two scholars from Ministry of Finance, Hoang Cong Thi and Phung Thi Doan, point to the following three reasons: (i) by late 1980s, the need to equitize was not such urgent due to a still considerable extent of state subsidies provided to state enterprises to cover up the inherent weaknesses of the system; (ii) lack of thorough understanding from the top leaders towards local cadres about equitization, or privatization in fact, and how to do it in the context of Vietnam; and finally, and (iii) lack of a consensus within the Communist Party and the society over the necessity of equitization and how to carry it out.[93]

As a result, such a pilot equitization policy, hailed by the two Ministry of Finance officers as mature reform measure by then, was stalled. The pilot equitization program was once again mentioned in the Decision 143 by the Ministers' Council in May 1990. This legal text went further than Decision 217 by specifying in details the objectives and procedures to equitize state enterprises. However, again, after two years of issuance, the implementation of this legal document remained on paper only. Meanwhile, as observed by some scholars and policymakers, during this period, a spontaneous process of equitization did take off at a number of state enterprises in various forms, causing problems for the authorities in giving proper treatment to these "spontaneously equitized" companies.[94] Hoang and Phung, again, point to a number of factors that lead to such reality: (i) the lack of consensus and commitment among the Party and State leaders; (ii) inadequate propaganda and explanation, leading to misunderstanding or lack of

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[93] Hoang and Phung (1992), pp.23-24

[94] Author's own interviews with CIEM staff during her fieldtrips in Vietnam in 2007. Examples of spontaneous privatization during this period are employees' contribution in kinds and cash to the enterprises which were not returned to them later.

understanding about equitization at local levels; and (iii) resistance at local levels due to the fear of losing individual benefits.[95]

The fact that an equitization program, albeit on an experimental scale, could finally take off in late 1991 and early 1992 was due to a combination of factors. The domestic factors included an inefficient State sector worsened with the cut-off of foreign aids as well as the emergence or already existence of a private ownership pattern requiring the State acceptance and recognition. The external factors consisted of the fall of the former Soviet Union and other socialist countries in Eastern Europe, the reform process taking place in China, and the attention and advices given by international communities and international financial institutions to Vietnam during the transitional period.[96]

The take off of the pilot equitization program was originated from, first and foremost, the pressure caused by an inefficient state-enterprise system on the State Budget. As Fforde and de Vylder asserted, "the question of privatization was thus not only, or even primarily, an ideological issue in Vietnam, but "budgetary considerations appeared to be more important".[97] Although officially the state enterprises contributed up to almost two thirds of the budget revenues, only a few of them did so while the rest were either at losses or making no profits. Vu Thanh Tu Anh also confirmed that the government perceived equitization as necessary due to the need to reduce "the fiscal burden imposed by inefficient SOEs" as well as to improve the performance of the state enterprises which

[95] Hoang and Phung (1992), pp.23-24
[96] Author's interviews with CIEM's and MOF's officials during fieldtrips in Vietnam in 2007
[97] Fforde and de Vylder (1996), p.255

also reflected “the credibility and legitimacy of the government”. [98] As mentioned earlier, by the end of 1991, the overdue debts owed by state enterprises to state banks and to each other were estimated at about 10 trillion VND (or US$ 900 million), equivalent to 11 percent of the 1990 GDP and nearly equivalent to Vietnam’s total 1990 export earnings. About 12,000 SOEs still held 75 percent of the country’s assets and used 86 percent of the bank credit, but they generated only 26 percent of gross domestic product and could provide jobs for less than one-third of the country’s labor force.[99]

External factors also contributed substantially to the take-off of the pilot equitization program in the late 1991. The collapse of the former Soviet Union and consequently former socialist bloc in Eastern Europe in the early 1990s generated a mixed impact on Vietnam. On the one hand, the reduction in aids from the former Soviet Union and the COMECON bloc, and later the total cut-off in the early 1990s pushed Vietnam to further reform their cumbersome and loss-making SOEs with heavier measures, including equitization.[100] On the other hand, the rapid collapse of the former Soviet Union in the early 1990s as a result of “big bang” reform measures, including a wave of massive privatization did send a strong warning to Vietnam’s political leaders against any attempts towards a quick equitization process.[101]

The role of international financial institutions, especially the International Monetary Fund, was also likely to be important, although their formally advisory role was not yet

[98] Vu (2005), p. 3
[99] Doan (1998), pp. 109-110
[100] Interviews with MOF’s officials, September-October 2007, add the volume of aids cuts here
[101] Author’s interviews with CIEM’s and MOF’s officials during fieldtrips in Vietnam in 2007

recognized during this period. Allegedly, some IMF senior consultants, including one Vietnamese, had provided consultancy to the then Deputy Prime Minister Vo Van Kiet, who was in charge of economic matters.[102] Equitization, or privatization, was no doubt always given high priority on the IMF's consulting table. A researcher at the Central Institute of Economic Management, one among the key think-tanks advising the Ministers' Council during the late of the 1980s and the early of the 1990s, recalled that seminars and workshops were held and sponsored by foreign sources on the topic of privatization, presenting experiences from various transitional economies, including Poland and China, with a purpose of drawing lessons for Vietnam.[103]

Advocates for equitization among liberal thinkers and intellectuals were also clearly reflected in research papers and studies during the period. For example, a policy paper by Professor Le Dang Doanh, the then Head of the above-mentioned Central Institute of Economic Management (CIEM) in 1991 also discussed rather in details and confidently a "privatization" program when the measure was just nurtured and not yet announced by the centre-party state.[104] The main rationale for an equitization process to take off in Vietnam, according to Professor Le, was due to the fact that there were "no big capitalists in Vietnam, so that privatization of state owned enterprises will mainly take the form of shareholding companies". [105]

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[102] Masina (2006), p. 63

[103] Author's interviews with Dr. Tran Tien Cuong (CIEM) in fieldtrips in Vietnam in 2007

[104] Le Dang Doanh, "**Economic Renovation in Vietnam: Achievements and Prospects",** in Forbes et al (eds.), *Doi Moi: Vietnam's Renovation Policy and Performance*, Caberra: Australian National University, 1991, pp. 85-91

[105] Ibid.

Another paper by Do Duc Dinh provided an excellent summary of different stands on solutions to the problem of the state sector in Vietnam in general, and the SOE system in particular between the end of the 1980s to the early of the 1990s. There seemingly existed a coincident consensus among well-known Vietnamese scholars and observers during that period over the necessity of transferring (a major) part of the state enterprises into shareholding companies, which was also strongly advocated by Do, after a specific and persuasive critique on the poor performance of state enterprises. It is worth noting that Do did mention the experiences of other developing countries, including that of China, as important sources and lessons for Vietnam to learn and follow.[106]

Do's paper reflects the heated debate by the end 1980s and early 1990s, not only confined within the academic circle or bureaucratic agencies, but cross-agencies and institutes as well, over the necessity and possibility of privatization in Vietnam. And while the academia, to some extent, reached unanimous consensus, the party-state apparatus seemed reluctant and sought modified explanations or alternatives that might serve their benefits better. In this context, the Party's acceptance to implement a pilot equitization program in 1991 might be signs of a compromise made by the State under the pressures from various factors pushing for privatization.

The Second Plenum of the Seventh Party Congress in December 1991 thus endorsed the pilot program of equitization. In this plenum, the Party tried to clarify such terms as "equitization" and "transformation of 100 percent state-owned-enterprises into

[106] Do Duc Dinh, "**The Public Sector of Vietnam"**, in Forbes et al (eds.), *Doi Moi: Vietnam's Renovation Policy and Performance,* Caberra: Australian National University, 1991, pp.54-67

shareholding companies", laying the grounds for the then Prime Minister Vo Van Kiet to issue Decision 202 in 1992 to enforce the experimental equitization process. Occasional pushes for acceleration of equitization mandate were made during the trial period from 1992 to 1996, but the focus was still on small- and medium-sized, non-strategic enterprises and on the equitization of parts of these enterprises only. The attempt to form large conglomerates (including banks and other financial institutions) following the Korean's chaebol model since 1994 and their consequent reforms into economic groups, holding companies, or parent-child models further strengthened such perception among these enterprises.[107] The common perception during this period among not only state enterprises but also their supervisors and other State agencies was that the scopes of the two reform measures, equitization and corporatization, were mutually exclusive, covering different groups of enterprises.[108]

I.2.2- Formalization of the Equitization Mandate: 1996-1998

Despite sluggish implementation, equitization was included in the agenda of the Eighth Party Congress in 1996 and subsequently formalized as an official mandate in the same year. However, the tone of the Ninth Party Congress' political report was still conservative, considering equitization mainly as "the policy to equitize ***part of SOEs*** in order to mobilize capital and create incentives for these state enterprises to exploit and

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[107] Equitization and corporatization were largely perceived by then as two competitive, rather than complementary, SOE reform measures. It was very popular to interpret that SOEs merged into General Corporations were safe from equitization. This perception has been popular since then until early 2000s. Author's interviews with CIEM staff, January-March 2007.

[108] Author's interviews with CIEM staff, January-March 2007.

develop the State assets in their enterprises efficiently".[109] Such conservative stance against a massive process equitization was then well reflected in the Governmental Decree 28 issued later in 1996 to enforce the nation-wide implementation of the equitization mandate.

Decree 28 in 1996 was rather simple and not much different from the legal document that regulated the trial equitization process, Decision 202 in 1992. It stated two objectives for the equitization process, which were to mobilize capital from the private sector and to improve the management in the system of state enterprises. In so doing, the equitization mandate was applied only on the whole body or parts of small and medium-sized state enterprises which the State did not need to retain 100 percent ownership and which were profitable at the equitization time.[110] Only Vietnamese citizens and legal entities were allowed to buy shares from equitized companies; whereas the pilot sales of shares to foreigners should be subject to the Prime Minister's approvals in case-by-case basis. The division of responsibilities among relevant state agencies regarding the equitization was as follows: (i) the direct State supervisors, i.e. line Ministries for central state enterprises, Provincial People's Committees for local state enterprises, and General Corporations for their members, were in charge of selecting companies for equitizing and approving their equitization plan for enterprises of less than VND 3 billion in capital; (ii) the Prime Minister was in charge of approving the equitization plan for state enterprises of between

[109] Report on Continnuting reform, industrialistion and modernization for the cause of prosperous people, strong nation, equal and civilized society, and sustainable progress towards socialism made by Do Muoi, the then Party General Secretariat at the Eighth Party Congress on June 1996, access online at the VCP's website at www.vcp.org.vn; italic added by the author

[110] Enterprises of less than VND 10 billion in capital were considered as small- and medium-sized.

3 and 10 billion dongs in capital; and (iii) Ministry of Finance was in charge of approving the pre-equitization valuation of the equitizing enterprises. The proceeds collected from the equitization process, after deducting all the costs, would be centrally managed by the Ministry of Finance. Equitization proceeds would be used for non-current expenditure items with development investment purposes only.[111]

I.2.3- Equitization as a Main Reform Measure: 1998-2001

Policy changes to accelerate the equitization process were introduced in the mid 1998. Resolution 04 of the Fourth Plenum of the Eighth Central Party Congress in 1998 marked a milestone in the making of equitization policies in two ways. First, it sought to push the sluggish equitization process with a number of changes to the equitization policy. Second, the Resolution, for the first time, made rather detailed and specific requirements regarding these revisions.[112] Subsequently, the Government issued Decree 44 to follow up with the Party's Resolution in late 1998. Decree 44 marked both the continuity with and break-away from Decree 28 in 1996. Basically, the equitization process still aimed at mobilizing the private capital and improving the corporate governance system among

[111] Decree 28 in 1996

[112] For example, the Resolution stated in details that for SOEs of small capital and making long-term losses while the State does not need to keep ownership, measures such as merger, auction, open lease, business contracting or sales, contracting to employees provided job security for laborers and in conformity with State's laws should be implemented. Proceeds collected from SOE re-arrangement measures must be used to create new jobs and to pay social security for redundant workers, as well as to supplement the legal capital for SOEs in high priority for strengthening. The Resolution also tried to provide clarifications on other SOE reform measures as well, such as the division of State management between different line Ministries and MOF exercised over SOEs, or the establishment, re-arrangement, and setting up of corporate governance in GCs. Resolution 04 of the fourth Plenum of the Eighth Central Party Congress in 1998 on continued acceleration of the renewal process, mobilization of internal strengths, enhancement of efficiency in economic cooperation, economization for industrialization, and completion of socio-economic targets towards the year of 2000.

state enterprises. However, the scope of equitization was expanded to cover virtually all state enterprises regardless of their capital scale. In particular, state enterprises of more than VND 10 billion in capital could go for equitization if they did not belong to the category of state enterprises which the State needed to keep 100 percent ownership. The authority to select, approve, and supervise the equitization process in state enterprises was also decentralized, allowing State agencies to have more autonomy and influence over the fate of the enterprises under their patronage. The incumbent State supervisors in state enterprises, i.e. line Ministries, local States, or GCs, were also allowed to represent the State in managing the remaining State capital in equitized enterprises. Most importantly, the local governments were allowed to use the proceeds collected from the equitization process for the following purposes: (i) training and retraining for workers at state enterprises, (ii) subsidizing for redundant workers in equitized state enterprises, (iii) supplementing capital for existing state enterprises operating in prioritized sectors, and (iv) re-investing in equitized state enterprises.[113]

I.2.4- An Accelerated Process: 2002-Present

It was the Ninth Party Congress where the tendency to bureaucratize Party's work of setting equitization policies has been clearly noticed. In Resolution 03 of the Ninth Central Party Congress on continuing the re-arrangement, reform, development and enhancement of the efficiency of the SOE system in 2001, all reform measures regarding the system of state enterprises, including equitization, were mentioned in a very specific manner. In particular, the Resolution stipulated in details the objectives of equitization,

[113] Decree 44 in 1988, access online at the Government's website at www.vietnam.gov.vn

scope, methods of equitization, IPO methods, and many other issues.[114] Further changes to the equitization policies were also made at the Tenth Party Congress in 2006 and its follow-up Plenary with an overall aim of accelerating the pace of equitization.[115]

To realize these changes in the Party policies, the Government subsequently issued Decree 64 in 2002 to replace Decree 44 in 1998, and later in 2004 Decree 187 to replace Decree 64. The latest document text to regulate the equitization process was Decree 109 issued in June 2007. In fact, Decree 64 did not differ itself much from its previous legal text, Decree 44 in 1998. The scope of equitization stayed almost unchanged, although the hope about an official inclusion of such large-scale enterprises as General Corporations and State owned Commercial banks into the realm of equitization was then widely expressed.[116] Only until the launch of Decree 187 in 2004, the specific mentioning of GCs and their members within the scope of equitization was made. The tendency to be as specific as possible in stipulating the coverage of the equitization mandate, starting in 2004, perhaps was to prevent state enterprises from avoiding the equitization mandate by switching to other reform measures such as transforming themselves into 100 percent state-owned limited liability companies.

Also by 2004, basically there has been an important shift in the objectives of the State in implementing the equitization mandate: if early on the State just wanted to get rid of their

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[114] Resolution 03 of the Ninth Central Party Congress on continuing the re-arrangement, reform, development and enhancement of the efficiency of the SOE system (2001)

[115] The Report prepared and presented by the Ninth Central Party Committee on the Directions and Tasks of Socio-Economic Developments in the five years of 2006-2010 at the Tenth Party Congress in 2006

[116] A review of newspapers during this period expressed this hope very clearly.

loss-making enterprises which were mainly small, non-important, and non-strategic, it later discovered that the process had been in fact profitable. The equitization proceeds seemed to reach remarkable levels by the mid 2000s and the State actually started to make the most profits in the recent phases of equitization. In a move to gain more from the equitization process, the State began to include the value of land use rights in the pre-equitization value of a number of cases. This issue was actually raised in the early 2000s, after a number of cases in which SOEs possessed strategic locations but were undervalued for equitization, causing losses to the State during the equitization process. However, Decree 64 in 2002 just responded passively to this phenomenon by stipulating that only enterprises conducting businesses in the field of real estates and other infrastructural services were required to include the land use rights over the land they are renting or being assigned by the State into their pre-equitization value. Decree 187 in 2004 moved one step further by classifying if the state enterprises rented or were assigned with the land without paying the rents and required the land use right to be included in the pre-equitization value of the enterprise in the latter case. The latest Decree, Decree 109, moved the furthest by considering whether the equitized enterprise rented the land on yearly basis or on the long-term basis. State enterprises renting the land on the long-term basis are thus required to include the land use right into their pre-equitization value too and the local governments/states would be the one who decide or set the value of land use rights in their localities in accordance with the Land Law.[117]

Enterprise valuation is the most salient issue in the equitization process and has triggered the most contentious conflicts and bargaining between and among the enterprises and

[117] Compiled from Decrees 64 in 2002, 187 in 2004, and 109 in 2007

their supervisors. The state policy over the pre-equitization valuation has also changed significantly over time, reflecting efforts to match the rules and regulations to the reality of implementation. For example, by the late 1990s and the early 2000s, the direct State supervisors (line Ministries, local governments, and GCs) were in charge of determining the value for enterprise of less than VND 10 billion in State capital whereas MOF was responsible for SOEs of more than VND 10 billion. However, between 2002 and 2004, a Valuation Committee was set up to include representatives from the controlling agencies, MOF, and the enterprise to determine the pre-equitization value for the SOE due to widespread complaints from enterprises and others about the imprecise assessment of the enterprise assets and value made responsible State agencies. Since 2004, the Valuation Committee has then been disbanded. Instead, enterprises of less than VND 30 billion in value have been allowed to self-evaluate and report to their State supervisors for approval, while the valuation for state enterprises of more than VND 30 billion in value would have to be carried out by a third-party evaluating agency approved by MOF. [118]

Before 1998, the proceeds collected from the equitization process were centrally managed by MOF for non-current expenditure purposes of development and investment. However, this changed during the period between 1998 and 2004, when a system of Equitization Funds were established at three levels of central State, local States, and General Corporations to collect and use the equitization proceeds. In particular, local States and GCs were allowed to keep the equitization proceeds collected from equitizing their SOEs and members and use them to pay various costs incurred in the SOE re-arrangement and equitization process in their localities on the one hand and to invest back

[118] Ibid.

into their state enterprises on the other hand. The alleged misuse of the local Equitization Funds was used by the Central State in late 2004 as the main reason for its attempt of recentralizing these Funds into one central Equitization Fund managed by MOF, whereas GCs were still allowed to keep the Funds to pay for expenses incurred in the process of equitization and re-arrangement in their members. Decree 109 in 2007 transferred the management of the central Equitization Fund from MOF to the State Capital and Investment Corporation (SCIC), a corporation established in 2005 as a product originated from MOF but continuously seeking autonomy from MOF since then.

For the first time, Initial Public Offerings (IPOs) issued by equitized companies, since 2004, have been required to auction openly if at least 20% of their legal/charter capital are sold to outside investors based on their auctioning prices. Before 2004, shares were sold based on their administratively-fixed prices, which hardly reflected the true value of the enterprises due to the problem of asymmetric information. Consequently, equitized companies have been undervalued and equitization has been primarily internal among insiders.[119]

Before 1998, MOF was the sole State representative in managing the State capital in equitized companies. From 1998 to the mid 2000s, the incumbent supervisors in state enterprises were allowed to represent the State in managing the State capital share in equitized companies. This, however, started to change with the establishment of the State

[119] Vu (2005), pp. 6-11. According to Vu (2005), equititization has been a highly internal process with only about 15% of shares sold to outsiders while the largest chunk of shares held by the State and the insiders (managers and employees). Quite a lot of equitized enterprises never sold any shares outside.

Capital and Investment Corporation (SCIC) in mid-2005. In principle, SCIC would eventually replace line Ministries and local governments to represent the State in managing the State capital in equitized, independent state enterprises, including the equitized GCs and economic groups. The relationship between SCIC and equitized companies under its management thus aimed towards the commercial-oriented and investment-based direction, replacing the mainly administrative-based as it used to be between the State supervisors and enterprises.[120]

Between 1996 and 2007, equitized SOEs and their employees were granted preferential treatments, especially during equitization and within the first two years after equitization, as incentives for them to be more receptive to equitization. For example, equitized companies were allowed to enjoy corporate tax exemptions up to 50% within the first two years after equitization. They were also allowed to benefit from both Equitization Funds and Worker Redundancy Fund to pay for costs incurred in the re-arrangement and equitization process. Since 2004, equitized SOEs choosing to list their shares on the Stock Exchanges were also granted certain preferential treatments in accordance with the Securities Law. State enterprises' employees, besides generous redundancy packages, were also entitled to buy shares at discounted prices. However, since the issuance of Decree 109 in 2007, many above-mentioned benefits have been substantially revised towards narrowing the beneficiary levels for both the equitizing SOE as well as their employees.[121]

[120] See Prime Minister Decision 151 in 2005
[121] Compiled from Decrees 28 in 1996, 44 in 1998, 64 in 2002, 187 in 2004, and 109 in 2007

I.3- Equitization Outcomes and Issues

I.3.1- Equitization Outcomes

By the end of the trial period in 1995, only five state enterprises were equitized. All these five companies were small in scale and belonged to unimportant sectors of the economy. Interestingly, these five equitized companies were not initially selected by Ministry of Finance and their direct supervisors for equitization, but volunteered to do so after all initially selected candidates refused to equitize. However, the equitization process in these five companies did not go smoothly. Regarding the case of equitizing the Refrigerator Engineering Enterprise (REE) – one among the above mentioned five equitized companies, MOF officials in charge recalled that they were summoned time and again by some top Party leaders.[122] Or the process of equitization in HiepAn Shoe Enterprise, another company among the first equitized five, took almost three years to complete.[123]

Table 1.9: Equitization outcomes in the first three equitized companies[124]

Enterprises	Transport Complex Agency (Cong ty dai ly lien hiep van chuyen)	Refrigerator Engineering Enterprise (Cong ty co dien lanh-REE)	HiepAn Shoes Enterprise (Cong ty Giay Hiep An)
Date of Equitization	1993	1993	1994
Post-Equitization Capital Structure			
-State shares	18%	30	30
-Shares kept by managers and employees	72	50	35

[122] Author's interviews with MOF's officials during fieldtrip in Vietnam in 2007
[123] Vu Dinh Bach and Ngo Dinh Giao, **Phat trien cac thanh phan kinh te va cac to chuc kinh doanh o nuoc ta hien nay (Develop economic sectors and business entities in contemporary Vietnam),** Vietnam: National Political Publishing House, 1997, pp. 166-188
[124] Ibid.

Enterprises	Transport Complex Agency (Cong ty dai ly lien hiep van chuyen)	Refrigerator Engineering Enterprise (Cong ty co dien lanh-REE)	HiepAn Shoes Enterprise (Cong ty Giay Hiep An)
-Shares kept by outside investors	10	20	35
Revenues Growth Rate	146% (1994 to 1993) 372% (1994 to 1992)	167% ('94 to '93)	-
Profit Growth Rate	181% (94 to 93) 375% (94 to 92)	118% ('94 to '93)	-
Growth rate for Budget Contribution	157% (1994 to 1993) 263% (1994 to 1992)	117% ('94 to '93),	-
Share price increased by	2-3 times	2-3 times	-

Only twenty five more state enterprises were equitized since the mandate was officially formalized in 1996 to the mid 1998. The pace of equitization, however, took off rapidly since the late 1998 with the average number of enterprises that went through equitization reaching up to 200 annually during the period between 1999 and 2002. The process was further accelerated with more than 700 enterprises completing equitization in each of the years 2004 and 2005.[125] The number of equitized SOEs, however, dropped sharply since late 2006, to just slightly above 100 in 2006 and 2007, and even to merely 70 in the first 11 months of 2008. Regarding the target to complete the equitization process for about 950 enterprises by the latest 2010, Governmental sources recently indicated in the latter half of 2008 that this target might be no longer feasible.[126] By the mid 2008, the number of equitized SOEs reached 4,500 enterprises and dependent units, accounting for 75 percent of the total enterprises going through re-arrangement during this process. Among

[125] Nguyen Dinh Cung, "**Cai cach doanh nghiep nha nuoc: Nhin lai va suy ngam" (SOE reform: Review and Reflection)**, *VietnamNet*, 18 September 2004, access online at http://vietnamnet.vn/kinhte/caicachdnnn/2004/09/257366/

[126] interview with Dr. Pham Viet Muon, NSCERD's Vice Chairman by the Youth Newspaper, "**Disclosure about the "health condition" of economic groups and GCs"**, 11 July 2007

these almost 4,400 equitized SOEs and dependent units, slightly above 58 percent were local, independent SOEs, 30.3 percent were central, independent SOEs, and the remaining 11.6 percent were GC members.[127]

Table 1.10: Summary of equitization outcome until mid-2008[128]

Timeframe	By end 2003	By mid 2006	By mid 2008
Total number of equitized state enterprises, among which	1,557	Over 3,000	4,500
Central state enterprises	n-a	2,150	30.3%
Local state enterprises	70%		58%
90-GC members	20%	500	11.6% for both
91-GC members	6%	270	

Table 1.11: Annually equitized SOEs, 1992-2008[129]

Year/Period	Number of equitized SOEs
1992-Mid 1996	5
Mid 1996-Mid 1998	25
Mid 1998-End 1998	93
1999	253
2000	211
2001	205
2002	164
2003	532
2004	753
2005	724
2006	125
2007	116
2008*	73

Note: * by early December 2008

Regarding the capital scale, by end 2005, the total amount of State capital in equitized SOEs was only VND 40,237 billion (or approximately USD 2.7 billion), reflecting the

[127] Quang Chính, "**Cổ phần hoá doanh nghiệp nhà nước: Vì sao phải "bán lúa non"?" (SOE equitization: Why do we have to sell the early harvest),** *the Labor newpaper*, Issue 196, 26 August 2008, access online at http://www.laodong.com.vn/Home/sknb/2008/8/103805.laodong
[128] compiled from various sources, including MOF (2006), NSCERD (2006), and Quang Chính (2008)
[129] Ibid.

fact that those enterprises were mainly small. Note that the State planned to equitize up to VND 163,935 billion or about 60 percent of the total investment capital in the SOE system by 2005. Furthermore, only half of the ownership in equitized companies was sold to employees and outside investors (26 and 25 percent respectively) while the State still retained the rest (roughly 49 percent).[130] By mid 2008, the State retained 50 percent of the total legal capital in the equitized SOEs which was worth VND 53,926 billion, while the employees accounted for 12 percent, worth almost VND 13,000 billion, strategic investors accounted for 4 percent, worth VND 4,435 billion, while other investors accounted for 34 percent, worth VND 36,351 billion.[131]

Table 1.12: Capital structure in equitized SOEs

Criteria/Timeframe	End 2005	Mid 2008
Nominal Value of State capital in equitized SOEs (VND billion)	40,000	108,000
Equitized State capital, as percentage of nominal State capital in equitized SOEs (%), among which	51	50
(i) kept by SOE managers and employees (%)	26	12
(ii) kept by outside investors (%)	25	38
The remaining State share, as percentage of the total State capital in equitized SOEs (%)	49	50
Total capital share (%)	100	100

From a sectoral perspective, most of equitized SOEs were in non-strategic sectors of the economy. The highest number of enterprises going through equitization was in the trade and services (mainly hotels, restaurants, and tourism) and construction sectors. Other sectors, such as transportation, mechanics and engineering, electronics, shipping, electricity, gas and oil did have equitized SOEs; however, those enterprises were often of

130 MOF (2006) and NSCERD (2006)
131 Quang Chính (2008)

very small capital scale and provided only supporting services to the industries rather than producing the main products. The State, so far, still retains its dominance, and in some cases monopoly, in most strategic sectors such as oil refinery, steel, fertilizers, aviation, telecommunications, and banking services. A large bulk of agricultural farms and forest plantations are also stuck with their equitization process.[132]

The equitization process in most of provinces and big cities in Vietnam mainly took place during 1999-2004, in which almost all local enterprises were equitized. The remaining local SOEs that have not equitized so far are located mainly in two biggest cities of Hanoi and Ho Chi Minh City.[133] Although a few GCs members went through equitization since 2001, the equitization process for most of 90- and 91-GCs mainly started in late 2004 when the mandate was officially stipulated in Decree 187. The norm is often that GC members completed their equitization process first, and the whole GC would go through equitization later. This process is taking place concurrently with the second wave of corporatization. The current Prime Minister, Nguyen Tan Dung, announced official deadlines for GCs as well as any of their newer forms, and State-Owned-Commercial-Banks (SOCBs) and State-owned financial groups to complete their equitization.[134] However, the process is rather slow so far with most of assigned GCs and SOCBs seem unable to meet their deadlines.[135]

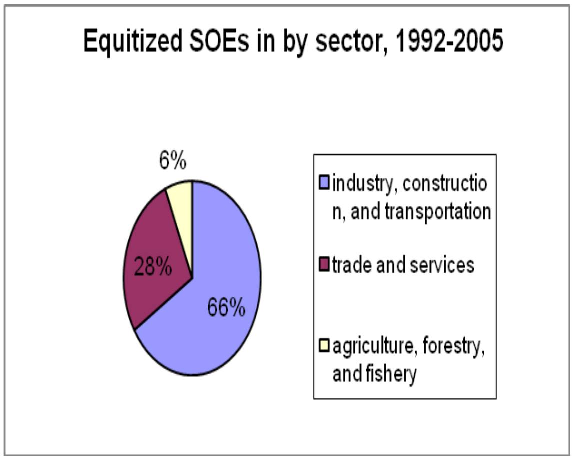
[132] MOF (2006) and NSCERD (2006)

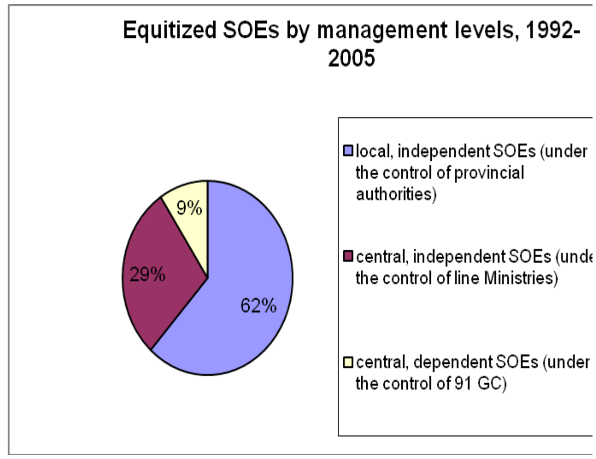
[133] Hanoi and Ho Chi Minh City's People's Committees' reports on their equitization progress, 2006

[134] Decision 1729 in 2006 on approving the list of GCs and economic groups to be equitized in 2007-2010, accessible on the website of the Government of Vietnam at www.vietnam.gov.vn

[135] NSCERD (2006) and Khiet Hung, **"Cong bo "suc khoe" cua tap doan, tong cong ty" (Disclosure about "health" conditions of economic groups and General Corporations)**, The

Graph 1.1: Equitization Outcomes by sector and management level, 1992-2005[136]





Regarding the post-equitization operation, most of the recent surveys on equitized SOEs show a positive picture, in which a majority of post-equitization companies achieved improved performance, higher turnover, increased profits and wages. Popular among them are the two surveys conducted by the Central Institute of Economic Management in coordination with the World Bank in 2002 and 2005. The results indicate that in general, equitized SOEs taking part in these two surveys have performed better. For example, post-equitization companies surveyed in 2005 have an average increase of 44 percent in charter capital, 23.6 percent in revenue, and 139.76 percent in profit. However, the main causes for those positive changes remained ambiguous, as the most expected factor – the emergence of corporate governance (reflecting though the renovation of technology and management personnel) – was largely not observed in most of equitized companies. Equitized SOEs seem to have the same management team and invest just little into

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Youth Newspaper, July 2008, access online at http://www.tuoitre.com.vn/Tianyon/Index.aspx?ArticleID=268153&ChannelID=11

[136] MOF (2006) and NSCERD (2006)

upgrading their technologies. Some argued that the better performance of equitized companies so far was due mainly to the reduction in the employment size and certain administrative formalities/procedures.[137] However, cautions against the deteriorated performance of post-equitization companies have also made recently, requesting measures to deal with post-equitization problems. Data collected by the author on the performance of post-equitization enterprises also revealed a rather mixed picture. Many have achieved better results but some are still struggling with debts and others have seen business fall away.[138]

I.3.2- What Needs to be Explained?

I.3.2.1- Favorite Policy Measure, but Slowly Implemented

Although equitization has been the hot topic for debate among a wide range of intellectuals, policymakers, and advisors in Vietnam, and finally becoming the favorite key reform measure, the actual implementation of the mandate has been overall sluggish, lagging much behind the State's plans and targets. The number of SOEs that were actually equitized annually lagged far behind the targets set in Government's annual Action Plans as well as Five-Year-Plans.

During the pilot program of equitization only 5 SOEs actually went through the process and these 5 equitized SOEs were not any among the initial 19 SOEs targeted/registered

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[137] CIEM, **Vietnam's Equitized Enterprises: an Ex-post Study of Performance, Problems, and Implications for Policy**, 2002, and CIEM and the World Bank, **The Study on Post-Equitization of State-Owned Enterprises**, 2005

[138] Author's interviews with equitized enterprises during fieldtrips in Vietnam in 2007

for equitization.[139] Later, the target for 1998 - when the formal equitization process already took off for two years – was 150 SOEs being equitized while the actual number of equitized SOEs in the first half of 1998 was merely 12, and by the end of the year, around 100. Also, according to the Five-Year SOE reform plan announced by the government in March 2001, during 2001-2003, about 1,400 SOEs were subject to equitization, whereas actual number of SOEs going through equitization during this period reached merely 900. The target for 2004 was from 850-1000 while the actual number of equitized SOEs was only 750. The target for 2005 was 1200 while the actual number was only slightly above 700. Three large GCs (SEAPRODEX, VINACAFE, and VINATEX) were also subject to pilot equitization with annual milestones over 2001-2002 for improving corporate governance and overall competitiveness; however, none of these three GCs had completed equitization by 2005.[140]

The picture gets even worse since 2006, as the pace of equitization fell significantly. The numbers of equitized SOEs for 2006 and 2007 were just slightly above 100, while that of 2008 was about 70, lagging much behind the State targets of about 600 for both 2006 and 2007, and 200 for 2008. Last but not least, the equitization process for most of GCs, as announced by the Prime Minister in Decision 1726 in late 2006, has been delayed substantially, making the target of 2010 as the final deadline for all equitization cases certainly impossible.

[139] Doan (1998), pp. 116-126
[140] Painter (2003), p.12

Table 1.13: A snapshot about equitization in Hanoi in 2004's first ten months[141]

Planned target for 2004	54 SOEs
First 10 months' implementation	23 SOEs
Implementation to planned target	43%
SOEs to be equitized in the remaining two months	31 SOEs

The pace of equitization looks even slower if the volume of equitized capital is taken into consideration. By end 2005, after 10 years of formal implementation of the equitization mandate, the State capital in equitized SOEs accounted for merely 15.5% of the total capital in the overall SOE system. And, as mentioned earlier, only about half of that State capital was actually sold to the private sector while the State retained its ownership of the rest.[142] That picture has not changed much in 2008, making the objective of introducing diversification into the ownership structure of the SOE system also unmet.

Table 1.14: Equitization outcome by number of equitized SOEs and capital volume[143]

Criteria	Timeframe	Planned	Actually equitized
Number of equitized SOEs	1998	150	~ 100
	2001-2003	1,400	900
	2004	850-1,000	750
	2005	1,200	~700
	2007	~600	116
	2008	262	73*
Cumulative State capital in equitized SOEs (VND billion)	End 2005	164,000	40,000
	Mid 2008	-	108,000

Note: * figures for the first 11 months of 2008, - : data non-available

Equitization has not yet succeeded in mobilizing capital from the private sector either. By end 2005, the total capital mobilized from the private sector through equitization was

[141] Hanoi Newspaper, "**Hà Nội phấn đấu cổ phần hoá thêm 31 doanh nghiệp" (Hanoi is aiming to equitize 31 more SOEs)**, 28 October 2004, access online at http://www.hanoimoi.com.vn/vn/42/27941/
[142] Quang Chính (2008)
[143] compiled from various sources, including MOF (2006) and NSCERD (2006)

about VND 21,000 billion or USD 1.4 billion, a rather modest amount if compared with the size of remaining 100 percent State-owned enterprises in the process. This amount is also particularly small in comparison with the volume of investment in the private sector in Vietnam within the same period. The private investment in the newly established private sector in Vietnam reached up to about USD 12 billion during the period between 1992 and 2003. Within only four years after the enactment of the new Enterprise Law in 2000, about US$ 9.5 billion were mobilized in the private sector.[144]

Finally, as mentioned above, little improvement in equitized SOEs' corporate governance has been observed. Most of equitized SOEs are still governed by the old management mechanism and personnel. Investment in technology, research and development remained unnoticeable in correlation with improved profitability in equitized SOEs.[145]

Regarding the objective of harmonizing the interests of the State, SOE employees, and outside investors, it is observed that the State has still retained half of the capital share in equitized SOEs, while the share held by SOE employees has reduced significantly from 26 percent by mid 2005 to only 12 percent by mid 2008. Meanwhile, the share held by outside investors has gone up considerably from 25 percent to nearly 38 percent during the same period.

The recent tendency of increased inequality in the composition of shareholding among different shareholders in equitized SOEs towards reducing the share kept by SOE

[144] data reported by CIEM, quoted in Vu (2005), p. 6
[145] MOF (2006) and NSCERD (2006)

employees might be caused by the following reasons. First, the development of the rudimentary stock market in Vietnam took off since late 2005, creating a trading fever for both listed and over-the-counter shares. This might cause SOE employees to sell their shares in order to take the opportunities from the bull market. However, the other more important reason might be the phenomenon of "insiders' trading" in equitized SOEs, where often SOE managers and their relatives or associates seek to buy shares from SOE employees who have not yet been able to afford the buy even at preferential prices and who at the point of equitization and a few years after that have found that they need cash in their pockets rather than some "valueless" paper called shares or stocks. According to a recent survey, the ratio of preferential shares kept by eligible SOE employees reduced to 75 percent one year after equitization, 63 percent after two years, and merely 54 percent after three years.[146]

In summary, the equitization process has yet achieved any of its objectives stated in the State policies, either being the shedding of the State capital to the private sector in order to seek higher economic efficiency and improved corporate governance or ensuring the harmonization of the State's, employees', and investors' interests to avoid "close-door" privatization and insider-trading of shares.

I.3.2.2- Dynamics within the Equitization Process

The equally important feature of the equitization process in Vietnam is that, despite its overall slow pace, the equitization process has not always linear. Instead, it embraces the dynamics reflected through different ups and downs. In particular, the number of

[146] Quang Chính (2008)

equitized SOEs was extremely low during the pilot period between 1992 and 1995 as well as within the first two years of formal implementation since 1996. Only by end 1998 and early 1999, the process picked up with about 200 state enterprises going through equitization every year. The pace of equitization went up again in 2003, pushing the number of equitized enterprises up to 600-800 per annum. However, the process slowed down substantially since end 2006, with an average of only 100 SOEs going through equitization annually.

Meanwhile, a look at the volume of the equitized State capital over time also reveals important developments. By end 2005, the total amount of State capital in equitized SOEs was only VND 40,237 billion (or approximately USD 2.7 billion) and only half of this was sold to SOEs' employees and outside investors (26 and 25 percent of the total equity respectively) while the State still retained the remaining half.[147] By mid 2008, the total State capital in the equitized SOEs went up to almost VND 110,000 billion, of which the State still retained half while SOE employees' shared reduced substantially to merely 12% and the remaining 38% now were in the hand of outside investors.[148] This fact, in combination with the changes in the number of equitized SOEs over time, has brought to our attention the following tendencies. First, if equitization during the first decade mainly targeted small and medium-sized SOEs, the equitized SOEs in the last three to four years have been larger in the capital scale, causing a substantial increase in the volume of the total State capital in equitized SOEs as well as of the actually equitized State capital. And second, the share of SOEs managers and employees in equitized SOEs

[147] MOF (2006) and NSCERD (2006)
[148] Quang Chính (2008)

has reduced significantly in comparison with those of the State and outside investors during the past few years.

Closely related to the actual implementation of equitization is the dynamics of policy making process, reflecting through consecutive changes in the legal framework regulating SOE equitization. Equitization policies can be considered as the most changeable ones, with 5 Decrees (Decree 28 in 1996, Decree 44 in 1998, Decree 64 in 2002, Decree 187 in 2004, and Decree 109 in 2007) launched during the past ten years to regulate the process. Each new Decree often came up with new stipulations in replacement to the old ones. The legal framework to regulate the equitization process in Vietnam then could be considered as the most shaking one so far.

I.4- Summary

Vietnam's privatization, or equitization, did demonstrate important characteristics of the gradualist approach in economic reform in Vietnam. It took at least five years since the word "equitization" was first coined in a governmental policy paper for a few state enterprises to go equitizing under a pilot program, and another five years for the policy to become an official reform measure adopted by the VCP. During these ten years, other reform measures, ranging from giving greater autonomy to the managers of state enterprises to corporatizing state enterprises into different General Corporations, were also carried out concurrently with the pilot equitization program. Equitization finally became an official reform measure in the mid 1990s and a mainstream reform program by the late 1990s simply due to the fact that other reform measures failed to solve the

SOE problems. However, the overall pace of the equitization process remained slow and incremental even when the equitization mandate was formalized. Another gradual characteristic of the equitization process in Vietnam, similar to the Chinese privatization, was that other reform programs/measures were also carried out simultaneously with equitization. In particular, corporatization, in various forms, has been conducted on state enterprises concurrently during both the pilot equitization program and the implementation of the official equitization mandate. In addition, within the equitization process alone, different programs/treatments/policies have also been adopted for different groups of enterprises simultaneously in order to minimize the number of losers as well as their losses due to the implementation of the equitization mandate. However, the evolving process of equitization in Vietnam is certainly not all about "gradualism". Although the overall pace of equitization is sluggish, the process has not been linearly gradual but featured with different ups and downs. After almost a decade of implementation, the pace of equitization picked up twice between 1998 and 2006 and slowed down again since then. This "non-linearity" of the equitization process in Vietnam, in addition to "gradualism", has motivated the author of this thesis to pursue a research on the topic.

Chapter II Equitization in Vietnam and the Dual Dynamics Model

The purpose of this chapter is to devise a theoretical framework to explain both "gradualism" and "non-linearity" in the equitization process in Vietnam as claimed in Chapter I. In so doing, this chapter begins with a review of the current literature on Vietnam's SOE reform in general and moves on with the specific scholarship on equitization. The main weakness of the current literature, as will be pointed out, is that it misses out on two important dynamics in the equitization process, the inter-bureaucracy politics at the macro level and the government-enterprise interaction at the micro level. Therefore, in the third part of this chapter, I propose the application of the dual dynamics model, a combination of the Fragmented Authoritarianism model, theories on state-business interactions, and Garbage Can theory, in exploring the above-mentioned dynamics. The central argument in applying the dual dynamics model is that the two sets of bargaining at the macro and micro levels, as well as their interactions, are keys in contributing to both characteristics of "gradualism" and "non-linearity" of the equitization process in Vietnam.

II.1- Economic Reform: a Top-down or Bottom-up Process?

There have been two main approaches to explain the politics of economic reforms in Vietnam, which can be termed the state-led approach and the society-led approach. A state-led explanation for Doi Moi focuses on the role of the State of Vietnam and its policies and institutions during the process. Meanwhile, the society-led approach argues that it is the Society, not the State, who initiates, directs, and completes reforms in Vietnam. Both approaches provide detailed accounts of the State and the Society of Vietnam in Doi Moi process. Fitting nicely into this dichotomy is the literature exploring the process of transforming state enterprises into joint-stock companies, or equitization. This section begins with a lay-out of the contemporary approaches on economic reforms in Vietnam and moves on with a detailed description of various stands on equitization - the key reform measure for the State sector. A discussion about main weaknesses of the contemporary approaches will end the section.

II.1.1- Society-led Reforms

The society-led approach is popular among a wide number of scholars, mainly independent foreign researchers as well as local researchers. It interprets reform in Vietnam as a process in which the State has played a passive role in response to the society's demand. The reform process, therefore, should not be regarded as a policy package imposed from above but rather as the outcomes of the interactions between bottom-up forces and decrees and solutions from the above within a particular context of reform.[149]

The society-led approach has been widely applied, for example, in explaining the origin and evolution of the agrarian reform in Vietnam. Decollectivization, initially started as illegal fence-breaking activities in a few locations, was formalized partially in 1981 and

[149] Fforde and de Vylder (1996), pp. 2-10

fully in 1988 mainly as the State response to "the weakening and eventual collapse from within of the collective farming cooperatives into which people had been organized". In this sense, decollectivization was bottom-up and was largely initiated by villagers while national policy just reacted to this process. The actual, informal decollectivization had started earlier in everyday life and the formal Doi Moi policy was just a step to legalize it.[150]

According to theorists following the society-led approach, the State played a responsive rather than proactive role in the reform process. State policies, or "initiatives from above", could be very bold sometimes, but often contradictory, reactive, and reactionary. As a consequence, they were never implemented properly.[151] Implications about the role of the State of Vietnam in the reform process are also found in comparative studies between China and Vietnam. The processes of agrarian reforms in both countries reflect the interaction between the bottom-up pressures for changes and the responses from above to endorse these local initiatives. However, it seems that the State in Vietnam played a weaker and less intrusive role than its counterpart in China, and thus, the reform achievements in agricultural sector were also less remarkable.[152]

The society-centric explanation is powerful in the sense that it captures the dynamics and vibrancy of the reform process in Vietnam. The approach has provided us with numerous

[150] Kerklviet Benedict, 2005, **The Power of Everyday Politics: How Vietnamese Peasants Transformed National Policy**, and Kerklviet Benedict, 1995, "**Rural Society and State Relations"**, in Mark Selden (ed.), *Vietnam's Rural Transformation*, WestviewPress
[151] Fforde, "**Vietnam's Successful Turnaround and the Intentionality Issue"**, 2005, ADUKI Pty. Ltd
[152] Kerklviet and Selden, "**Agrarian Transformation in China and Vietnam"**, *The China Journal*, No.40, July 1998

examples on how the bottom-up initiatives, most of the time coming from the lowest levels of the administrative ladder such as communes and villages, can have certain real and great impacts on the making of national policies, given the authoritative and repressive State in a communist regime. With this in view, the State is no longer a strong state working mainly within its own internal circle and able to get the society followed. The State is fragmented, pushed and pulled to different directions and by different societal forces.

However, the issue that many take with the society-led theorists is that by paying attention entirely to the society, society-led theorists just simply deny any role of the State in the reform process in Vietnam. Fence-breaking activities did come from bottom-up, but their legal recognition and institutionalization by the State-Party in 1986 also did a remarkable job for the reform process. If bottom-up reform efforts lasted for almost half a century, the State acts proved to shorten the reform process and helped making the complete shift in the agricultural sector in only about one decade. This is not to say that grass-root initiatives are not important, but the State ability to listen and understand the society's need is also equally important. Secondly, although society-led theorists claim the role of society in reform in Vietnam, their analysis seems inadequate. Most of the society-led literature still counts on the development of State policies and explains reforms in macroeconomic terms. An adequate analysis on the society, its forces, institutions, and organizations, is still missing in the current literature.[153]

[153] Fforde (2006), pp.5-7

II.1.2- State-led Reforms

The state-led approach explains the reform process in Vietnam as mainly a Government program rather than a bottom-up process. There are two variants within this approach. The first variant assumes that the State of Vietnam is a strong State where "major decisions are made entirely within the bureaucracy and are influenced by it rather than by extra-bureaucratic forces in society"[154]. Given such self-contained governing system of the State, social forces are regarded as making insignificant impacts. The State rules and the people just follow. All the major decisions on economic reform were made by only a small circle of Party elites and enforced among the population by a vast and penetrating party-state apparatus at all levels ranging from the grass-root up to the central.

The second variant within the state-led approach allows the possibility of societal impact on the State operation, the phenomenon termed by Kerklviet as "corporatist fashion".[155] The State is assumed to have its own agenda and successfully create relevant social institutions and organizations to help advance that agenda. According to Turley, the society in Vietnam is still weakly developing in comparison with the power and legitimacy of the State-Party after winning the war.[156] As a result, the society did have influence on the policy making process, but such influence was only realized through the state-sponsored organizations and channels.

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[154] Quote Porter in Kerkvliet (1995)
[155] Kerkvliet (1995)
[156] Turley William, "**Party, State, and People: Political Structure and Economic Prospects",** in Turley and Selden (eds.), *Reinventing Vietnamese Socialism,* WestviewPress, 1993

To explain the economic success of the agricultural reform in Vietnam, Harvie and Tran hail it as the result of "the decision by the government to implement the major economic reforms… with the objective of transforming the economy from being centrally planned to a market economic system".[157] For state-led theorists, although the root of reforms can be traced back to as early as the 1960s, the Sixth Party Congress in 1986 is still the most important moment for the Doi Moi process as it reflects "a thorough change in government attitude toward the private sector" and for the first time, the official commitment towards "a comprehensive reform program, with the objective of liberalizing and deregulating the economy".[158]

Beresford and Dang Phong accept a rather soft version of "state-led" approach in explaining the politics of economic decision making in Vietnam. They assert that "the fundamental legitimacy of the Vietnamese state and the broadly accepted need for consensus within the political system" is one among important factors influencing the reform process in Vietnam. However, their portray of the State of Vietnam is in favor of a more democratic model than the totalitarian or bureaucratic authoritarian models often adopted by the state-led theorists. Dang Phong supports this argument by characterizing the political culture in Vietnam as "the highest leaders have had to respect, and that is not to press against, the interests of the people".[159]

The state-led approach, by focusing mainly on the role of the State in the reform process, has underestimated the power of the societal forces in the reform process. As Beresford

[157] Harvie and Tran (1997), p. 61
[158] Ibid., pp. 48-49
[159] Beresford and Dang (1999)

and Dang admit, "what are largely missing from the picture are the responses of the population to major policy decisions and the way in which these responses provided inputs to the decision-making process itself".[160] The Vietnamese society, Kerklviet and Selden argue, is not permissive, as compared with, say, the Chinese, and always finds its own way to develop well, even during the most repressive time in history.[161] Lacking an acknowledgement of the power of the Vietnamese society in Doi Moi would be a mistake as serious as ignoring the State role in the same process.

In summary, the current literature on economic reform in Vietnam has been weighing between two ends of a continuum. On the one hand, the top-down approach mainly views reform as an affirmative course of actions conducted by the State of Vietnam, based on the assumption that the State of Vietnam is more or less a unitary actor with coherent interests and acts. Contrasting to the rational statist approach, an increasing number of Vietnam scholars recently voice their caution against the assumption that "change processes regarding SOEs are best seen in terms of a metaphor of policy and policy implementability".[162] These scholars, instead, focus on the actual happenings, especially at local and enterprise levels, in getting around with the State policies. Lying in between these two ends have been various stances weighing between different degrees of State control and bottom-up forces over the process of making and implementing reform policies.

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[160] Ibid., pp. 11-15
[161] Kerklviet and Selden (1998)
[162] Fforde Adam**, "State Owned Enterprises, Law and a Decade of Market-Oriented Socialist Development in Vietnam"**, City University of Hong Kong: Working Papers Series, No. 70, Sept., 2004 (Fforde (2004-B)), p. 14

II.2- The Dichotomy and the Equitization Process in Vietnam

Fitting nicely into the above-mentioned categorization of various approaches on reform in Vietnam are different perspectives about the SOE reform and equitization. A number of researchers, in pursuing the notion "reform as a process", assert that there existed a de facto process of privatization in Vietnam during the 1980s and early 1990s, which led to the formal equitization mandate as the State response to such de facto privatization. The slow pace of equitization thus reflected the resistance of those benefited from the de facto privatization process, namely the managers of State enterprises and a wide range of different State supervisors. The rational statist theorists, commonly among policy makers and advisors, largely ignored the issue of de facto privatization raised by the "reform-as-a-process" approach. Instead, those following the "top-down" approach mainly pay attentions to the contents of the equitization policies and how to make them "right". The slow implementation of the equitization mandate has thus been the result of inadequate and irrational policies. The prescription for accelerating the equitization process in Vietnam is therefore to revise the equitization policies, i.e. governmental decrees to regulate the equitization process, in order to make them suitable/rational to the actual context of Vietnam.

II.2.1- De facto Privatization and the Formal Equitization Mandate

It is observed by a number of theorists following the bottom-up approach that a process of de facto privatization did take place in Vietnam from the late 1970s to date. Different scholars characterize this de facto privatization differently. Fforde comes up with the transformation of state enterprises into "Virtual Shareholding Companies (VSC)".[163] These virtual shareholding companies were actually owned by a few virtual shareholders at the local levels, including the local cadres, the managers of the state enterprises, and some other stakeholders. However, Fforde finds that there was a re-concentration of the state ownership during the 1990s. The ownership of the state enterprises was no longer concentrated upon mainly SOE managers and other within SOEs, but had been taken away from them through the two emerging sets of structures, namely the re-enforcement of MOF and the re-establishment of former unions of enterprises as well as the establishment of new General Corporations and economic groups.[164]

Through the case of Ho Chi Minh City, Martin Gainsborough also finds that an informal process of privatization had taken place during the 1980s and 1990s in two popular patterns. The first pattern is "local elite privatization", or a process in which "those running state enterprises gradually, by stealth, assume greater control over company assets, with the result that they eventually exercise a much fuller set of rights than what consistent with the property regime pertaining to the reformed state enterprises." [165] The second informal form of changing property arrangement is the "siphoning off of public funds or assets into newly established enterprises, which operate as private firms", or establishment of private companies by state business interests.[166]

[163] Fforde (2004-A), pp.1-5
[164] Fforde (2004-A), pp. 42-43
[165] Gainsborough Martin, **Changing Political Economy in Vietnam: the Case of Ho Chi Minh City**, RoutledgeCurzon, 2003, p.25 (Gainsborough (2003-A))
[166] Ibid., p.26

In this context, the official equitization mandate was thus a State response to seek changes in the existing structure of these VSCs. However, that officially sanctioned reform had played a rather unnoticeable role due to the effectively collaborative resistance from local interests and SOEs.[167] In other words, conflicts have arisen within the formal equitization process, as “precisely because those running state enterprises have become used to viewing them as their own assets” and now see themselves effectively being asked to buy back by the State official equitization mandate what is already their own. [168]

Discussing the acceleration of the formal equitization process since the late 1990s, Gainsborough attributes that to both the “push” factor of “less hospitable conditions in the state sector” and the “pull” factor of “improving private sector climate” since the late 1990s which helped replacing the dominant view among SOE managers that the state sector still represented the best place to be located in, in order to do business successfully.[169] Adam McCarty is also aware of the recent re-gained momentum of equitization in small and medium SOEs. Equitization, in his view, is not literally about changing the actually ownership of incumbent SOEs but rather about “clarifying the ownership of those stakeholders already in control, and then moving towards some more meaningful solution to the universal principal-agent problem: making managers work for owners, and stopping owners from managing”. In other words, it can be considered as a kind of “deal” stroke between the State and SOEs or “formal ownership is exchanged in

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[167] Fforde (2004-B), pp. 13-14, and Gainsborough (2003-A), p.104
[168] Gainsborough (2003-A), p.25
[169] Gainsborough Martin, “**Slow, Quick, Quick: Assessing Equitization and Enterprise Performance Prospects in Vietnam”**, 2003, pp. 49-61 (Gainsborough (2003-B))

return for cutting the ties to the state". According to McCarty, equitization has become more attractive to the informal owners of SOEs and thus was accelerated recently mainly due to the fact that "the cost-benefit analysis swings in favor of equitizing."[170]

In summary, researchers following the "reform as a process" approach posit heavier weights to the role of local states and SOEs and a less significant role to the central State and its policies. Most of them agree, though to different extents, that an actual process of privatization had taken place before the formal equitization mandate was enforced, and thus the success of the formal equitization program must be seen with caution as it depends substantially on the capacity of the central State to go against the resistance of local states and SOEs who used to be the de facto SOE owners and thus would lose their stakes if equitization succeeded. What remains the key problem with the "reform as a process" approach is that it largely ignores the role of the State and its policies in the formal equitization process. This would be certainly problematic in the case of Vietnam due to the relatively penetrating role and high degree of control exercised by the State of Vietnam over the economy.

II.2.2- Equitization as a Rational Policy Search by the State

Parallel to the "reform as a process" approach, a number of Vietnam scholars and researchers from the late 1980s have tried to explain the process of SOE reform in Vietnam through the lens of State policies and their implementation. The normative assumption here is that reform is a top-down process of command and control which

[170] McCarty Adam, "**Vietnam: Economic Update 2006 and Prospects to 2010**", paper presented at the Regional Outlook Forum 2006, January 2006, Singapore, p.13

should come from a coherent, unified party leadership and state management towards the smallest units at local levels.[171] The rational statist approach has been widely accepted among researchers working for the International Financial Institutions such as the World Bank, the International Monetary Fund, the Asian Development Bank, the United Nation Development Program (UNDP), or other international donors to Vietnam, and Vietnamese policy makers.[172] Martin Painter gives a good description of this approach as:

> "There is a strong presumption that reform is a "top down" process of command and control. Economic reform is often considered as a "steering" activity by high level state actors who make strategic choices based upon expert advice. The working of the top down process is perceived as follows: Official party ideology insists on the veracity of the image of coherent, unified party leadership and state management. Under the norms and practices of democratic centralism, the party demands (and normally obtains) a monopoly of the formal processes of political mobilization, representation and decision making. Moreover, there is a predisposition towards technocratic modes of policy making, with a plethora of research institutes and well trained economic experts undertaking analysis and advice that feeds very immediately into top policy making circles."[173]

The rational statists basically view the equitization process in Vietnam as a government program in which the State retains its control over the economy through ownership in

[171] Painter Martin**, "The Politics of State Sector Reforms in Vietnam: Contested Agendas and Uncertain Trajectories"**, *The Journal of Development Studies*, Vol. 41, No. 2, February 2005, pp. 261-283
[172] Fforde (2006), pp.5-7
[173] Painter (2005), p. 266

large-scale state enterprises while releasing small and medium-sized, non-strategic state enterprises into the hand of the private sector.[174]

To an extent, rational statist theorists have made certain efforts to investigate the complex nature of the State of Vietnam. For example, the fact that in Vietnam, one State agency might be responsible for many SOEs while one SOE can be under the management of various State agencies at the same time, causing the emergence and development of a system of "polycentric power sharing" within the State machinery.[175] However, according to the rational statist theorists, the State, despite its complex web of different and sometimes even contradictory components, still remains dominantly unified and coherent in setting the pace for equitization. The gradual pace of equitization, together with the still dominant role of the State in equitized SOEs, according to Sjoholm, reflect the State's various purposes in the process rather than just the achievement of economic efficiency. Among these purposes are mobilizing private capital, easing the pressure on the State Budget, and meeting the demand from political-business interest groups.[176] The normative implication for the State of Vietnam is thus to get the policies right. In particular, the State needs to formulate an overall, coherent reform strategy for the whole state enterprises system under strong political commitments from the top leadership.[177]

[174] UNDP Vietnam (2006), pp. 1-17; Sjoholm (2006), pp. 1-35; and Vu (2005)
[175] Sjoholm (2006), pp. 15-18, and Painter (2003), p.16-22
[176] Sjoholm (2006), pp. 1-30
[177] For a detailed discussion over various issues in formulating a coherent reform strategy for the state sector in Vietnam can be found in a number of paper, articles, and books written by both Vietnamese and foreign authors. Examples are Hoang and Phung (1992), Vu and Ngo (1997), Vien Kinh te hoc (1993), Vu (2004), UNDP Vietnam (2006), Sjoholm (2006), or Hisaaki Mitsui, "**Vietnam's State Enterprise Reform: What Phase Has It Reached?",** *MOCT-MOST*, vol. 7, 1997.

In summary, Vietnam researchers following the rational statist approach view the formal equitization program as a rational act conducted by the State of Vietnam in response to the SOE problem. The equitization process, in this sense, is mainly considered as a search for the best policies and the most rational policy outcomes accordingly. Policy irrationalities, resistances and delays are also found in the process, but overall, the rational statist approach still posits a strong and dominant role for the rather unified and coherent State of Vietnam. What remains the key problem with this approach is that, in assuming that the State of Vietnam is a unitary actor with coherent interests at certain points in time, it ignores, to a substantial extent, the politics in making equitization policies reflected through the recent dynamics in Vietnam's equitization process.

II.3- The Dual Dynamics Model

Contemporary approaches to explain the equitization process in Vietnam seem to overlook its dynamics over the past decade. First, the equitization program has essentially become a more bureaucratically-routinized process since the latter half of the 1990s, with the increasing role of the bureaucracy in policy-making and a wider range of actors participating in the process. If the rise of Ministry of Finance and the restructuring of state enterprises towards the models of General Corporations and economic groups were the highlights of the 1990s, as Fforde and some other scholars noted, the establishment of a number of supporting institutions to Ministry of Finance in the early 2000s and the consolidation of General Corporations and their variants' financial strength through equitization have been keys in determining the recent trajectory of equitization. Second, despite the strong advocate paid by researchers following the "reform-as-a-process" approach to the role of local States and SOEs in the reform process, inadequate studies have been conducted on the actual interaction between the direct State supervisors and SOEs in implementing the official equitization mandate. It appears that a strait-type of efforts to collaborate between the SOEs and their direct State supervisors to go against the implementation of the official equitization mandate have been widely assumed by those following the "reform-as-a-process" approach.

With this in mind, the author of this thesis aims to fill the gap by analyzing the equitization process from the perspectives of both interactions among different governmental agencies and between the State agencies and their subordinate SOEs through a model of dual dynamics in equitization. In particular, the model investigates the equitization process in Vietnam at two levels: (i) the inter-bureaucracy politics at the macro level and (ii) the government-enterprise interactions at the micro level. [178] These two levels of analysis are also correspondent to the two main stages of a policy-making cycle in equitization. The inter-bureaucracy politics plays its role mainly at the stage of policy formulation and/or revision; whereas the government-enterprise interactions take place at the state of policy implementation.

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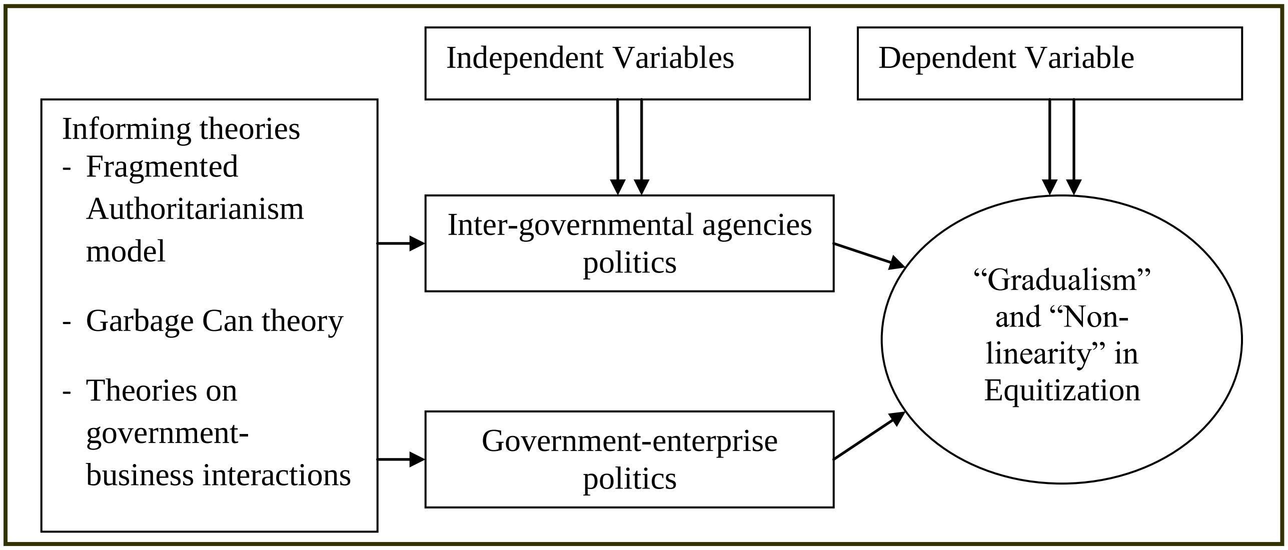
[178] In this part and the followings in the Chapter and subsequent chapters, I adopt an approach to analyze the picture of equitization in Vietnam similar to Steven K. Vogel's model of Institutional Change, in his book titled **Japan Remolded: How Government and Industry are Reforming Japanese Capitalism**, Cornell University Press, 2006. Vogel basically investigates the policy reform process in Japan during the past 30 years at two levels of analysis, macro and micro adjustments, and the interactions between these two levels. Terms such as "macro", "micro", and "macro-micro interactions" are thus borrowed from Vogel (2006).

Graph 4.1: The dual dynamics model in SOE equitization in Vietnam



To understand the inter-bureaucracy politics at the macro level *(the macro dynamics*), the framework of the Fragmented Authoritarianism (FA) model will be applied in order to explore the increased fragmentation of authority in the process of making equitization policies. This fragmented authority is found to result in increased bargaining, negotiations, and resource exchanges among different bureaucratic units in order to build consensus for policy changes. However, the framework of FA model would not work when investigating the interaction between state enterprises and their state supervisors over the implementation of the equitization mandate at the micro level *(the micro dynamic*s). Various theories on the government-business interactions will therefore be used to explore this dynamics. The most interesting feature of the dual dynamics model is that instead of investigating the above-mentioned sets of bargaining separately, it employs the framework of the Garbage Can theory to link them together. Whereas the FA model and theories on government-business interactions are both static in nature, assuming a rather stable structure of power within a period of time; the Garbage Can theory helps us to unravel the dynamism at both levels and thus provide possible ways to discover the interactions or linkages between the two processes within the same equitization process in Vietnam.

II.3.1- The Macro Dynamics

<u>II.3.1.1- The Fragmented Authoritarianism Model and Applicability in the Case of Vietnam</u>

The Fragmented Authoritarianism model has been applied extensively to explain the bureaucracy politics in China. The model argues that "authority below the very peak of the Chinese political system is fragmented and disjointed" and this "fragmentation is structurally based and has been enhanced by reform policies regarding procedures"[179]. The Fragmented Authoritarianism model thus seeks to "identify the causes of fragmentation of authority among various bureaucratic units, the types of resources and strategies that provide leverage in the bargaining that evidently characterizes much decision making, and the incentives of key individuals in various units in order to gain a better grasp on the ways in which bureaucratic structure and process affect Chinese policy formulation, decision making, and policy implementation."[180] The main finding of the model, in the case of China's energy policy, was that Beijing's structure of authority was fragmented with a wide range of variation in perspective and the locus of decision, thus requiring consensus building in each and every stages of the policy making process. As a result, the policy process is protracted, disjointed, and incremental. Instead of being

[179] Kenneth G. Lieberthal, "**Introduction: The "Fragmented Authoritarianism" Model and Its Limitations**", in Kenneth G. Lieberthal and David M. Lampton (eds.), ***Bureaucracy, Politics, and Decision Making in Post-Mao China***, University of California Press, 1992, pp. 8-10
[180] Ibid.

cohesive and consistent, the energy policy in China up to the 1980s was "subdivided into sectoral and particular issues" and thus "a decision itself is composed of a series of reinforcing decisions", otherwise, a decision, even a central one made by the top leaders, might just be a decision of the most tentative nature only.[181]

Although scholars applying the FA model in the case of China do not point to the direct causal relationship between the authority fragmentation and the Chinese gradualist approach in reform, the fragmented authoritarianism and its consequently increased bargaining and negotiations among various bureaucratic agencies in order to achieve consensus and support for reform to move forward, clearly imply gradualism.[182] The fragmentation of authority, due to various attempts to reform the administrative machinery and decentralize the fiscal authority to sub-national governments and the reduced use of coercive measures to enforce reform policies, has created room for increased bargaining and negotiations over resources among bureaucratic units and encouraged a search for consensus among various organs in order to initiate and develop major projects.[183] All these, in turn, imply that the formulation and implementation of a reform policy in a context of fragmented authority would be more gradual and incremental than in the case of power concentration. More time would be needed to bargain and negotiate, as well as to reach consensus among various actors. Delays, therefore, are also expected to be common. Compromises are often made as a result of

[181] Kenneth G. Lieberthal and Michel Oksenberg, **Policy Making in China: Leaders, Structures, and Processes**, Princeton: Princeton University Press, 1988
[182] According to Lieberthal (1992), no simple characterization can be made about the resulting outcomes of fragmented authoritarianism in China; however, it clearly leads to increased bargaining in the bureaucratic system (pp. 1-30)
[183] Lieberthal (1992), pp. 8-9

the consensus building efforts, leading to the "dual-track transition" phenomenon in the case of Chinese reform, or the simultaneous application of different measures in order to minimize the number of losers due to reforms.

The similarity in the politico-economic system, social and cultural root, as well as in the pattern of recent reforms taken by both China and Vietnam, highly suggests the applicability of the FA model in explaining the inter-bureaucracy politics in Vietnam. In fact, this idea has been repeatedly mentioned in the literature on the political economy of contemporary Vietnam. For example, Vasavakul, in mentioning the limitations of the current approaches in studying Vietnamese socialism, points to Lieberthal and Oksenberg's study on Chinese energy policy, implicitly referring to its applicability in understanding relations within the administrative State of Vietnam.[184] Gainsborough also finds the similarity and relevance in using Lieberthal and Oksenberg's "fragmented authoritarian regime" in studying the case of Vietnam. His research on Ho Chi Minh City shows that the state of Ho Chi Minh City bears very little resemblance to a "developmental state", which he defines as "wherein the idea of change occurring as a result of conscious state intervention rather than by a spontaneous process is uppermost", as well as it appears to "have little in common with the conception of local state corporatism, wherein local officials, often led by the party secretary, are seen as acting like a board of directors, performing a coordinating role between local institutions". In Gainsborough's words, Lieberthal and Oksenberg's model of fragmented authoritarianism "would appear to have salience in relation to Ho Chi Minh City" or

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[184] Vasavakul Thaveeporn, "**Rethinking the Philosophy of Central-Local Relations in Post-Central-Planning Vietnam"**, in Mark Turner (ed.), *Central-Local Relations in Asia-Pacific: Convergence or Divergence?***,** London and New York: Macmillan and St Martins, 1999, p.167

Vietnam in general.[185] Hisaaki Mitsui also observes the existence of a fragmented authority structure over SOEs in Vietnam as "Vietnamese SOEs were owned and managed by around 400 different public institutions separately, including various branch ministries in the central government as well as various line departments in the local governments at both provincial and district level".[186] As mentioned earlier, Sjoholm echoes the same view about the fragmentation of the bureaucracy system in Vietnam over the control and supervision of the SOE system.[187] Perhaps Painter is the one who provides us with the most detailed picture of fragmented authority in Vietnam, which he terms "power scattering". He attributes that power scattering to both historical reasons and the recent process of Doi Moi:

> "Vietnam is governed through a highly decentralized, fragmented and sometimes incoherent set of state institutions. Administrative structures in both central government and provincial governments tend to be structurally fragmented, with flat hierarchies and relatively weak centers. Main sources for such fragmentation are institutional traditions and norms such as "double subordination" and fiscal decentralization, as well as the dismantling of the Soviet-style administrative controls of the command economy from the 1980s."[188]

What remains missing in the current literature on the equitization process in Vietnam is a thorough investigation of the authority fragmentation in recent policy making attempts. If

[185] Gainsborough (2003-A), pp. 59-60
[186] Mitsui (1997), p.149
[187] Sjoholm (2006), pp. 1-35
[188] Painter (2005), pp. 261-283

the "reform as a process" theorists largely ignore the role of the State and its machinery, the policy-driven scholars tend to assume that the Party-State centre is still able to overcome such fragmentation in the State authority with its legacy of unity, supreme legitimacy, and political culture of consensual decision making to come up with "a more or less consistent, long term view that balances political priorities with economic considerations".[189] To fill that gap, the application of the FA model would help us understand better the structure of power within the bureaucracy in SOE equitization, and thus, denies a simple view of a formally integrative mechanism that allowed equitization process to evolve as a natural search for a rational policy. The FA model also clearly attributes a significant role to the inter-bureaucracy politics in equitization rather than the "reform-as-a-process" approach would admit. Moreover, the FA model provides us a mechanism to structure the bureaucracy and predict the outcomes of inter-bureaucracy bargaining and exchanges.

II.3.1.2- Fragmented Authority in Equitization

One among the main arguments of the dual dynamics model is that there has been a considerable degree of authority fragmentation among various bureaucratic units, at primarily but not limited to the central level, over the making and revising of equitization policies. Therefore, in the dual dynamics model, the author of this thesis disaggregates the State of Vietnam into different State actors at two levels: the central State and the local governments. The State actors at each level are further disaggregated into different specific actors with specific interests and power in the equitization process. In particular, state actors at the central level include, but not limited to, the Prime Minister and his

[189] Painter (2003), p. 21

assistants, the National Steering Committee of Enterprises Reform and Development, the Ministry of Finance, and line Ministries, and other central institutions involved in the making of equitization policies. For local governments in provinces and centrally-managed cities/municipalities, the author of this thesis investigates the role of the People's Committee and its assistant Departments in the equitization process. An assumption about a rather coherent local State actor in these localities should be noted here. To determine the structure of power along the central-local state dimension, I use the typology of local state actors, their resources, and thus relationship with the central state as proxy measurements.

The macro dynamics in the equitization process is therefore defined as the bargaining and negotiations among and between different State actors at both central and local levels over various issues during the stage of formulating and revising equitization policies. The power fragmentation in equitization originated mainly from the partial reform efforts before Doi Moi and more importantly, the Doi Moi process itself. As will be mentioned in the next chapter, the authority to make equitization policies, once centralized at above-ministerial levels, has been decentralized downwards and fragmented among various ministries, including Ministry of Finance, Ministry of Labor, Invalids, and Social Affairs (MOLISA), and line Ministries, as well as some main local governments mainly due to the public administration reform and fiscal decentralization carried out during the 1990s as parts of the whole Doi Moi package.

II.3.2- The Micro Dynamics

The second main argument in this thesis is that the interactive relationship between the state enterprises and their direct State supervisory agencies has not yet been studied adequately in the contemporary literature on SOE equitization in Vietnam. To deal with such inadequacy, we seek reference from the existing literature on the Chinese experience and find profound and diversified perspectives about the changing nature of interactions and bargaining between the State supervisory agencies and the State-owned enterprises and factories during the transitional process from a planning economy towards a market-oriented economy in China during the 1980s and 1990s.

II.3.2.1- Theories on Government-Business Interaction: the China Literature

First and foremost, if the FA model works well at the macro level, it does not seem that fit in the picture of local politics, as a number of China researchers assert. For example, Andrew Walder argues that bargaining activities at the local level, between the local State patrons and their enterprises does not stem from the fragmentation of power as the FA model suggests. The key feature of the local politics picture in China is the concentration of budgetary power and resources but within an uncertain environment of rules and regulations. Such uncertainties about prices, resource endowments, rules and regulations facilitate negotiations between the local governments and their state enterprises with the purpose of minimizing individual responsibilities and risks while balancing the expenditures and revenues of the local budgets. Walder thus concludes that it is more important to understand the characteristics of the environment that structure bargaining than to concentrate attentions on the dynamics of the resulting bargaining itself.[190]

One of the core feature of such environment during the 1980s and 1990s, as found by Huang Yasheng, is a "hybrid system that still retains some of the fundamental features of a command economy, albeit on a more decentralized basis, and fuses the economy with profit incentives and limited market functions". The mix is reflected through the fact that the responsibility of making decisions in the appointment of managers, determination of output targets, arrangement of input supplies and output sales, and finally control over financial resources in the three broad areas of profit retention, wages and bonuses, and investment was shared between the local State actors and the SOEs.[191] This hybrid system produced a more complex web of interests between the local State patrons and their subordinate SOEs than what is often captured by the literature.[192] The collusive, reciprocal and interactive relationship between bureaucrats and managers of state

[190] Lieberthal and Lampton (1992), p.19. Other scholars working on local politics in China, such as David Zweig, also share the same opinion with Walder, pointing that the concentration of budgetary power at local governments due to fiscal decentralization, within a larger context of unclear rules and regulations, has led to the widespread bargaining and negotiations at the micro level (see Lieberthal and Lampton, 1992, p.20)

[191] Huang Yashang, "**Web of Interests and Patterns of Behavior of Chinese Local Economic Bureaucracies and Enterprises during Reforms**", *The China Quarterly*, No. 123 (September 1990), pp. 432-438

[192] The China literature posted two contrasting images about the local State-SOEs interactions. In the first image, the local governments were presented as developmentally oriented and thus very protective of their subordinate enterprises, while in the second image, the local governments were presented as exploitative and predatory on their subordinate enterprises. For further references, see, for example, Jean Oi, **"Fiscal Reform and the Economic Foundations of Local State Corporatism in China",** *World Politics*, Vol. 45, No. 1 (October 1992), pp. 99-126.

enterprises at the local level, consequently, created both economic and political obstacles to further economic reform efforts exerted at the macro level.[193]

From another perspective, O'Brien finds that not all factories in China managed to bargain and persuade their supervisory bureaucracies to accept their interests.[194] In fact, the directors of larger, higher-ranking factories often felt they were more successful in preserving autonomy and gaining exemptions and concessions from their supervisory agencies on salary and bonus pools and distribution, tax rates, and cadre personnel decisions. This finding, according to O' Brien, explains why large, bureau-level factories achieved an advantageous bargaining position and reveals that many politically significant directors wish to maintain protected, dependent relationship with their supervisors and were hesitant to support radical ownership reforms that would decisively increase autonomy and might enhance efficiency.[195]

II.3.2.2- Government-Enterprise Bargaining in Equitization

As mentioned above, the China literature provides us with good sources of reference to the parallel case of SOE reform and equitization in Vietnam. The pattern of collaborative behavior between the local States and SOEs in seeking resistance to the mandate from the Central State, or "fence-breaking" activities, has been widely acknowledged by the

[193] Huang (1990). In particular, the collusive behavior between local bureaucracies and enterprises first made it very difficult for the central government to control aggregate demand, and thus to manage the macroeconomic effective, and second, could lead to the formation of coalition of interest which functions as a stopper in the system, favoring the status quo and resisting any future reforms.
[194] Kevin J. O'Brien, "**Bargaining Success of Chinese Factories"**, *The China Quarterly*, No. 132, December 1992
[195] Ibid., p. 1087

contemporary literature on State-society relationship in Vietnam before and during the transitional period. Regarding the equitization process, in fact, there have been numerous arenas and stages for negotiations between the SOE and their State supervisors. In particular, during the preparatory period of the overall equitization plan of a line Ministry, a province, or a GC, bargaining often take place between these State agencies and their SOEs over the equitization mandate and timing. Once the equitization mandate is clear and the timeline for implementation is fixed, bargaining would occur between the SOE and the State supervisors during the formulation of the equitization proposal over a number of issues, most notably the SOE valuation, the method of equitization, and the assignment of State representative in the post-equitization companies if applicable. The negotiations/bargaining might take place in direct meetings between involving parties, or through various indirect means such as back-and-forth flows of memoranda or phone calls. In the literature on contemporary Vietnam, however, there has not yet any concrete study about the interactions between the State patrons and SOEs over the implementation of the official mandate of equitization, leaving no answers to the questions of how the interactions have taken place, what factors shape them, and finally what are their main outcomes.

In this thesis, I plan to explore the micro politics of government-enterprise interaction in equitization through investigating the relationship between the state enterprises and their direct State supervisors. In so doing, the dual dynamics model explains the pattern of negotiations and bargaining taking place between the enterprises and their direct State patrons over the implementation of the equitization mandate through both macro and micro constraints. Macro constraints are defined as the overall legal framework imposed on the direct State supervisors and state enterprises. In the case of equitization, macro constraints are characterized with a high degree of uncertain and unclear rules and regulations regarding various issues in equitization, due to the fragmented authority in making and revising equitization policies and thus intermittent bargaining and negotiations to reach consensus over policy changes at the macro level. The pattern of government-enterprise interactions is also directly shaped by the preferred strategies of both the enterprises and their State patrons in implementing the equitization mandate. For example, for state enterprises, what lies centrally in their calculation would be the trade-off between their autonomy from and closeness with their State superiors. If the enterprise and its managers prefer autonomy from the State patron to its closeness with that same superior, it would opt for an equitization strategy with the lowest percentage of remained State ownership. On a contrary, if the enterprise prefers closeness to autonomy, it would seek an equitization strategy, if necessary, that allows it to retain the most its closeness with the State patron. Meanwhile, what shapes the preferred strategies in equitization of the local governments, line ministries, or General Corporations is mainly their fiscal stances given the uncertain environment imposed from the macro constraints and the closeness between them and their subordinate enterprises. Differences do exist in the preferred strategies in equitization of the direct State patrons and their enterprises, also resulting in bargaining and negotiations between them at the micro level over the implementation of equitization mandate.

II.3.3- Macro-Micro Interactions

As mentioned above, the FA model helps us understand the structure of power in SOE equitization in Vietnam at the macro level whereas theories on the government-enterprise interactions shed light on the complex web of negotiations and bargaining taken place at the micro level between state enterprises and their State patrons. However, the weakness of both the FA model and theories on government-enterprise interactions is that they are both static in nature, assuming the existence of a stable structure of power over a certain period of time within which bargaining and negotiations could take place. For example, one common critique of the FA model, as noted by some scholars in the China context, is that “it does not offer a dynamic framework that could anticipate and explain structural change”, and thus the model just provides us with a “snapshot” rather than a “movie”.[196] This critique is also true to the context of SOE equitization in Vietnam - which has evolved along the line with an increasing range of participants and variation in perspectives and interests.

In order to capture various dynamics in the equitization process in Vietnam, the author of this thesis incorporate the Garbage Can theory in her theoretical framework. The Garbage Can model of organizational theory was developed in the early 1970s by Cohen, March, and Olsen as part of a critique of rational and neo-rational models of public

[196] Michel Oksenberg and Andrew Mertha, **“Imposing Intellectual Property Rights on the Eclectic State”** unpublished working paper, 1999, quoted from Andrew Mertha, **“Fragmented Authoritarianism 2.0”: Political Pluralization of the Chinese Policy Process”**, 2007, p.2

administration.[197] The model was applied later by John Kingdon and some other theorists to describe the making of public policies as a process featured with organizational anarchy. The process of policy making in such an increasingly anarchical environment consists of multiple streams, namely the problem stream, the politics stream, and the policy stream. Cohen, March, and Olsen defined the problem stream as revolving around agenda-setting processes, the political stream as revolving around contention over alternatives and reflects public opinion, interest groups, experts, elections, partisan forces, and legislative, judicial, and executive bodies, and finally the policy stream as revolving around defining policy solutions. The important implication is that administrative decisions cannot be understood in purely rational terms. Rather, decisions must be understood in the context of the three process streams which determine the precise mix in the garbage can.[198]

Painter is one among the first scholars to explore the applicability of the Garbage Can model in the case of public administration reform in Vietnam. He notices the partially “anarchical” characteristic of the policy making process in Vietnam, reflected in “the somewhat random and serendipitous attachment of ready-made solutions - including foreign transplants” and the increasing “intensity of solution advocacy as an independent stream of activity in such a situation”. Painter then provides an analysis on the public administration reform program in Vietnam through the lens of the Garbage Can model in order to decipher the subtle interplay of local agendas and foreign transplants. Painter is,

[197] Cohen, M. D., March, J. G., & Olsen, J. P. “**A Garbage Can Model of Organizational Choice”**, Administrative Science Quarterly 17(1), 1972, pp. 1-25, and Kingdon, J. W., **Bridging Research and Policy: Agendas, Alternatives, and Public Policies**, NY: Harper Collins, Second edition: New York: Longman, 1995.

[198] Ibid.

however, aware of limitation of applying this approach into the context of Vietnam, one among which is the ignorance of the existing political factors at play.[199] David Koh also notes, albeit briefly, some anarchical characters of the policy making process in Vietnam, as "the final content of numerous policies is being negotiated or tolerated, rather than spoon-fed or imposed by the party-state and accepted in full by society" and "negotiations usually take place at a lower level and in a disorganized and dialogical way, in an ebb-and-flow pattern".[200]

II.3.3.1- The Garbage Can and the Three Streams in Equitization

In order to capture such dynamics in the equitization process, the model of dual dynamics therefore employs the framework of Garbage Can theory in identifying the shift in the political, problem, and policy streams in the equitization process at both macro and micro levels. At the macro level, the emergence of new institutions and new resources led to unintended consequences and created power struggles and imbalances in the static power structure. Using the framework of the Garbage Can theory could help us disentangle this dynamism through investigating how both existing and newly-established institutions take the advantage of different streams to defense or gain their power in the equitization process. Similar approach will also be applied in investigating the interactions between the enterprises and their direct state supervisors over the implementation of the equitization mandate.

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[199] Martin Painter, "**Chapter 12: Public Administration Reform in Vietnam: Foreign Transplants or Local Hybrids?"**, in John Stanley Gillespie and Pip Nicholson (eds.), *Asian Socialism & Legal Change: The dynamics of Vietnamese and Chinese Reform*, Australian National University Press, 2005.

[200] David Koh, "**Negotiating the Socialist State of Vietnam Through Local Administrators: the Case of Karaoke Shops"**, *Sojourn: Journal of Social Issues in Southeast Asia*, Vol. 16, No.2 (2001), pp. 279-305.

By incorporating the Garbage Can theory into the dual dynamics model, I would like to argue that the authority instability in the equitization process has led to a shift in the dynamism from the macro level to the micro level. The tendency of bureaucratization and routinization in the equitization process, reflected through the setting up of new institutions to deal with new issues, has resulted in an enlarged bureaucracy involved in the equitization process.[201] New institutions, however, required power and resources to survive and thrive. In so doing, they often manipulate among different streams of political influences, policy, and problem. Such manipulations have paradoxically led to increased instability in the power structure. In other words, while bureaucratization and routinization aimed at rationalizing the policymaking process; they, in fact, further complicated the bureaucracy reform cycle as well as the nature of issues. In such a complex and unstable environment, policy outcomes are often no more predictable. To elaborate this point further, in the following paragraphs, I will first define briefly the three streams, i.e. the political stream, the policy stream, and the problem stream, in the particular case of equitization in Vietnam. A discussion on how the dynamism shifts from the macro level to the micro level will then be presented, covering the macro-micro interactions and their implication on the equitization process in Vietnam.

[201]For more on the tendency of bureaucratization and routinization in socialist countries such as China and Vietnam, one can refer to Melanie Manion, "**The Behavior of Middlemen in the Cadre Retirement Policy Process**", in Lieberthal and Lampton (1992), pp. 216-244; Hong Yung Lee, "**China's New Bureaucracy**?", in Arthur Lewis Rosenbaum (ed.), *State & Society in China: The Consequences of Reform*, Westview Press, 1993, pp. 55-76; Brantly Womack, "**The Party and the People: Revolutionary and Postrevolutionary Politics in China and Vietnam"**, *World Politics*, Vol. 39, No. 4 (Jul., 1987), pp. 479-507, or David W. P. Elliot, "**Institutionalizing the Revolution: Vietnam's Search for a Model of Development**", in William Turley (ed.), *Vietnamese Communism in Comparative Perspective*, Westview Special Studies on South and Southeast Asia, 1980.

The problem stream was mainly concerned with problems arisen in the process of equitization. Problems were raised by different groups through different maneuvering channels in order to appear in the agenda of the top politicians and policymakers. For example, the determination of Initial Public Offer (IPO) share value rose into a critical issue only after 2002 and was addressed in Decree 187 in 2004 through an open auctioning system in replacement of the existing administratively-pricing mechanism. *The policy stream* revolved around the range of alternative policies/solutions available for the problem. The solution proposals could come from various sources, ranging from the bureaucratic units themselves, outside advisors (either domestic or foreign), intellectuals, media, enterprises, or the populace. For example, regarding the issue of determining the IPO share value, the Ministry of Finance proposed and discussed the two following solutions before the issuance of Decree 64 in 2002: (i) the share value was to be administratively-fixed at its nominal value of VND 10,000 or VND 100,000 per share, or (ii) it was to be determined by the market forces through open auctioning in the stock exchange. MOF first opted for the former solution in Decree 64, and then for the latter solution only in 2004 when a new Decree, Decree 187, was issued to replace Decree 64.[202] The last stream in the Garbage Can model, *the political stream* provides room for different political actors involved in the equitization process, ranging from the key Party leaders, Prime Minister and his aides, economic and line ministries, local governments, towards General Corporations and state enterprises, to exercise their influences. These groups of political actors have used different channels, either formal or informal, to lobby for the solutions that benefit them the most. For example, as will be mentioned later in

[202] Author's interviews with MOF officials during fieldtrips in Vietnam in 2007

Chapter IV, in order to push the issue of managing Equitization Funds, which used to be under Minister of Finance unarguably, onto the reform agenda, the State Capital and Investment Corporation (SCIC) managed to win the support from Deputy Prime Minister Nguyen Sinh Hung, who used to be the Finance Minister. The intervention of DPM Nguyen, therefore, helped SCIC to gain the right to manage the Equitization Fund, albeit under the guidance and supervision of MOF.

As was mentioned earlier, the increased instability emerged in all three streams was due to the enlarging range of actors involved and their diverse interests in the process of making equitization policy and the creation of new resources attached to the equitization process, i.e. the proceeds collected from selling the State shares in equitized SOEs. The emergence of new institutions and resources related to the equitization process has taken place at both macro and micro levels, although to different extents. More central institutions were newly established than those at the local governments and enterprises. New resources, on a contrary, were mainly created at the micro level and partially channeled upwards to the central State. These two parallel, albeit unequal, processes played the role of main sources for anarchy in the making equitization policies in Vietnam and were reflected through the different dynamics of the political, policy, and problem streams at the macro and micro levels. Therefore, my argument is that there has been a shift in the dynamism from the macro level to the micro level, reflected through changes in the main contents of each stream at both levels. In other words, the content of each stream varies according to its level. For example, at the macro level, the fragmented authority has caused the political stream to revolve around two main themes: consensus building on the one hand and power politics on the other hand. However, at the micro level, the political stream revolves around the client-patronage relationship between the local governments and their enterprises. For the local government, it is more about their fiscal situation and fiscal relationship with enterprises that shape the political stream in the equitization process. Similarly, the concern of the political stream for state enterprises is the trade off between their autonomy from and closeness with their State patrons in the equitization process. Similarly, the policy stream at the macro level revolves around such issues as different policy alternatives to ensure the harmonization of different interests of the State, the SOE employees, as well as outside investors. Meanwhile, more specific questions are dealt with in the policy stream at the micro level, for example how many percents of State ownership should be retained whereas how many percents should be sold to the employees and outside investors.

Table 2.1: Contents of the three streams at macro and micro levels: Examples

Level	Problem stream	Political stream	Policy stream
Macro	How problems are defined? Are they defined along the line of fiscal or developmental purposes? Or are they defined by the dogmatic/ideological divine?: Often problems within the bureaucracy are increasingly defined along the fiscal line, but within a broader context of VCP strong control over the equitization process. - Who raises the problem and how?: Issues are often raised by both old and new institutions.	Fragmented authority induces bargaining, negotiations, and resource exchanges in order to achieve both (i) consensus building, and (ii) power building, maintenance and development.	Range of policy options is increasing, including both domestic solutions and foreign-origin alternatives. This thus has different implications on the speed, contents, and forms of equitization.
Micro	The issue that who initiates the equitization mandate at enterprise level is central. We suspect that the equitization outcome would differ depending on whether the	- For State patron: patron-client relationship with enterprises and fiscal stances - For enterprises: preferences between corporate autonomy and	- Policy options vary, depending on who initiate the equitization mandate. There has been a wide range of alternatives for specific issues, such as which enterprise to

	State patrons or state enterprises initiate the equitization.	closeness with the State patron.	privatize, how to restructure the assets, or how much of State ownership to let go or to retain

II.3.3.2- Macro-Micro Interaction in Equitization

After finding that the three streams at the macro and micro levels revolve around different issues/contents, the next question I try to deal with is how these two dynamics link to each other and how their interactions influence or shape the equitization outcome. On the macro-micro interactions in policy changes in Japan, Steven Vogel, through his model on Institutional Changes, finds that:

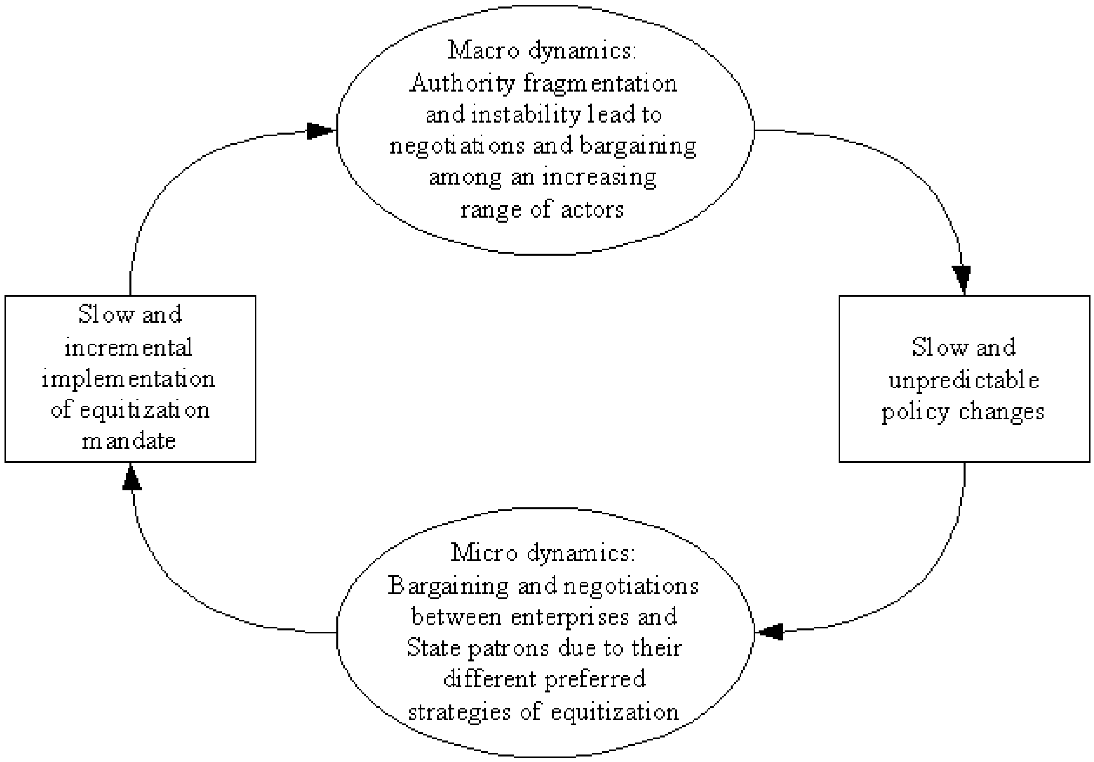
> "The Japanese model generates relatively predictable patterns of corporate adjustment and policy reform. But the actual trajectory of change over the longer term is complicated by the fact that the two levels interact. As the government enacts policy reforms, these reforms create new opportunities and constraints for further corporate adjustment; and as firms adjust to new challenges, these adjustments modify firms' policy preferences and thereby affect future policy reforms."[203]

The author of this thesis would like to argue that a similar pattern of macro-micro interactions is also observed in the equitization process in Vietnam. The macro dynamics, or the bargaining and negotiations among bureaucratic agencies over the formulation and revision of equitization policies, certainly constitute the legal environment for the latter dynamics, the bargaining and negotiations between the enterprises and state superiors

[203] Vogel (2006), p. 18

over the implementation of these policies at the micro level, to take place. In particular, the slow and unpredictable policy changes resulted from the macro dynamics have fostered the pattern of negotiations and bargaining between the State patrons and their enterprises over their different preferences in equitization. Such micro dynamics, in turn, leads to slow and incremental implementation of the equitization mandate at the micro level in order to suit the interests of both the State patrons and their subordinate enterprises. The micro dynamics, therefore, produces both constraints and incentives for the bargaining and negotiations to take place at the macro level over possible adjustments in equitization policies. For example, the legal framework for equitization during the late 1990s and early 2000s did not stipulate the inclusion of land-use rights and other intangible values into the pre-equitization value of the enterprises, thus resulting in the so-called “underpricing” and “insider-trading” within equitized enterprises. This phenomenon, in turn, shaped the agenda of policy revisions during the early 2000s at the macro level.

Graph 2.2: Macro – Micro Interactions in Equitization



II.4- Summary

The contemporary literature on Vietnam’s equitization has been polarized between policy-driven and process-driven arguments. As such, it misses out on two important dynamics of the equitization process, i.e. the inter-bureaucracy politics at the macro level and the government-enterprise interaction at the micro level. To fill in the gap, in this thesis, I examine the impacts of both policies, process, and their interactions. In so doing, I introduce the dual dynamics model which is composed from the Fragmented Authoritarianism model, various theories on government – business interactions, and the Garbage Can theory, to examine the equitization process at two levels: the macro dynamics and the micro dynamics. The macro dynamics is defined as the bargaining and negotiations among various bureaucratic agencies over various issues in the equitization policies. The micro dynamics, on the other hand, revolves around the bargaining and negotiations between the state enterprises and their State patrons over the actual implementation of the equitization mandate. These two dynamics correspond with the two main stages of a policymaking cycle in equitization: the formulation and/or revision of equitization policies and the implementation of equitization policies and feedbacks. The central argument in applying the dual dynamics model in investigating the equitization process in Vietnam is that: the above mentioned sets of bargaining and negotiations, i.e. the macro dynamics and micro dynamics, and their interactions with each other, are keys in explaining both “gradualism” and “non-linearity” features of the equitization process in Vietnam.

Chapter III Authority Structure in Equitization

The purpose of this chapter is to disentangle the State machinery in the process of making equitization policies in Vietnam and thus to understand the power relationship among these various state actors involved in the process. Given the increasing tendency of bureaucratization in the making of equitization policies, the focus of the chapter is essentially confined to the policymaking process carried out by the State administrative ladder and does not discuss the role of the Vietnamese Communist Party (VCP).

The main argument I would like to make in this chapter is that the process of making equitization policies in Vietnam has been characterized with both authority fragmentation and anarchy. While fragmented authority has led to different sets of bargaining and negotiations over contentious issues in equitization at different levels, anarchy has resulted in a shift in dynamism among these levels. Firstly, the power in making equitization policies, similarly to other economic reforms, during the Doi Moi period, has been fragmented, due to various reform efforts, such as public administration reforms and fiscal decentralization. This fragmentation of power has led to bargaining, negotiations, and resource exchanges among different bureaucratic units in order to seek consensus over policy changes and their accordingly implementation. At the macro level, bargaining and negotiations mainly take place among different bureaucratic units in charge of formulating and revising equitization policies. At the micro level, bargaining and negotiations are between the direct State supervisors and their subordinate enterprises over the implementation of the equitization policies. Another feature of the process of making equitization policies in Vietnam is the increased instability of the power structure, due to, paradoxically, the tendency of bureaucratization and routinization, or the tendency to set up new institutions/bureaucratic agencies to deal with new problems arisen during the process. As was mentioned in Chapter II, the emergence of these new institutions or agencies has resulted in greater authority instability in making equitization policies and consequently increased unpredictability of policy outcomes.

The chapter is organized as follows. The first section, Section III.1, discusses the impact of Doi Moi with various reform measures on the authority structure in making equitization policies. In particular, the section focuses on the public administration reforms and fiscal decentralization efforts carried out during the 1990s. Section III.2 discusses the tendency of institutionalization in the equitization process and its impact. Section III.3 provides a description of the formal power relationship among various State actors involved in the making of equitization policies while section III.4 details out how these relationships and actors actually fit into different stages of the policymaking process. Finally, Section III.5 ends the chapter with a brief discussion about authority fragmentation and anarchy in the process of making equitization policies in Vietnam.

III.1- Beyond the Coherent Image of the State

III.1.1- Public Administration Reforms and Implications

<u>III.1.1.1- Disbanding of the State Planning Commission</u>

One among the most notable administrative reforms carried out in the early 1990s was the disbanding of the Ministers' Council (*Hoi Dong Bo Truong*) and a number of supra-ministerial State Committees (*Uy Ban Nha Nuoc*) during the first half of the 1990s.[204] This restructuring gave increasing power to the remaining actors which included the Prime Minister and his aides, various Ministries and para-ministerial agencies, at the cost of supra-ministerial coordinating committees. Concerning the economic sector, one of the key Committees abandoned during this period was the State Planning Commission (*Uy ban Ke hoach Nha nuoc)* or SPC. Prior to Doi Moi, the SPC was the chief economic designer for the central planning economy of Vietnam. SPC was given a supra-ministerial status, headed by a Deputy Prime Minister cum a member of the Politburo, while the person in charge of its daily management was given quasi-Minister rank. Regarding the organizational structure, SPC consisted of various Departments which had their equivalent in a ministry as well as different research institutes. The SPC was probably the most powerful agency in the Vietnamese bureaucracy due to both its planning and distributional functions in the planned economy in the 1970s and the 1980s.[205] Both partial economic reforms during the late 1970s and the early 1980s and the official reform program- Doi Moi, all came from the SPC. The idea of equitization was thus also originated from the SPC, or the Central Institute of Economic Management (CIEM), its think-tank institute, in particular. CIEM was the person who prepared the text of Decision 143 in 1990, Decision 202 in 1992, as well as subsequent legal documents regulating the pilot equitization program.[206] However, together with the disbanding of SPC in the early 1990s and the merger of CIEM unto the Ministry of Planning and Investment (MPI), the

[204] For an overview about the public administration reforms in Vietnam, one can refer to the information on the Government's website at www.vietnam.gov.vn**,** or Quan Xuan Dinh, "**Public Administration Reform in a Transitional Economy: Case of Vietnam"**, *Journal of Philippine Development*, Number 46, Volume XXV, No. 2, Second Semester, 1998
[205] Beresford Melanie, **The Vietnamese Transition from Plan to Market: Transformation of the Planning Mechanism**, 1999, pp. 18-19
[206] Hoang and Phung (1992)

job of formulating equitization policies has been no longer with CIEM, but in the hands of Ministry of Finance, other economic and line Ministries, para-ministerial agencies, important local governments, and even some special state enterprises such as big 91-GCs.[207]

III.1.1.2- Authority Fragmentation in Equitization

The redistribution of State authority in making equitization policies among the remaining State actors due to such restructuring was, however, not equal. In the equitization process, the rise of the Ministry of Finance was observed with a relative loss of power for the remaining Ministries. In particular, the responsibility to manage the State capital in state enterprises was re-assigned to Ministry of Finance as means to weaken the collaboration between the line Ministries and SOE managers in manipulating the use of State capital and assets for their local benefits. These efforts were pushed forward under the slogan of minimizing the bureaucratic interventions of line Ministries into the daily operations of SOEs towards an entire elimination.[208]

As such, a General for Management of State Assets and Capital in Enterprises *(Tong cuc Quan ly Von va Tai san Nha nuoc tai Doanh nghiep)* was established under MOF in 1994 as a key measure to strengthen the capacity of this Ministry in monitoring the use of State assets and capital in state enterprises since then. Before 1994, the direct State supervisors, being either line Ministries or local government, played both roles of owner and regulator

[207] Ibid., and author's interviews with CIEM and MOF officials during fieldtrips in Vietnam in 2007

[208] Martin Painter, "**Public Administration in Vietnam: Problems and Prospects",** *Public Administration and Development***,** Issue 23, Vol.3, August 2003, pp. 259-271

for their state enterprises. The establishment of the General Department thus aimed at reducing towards eliminating entirely the involvement of line ministries and local governments in the management of State capital and assets in enterprises. The General Department, or MOF in general, now represented the State in managing the State assets and capital in state enterprises, or playing the role of their owner; whereas line Ministries or local governments played the role of State regulators in these enterprises. The actual process of forming the General Department at MOF and its branches at local governments was, however, the product of "merging several pre-existing overlapping agencies and departments in the government performing essentially similar tasks of monitoring and supervision".[209] The General Department was entitled with a number of rights and responsibilities previously exercised solely by the direct State supervisors. For example, the General Department took part in proposing and considering the appointments and dismissals of management positions in state enterprises. Most importantly, the General Department was in charge of supervising financial performance of state enterprises, including the use and liquidation of state assets and capital in these enterprises. In addition, the Department was also in charge of introducing a new accounting and auditing system for SOEs, which has been implemented on a pilot basis since January 1995. Finally, as part of the task to manage the State assets and capital, the General Department played the core role in formulating and implementing the equitization mandate.[210]

[209] Mitsui (1997), p.149
[210] Ibid.

In order to carry out the above-mentioned tasks, including the formulation of equitization policies and supervision of their implementation, the General Department was subsequently restructured vigorously in order to streamline the cumbersome bureaucratic machine, to cut down the staff size, and to improve the service quality. In particular, the General Department was rescaled into Department of Enterprise Finance (DEF) in 1999 reportedly due to numerous complaints about excessive red tape and interventions of this General Department in the operations of state enterprises.[211] DEF was further re-structured in 2004, following Decision 27 of the Minister of Finance. According to this Decision, DEF categorized the state enterprises along the sectoral lines and managed the State capital and assets in these enterprises accordingly. For example, DEF consisted of four functional Boards that manage the finance of SOEs in the sectors of industries, transportation and construction, agriculture and fishery, and services, one General Division, and one Administration section. The General Division was in charge of drafting the equitization policies based on regular consultation with the four functional Boards managing state enterprises by sectors.[212]

III.1.1.3- Failed Efforts of Re-centralization

Another consequence of the above-mentioned public administration reforms during the 1990s is that any efforts to re-organize supra-ministerial Committees in following periods largely failed, causing difficulties in coordinating the policymaking process. The establishment and operation of *Ban Chi dao Quoc gia ve Doi Moi va Phat trien Doanh*

[211] Author's interviews with MOF officials during fieldtrips in Vietnam in 2007. The rules and regulations for the newly-restructured Department of Enterprise Finance are found in MOF's Decision 106 in 1999 and Decision 27 in 2004 (all are accessible at MOF's website: www.mof.gov.vn)
[212] Finance Minister's Decision 27 in 2004

nghiep or the National Steering Committee for Enterprise Reform and Development (NSCERD) in the equitization process is a typical example. The making of equitization policies demanded the participation across the bureaucracy, in which MOF was mainly in charge of formulating the policies while the responsibility to implement the policies laid with line Ministries, local governments, and state enterprises. Any mismatch between the two stages of policy formulation and implementation would thus certainly jeopardize the process. The Central State, aware of this coordination problem, attempted to set up NSCERD as a supra-ministerial Committee to oversee the whole process of making equitization policies.[213] However, due to various reasons that we will discuss below, NSCERD failed to live up to these initial expectations. Consequently, NSCERD, albeit its very existence, almost disappeared in the text of the latest legal document regulating the equitization process in Vietnam-Decree 109 in 2007.

NSCERD had a rather long history of establishment, which dated back to the beginning of the equitization process in the early 1990s. NSCERD's predecessor, the National Committee of SOE Management Reform, was established in 1998 as the result of the merger between the National Steering Committee of Enterprise Reform formed in 1993 and the National Steering Committee of SOE Equitization formed in 1996.[214] In 2000, the National Committee of SOE Management Reform was renamed as NSCERD. By the end of the 1990s, NSCERD's main task was "to draw up strategies, direct, guide, and monitor implementation, coordinate with the competent agencies in making submissions and

[213] This is reflected in Prime Minister's Decision 111 in 1998 raising NSCERD to supra-ministerial status, headed by one Deputy Prime Minister, instead of a quasi-Minister as before. The decision is accessible at the Government website: www.vietnam.gov.vn.
[214] Prime Minister's Decision 111 in 1998

propose solutions to remove difficulties" in the SOE reform in general and the equitization process in particular.[215] The Committee received direct assistance from the Department of Enterprise Reform at the Office of Government. Also, Boards of Enterprise Reform and Development (BERDs) were formed at the ministries, local governments, and GCs as part of and directly reporting to NSCERD.[216]

Since 1998, instead of being headed by a quasi-Minister as before, the Committee has been chaired by one Deputy Prime Minister (often the one in charge of economic-financial issues) with two standing Deputy Chairs and a number of non-standing Members from MOF and line Ministries. Despite the permanent nature of the post, the two standing Deputy Chairs of the Committee, as appointed from the Office of Government, were often also responsible for other matters in the Office. The most committed Standing Deputy Chair of the Committee so far was Dr. Pham Viet Muon who used to be vocally pro-reform and make bold statements in the media to accelerate the equitization process.[217] However, after he got promoted to the post of Vice-President at Office of Government, he seemed to be much less vocal and did not appear in the media as frequently as before. The other standing Deputy Chair of the Committee, Dr. Ho Xuan Hung has now moved to a new post of Deputy Minister of Agriculture and Rural

[215] Painter (2003), p.20

[216] Prime Minister's Decision 121 in 2000 and Decision 128 in 2001 stipulating on roles and responsibilities, as well as the organizational structure of NSCERD

[217] For example, in one interview with the media, Dr. Pham vigorously asked for efforts to push up the equitization process and promised to devise, through the Ministry of Internal Affairs, a penalty regime for those who sought to delay the process. However, most of his promises have not yet realized so far, implicitly indicating the powerless of NSCERD in coordinating Ministries in the equitization process.

Development and we have not yet known who is going to take his place in the Committee.[218]

Other ambiguities regarding NSCERD's role and capacity in the equitization process were also prevalent. There existed a common perception that the Committee was "a force for prevarication as much as an engine of reform".[219] Spotting that weakness in the coordinative mechanism in the equitization process, International Financial Institutions, especially the International Monetary Fund in Vietnam, requested the Government to grant NSCERD with actual enforcement power. However, this move was contradictorily resisted by the staff of NSCERD themselves as they saw it as a loss of independence and status rather than a gain in coordinating power.[220] Since 2001, NSCERD has also received a number of technical assistances (TAs) from the community of international donors in a bid to enhance the capacity of this organization.[221] One significant TA among them was from the World Bank in 2002 to help NSCERD build up a comprehensive database on SOEs and their equitization process thereof. The purpose was to boost up the NSCERD's capacity in supervising state enterprises in their equitization process and providing proper advices to the Prime Minister. However, it seemed that no analysis and

[218] NSCERD was thus dubbed as a waiting room for those aiming at potentially higher positions in the State ladder. It did not mean that being with the institution helped bring credits to the candidates, but only allowed the candidates a temporary stay while waiting for vacancy in other places. Author's interviews with MOF and CIEM officials during fieldtrips in Vietnam in 2007.
[219] Painter (2003), p.20
[220] Painter (2003), p.20
[221] Most of the TAs came from international financial institutions, such as the World Bank, and other international donors. Author's interviews with IFIs and MOF officials during fieldtrips in Vietnam in 2007

reporting from this database had been publicly available.[222] Meanwhile, when being asked about the NSCERD's capacity in providing credible information and data on the SOE equitization process in Vietnam, most of related MOF officials stated frankly that all the data and reports under NSCERD's name came mainly from MOF or the Department for Enterprise Finance in particular.[223]

III.1.2- Central-Local Relationship

III.1.2.1- Fiscal Decentralization and Impacts

Vietnam has a long history of decentralization which dated back to its feudal time when the popular tradition that "phep vua thua le lang", or the power of the King stopped at the village's gate, implying the weak position of the Central State in comparison with regional and local powers. The power of the feudal Central State was further weakened when it failed to prevent the country from falling under the French colonial rule in the early twentieth century. Efforts were made by the Communist Central State to consolidate its power in North Vietnam during the war period from 1954-1975; however, the war conditions and needs forced the Centre to allow a great extent of regional and local autonomy.[224] What a majority of scholars observed in Vietnam during this period is the coexistence of both the centralized planning system of allocating and redistributing resources and a highly decentralized local administrative machine, or a coexistence of

[222] Author's interview with Dr. Vivek Suri, World Bank's senior economist at World Bank Vietnam in February 2007
[223] Author's interviews with MOF officials during fieldtrip to Vietnam in January – March 2007
[224] MOF's website at mof.gov.vn

both decentralization and re-centralization tendencies or of both planning and market in Vietnam during this period.[225]

However, the context changed in the late 1970s when the war was over. As mentioned earlier, *pha rao* activities, having their roots as early as right in the onset of the wartime, started to boom at local levels. These activities, in fact, became informal but important financial sources, besides the waning transfers from the State budget, for a number of local States. These fence-breaking activities thus led to the consolidation of power for local administrative agencies at the expense of the politico-economic power of the Central State.[226] The subsequent periods thus witnessed a number of the Central State's efforts to reconsolidate its fiscal power over the local governments. These efforts were ironically masked under the propaganda of officially granting more autonomy to them, or fiscal decentralization.[227] In fact, both revenue and expenditure assignments were designed to retain the control power in the hand of the Central State.[228] However, as part

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225 For a detailed discussion about the coexistence between the decentralization and re-centralization tendencies in the contemporary Vietnam, one can refer to, for example, Vasavakul (1999), pp.181-183, or Gainsborough (2003-A), p.8

226 Vasavakul (1999), pp.181-183

227 Vietnam issued the first State Budget Law in 1996, stipulating in details the revenue and expenditure assignments for 4 levels of government: central, provincial, district, and communal governments. New State Budget Law in 2002 only deals with the central and provincial governments, entitling provinces/centrally-managed cities the right to approve the budget of districts and communes

228 For example, both the State Budget Laws in 1996 and 2002 entitled the Central State with the right to determine all the rates applied either to central, local, or shared taxes. There were no fixed sharing rates between central and local budgets, but open for negotiations. Tax collections were deposited with the treasury. The revenues from various taxes are then returned to the provinces in part or full, on the basis of their expenditure requirements. See Pham Lan Huong, "**Fiscal Decentralization from Central to Sub-national Government in Vietnam**", 2006, online access at:
http://www.gdnet.org/pdf2/gdn_library/annual_conferences/seventh_annual_conference/Huong_parallel_2_5.pdf

of incentives for local States to increase the Central revenue collection, changes in the budgetary process did create extra financial sources for local authorities.[229]

One important change to be noted was the passage of the 1996 Law on State Budget. The 1996 Law granted provinces and centrally-managed municipalities increased autonomy over local expenditure and, more significantly, set up "a system of residual claimancy" whereby provincial and para-provincial governments could retain their revenues surplus once they fulfilled their committed centrally-negotiated revenue assignment. This reform process not only provided local governments with incentives to "minimize their revenues targets while maximizing actual revenues once the three-year targets had been set", but also "created a strong patron-client relationship between reform minded party leaders and political leaders in the provinces".[230]

However, the increased local autonomy due to fiscal decentralization varied to a great extent from one province to another. Big and prosperous provinces and cities such as Hanoi or Ho Chi Minh City would find it easy to fulfill the revenue assignments from the Central State. These localities thus possessed more leverages in negotiating with the Central State over the sharing ratios of revenues. Other provinces, on a contrary, faced real difficulties in meeting the revenue assignments and thus relied to a great extent on

[228] For example, according to Pham (2006), incentives for tax collection is captured by the practice of letting sub-national authorities retain a share of the collections above the targeted amount for taxes. The "surplus" collections retained at the sub-national elvel include sub-national and shared taxes. The current retention rate for surplus revenues is 100 100% for Hanoi, 79% for Ho Chi Minh City and up to 30% for all other provinces.

[230] Jonathan London, "**Vietnam and the Making of Market-Leninism"**, paper presented at an *International Workshop on Remaking Vietnamese State: Implications for Vietnam and Beyond*, City University of Hong Kong, August 2008, p. 12

the transfers from the Central State Budget. There thus existed an asymmetry in increased autonomy enjoyed by different regions, provinces, and cities due to fiscal decentralization in Vietnam throughout the 1990s and the early 2000s.[231] If big cities and provinces often take the advantage of fiscal decentralization to enhance their own positions in the national map; smaller local governments still had to rely considerably on the State Budget and thus had little room to maneuver in the central-local bargaining. This has posed significant impacts on the central-local relationship in the equitization process. Big cities and provinces with greater autonomy would certainly have more advantages in central-local bargaining and negotiations over contentious issues in equitization policies than small, more fiscally dependent provinces.

III.1.2.2- Dual Subordination and Re-centralization Efforts

Besides adjustments in the fiscal relationship, the Central State also carried out vigorous administrative reforms in order to "build a viable and centralized political and economic bureaucracy".[232] For example, a series of new and revised laws regulating the functioning of the State machinery had been enforced since the late 1980s, aiming at increasing the role of the bureaucracy, especially the Central State, in the management of the economy at all levels. In particular, at the local levels, People's Committees have been separated from People's Councils and moved to integrate into the national State administrative system, forming a single state apparatus. People's Committees now represent the central government in the localities and implement the central government's orders within their territories. In addition, the central State has been granted increased power in revoking

[231] Gainsborough (2003), p.7
[232] Vasavakul (1999), pp. 168-169

decisions made by people's committees and people's councils which are contradictory to those of the central state. The status of a number of functional Departments which used to be under the local governments' authority, except those organizations serving local objectives under people's committees, has been revised to enhance their ties with the central state. Finally, key positions in committees or boards guiding enterprises, organs, organizations, and state professional units (including SOEs) have now been considered state officials and appointed by the relevant supervisory State agencies, despite the fact that these units were not state agencies.[233]

Concerning the specific issue of equitization, as part of the Central State's efforts to ensure the uniform and coherent implementation of the equitization mandate at all local levels, a specialized Board - Board of Enterprise Reform and Development (BERD) or *Ban Doi Moi va Phat Trien Doanh Nghiep*, was formed in each line Ministry, local government, or General Corporation. These BERDs were subjected to the principle of dual subordination, which means, they were responsible to report to both their direct State supervisors, i.e. line Ministries, local governments, or General Corporation, on the one hand, and NSCERD on the other hand.

BERDs at line Ministries were often established in a permanent basis with own personnel and resources. As an example, BERD at the Ministry of Agriculture and Rural Development (MARD) was established in 2005 with major responsibilities in preparing and implementing policies regarding SOE restructuring, re-arrangement, and equitization, as well as reforming the corporate governance in state enterprises and others in the

[233] Ibid., pp. 181-183

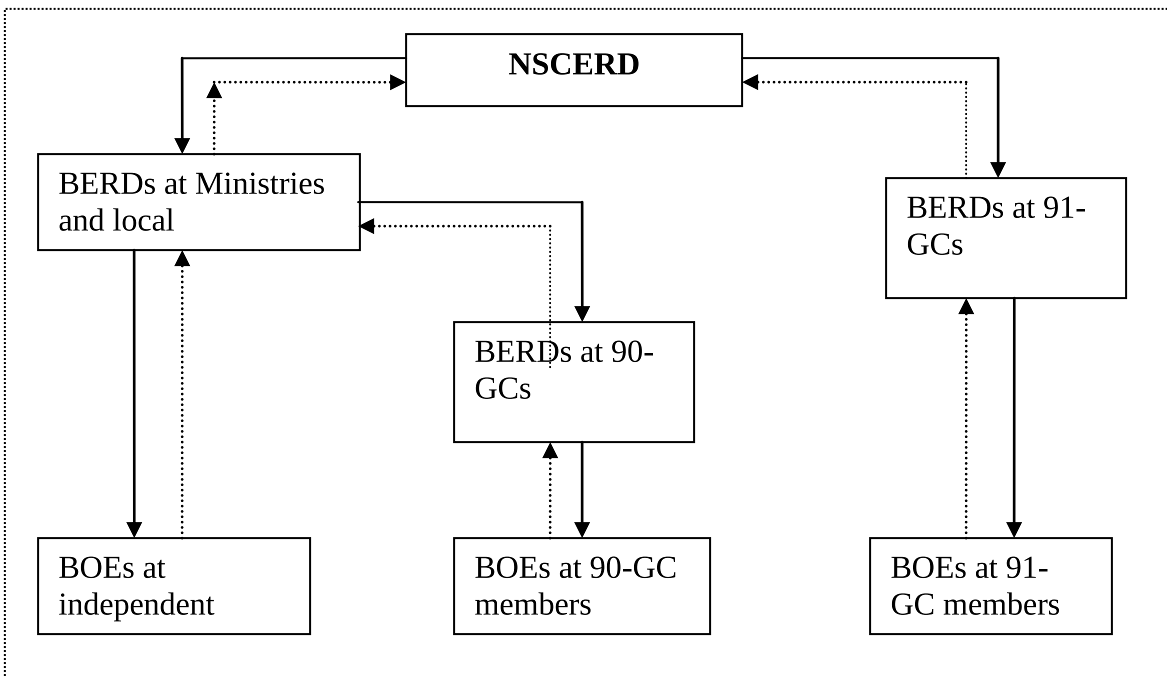
agricultural and rural development sector, in addition to exercise the State management over these enterprises. Before 2005, these responsibilities were shared among a number of Departments within MARD, namely Department of Personnel Organization, Department of Planning, Department of Finance, Department of Cooperatives and Rural Development, and Department of Inspection.[234] It is noted that there is a high rate of staff turnover (joining or leaving) at BERDs as staff often seek better and more stable positions elsewhere in the formal bureaucracy and its extended parts. This is due to the widespread uncertainties about roles, functions, and even the survival possibilities of these BERDs, especially after the equitization mandate is completed. For example, by the late 2007, the Head of BERD at MARD, Dr. Doan Dinh Thiem, moved to become the Chairman of the Board of Management of Vinacafe, a 91-GC – the biggest coffee producer and trader in Vietnam.[235]

Local BERDs, on the other hand, could be set up on either permanent or ad-hoc basis, led by one Deputy Chair of the PPC with the assistance of representatives from various functional Departments. Permanent Boards had their own personnel and office at the PPCs. Ad-hoc Boards, on the other hand, convened only on ad-hoc basis, with members working mainly for different functional departments. As mentioned above, the two core Departments in charge of equitization were Department of Planning and Investment *(So Ke hoach va Dau tu*) and Department of Finance *(So Tai Chinh*). Depending on the specific context of the province/city, one in these two Departments would take the lead in

[234] Decision 51/2005/QD-BNN in August 2005 by Minister of Agriculture and Rural Development (MARD) regarding the re-arrangement of roles and responsibilities of a number of Departments within MARD.
[235] Author's interview with BERD officials at MARD, February 2007

coordinating the implementation of equitization mandate. For example, Hanoi's BERD was formed on an ad-hoc basis, in which the Department of Finance or the Bureau of Enterprise Finance in particular, oversaw the overall process of equitization. BERD in Tuyen Quang, a small province located in the North of Hanoi, was also established on an ad-hoc basis but led by the Department of Planning and Investment.[236] To implement the equitization mandate, BERDs were also formed at GCs to select their SOEs member for equitization, issuing further directives and guidelines on equitization for their members, forming Equitization Boards at these SOEs, endorsing their equitization plans, and so on.

Graph 3.1: NSCERD and BERDs- Organizational chart and Dual Subordination



Note:
* abbreviations: (i) BERD: Board of Enterprise Reform and Development; (ii) BOE: Board of Equitization
* → arrow reflects the directional flow from the superior level to the subordinate level
--> arrow reflects the reporting flow from the subordinate level to the superior level

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[236] Author's interviews with local officials in Hanoi and Tuyen Quang province, January-March 2007

As mentioned earlier, BERDs were subject to the principle of double subordination. In particular, BERDs at line Ministries were officially responsible to report to both line Ministers and NSCERD. Local BERDs, similar to those at line Ministries, are responsible to report to both the PPCs and NSCERD. BERDs in 91 GCs reported directly to NSCERD while BERDs in 90 GCs reported to BERDs in line Ministries and local governments. However, in fact, the design of dual subordination between NSCERD at the central level and BERDs at local levels aimed at ensuring unanimous conformity from the top level of the State structure down towards the lowest levels of the State structure in implementing the equitization mandate. However, the reality is not that simple as "the upper levels of government are often unable to direct or order the lower levels to do as told, because of the multiple chains of command that the lower officials are able to manipulate to counter orders they are not happy with".[237] BERDs at line Ministries, local governments, and General Corporations often found their interests more closely attached to their direct State supervisors than to NSCERD or MOF or any other central State actor sitting at the top of the system. In the end of the day, these BERDs' staff came from their direct State patrons, being them line Ministries, local government, or General Corporations. It is thus natural that these BERDs would seek to cater the demand of their next-door bosses rather than someone else up above that might never know their names once.[238]

[237] Koh (2001), pp. 279-305

[238] Author's interviews with BERDs' officials in MARD, Hanoi, Bac Giang, and Tuyen Quang province, during fieldtrip in Vietnam in 2007

III.1.3- Authority Fragmentation in Equitization

As was discussed above, Doi Moi, through various public administration reform efforts and fiscal decentralization, has transformed the authority structure in making equitization policies in Vietnam. Instead of being centralized at the supra-ministerial committees and above, the power to formulate and implement equitization policies has been fragmented among various Ministries, para-ministerial agencies, local governments, and even state enterprises. Decentralization is not, however, the only game in town. During the same period, efforts have also been made by the central state in order to re-centralize the power in making equitization policies. The establishment and restructuring of NSCERD throughout the 1990s and the early 2000s, as well as the set-up of BERDs at line Ministries, local governments, and GCs under the dual subordination mechanism with NSCERD are typical examples for such tendency. However, so far all these re-centralization efforts failed to meet their purposes. All in all, a pattern of power fragmentation in the equitization process has emerged among various waves of decentralization and re-centralization within the same Doi Moi period. This fragmented authority structure would lead to, as I will argue later in this chapter, bargaining, negotiations, and resource exchanges among various State agencies over contentious issues in the policymaking process.

III.2- Power Instability in Equitization

III.2.1- Bureaucratization and Routinization in Equitization: A DRV Legacy

In fact, the tendency of bureaucratization and routinization in Vietnam, or the establishment of new institutions in order to deal with new issues, especially in the equitization process, is not stemmed from the recent Doi Moi process, but rather part of the DRV legacy. The tendency to set up new institutions and programs in order to solve problems within the system has been observed during the existence of the DRV model, originating from "an underlying commitment on the part of the Vietnamese leadership to a form of state organization that could be termed "rational-bureaucratic" in the Weberian sense of imposing rationality on the affairs of man through complex organization and scientific management."[239] According to David W. P. Elliot, the DRV attempted to follow the Soviet-style legal system, instead of the China's Maoist "reign of virtue" model, since the 1960s and reinvigorated it further after the reunification in 1975. For examples, in order to accelerate the socialist transformation of the South, two new institutions, namely the Private Capitalist Industry and Commerce Reform Department and the Committee on the Reform of Agriculture in the Southern Provinces, were set up with unique structures to serve their particular missions. Another feature of institutionalization tendency is that often a number of institutions, rather than just one single institution, were set up to solve the same problem, under the hope that their cumulative impacts would do the job better than any individual impacts.[240]

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[239] David W. P. Elliot, "**Institutionalizing the Revolution: Vietnam's Search for a Model of Development**", in William Turley (ed.), *Vietnamese Communism in Comparative Perspective*, Westview Special Studies on South and Southeast Asia, 1980, p. 209

[240] Ibid., pp. 209-218

The tendency of establishing new institutions to cope with problems in the equitization process can be detected clearly during the 1990s and the early 2000s, with the set-up of NSCERD at the central state level and BERDs at line Ministries, local governments, and GCs to solve the coordination problem in implementing the equitization mandate, as well as the Debt and Asset Trading Corporation (DATC) under MOF and State Capital and Investment Corporation (SCIC) by the Prime Minister to deal with both pre- and post-equitization issues. As was discussed above, the emergence of NSCERD and BERDs failed to re-centralize the authority in making equitization policies and therefore seemed unable to substantively transform the current structure of power fragmentation. However, I would like to argue in the following sections that the establishment of new institutions, such as DATC and SCIC, would likely pose certain impact on the authority structure in making equitization policies. In so doing, I will discuss in specific the origin and evolution of DATC and SCIC and their implications in the context of equitization in Vietnam.

III.2.2- Debt and Asset Trading Corporation

Cong ty Mua ban No va Tai san Doanh nghiep, or the Debt and Asset Trading Corporation (DATC), was established under MOF in 2003 with the purpose of solving bad debts and non-performing assets suffered by the system of state enterprises- which have been so far considered as the biggest barrier for the equitization process in Vietnam.[241] In so doing, DATC has been capitalized by MOF with a legal capital of about VND 2,000 billion. Regarding the organizational structure, DATC had the structure

[241] DATC was established by Prime Minister's Decision 109 in 2003

of a typical General Corporation, with a Board of Management, Board of Directors, Inspection Board, and a number of functional and administrative divisions, two local branches, and one Transaction Center. The corporation's Board of Management and General Director were all appointed by Minister of Finance. It was staffed mainly with people from the Department of Enterprise Finance. Both DATC's current Chairman of the Board of Management and General Director used to be Deputies of the Department of Enterprise Finance.[242]

Table 3.1: Overview of DATC's main activities during 2004-2008

Timeline	Indicators
End 2004	- Total stock of bad debts for the whole SOE system: VND 28,000 billion (increased by VND 7,000 billion or 33% as compared with that figure in early 2000)[243]
Within 2004	- DATC received bad debts and idle assets of 63 SOEs with total booked value of VND 90 billion, reclaimed back to the State budget VND 19.5 billion[244] - These SOEs were directed to sell their bad debts and assets to DATC
2005-2006	- DATC worked with the 4 State-owned-commercial Banks (SOCBs) in order to find solutions for the huge stock of bad debts of these big Four, preparing the conditions for their re-arrangement and equitization process up to 2010[245]
End 2007	- DATC had received VND 2,680 billions of bad debts and assets from equitized SOEs and SOEs going through other measures of ownership transformation. - Among which, 1,212 companies have processed their bad debts and assets, and returned VND 306 billions from their bad assets and VND 6.4 billions from their bad debts to DATC.[246]

[242] DATC website at datc.com.vn

[243] T. Xuan, "**Cong ty mua ban no va tai san ton dong cua doanh nghiep DATC mo them chi nhanh tai TP Ho Chi Minh" (DATC opens new branch in Ho Chi Minh City)**, *Vietbao*, 28 October 2004, access online at http://vietbao.vn/Kinh-te/Cong-ty-Mua-ban-no-va-tai-san-ton-dong-cua-doanh-nghiep-DATC-mo-them-chi-nhanh-tai-TP-HCM/45117652/87/.

[244] T. Xuan (2004)

[245] Phuoc Ha, "**Những bước đầu tiên phát triển thị trường mua bán nợ" (Initial Steps to Develop Markets for Debt Trading)**, *VietnamNet*, 12/10/2006, access online at http://www.vietnamnet.vn/kinhte/2006/10/621614/.

[246] Manh Quan, "**Tổn thất công sản từ mua bán nợ" (State Loss from Debt Trading)**, *Sai Gon Tiep Thi*, 15 September 2008, access online at

Timeline	Indicators
Mid 2008	- DATC received bad debts and assets from 2,190 SOEs with total value of VND 4,121 billion. - DATC reclaimed VND 306 billion, the ratio of reclaimed capital to the booked value of debts and asset reached 27%.[247]

DATC has so far underperformed and failed to meet most of its targets. The volume of bad debts and assets hold by the company is just a small percentage of the total stock for the SOE system. Two years after its establishment, the company focused mainly on working out the restructuring plans with the system of State-owned-commercial-banks instead of dealing directly with enterprises. The company was often discredited by its staff team which came mainly from the Department for Enterprise Finance at MOF. For that, the company is often dubbed as another "bureaucratic" DEF, not a commercially-oriented entity. The reputation of the company is also affected by the current rumor about the internal conflicts between the Board of Managements and Directors over the vision, mission, and operation of the corporation.[248]

Table 3.2: Snapshot on DATC's financial performance in 2007[249]

Indicators	Value
Total revenues, in which	VND 628 billion
Revenues from processing the bad debts and assets already bought from SOEs	VND 23.43 billion
Revenues from selling bad assets and reclaiming the bad debts	VND 419.6 billion
Pre-tax profit, among which	VND 154.2 billion

http://www.sgtt.com.vn/Detail23.aspx?ColumnId=23&NewsId=40371&fld=HTMG/2008/0914/40371

[247] Đầu Tư Chứng Khoán, "**Mua bán nợ: công cụ tài chính giải quyết khủng hoảng và tái cấu trúc DNNN" (Debt Trading: Financial Masures for SOE Restructuring),** 11/10/2008, access online at http://tintuc.timnhanh.com/kinh_te/20081011/35A85BBF/

[248] Manh Quan (2008)

[249] Thuy Duong and Manh Dung, "**Hiệu quả kinh tế và ý nghĩa xã hội từ phương thức kinh doanh mới" (Economic efficiency and social implications from the new business practice)**, *the People Newspaper*, access online at http://www.nhandan.com.vn/tinbai/?top=38&sub=56&article=127042, and Manh Quan (2008)

Indicators	Value
Profit from processing bad debts and assets	VND 2.5 billion
Others (interests earned from investment and depositing unused charter capital)	VND 151.7 billion
Contributions to the State Budget	VND 135.4 billion

III.2.3- State Capital and Investment Corporation

Tong Cong Ty Dau Tu Von Nha nuoc, or the State Capital and Investment Corporation (SCIC), was established in mid 2005 by the Prime Minister, upon the proposal of Ministry of Finance, as a special Corporation replacing line Ministries and local states in representing the State in SOEs. The establishment of SCIC was aimed at reducing State interventions in the daily operations of state enterprises and creating a professional body to manage the State capital in these enterprises. Regarding the equitization issue, SCIC was entitled to manage the remaining State capital in post-equitization companies. [250]

Starting its operation in early 2006, SCIC, by end 2007, managed the State capital in more than 800 SOEs with total booked value of more than VND 7,500 billion and market value estimated at VND 20,000 billions (which used to be doubled at the peak of the stock market in late 2006). SCIC has categorized these 800 companies into three groups. The first group consists of about 10 large-scale, efficient companies which are suitable for its long-term investment strategy. The total capital in these 10 companies has accounted for already 70 percent of SCIC's total capital. The second group consists of medium-scale but efficient companies, at least in short terms. SCIC has assisted this

[250] SCIC's establishment, roles and responsibilities, as well as organizational structure were stipulated in Prime Minister's Decisions 151 and 152 in 2005. These two decisions are accessible at SCIC's website: www.scic.vn

group of companies to list on the stock exchange. SCIC plans to partially divest its stakes in this group of companies in the long-term. The last group consists of the rest 600 SOEs, most of them are of very small scale and SCIC's strategy is to quickly divest the State capital in these companies.[251]

SCIC has a typical GC structure with a Board of Management, Board of Directors, and Inspection Board. The Board of Management used to be chaired by Madame Le Thi Bang Tam, Deputy Minister of Finance from mid 2005 to end 2007. Starting from 2008, the Minister of Finance is appointed by the Prime Minister to be SCIC's Chairman in replacement for Madame Tam. There are two non-standing Members from Ministry of Industry and Commerce and Ministry of Planning and Investment in the Board of Management. The General Director is also appointed by the Prime Minister, currently a Deputy Minister of Finance. Both of his Deputies come from MOF, one is a former Head of the Department of Enterprise Finance and one is a former Deputy Head of the Department of Insurance. The Boards of Directors is supported by a number of functional and administrative divisions to manage its SOE members and associated companies. SCIC also established one branch in Ho Chi Minh City in 2007.

III.2.4- Implication on the Equitization Process

As the result of the bureaucratization and routinization tendency in the equitization process, the authority structure was not only unevenly fragmented among existing actors,

[251] Interview with SCIC's Deputy CEO Hoang Nguyen Hoc, "**SCIC kiến nghị mở rộng hình thức thoái vốn nhà nước tại các DN" (SCIC Proposed More Mechanisms to Devest State Capital in SOEs)**, *the Labour Newspaper*, Issue 127, June 2008, access online at http://www.laodong.com.vn/Home/kinhte/2008/6/91958.laodong

but also dispersed into newly established institutions and agencies. For example, the establishment and transformation of NSCERD, especially in the early 2000s, drew attentions and resources from both the State Budget and international donor. The establishment of a separate BERD at each line Ministry and some of local States with its own personnel, office, and resources was also costly. The expansion of the scope of equitization to cover virtually almost all SOEs into the process in the late 1990s and the early 2000s has made equitization really matter to important SOEs, especially GCs and their variants, as well as the State-Owned-Commercial Banks and other State-owned financial institutions. Finally, the recent establishment of the two special arrangements, DATC and SCIC, as were discussed above, further scattered the existing and future resources saved for and created within the equitization process among an increasing range of actors. Although these two special corporations were closely linked with MOF, they were, on the other hand, continuously seeking autonomy from MOF. The difference between these two institutions and the previously established institutions, such as NSCERD, is that they are possessing real resources, or "real money", in their hands. For example, by 2009 SCIC has been fully capitalized with VND 15,000 billion in legal capital while keeping shares in hundreds of equitized enterprises with the total investment portfolio worth up to at least VND 20,000 billion, let alone being the dominant shareholders in many among these companies. As termed by one financial specialist at MOF, SCIC is currently and potentially the most powerful General Corporation among all GCs in Vietnam.[252] DATC, although still relies to a great extent on MOF and has not yet performed well so far, is also potentially powerful in the process, as it deals with the most important pre-equitization policies for enterprises, bad debts and non-performing

[252] Author's interview with Dr. Do Ngoc Huynh at MOF, fieldtrip during January – March, 2007

assets. Above all that, the tendency of setting up new institutions in order to deal with new problems arisen from the equitization process has resulted in an increasing range of actors and interests in the process. Once a new institution is established, it will start its new life, have its own interests, and seek ways to find its own resources. This is completely true for the case of DATC and SCIC in the process of equitization in Vietnam. And as I will prove it in the case of establishing and restructuring various Funds to support the equitization process in the subsequent chapter, the phenomenon of "new institutions, new power" would bring about the maneuvering of these new institutions over the three streams of politics, problems, and policies within the Garbage Can framework in order to get their interests satisfied in the process.

III.3- Power Relationship in Equitization

As with other reform measures, the key principle in the making of equitization policies is democratic centralism.[253] By democratic, the process should be open for everyone to participate and contribute. By centralism, the process should ensure that the uniform line of authority is run smoothly top-down. In other words, the submission of lower levels to the superiors, and eventually, to the top State leaders, including the head of the State and the Party must always be maintained. Consensus issue has been thus taken seriously in the process. In order to maintain both the democratic as well as centralized aspects in the process of making equitization policies, the following key interagency relations are formally institutionalized: (i) the top-down or directive relationship and (ii) the coordinative and consultative relationship, and (iii) the dual subordination at local States.

[253] Porter (1993), p.67

The former two applied to all levels of the State, while the latter was specified particularly for local States (from the provincial governments downwards).

III.3.1- Directive or Top-down Relationships

The top-down or directive relationships are formed between superior and inferior State agencies. In the ladder of State structure, the top leaders' commands, written in the Party's Resolutions, are the highest mandates that all lower-level State agencies must follow. Along the line, the Government issued Decrees to legalize the equitization policies approved by the Party. MOF and other functional Ministries issue Circulars to provide general guidelines. The line Ministries, in the SOE equitization process, perform both the role of partially making rules and regulations on the one hand and implementing the mandate on the other hand. Upon the issuance of the Governmental Decrees regulating the equitization process and MOF's core circulars to further explain the Decrees, line Ministries issue their own legal documents (Minister's Decisions or Directives) to guide the implementation in their specific sectors/areas. Legal documents/policies issued by lower State agencies are often expected to be in conformity with those issued by higher State agencies. In other words, line Ministries' and local States' directives on guiding the equitization mandate in their localities should not be in conflict with MOF's Circulars and Government's Decree on regulating the equitization process in general.[254]

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[254] Law on Governmental Organization in 2001, accessed at: http://www.chinhphu.vn/portal/page?_pageid=33,131651&_dad=portal&_schema=PORTAL

III.3.2- Consultative and Coordinative Relationships

Coordinative and consultative relationships exist between parallel State agencies and/or with lower-level State agencies. For example, regarding the preparing highest legal document within the Bureaucracy to regulate the equitization process - the Governmental Decrees, MOF was the coordinator, responsible for drafting the main text and sending out to line Ministries, local States (usually the governments of big provinces and centrally-managed, strategic municipalities), and even some big GCs and economic groups, for comments and feedbacks. MOF would look into these comments and feedbacks, and might include them into the final submission to the Prime Minister for approval. In case MOF disagrees with line Ministries over their inputs, MOF needs to report such disagreements and propose solutions to the Prime Minister. The Prime Minister often plays the role of making final decision in case consensus has yet been achieved among MOF and line Ministries.

Consultations among MOF and other relevant State agencies also exist when MOF prepares its Minister's Decision to provide further guidelines to the implementation of the Governmental Decrees; however, it is the Minister of Finance who decided whether to accept the inputs from other agencies or not. Meanwhile, the process of preparing legal documents to guide the implementation of the Governmental Decrees and MOF's guideline Decisions in each sector, industry, or location mainly takes place among internal agencies within line Ministries, local governments, or GCs only.[255]

[255] Author's interviews with MOF officials, January-March 2007

III.3.3- Dual Subordination

The dual subordination mechanism requires that certain functional Departments under the local governments to report both horizontally to their local governments and vertically to the central Ministries in charge of its sector/industry. Such dual subordination is aimed at ensuring the conformity of lower-level State agencies to the mandate of the Central State.[256] As was mentioned earlier in Section III.3.1, as part of the Central State's efforts to ensure the proper implementation of the equitization mandate, a specialized Board - Board of Enterprise Reform and Development or *Ban Doi Moi va Phat Trien Doanh Nghiep* or BERD in short, was formed in each line Ministry, local government, or General Corporation. These BERDs were also subjected to the principle of dual subordination, which means, they were responsible to report to both their direct State supervisors, i.e. line Ministries, local governments, or General Corporation, on the one hand, and NSCERD on the other hand.[257]

III.4- A Typical Cycle of Policymaking Process

In the framework of this chapter and the Thesis in general, the process of making equitization policies is categorized into two main phases/stages. The first phase is to initiate and formulate new equitization policies, or revise existing equitization policies. The second phase is to implement the equitization mandate according to the newly-formulated for revised policies and to provide feedbacks.

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[256] Governmental Decree 171 in 2004 stipulating the organizational structures of functional Departments at local levels.

[257] Review of various Decrees to regulate the equitization process in Vietnam

III.4.1- Policy Initiation, Formulation and/or Revision

The Party set the guidelines and general directions for the equitization process mainly through its political reports produced in Party Congresses and their in-between meetings, termed the Party's Resolution. The Bureaucracy/State is subsequently responsible for realizing these guidelines and directions by issuing relevant legal documents. In particular, Head of the Government, the Prime Minister dictates the targets of equitization in the Government Action Plans every five years and/or every year. He also signs Decrees to regulate the equitization process. Supporting the Prime Minister, in the case of equitization, are the National Steering Committee of Enterprise Reform and Development and, one level below, the Department of Enterprise Reform, both belonging to the Office of Government. As mentioned earlier, equitization entered officially into the VCP's agenda in early 1990s when the seventh Central Party Congress opened and since then has been continuously renewed and revised to cover new issues in the subsequent Congresses. The recent efforts to push forward the equitization process have been associated with the three successive Prime Ministers, Vo Van Kiet during the period between 1992 and 1997, Phan Van Khai during the period between 1997 and 2006, and Nguyen Tan Dung since 2006. The measure has been formalized by the top leaders as a nation-wide reform measure since 1996 and set as the main SOE reform measure by the end of the 1990s.[258]

[258] The VIth Central Party Congress' Resolution No.2 dated 4 December 1991 on the task and solutions to socio-economic stabilization and development for period 1992-1995. For a comprehensive review about Party's Resolutions and equitization mandate, see Nguyen Minh Thong, "**Tu tuong chi dao xuyen suot qua trinh co phan hoa" (Leading Ideology through-out the Equitization process)**, in NSCERD (various authors), *Co phan hoa: Giai phap quan trong*

The formulation of the detailed decrees to regulate the equitization process, however, was with the Ministry of Finance. In particular, MOF, in cooperation with NSCERD, has been assigned with the task of devising equitization policies and specifying the implementation procedures from the very beginning in 1992. In particular, MOF has drafted both Governmental Decrees and its own follow-up Decisions to regulate SOE equitization in details. Within MOF, Department for Enterprise Finance (DEF) – *Cuc Tai Chinh Doanh Nghiep*, or the former General Department for Management of State Capital and Assets in Enterprises - *Tong Cuc Quan Ly Von va Tai San Nha Nuoc tai Doanh nghiep*, coordinates the job. A consensus is often expected among different Departments within MOF before DEF submits the final drafted policy to the Minister. Next, MOF conducted consultations with other Ministries and para-ministerial agencies, some strategic local governments such as Hanoi or Ho Chi Minh City, and big GCs over the content of the drafted Decrees. A consensus is similarly expected at this stage before a final draft of the decree is to submit to the Prime Minister for approval.[259]

As mentioned earlier, the Prime Minister was in charge of approving and signing the Governmental Decrees to regulate the equitization process. The Office of Prime Minister and NSCERD were supposed to provide technical assistance to the Prime Minister during the process of approving the drafted decree submitted by MOF. MOF and other related State agencies involved in the drafting of the decrees were also expected to be available

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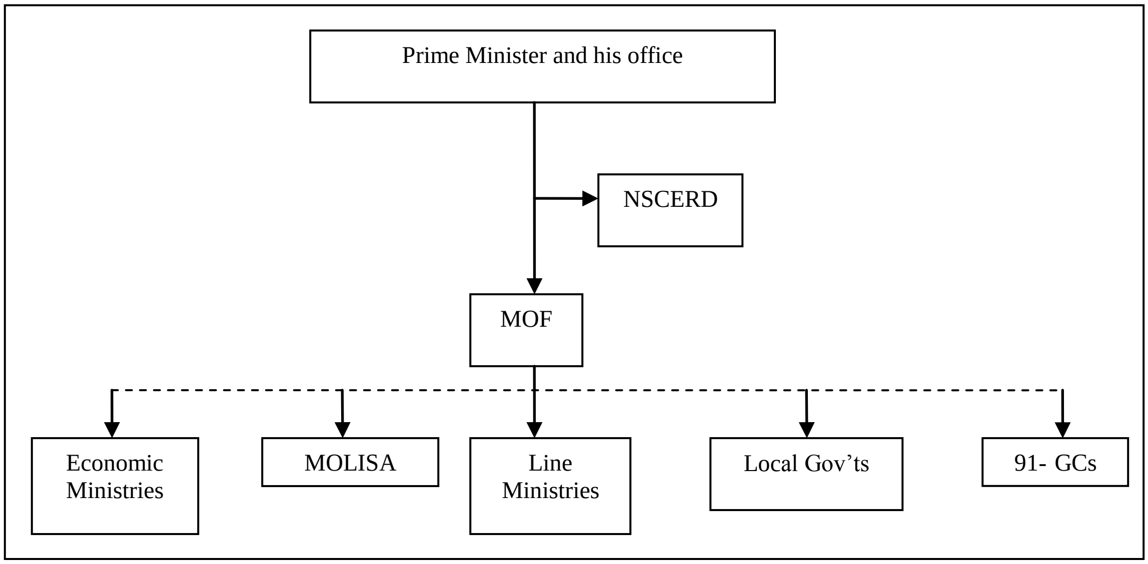
trong cai cach doanh nghiep nha nuoc (Equitization: Important measure in SOE reform), Vietnam: National Political Publishing House, 2002

[259] Ibid.

to the Prime Minister for consultations and meetings to resolve any possible disputes arisen during this process.

Graph 3.2: Actors involved in Stage 1- Policy formulation and revision



Note: Examples of economic Ministries are the State Bank of Vietnam or Ministry of Planning and Investment. MOLISA stands for Ministry of Labor, Invalids, and Social Affairs while MOF stands for Ministry of Finance;
→ arrow points to directional, top-down relationship; --> arrow points to consultative and coordinative relationship

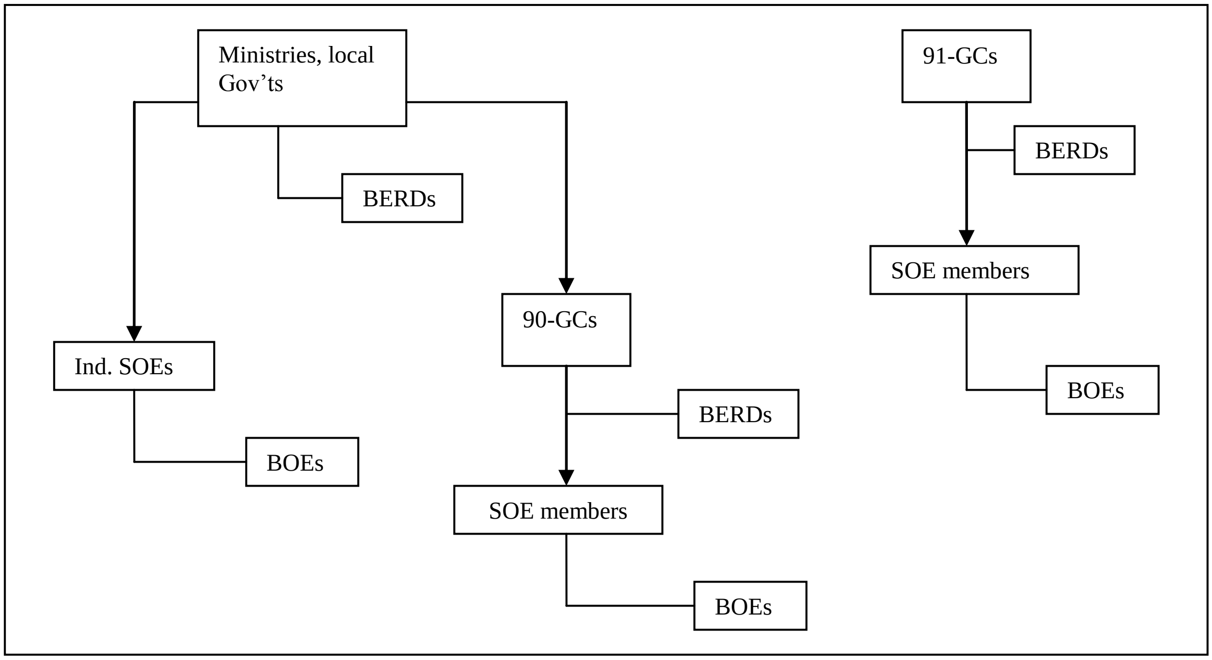
III.4.2- Policy Implementation and Feedback

Once a newly drafted or revised Governmental Decree to regulate the equitization process is launched, various Ministries (including line Ministries and functional Ministries), local governments, and state enterprises are responsible for enforce its implementation for state enterprises and members under their authorities. In so doing, these implementers of the equitization mandate need to issue their own legal documents (often in forms of Ministers' Decisions or Directives, PPC Chairman's Decisions or Directives, or GC Chairman's Decisions or Directives) to guide the implementation in their specific sectors/areas. They are subsequently responsible for enforcing the equitization process in their each and every SOE that is subject to the mandate. Normally, Ministries, local governments, and General Corporations discuss with their SOEs over the plan and timeframe for equitization and submit a schedule of equitization for the whole industry/sector/region within a period of time (e.g. up to 2005, 2008, or 2010) to the Prime Minister for approval, and subsequently enforce the implementation in their SOEs mainly on yearly basis.[260] Within ministries, local governments, and GCs, BERDs coordinate the job and represent these State patrons in dealing with enterprise members, as well as supervise the implementation of the equitization plans in enterprises.

During the process of implementing the equitization mandate, feedbacks were also collected from the enterprises, the lowest rung of the administrative ladder cum the final implementer of the equitization mandate, upwards to their State supervisors such as line Ministries, local governments, and General Corporations. Feedbacks for urgent issues could be channeled immediately to MOF and thereafter the Prime Minister for making necessary and immediate revisions; whereas a majority of the feedbacks were accumulated for reporting to MOF during regular revisions.

[260] Author's interviews with BERD at MARD, Hanoi Municipal People's Committee, Tuyen Quang Provincial People's Committees during fieldtrips to Vietnam in 2007

Graph 3.3: Actors involved in Stage 2- Policy implementation and feedback



Note: Ind. stands for independent state enterprises; → points to directional, top-down flows/relationship

III.5- Summary

The power structure within the bureaucracy proves to be more sophisticated and multi-dimensional than the official, strait-jacket, image of an integrative, top-down authoritative State of Vietnam in the overall SOE reform process. Notably, whereas the Party still keeps a strong grip of the reform process, the making of equitization policies seems to be increasingly bureaucratized, indicating the strengthened role of the bureaucracy/government in the area of economic management. As was discussed above, various attempts to reform the administrative system and fiscal relationship between the central state and local governments during the Doi Moi period resulted in a fragmentation of power in making equitization policies since the early 1990s. Instead of being centralized at supra-ministerial committees and above, the authority to formulate and revise equitization policies has now been fragmented among various ministries, para-ministerial agencies, key local governments, and enterprises, including the GCs. Efforts by the central state to re-centralize such authority into a supra-ministerial committee such as NSCERD have been largely failed. Similarly, although it seems that MOF gained power at others' losses in the formulation and revision of equitization policies, MOF is, by no means, able to determine every aspect of the policy. As a consequence, in order to ensure the principle of "democratic centralism" in policymaking, bargaining, negotiations, and resource exchanges have been very common among the above-mentioned bureaucratic at each and any stage of the policymaking process in order to achieve consensus over policy changes, as well as the implementation of these changes.

To complicate the picture further is the tendency of establishing new institutions and agencies in order to solve "new" problems arisen in the equitization process. Since the equitization mandate was set as an experiment back to the late 1980s until present, a number of new institutions were established to deal with different issues arisen from the process. For example, NSCERD and BERDs were established in order to deal with the coordination problem. Especially, as the equitization process accelerated in the late 1990s and the early 2000s, a range of new problems emerged in both pre-equitization and post-equitization period, resulting in the set-up of DATC and SCIC with the purpose of solving these problems. These new institutions, albeit the fact that some are weak, some are stronger, start having their own life, expressing their own interests, and seeking their own positions in the equitization process by maneuvering around different channels, such as, the three streams of politics, policies, and problems in the Garbage Can framework. Instability, in addition to authority fragmentation, therefore becomes another feature of the equitization show. In the next two chapters, we will discover how these two characteristics of the equitization process shape the inter-bureaucracy politics at the macro level and the government-enterprise interaction at the micro level.

Chapter IV The Politics of Establishing and Re-structuring Funds to Accelerate the Equitization Process

The purpose of this chapter is to investigate the interactions among various State actors involved in the process of making and revising equitization policies. The interactions are studied for the case of establishing and restructuring the two Funds to support the equitization process in Vietnam, namely the *Quy Ho Tro Sap Xep Doanh nghiep va Co phan hoa* or the Funds for Supporting SOE Re-arrangements and Equitization and *Quy Lao dong Doi du* or the Worker Redundancy Fund. In so doing, I would like to make the following arguments. First, instead of the rational image of the bureaucratic machinery in making equitization policies in search for the most rational policies in response to new problems arisen from the equitization process, what we really see from the process of making equitization policies in Vietnam are interminable negotiations and bargaining among an increasingly wider range of bureaucratic agencies over different issues arisen in the process. Second, the sources for such pattern of bargaining and negotiations are the authority fragmentation and instability in the policy making process. Power has been fragmented mainly due to Doi Moi and subsequent reform measures whereas authority instability has been resulted from the tendency for bureaucratization and routinization within the State machinery in Vietnam. Third, the process of making equitization policies is thus slow and incremental in order to reach consensus among an increasing range of stakeholders in the process. As Lieberthal and Oksenberg put it in the case of energy policies in China, "a decision itself is composed of a series of reinforcing decisions", or a decision, even made by the top leaders, might just be a decision of the most tentative nature only.[261] Also, the power structure in making equitization policies is not, by any means, stable. The emergence of new institutions in the process has resulted in increasing instability of the power structure, reflected through the maneuvering of these new institutions within the three streams of politics, problems, and policies. Finally, as the result of such unstable authority structure, the policy outcome can be the most unexpected and therefore difficult to predict.

The structure of the chapter is as follows. The first section, Section IV.1, introduces the context of establishing the two above-mentioned funds to support the equitization process in Vietnam. Section IV.2 discusses the initial structure and performance of the two Funds whereas Section IV.3 focuses on the impact of these two funds on the equitization outcomes. Section IV.4 investigates the recent attempts to restructure the two funds and the impacts of these attempts on the bargaining and negotiations among different State actors involved in the issue, i.e. MOF versus local governments and MOF versus SCIC. Finally, the chapter ends with a conclusion in section IV.5.

IV.1- The Context of Establishing Supporting Funds

As was mentioned in Chapter I of this thesis, the equitization mandate was finally formalized by the Central State in 1996, despite a modest result of only five State enterprises that went through equitization during the experimental period from 1992 to mid 1996. The initial legal document to launch the formal equitization mandate –

[261] Quoted from Lieberthal and Oksenberg (1988), p.25

Governmental Decree 28 issued in 1996 - was, however, not much different from Decision 202 in 1992 regulating the trial process. One of the key regulations that remained the same was that concerning the management of the proceeds collected from selling the State capital in the State enterprises (which is from now on referred as the equitization proceeds). Similar to Decision 202, all the remaining equitization proceeds, after paying expenses incurred in the formal equitization process, must be centralized into an account at the State Treasury and under the centralized management of MOF. This regulation, to a great extent, did discourage local governments and GCs from equitizing their State enterprises, as they gained nothing but lost all from the exercise. It thus was one among key factors contributing to a dismay progress of equitization during the period between 1996 and mid-1998. Only twenty-five state enterprises went through equitization during this time.[262]

The central-local bargaining over the right to use the equitization proceeds thus started before the launch of a new Decree to regulate the equitization process in replacement for Decree 28. And finally in 1998, local States and GCs were entitled to retain and use equitization proceeds to support the SOE equitization process in their locations.[263] Decree 44 in 1998 to regulate the equitization process stipulated that the proceeds collected from equitizing the local State enterprises or 91-GC members, after paying the equitization expenses, would be used by the local states or the 91-GCs for the following purposes: (i) training and retraining in order to create new employment opportunities for employees, (ii) providing redundancy subsidies, and (iii) providing capital supplement for remaining

[262] NSCERD report (2002), p. 31
[263] Sjoholm (2006), p.20

100 percent State-owned enterprises and equitized State enterprises. The dividends paid by equitized State enterprises to the State for its capital share, however, would still be transferred to the central State Budget.[264]

The bargaining, however, did not stop there. One of the main concerns in the equitization process was how to settle the issue of redundant workers. This question is certainly critical to both line Ministries and local States. According to official reports, about 2,000 State enterprises would go through re-arrangement and ownership transformation during the period between 2001 and 2003. Among these enterprises, about 220 State would close down or go bankrupt whereas another 1,550 would equitize or go through other measures of ownership transformation such as sale, contracting out, or lease. This large number of State enterprises expected to be re-arranged would thus probably create massive layoffs of redundant workers, imposing substantial burdens on the State networks of social welfare. It was estimated that about 250,000 to 400,000 redundant workers would be shed out in the process, requiring a huge amount of policy subsidies ranging from VND 3,000 to 5,000 billion.[265]

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[264] Decree 44 in 1998

[265] For one among such official reports, one can see the Plan of SOE re-arrangement and ownership transformation for the period 2001-2003 approved in the Third Plenum of the Ninth Party Congress in 2001, accessible at the website of the Vietnamese Communist Party (www.vcp.org.vn) and also quoted in Le Hoang Hai, "**Vai tro va hoat dong cua Quy ho tro sap xep va co phan hoa doanh nghiep Nha nuoc" (Roles and Operations of the Equitization Funds for SOE re-arrangements and equitization)**, in NSCERD (various authors), *Co phan hoa: Giai phap quan trong trong cai cach doanh nghiep nha nuoc (Equitization: Important measure in the SOE reform process)*, Vietnam: National Political Publishing House, 2002, pp. 52-55.

The point of bargaining between different State agencies in the bureaucracy therefore evolved around this issue. Although Decree 44 in 1998 allowed local States to use proceeds collected from the equitization process to pay for severance costs, the issue now was how to finance these costs in case the collected equitization proceeds prove insufficient.[266]

IV.2- Equitization Funds and Worker Redundancy Fund

IV.2.1- Equitization Funds: Initial Structure and Operations

To local States' request, *Quy Ho Tro Sap Xep Doanh nghiep va Co phan hoa* or the Funds for Supporting SOE Re-arrangements and Equitization (or Equitization Funds in short) were finally institutionalized in 1999 at three levels of the Central State, local States, and 91-GCs.[267] The purposes of establishing these Equitization Funds were: (i) to provide training and re-training for redundant workers resulted from the process of SOE re-arrangement and ownership transformation in order to help them find new employment opportunities, (ii) to provide subsidies for those employees that voluntarily terminate their labor contracts or lose their jobs in the process of SOE re-arrangement and ownership transformation, (iii) to provide assistances to employees in equitized State enterprises who were unable to buy shares at preferential prices, and finally (iv) to

[266] Le Hoang Hai (2002), pp. 52-55.
[267] According to the Prime Minister's Decision 177/1999/QD-TTg dated 30 August 1999. The specific roles and functions of the Fund were stipulated in MOF's Decision 95/2000/QD-BTC in 2000.

provide additional capital to prioritized, remaining wholly State owned enterprises or equitized State enterprises in accordance with the State approved plans.[268]

In principle, the main sources for the Equitization Funds came from the proceeds collected from the process of SOE re-arrangement, equitization, sale, contracting, lease (or ownership transformation in general), and transfers from State Budgets to Equitization Funds of the same level. In particular, the Funds got their revenues mainly from the proceeds collected from selling the State capital in State enterprises under ownership transformation, the dividends and other collectibles from the State share in equitized and limited liability State enterprises, the proceeds collected from selling idle assets, not-in-use assets, liquidating assets, or bad debts which have been already cleared in the SOE value before ownership transformation, the proceeds collected from liquidating the State assets when closing down State enterprises, funds and assistances given by domestic and foreign individuals and organizations to support the SOE re-arrangement and equitization process, and finally annual transfers from the State Budget. [269]

As mentioned earlier, the Equitization Funds was initially established at three levels. The central Fund was centralized into one account under the management of Minister of Finance. Line Ministries worked together with Ministry of Finance to develop the annual plan of using the Fund. Enterprises entitled with the right to use the Fund would implement thereof and report the final costs and expenses to MOF. MOF was also in charge of regulating the Funds nation-wide in order to assist the SOE re-arrangement and

[268] Prime Minister's Decision 177/1999/QD-TTg dated 30 August 1999.
[269] Ibid.,

equitization process, synthesizing and finalizing the annual operations of Funds nation-wide. Transfers from the Central State Budget were also made to provinces and cities with limited collection of equitization proceeds. Provincial or centrally-managed municipal Equitization Funds (or local Equitization Funds in short) were deposited into accounts belonged to the Finance – Product – Price Department and under the management of the Chairmen of Provincial or centrally managed municipal People's Committees. The Heads of the Finance Department assist the PPCs in managing the Equitization Funds. Finally, the Equitization Funds at 91-GCs were centralized at a separate account of the 91-GCs, managed by the 91-GC Boards of Management. 91-GC Board of Management also approved the plan of using the Funds. The GCs' General Directors or Chief Executive Officers (CEOs) were in charge of implementing the plan and finalizing the spending with MOF.

By 2001, there were one Central Fund, 61 local funds, and 17 funds at 91-GCs.[270] A snapshot of the Equitization Funds' budgetary operations by October 2001 reveals that the Equitization Funds at all levels, surprisingly, were well-balanced or even recorded surpluses despite both Central State's initial expectations and local States' concerns that they might not be sufficient for covering equitization expenses. The main source of revenues for the Equitization Funds came from the SOE re-arrangement measures on ownership transformation or equitization in particular. Specifically, the proceeds collected from equitization, dividends paid on the State capital invested in equitized State enterprises or joint stock companies, and the proceeds collected from issuing additional shares in equitized State enterprises were the three main items that contributed the most

[270] Le Hoang Hai (2002), pp. 52-55,

to the Equitization Funds at all three levels by end 2001 (see Table 4.1 below). There was also variation in the main sources of revenues among different Equitization Funds of different levels: most of the sources centralized in big cities and provinces that possessed a large number of State enterprises going through equitization.[271]

Table 4.1: Sources of Revenues for the Equitization Funds, by October 2001[272]
(VND thousands)*

	Sources	Total	Of which, from:		
			Central Budget	Local Budget	91-GCs
1	Revenues from SOE re-arrangement measures and ownership transformations	790,863,445	206,747,278	394,200,338	189,915,829
	of which:				
	- Proceeds from equitization	718,595,608	199,033,075	372,328,349	147,234,184
	- Proceeds from SOE sales and leases	2,614,320	0	2,614,320	0
	- Dividends paid for State shares in equitized State enterprises	69,653,516	7,714,202	19,257,669	42,681,645
2	Transfer from State Budget	873,400	0	873,400	0
3	Other revenues (issuing additional equity shares)	142,529,948	130,735,500	11,259,394	535,054
4	Total	934,266,793	337,482,778	406,333,132	190,450,883

Note: * Approximate exchange rate of USD 1 is roughly VND 15,000.

Regarding the expenditures, by the end 2001, the main items were financial subsidies for 100 percent State-owned enterprises and re-investment into equitized State enterprises, accounting for almost 40 percent of the total expenditures at the three levels. In particular, local Funds have spent the biggest amount on subsidizing other 100 percent

[271] Ibid.,
[272] quoted from Le Hoang Hai (2002), p.53, with author's translation and added calculations based on interviews with MOF officials during fieldtrips in Vietnam in 2007

State-owned enterprises, followed by the 91-GC Funds. Local governments also spent a major amount in investing into their equitized State enterprises as compared with the Central government and 91-GCs. Meanwhile, the prioritized expenditure item of the funds to subsidize redundant employees accounted for only 7 percent of the total expenditure (see Table 4.2). Although guidelines on the usage of the Equitization Funds at local and GC levels were stipulated by the central State, most of the local governments and GCs had high degrees of freedom in using the Funds, as these Funds were extra-budgetary and thus not recorded/accounted in the annual State budgetary system.[273]

Table 4.2: Expenditures of the Equitization Funds by October 2001[274]
(in VND thousands)*

			Of which, from:		
	Expenditure Items	Total	Central Budget	Local Budget	91-GCs
1	Training and re-training	11,944,090	4,098,501	5,856,051	1,989,538
2	Subsidies for redundant workers	6,415,445	867,559	2,428,530	3,119,356
3	Payments for social insurance	532,622	0	532,622	0
4	Subsidies for poor employees to buy preferential shares	8,779,761	3,974,310	856,421	3,949,030
5	Financial subsidies for State enterprises	149,044,142	23,684,687	65,243,119	60,116,336
6	Investment subsidies for equitized State enterprises	43,681,014	1,717,883	37,955,408	4,007,723
7	Equitization costs and other expenditures (to pay for the capital/equity mobilized from the issue of new/additional equity shares)	174,334,961	155,060,182	16,880,371	2,394,408
8	Total	394,732,035	189,403,122	129,752,522	75,576,391

Note: * Approximate exchange rate of USD 1 is roughly VND 15,000.

[273] Author's interviews with MOF officials at the State Budget Department and a former SCIC staff during fieldtrips in Vietnam in 2007. For the detailed guidelines on the usage of the Equitization Funds at local and enterprise levels during this period, one can refer to Governmental Decree 44 in 1988 and Prime Minister's Decision 177 in 1999.
[274] quoted from Le Hoang Hai (2002), p. 54, with author's translation and added calculations based on interviews with MOF officials during fieldtrips in Vietnam in 2007

Interestingly, the Equitization Funds at all three levels recorded surpluses, i.e. the revenues were able to finance all expenditure items without any financial support or assistance from outside. Among the three levels, the largest surpluses came from the local Funds.[275] This led to NSCERD to issue a reminder in 2003 to state enterprises in equitization process, urging them to make use of the Equitization Funds. By 2003, the remaining balance of the Central Equitization Fund stood at VND 200 billion which came mainly from the selling of State capital in equitized State enterprises and foreign aids. In order to benefit from the Equitization Fund, requesting State enterprises must submit a detailed plan on how they were about to use the Fund to solve their labor or bad debts issues to corresponding BERDs at line Ministries or local governments. In 2002, there were only 29 proposals sent to these Boards and thus only VND 27 billion from Equitization Funds were released. Within the first four months of 2003, this number increased to 115 proposals.[276]

State enterprises' limited use of the Equitization Funds to pay for their redundancy costs incurred in the re-arrangement and equitization process was due to a number of factors. First, most of State enterprises going through re-arrangement measures by 2003 were of small-scale and employed small numbers of workers, leading to small numbers of layoffs and redundant workers, as well as quite a few cases in need for training and re-training. Second, the ambiguity in the regulation on which remaining 100 percent State enterprises prioritized with capital supplement created room for the popular use of the Equitization

[275] Author's interviews with MOF officials during fieldtrips in Vietnam in 2007, and Le Hoang Hai (2002), pp. 52-55,

[276] Sai Gon Economic Times, **"Quên" Quỹ Hỗ trợ cổ phần hoá ("Forget" the Equitisation Funds)**, 3 May 2003, access online at http://vietnamnet.vn/kinhte/toancanh/2003/5/10320/

Funds for such purpose. According to various sources, many State enterprises that did not belong to the category that the State needs to retain 100% or controlling ownership were also beneficiaries of the Equitization Funds during this period. [277]

As mentioned earlier, Decree 44 in 1998 and Decision 177 in 1999 allowed only 91-GCs to set up their own Equitization Funds. This policy was allegedly the main reason why 90-GCs did not want to transform the ownership pattern in their SOE members due to the fear of losing capital, reduced scale and thinner benefits.[278] The establishment of Equitization Funds at 90-GCs level later on thus could be considered as a sort of "fence-breaking" activities, in which initially some particular 90-GCs had requested to have their own Equitization Funds and the initiative was later on applied across the board to all 90-GCs. As a result, in 2002, the Prime Minister issued a new Decision revising the rules regulating the establishment and management of the Equitization Funds – Prime Minister's Decision 174 in 2002 - which allowed Equitization Funds to be established at 90-GCs as well.[279]

IV.2.2- Worker Redundancy Fund: Initial Structure and Operation

In addition to the various Equitization Funds at the central, local and GC levels, the Government in April 2002 decided to set up another Fund, namely *Quy Ho tro Lao dong*

[277] Author's interviews with MOF officials during fieldtrips in Vietnam in 2007 and Le Hoang Hai (2002), pp. 52-55.
[278] Sai Gon Giai Phong, "**Lua chon mo hinh cong ty me nao cho nganh thuy san" (Which model for mother/holding companies in the fishery sector?),** 28/5/2001, access online at http://vietbao.vn/Kinh-te/Lua-chon-mo-hinh-cong-ty-me-nao-cho-nganh-thuy-san/10728486/87/.
[279] Prime Minister's Decision 174 in 2002 on the establishment and management of Equitization Funds, accessible at the Government website (www.vietnam.gov.vn).

Doi du or the Fund for Subsidizing Redundant Workers in SOE re-arrangement and Equitization or the Worker Redundancy Fund for short, under the management of MOF, to provide assistance to redundant workers during the SOE re-arrangement process during the period between 2002 and 2005.

One of the main reasons for the establishment of such Fund, in addition to the existing Equitization Funds, was perhaps the concern among different State supervisors and State enterprises over the bulk of redundant workers that would be laid off after 2002, when a large number of State enterprises would go through either equitization or other re-arrangement processes. According to an MOF official at the Department for Enterprise Finance, despite the surpluses recorded in the Equitization Funds at all three levels by the late 2001, these Funds would still not be able to cover the redundancy costs in the subsequent years.[280] Again, as was mentioned above, about 2,000 State enterprises were estimated to go through various measures of re-arrangement and ownership transformation during the period between 2001 and 2003. This meant that in addition to about VND 4,000-5,000 billion needed to help clearing up the bad debt burden incurred in the SOE system, another amount from VND 3,000 to 5,000 billion would be required to provide subsidies to between 250,000 and 400,000 redundant workers being laid off in the process.[281] Therefore, a total of about VND 7,000 to 0,000 billion would be needed during the period between 2001 and 2003 to cover all the costs incurred; meanwhile, the balance of all Equitization Funds by the late 2001 was only slightly above VND 500 billion. Measures to raise the revenues for Equitization Funds, such as raising grants from

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[280] Le Hoang Hai (2002), pp. 52-55.
[281] Ibid.,

both domestic and foreign sources, were thus discussed widely among agencies in charge and later on formally institutionalized.[282]

This explains why *Quy Ho tro Lao dong Doi du* or the Worker Redundancy Fund, in addition to attempts to raise more revenues for various Equitization Funds, was established in 2002 to seek to finance the same redundancy policies in the SOE re-arrangement and equitization process as the Equitization Funds had done since 1999. The main sources of revenues for the Fund's were transfers from the State Budget, grants and aids from individuals and organizations, and other sources, among which transfers from the State Budget accounted for the largest part.[283]

Table 4.3: Worker Redundancy Fund: Revenues and Expenditures[284]

Timeline	State Budget transfer	Expenditures	
End 2003	~ VND 400 billion	Number of beneficiaries of the Fund	14,750 workers
		Costs	VND 41 billion
End 2005	n-a	Number of beneficiaries of the Fund	141,643 workers
		Costs	VND 4,415 billion
End 2007	n-a	Number of beneficiaries of the Fund	200,000
		Costs	VND 6,376 billion

Note: n-a: data non-available

282 See Prime Minister's Decision 174 in 2002 on the establishment and management of Equitization Funds

283 Government's Decree 41 in 2002 on the establishment and management of the Worker Redundancy Fund

284 Compiled from various sources, including MOF (2006), NSCERD (2006), Thao Lan, "**Quỹ hộ trợ lao động dôi dư đã chi trả 4.415 tỷ đồng cho 141.643 lao động dôi dư" (The Worker Redundancy Fund paid VND 4.415 billion to 141,643 redundant workers)**, Hai *Phong People's Committee*, December 2005, access online at http://www.haiphong.gov.vn/ldtbxh/vn/index.asp?menuid=578&parent_menuid=578&fuseaction=3&articleid=4783, and Minh Hien, "**Giải pháp nào cho lao động dôi dư" (Which Solutions for Redundant Workers?),** *Kinh te Do Thi*, 23 January 2007, access online at http://www.ktdt.com.vn/newsdetail.asp?CatId=19&NewsId=4701

Governmental Decree 41 in 2002 stipulated different subsidy packages to redundant workers, depending on their seniority and contractual relationship with the company, in order to pay social welfare contributions to those reaching retirement ages and to finance training and re-training costs for those in need of finding new employment opportunities. In particular, the following workers can be benefited from the Worker Redundant Fund:

(i) Workers who were still working at the SOE, but the company/enterprise could not assign them with appropriate positions during the re-arrangement process,

(ii) Workers who were officially on the SOE's list of regular workers but in fact not working at the point of time and the SOE could not assign them with appropriate positions during the re-arrangement process,

(iii) Workers in State enterprises which were going through closure or bankruptcy,

(iv) Workers who were officially on the list of regular workers of the State-owned farms or plantations, were recruited before 21 April 1998, and were not working during the re-arrangement process

(v) Workers who were working at the above-mentioned enterprises and would like to seek early retirement.

The above-mentioned workers would receive subsidies from the Worker Redundancy Fund. For those that become redundant within the following four years after equitization, the equitized company (or joint-stock company) was in charge of paying half of the total redundancy costs, while the remaining half was covered by the proceeds collected from the equitization (or from the Equitization Funds).[285]

Table 4.4: Redundancy Packages offered by the Worker Redundancy Fund[286]

Type of redundant workers	Packages offered
Workers with long-term labor contracts, having already reached the retirement ages	(i) Entitlement of full pension scheme (ii) Subsidy of 3 monthly salaries and other extra subsidies (iii) Subsidy of 5 monthly salaries for 20 years of social welfare contributions and 0.5 monthly salary for any extra year of social welfare contributions.
Workers with long-term labor contracts, not yet reaching retirement ages	(i) subsidy of one monthly salary for each actual working year in the State sector (ii) one-time subsidy of VND 5 million (iii) subsidy of six monthly salaries in order to help finding another employment.
Workers with short-term (1-3 years) labor contracts	(i) subsidy of one monthly salary for each actual working year in the State sector (ii) subsidy of 70% of the salary for the remaining period under the labor contract, which should not exceed 12 months.

According to sources from MOF, the average redundancy rate at State enterprises going through re-arrangement and equitization processes was about 20 percent of the total labor force. In some State enterprises, this rate can even go up to 40 percent or even 60 to 70

[285] Interview with Nguyen Duc Tang, Director of the Project to provide technical assistance/Support to the Worker Redundancy Fund at MOF in VietnamNet, "**Ai được hưởng trợ cấp từ Quỹ Lao động dôi dư?" (Who can benefit from the Worker Redundancy Fund?)**, 2005, access online at http://vietnamnet.vn/bandocviet/2005/05/420161/

[286] compiled from Governmental Decree 41 in 2002 and VnExpress, "**Giải quyết vấn đề lao động dôi dư khi cải tổ DNNN" (Solving the Labor Redundancy Issue when reforming State enterprises)**, April 2002, access online at http://vnexpress.net/GL/Phap-luat/2002/04/3B9BB152/

percent.[287] Meanwhile, the State enterprises were often able to afford merely 3 to 4 percent of the total redundancy costs. The Worker Redundancy Fund thus helped State enterprises substantially in paying the rest of the costs. Each redundant worker was reportedly given from VND 30 to 40 million from the Worker Redundancy Fund.[288]

Table 4.5: Snapshot about the picture of implementing Decree 41 in 2002 for Redundant Workers by December 2005[289]

Number of State enterprises receiving subsidies from the Worker Redundancy Fund	2,697 State enterprises
Total number of redundant workers as beneficiaries of the Fund, of which	141,643 workers
(i) Number of permanent workers seeking early retirement upon reaching retirement ages	15,080
(ii) Number of permanent workers losing their jobs and seeking new employment opportunities	125,177
(iii) Number of temporary workers losing their jobs and/or seeking new employment opportunities	1,007
(iv) Others	367
Average value of subsidies received by a worker	From VND 27-28 million to VND 37-38 million
Highest value of subsidies received by one worker	Above VND 75 million

IV.2.3- Equitization Funds and Worker Redundancy Fund: Working at the Same Time

Due to the establishment of the Worker Redundancy Fund, revisions were made to the usage of the Equitization Funds in 2002. The Equitization Funds have since mainly covered the redundancy costs which were not covered by the Worker Redundancy Fund.

[287] The Industrial Newspaper, "**Sắp xếp lại DNNN: Chính phủ tiếp tục hỗ trợ lao động dôi dư" (SOE Re-arrangement: The Government continues to assist redundant workers)**, 5 April 2006, access online at http://visalco.com.vn/webplus/viewer.asp?aid=194&pgid=3
[288] Ibid.,
[289] data provided by Department of Enterprise Finance at MOF, quoted in Thao Lan (2005)

In particular, the scope of coverage of the Worker Redundancy Fund includes mainly those workers made redundant prior to or during the process of SOE re-arrangement and equitization, while the Equitization Funds cover redundancy costs incurred after the re-arrangement and equitization process. For example, for those that become redundant within the following four years after equitization, the relevant Equitization Fund covers 50% of the total redundancy costs (the rest is paid for by the equitized State enterprises or joint-stock companies).[290]

Equitization Funds now aims at providing support for the following activities: (i) subsidizing redundant workers during the SOE re-arrangement and equitization process who were not entitled to benefit from the Worker Redundancy Fund, (ii) subsidizing re-training activities for redundant workers, (iii) supplementing the State capital in equitized State enterprises in order to maintain the necessary State share in these companies, (iv) supplementing capital to State enterprises in financial troubles to help them settle their overdue debts or contributions to the social security funds before the re-arrangement and equitization process, (v) subsidizing equitizing State enterprises with collected equitization proceeds insufficient to cover the equitization and re-arrangement costs, and (vi) finally, supplementing capital for 100 percent State-owned enterprises in need of technological modernization, competitiveness enhancement, and business development.[291] Meanwhile, the sources for the Equitization Funds' revenues remain unchanged, which are (i) the proceeds collected from the SOE re-arrangement process, including equitization, sales, and business contracting-out, lease, (ii)

[290] VietnamNet (2005)
[291] Prime Minister's Decision 174 in 2002

contributions/grants/aids from domestic and foreign individuals and organization, as well as (iii) transfers from the State budget at all levels. The dividends paid by equitized State enterprises to the State share and the State capital withdrawn from equitized State enterprises and 100 percent State owned limited liability enterprises were distributed and used in accordance with the regulations of the Governmental Decree 73 in 2000.[292]

IV.3- Implications on the Equitization Outcomes

The establishment of different Funds to support the equitization process, namely the Equitization Funds in 1999 and the Worker Redundancy Fund in 2002, and their performances proved to play a significant role in accelerating the pace of equitization during the period between 1999 and 2006. If only five enterprises went for equitization during the trial period between 1992 and 1995 and about twenty five more in the following two years, the pace of equitization started to pick up in late 1998, making the number of State enterprises that went through equitization increased to an annual average of 200 State enterprises during the period from 1999 to 2002, in which the majority were local State enterprises.[293] The process was further accelerated from 2003 with above 700 State enterprises annually completing equitization in the following two years of 2004 and 2005. More importantly, the number of local enterprises and GC members going through equitization increased significantly during the same period. More than seventy percent of the 1,500 enterprises completed the equitization process by the end 2003 were local enterprises whereas slightly above twenty five percent were members of either 90-GCs or

[292] Ibid.,

[293] NSCERD (2002). By 2001, total number of local SOEs equitized was about 560 enterprises, while that of central SOEs was 240 enterprises.

91-GCs. As a result, most of provinces had finished equitizing their local State enterprises by 2004 and disbanded their Boards of Enterprise Reform and Development (BERDs) accordingly.[294] By mid 2006, the number of equitized State enterprises was above 3,000, of which approximately 2,100 State enterprises were local enterprises, 270 were 91-GC members, and 500 were 90-GC members.[295]

IV.4- Restructuring of the Funds and Local Responses

IV.4.1- Worker Redundancy Fund

The State's initial intention was to set up the Worker Redundancy Fund just for a limited period of time only, i.e. from 2002 to 2005. However, under the pressure from line Ministries, local governments, as well as GCs and other State enterprises, in the early 2006, the Government agreed to extend the Fund until the end of 2007.[296] However, it was estimated that about 95,000 workers would become redundant as the result of the re-arrangement and equitization of about 1,800 state enterprises during the period between 2007 and 2010.[297] To deal with this issue, the Government consequently launched a new Decree - Decree 110 in June 2007. According to this Decree, the Worker Redundancy Fund is abolished; instead, the Equitization Funds at SCIC and GCs will be used to finance subsidies provided to redundant workers during the SOE re-arrangement and

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[294] Nguyen Dinh Cung, "**Cai cach doanh nghiep nha nuoc: Nhin lai va suy ngam" (SOE Reform: Review and Reflections)**, *VietnamNet*, 18 September 2004, access online at http://vietnamnet.vn/kinhte/caicachdnnn/2004/09/257366/

[295] MOF (2006) and NSCERD (2006)

[296] The Industry Newspaper (2006)

[297] Minh Hien (2007)

equitization process since 2007. The nominal value of subsidy package enjoyed by redundant workers is also reduced.[298]

IV.4.2- Equitization Funds

Various sources from different State agencies pointed to the fact that the Equitization Funds in some provinces and centrally-managed cities were seriously misused. For example, according to a survey conducted by the Government Inspectorate in 2008, the equitization proceeds collected at a number of local authorities and GCs had not yet been deposited separately into the State Treasury's relevant branches, and thus, had no annual records of revenues and expenditures. Such malpractice led to the fact that the equitization proceeds were often lent to GC members and other state enterprises at preferential interest rates.[299] Also, financial subsidies for 100 percent State owned enterprises and investment subsidies for equitized State enterprises were often cited as the most popular two items that local governments employed to manipulate their use of the funds.[300] Perhaps this is the reason why the Equitization Funds were substantially restructured in 2004 following the launch of a new Decree regulating the equitization process in that year - Decree 187 in 2004. Local Equitization Funds were abolished and the proceeds collected from reforming local State enterprises would be channeled directly to the Central Fund. Subsidies for redundant workers or for supporting local, equitized State enterprises would be subsequently financed by the Central Equitization Fund.

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[298] Government's Decree 110 in 2007

[299] The Government Inspectorate's report, quoted in Le Nhung, "**Dinh gia tai san de co phan hoa gay that thoat" (Pre-equitisation Asset Valuation Cause Losses to the State)**, *VietnamNet*, 2008, access online at http://vietnamnet.vn/chinhtri/2008/08/801243/

[300] Author's interviews with officials from MOF and SCIC during the fieldtrip in January-March 2007.

If the main motive for establishing local Equitization Funds during the period between 1999 and 2004 was to encourage local governments to equitize their State enterprises, the official reason for abolishing these local funds in 2004 was that most of provinces and big cities had completed their equitization process and thus would no longer need to keep the funds.[301] The unofficial reason, however, as mentioned above, lies in the central government's desire to tackle the local misuse of the funds. Some scholars recently raised their doubts over the Central State's capacity to sustain such re-centralization effort since there have been a great number of local State enterprises which remain unequitized in big cities such as Ho Chi Minh City and Hanoi.[302] It is certainly difficult to expect these local governments to continue equitizing their State enterprises while losing their share in the resultant equitization proceeds.

For example, in October 2007, Hanoi was in the process of asking for permission to retain such Fund at the city. The main reason cited by Hanoi People's Committee was that the Fund had been very helpful in facilitating the equitization process in the city in the past and it would be even more necessary in dealing with post-equitization problems.[303] At the same time, Hanoi transformed some of its equitized State enterprises into members of their 90-GCs, thus allowing it to retain the equitization proceeds as well as dividends of the State shares in those equitized State enterprises.[304]

[301] Author's interviews with MOF officials during fieldtrips in Vietnam in 2007
[302] Sjoholm (2006), p. 20
[303] Author's interviews with officials from Hanoi Municipal People's Committee and Department of Enterprise Finance, October 2007
[304] 2006, 2007 Reports of Hanoi Municipal People's Committee to the Municipal People's Council on the progress of equitisation

Interestingly, although the local Equitization Funds were already abolished in late 2004, the remaining balances of most of these Funds have not yet transferred up to MOF. This led to the Central State's issuing of an order, in the mid 2008, asking the concerning local governments to do so by the latest of October 2008.[305] In response, ten provinces, Hau Giang, Ninh Binh, Ha Tay, Can Tho, Yen Bai, Lao Cai, Ha Nam, Ha Giang, Gia Lai, and Thai Nguyen, sent requests to MOF, asking for permission to retain the balance of their local Equitization Funds in order to finance capital supplement to their local, 100 percent State owned enterprises. However, their requests were turned down by MOF.[306]

IV.5- Who Has Managed the Equitization Funds?

Despite the above-mentioned leakages at the local and corporate levels, the Central Fund has recorded a substantial surplus balance of about VND 3,500 billion (or around USD 220 millions) by mid 2007[307]. In the next three or four years' time, it is very likely that the Fund would grow even bigger as the deadlines for equitizing most of GCs and SOCBs are approaching. Initial estimates tell us that the net balance of the Funds could be up to about VND 200,000 billions (or approximately USD 12.5 billions) by 2010.[308]

The fundamental question now is that who will be delegated to represent the State in managing the Central Equitization Fund. Initially, Ministry of Finance seemed to be the obvious, indisputable answer as it had been doing the job for years since 1999. No

[305] Prime Minister's Decision 113 in August 2008 regulating the establishment and management of the Central Equitisation Fund for SOE re-arrangement

[306] Thuy Nguyen, "**Securities Investment Review"**, 2007, access online at http://atc.edu.vn/ShowArticle.aspx?ID=1904

[307] MOF (2006) and NSCERD (2006), author's interview with MOF officials in September-October 2007

[308] Author's own calculations based on MOF and NSCERD data

objections were recorded from line Ministries or local governments, except some requests by Hanoi or Ho Chi Minh City to retain the Fund at the city level. However, the turn was made in the early 2007 when the then First Deputy Prime Minister intervened directly in the scene, asking the Fund to be transferred into SCIC's hands and MOF to revise the new Decree, which was to replace Decree 187 in 2004, accordingly. Consequently, the revision process took MOF three more months to complete. Decree 109, launched in June 2007, as a replacement of Decree 187 in 2004 to regulate the equitization process, stipulated that the Central Equitization Fund would be put under SCIC's management.[309]

Table 4.6: Operations of the Equitization Funds by August 2007[310]

Revenues	VND billion	Expenditures	VND billion
	7,500	(i) On redundant workers	1,000
		(ii) On 100 percent State owned enterprises	600
		(iii) On Vietnam Airlines for guaranteeing the investment source for the flight fleet	1,400
		(iv) On COMINCO (Vietnam Coal and Minerals Group) for the bauxite project	500
		(v) On providing supplementary capital to SCIC	2,217
		Total expenditures	
Balance	(+) 3,550		

In order to confirm its capacity to manage the Fund with the Central State, SCIC announced shortly after that its 2007 half-year profit of VND 400 billion and tax contribution of VND 30 billion. In so doing, SCIC has offered itself as a better mechanism in managing the State capital than the previous complex web of State

309 Author's interviews with MOF and SCIC officials during fieldtrip in Hanoi in September-October 2007

310 Compiled from various sources, among which includes MOF (2007) and Thuy Nguyen (2007)

agencies that represented the State capital in enterprises. SCIC highlighted the fact that at least now the Central State was able to know how much exactly it got from investing into the SOE system. Before SCIC was established, no one, even Ministry of Finance, had any ideas about this figure as the gains of State capital were dispersed among a number of State agencies and authorities and thus often leaked away before they were channeled into the State Budget. The message from SCIC to the Central State was clear: if the Fund was put under SCIC, more would come to the Central State Budget.[311]

However, the fight between MOF and SCIC over the right to manage the central Equitization Fund did not end there, but was taken to a new level, as MOF accepted that SCIC could use the Fund, but within the legal framework set by MOF. In particular, SCIC could use only the balance of the Fund by the end of each year provided it has sound investment projects and get approval from the Prime Minister or MOF. Meanwhile, SCIC insisted on treating the Fund as a source of its own capital, and thus having freedom in using it. The bargaining finally ended in MOF's favor: from 2008, the Minister of Finance took over the post of SCIC's Chairman while one of his Deputies took over the General Director position. The incumbent SCIC Chairwoman, Madame Tam, retired by then.[312]

[311] SCIC's website, access online at http://www.scic.vn/index.php?option=com_content&task=view&id=137&Itemid=44

[312] Prime Minister's Decisions 1550, 1551, and 1552 in November 2007, accessible at the website of the Government of Vietnam (www.vietnam.gov.vn)

But the winner did not take it all. In exchange, SCIC was allowed to be recapitalized with a VND 10,000 billion top-up from its initial charter capital of VND 5,000 billions.[313] Such top-up, however, was too little compared to the expected value of the Central Equitization Fund that SCIC once dreamt of taking hold of. According to an internal source within SCIC, by late 2007, the Corporation had not yet been handed with the Central Equitization Fund. In fact, the Fund was still physically under the MOF by then. Being asked if managing such a huge amount of money would be a difficult task for SCIC, the source said that the Fund might be not that really big. However, according to external sources, the Fund promises to become a huge source of investment which would possibly worth up to tens of thousands billion VND, leading to complaints that such surpluses should be retained by equitized State enterprises for re-investment purposes rather than being transferred back to the State.[314]

It took the bureaucracy more than a year since mid 2007 – when Decree 109 stipulated the transfer of the Central Equitization Fund from MOF to SCIC – to come up with the final rules and regulations on the establishment and management of the Central Equitization Fund. The Prime Minister's Decision 113 in August 2008 announced that the Central Equitization Fund was to establish at SCIC and under the centralized management of SCIC. The Fund can be deposited into any account at the State Treasury, state owned commercial banks or joint stock banks.

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[313] Prime Minister's Decision 183 in November 2007, accessible at the website of the Government of Vietnam (www.vietnam.gov.vn)
[314] Thuy Nguyen (2007)

The Fund's revenues would come mainly from the proceeds collected from the SOE equitization and re-arrangement process, post-equitization revenues which included the proceeds collected from selling the remaining State capital in equitized or otherwise transformed State enterprises and the proceeds collected from SOE employees on their borrowings from the State in order to buy shares at subsidized/preferential prices, transfers from Equitization Funds at the GC-level and other sources. Meanwhile, the Central Equitization Funds could be used for the following particular purposes: (i) to assist state-owned agricultural and forestry plants under the central management of line Ministries and para-Ministerial agencies, the local management of provincial or municipal People's Committees, or GCs' or economic groups' management to finance the redundancy policies during their equitization and re-arrangement process, (ii) to assist needy GCs, economic groups, and "parent" companies in financing redundancy subsidies in accordance with Decrees 109 and 110 in 2007, (iii) to top-up SCIC's legal capital in accordance with the Prime Minister's Decisions, and finally (iv) to invest into strategic projects, including the commercially-based infrastructural projects in accordance with the Prime Minister's Decisions.[315]

Regarding the provision of additional capital to SCIC from the sources of the central Equitization Fund, the procedure requires an extensive role of MOF in evaluating and approving the SCIC's request before SCIC could submit its request to the Prime Minister. Similarly, MOF plays a close scrutinizing role in the use of the central Equitization Fund for investment purposes, while SCIC is mainly responsible for coordinating the

[315] compiled from the Prime Minister's Decision 113 in 2008, accessible on the website of the Government of Vietnam (www.vietnam.gov.vn)

paperwork. The Prime Minister is the one who decides on transfers among the Central Funds and Funds at GC level when substantial surpluses are recorded at the GC-level Equitization Funds in order to meet the need for capital in strategic, prioritized investment projects. MOF, again, is in charge of proposing the inter-Funds transfers, especially the transfers from GC-level Equitization Funds to the central Equitization Fund, to the Prime Minister.[316]

In summary, the new legal framework launched in late 2008 allowed MOF to be mainly in charge of supervising the management and usage of Equitization Funds, including both the central Fund and corporate-level Funds. MOF seemed to be the one who made all important (and final) decisions, ranging from the usage of Funds for paying redundancy costs, topping up SCIC's legal capital, and financing important investment projects towards the transfers among the Central Fund and corporate-level Funds. Meanwhile, SCIC was entitled mainly with the right to manage and use the central Equitization Fund under MOF's guidance and supervision. For example, SCIC was in charge of managing and using the revenue sources of the Central Fund, supervising and urging State enterprises to transfer the proceeds collected from their re-arrangement process into the central Equitization Fund, disbursing the Fund to State enterprises and other economic entities during their re-arrangement process to finance redundancy policies and to assist financially training centers for redundant workers in accordance with MOF's decisions. SCIC was also responsible for implementing the Prime Minister's and MOF's decisions regarding the inter-Fund transfers, and submit the Fund's revenues and expenditure plans to MOF and the Prime Minister for approval.

[316] Ibid.,

IV.6- Authority Fragmentation and Instability: Implications on the Macro Dynamics

IV.6.1- Power Fragmentation in Making Equitization Policies

The establishment and restructuring of different Funds, namely the Equitization Funds and the Worker Redundancy Fund, during the last ten years between 1999 and 2008, in order to support and accelerate the SOE reform process in general and the implementation of the equitization mandate in particular, highlight the role of inter-bureaucracy politics in economic reform in Vietnam. In particular, we find that the authority to making equitization policies is fragmented between different State actors, requiring them to bargain and exchange resources with each other in order to reach consensus to move the process forward. The policy momentum thus has been sustained through a number of successive decisions rather than by only a single, central decision made by the top State leaders and the equitization process, as a result, has moved rather slowly with a number of twists and turns along the way. The initial effort of the Central State to centralize equitization proceeds failed to help enforce the implementation of the equitization mandate in line Ministries, local States, GCs, and, State enterprises. Equitization Funds for SOE Re-arrangement and Equitization and the Worker Redundancy Fund were subsequently established to channel resources downward to local States in exchange for accelerated equitization in these localities. MOF's recent move to re-centralize the Equitization Funds while abolishing the Worker Redundancy Fund has again caused a number of local reactions as well as new rounds of bargaining among different central State actors.

IV.6.2- Power Instability and the Maneuvering of the Three Streams

As was mentioned in Chapter III of this thesis, the tendency of bureaucratization and routinization in the making of equitization policies, reflected through, for example, the establishment and operation of the State Capital and Investment Corporation (SCIC) since 2006 to deal with post-equitization problems, has resulted in the wider range of actors involved in the process. As new institutions also require resources to survive and thrive, the power authority in making equitization policies would certainly be further fragmented on the one hand, and instable on the other hand. The second feature, instable power structure in making equitization policies, has further complicated the inter-bureaucracy politics by throwing the dynamism factor into the picture.

While was not involved directly into the scene of making equitization policies, SCIC managed to convince one among the top leaders of the Government that it should be assigned with the right to manage the Central Equitization Fund instead of the used-to-be indisputable MOF. As a consequence, the issue of who should be the one to manage the Central Equitization Fund suddenly became a problem in the early 2007 when a new Decree Draft to replace Decree 187 in 2004 was finally agreed upon among various bureaucratic agencies and about to be finalized by the Government. SCIC, in addition to MOF, thus became a policy alternative to solve the above-mentioned problem. The new Decree to regulate the equitization process – Decree 109 in 2007 – finally stipulated that the right to manage the Central Equitization Fund would be transferred from MOF to SCIC.

IV.6.3- Authority Fragmentation and Instability: Interactions and Implications

However, Decree 109 in 2007 was not the end of the story. As was mentioned in Section IV.5, instead of being the final decision on the issue of who would manage the Central Equitization Fund, Decree 109 triggered another round of bargaining and negotiations among relevant parties, i.e. MOF and SCIC, over the specific details of the deal. As a consequence, a number of follow-up policy papers were out only a year later, including the Prime Minister's Decision 113 in August 2007, Prime Minister's Decisions 1550, 1551, 1552, and 183 in November 2007, to provide specific guidelines on the transfer of the Central Equitization Fund from MOF to SCIC. These follow-up policies clearly reflected that a compromise has been made between different State actors, mainly the Government's leaders, MOF, and SCIC, in order to gain consensus over such policy change.

In summary, the process of making and revising equitization policies among various bureaucratic agencies has been characterized with authority fragmentation and instability. While authority fragmentation leads to continuous rounds of bargaining and negotiations among the above-mentioned actors over contentious issues in equitization in order to seek agreement over policy changes; authority instability often results in further fragmentation of power on the one hand and unexpected policy outcomes on the other hand. This has important implications on the future of making equitization policies. Slow and incremental, rather than radical, policy changes should be expected due to the authority fragmentation on the one hand; whereas it would be more difficult to predict the contents and directions of these policy changes due to the increasing stability of the authority structure.

Chapter V State-Enterprise Interactions in Equitization

The purpose of this chapter is to investigate the interaction between the direct State patrons and their subordinate enterprises in implementing the equitization mandate in these enterprises. As was mentioned earlier in Chapter II, the bargaining and negotiations between the State patrons and their subordinate enterprises take place in a wider macro context of uncertain rules and regulations. In such an environment full of uncertainties and ambiguities, both the state patrons and enterprises face with a number of options rather than only one single choice. This, in turn, fosters the bargaining behavior in enterprises and their superiors in order to get their preferred strategies of equitization approved. My main argument in this chapter is that reducing the State ownership is not the ultimate aim for those who initiated the equitization mandate. If the State patrons are the initiator of the equitization mandate, the actual pattern of equitization often seeks to strengthen their power rather than to bring about a real change in the ownership structure of the subordinate enterprises and their post-equitization performance. If the enterprises are the initiator of the equitization mandate, they often do so out of the fear of being taken over by bigger state enterprises. However, if possible, the equitized enterprises always opt for some retained State ownership in their post-equitization capital structure. In addition, the case study presented in this chapter also points to the fact that subsequent steps to reduce the retained state ownership in equitized enterprises (divesting) have been carried out incrementally for other purposes than the stated objectives of mobilizing capital from the private sector and improving the corporate governance for these enterprises. As a result, the equitization process, seen from the micro perspective, has not moved in a “big-bang” manner, but gradually and incrementally in order to suit the interests of both the State patrons and enterprises which, unfortunately, hardly relate to any of the official objectives of equitization as stated in the state policies.

The chapter is organized as follows. Section V.1 briefly introduces the four enterprises selected for the case study. Next, Section V.2 describes in details the process of equitization taken place in these four enterprises. Section V.3 discusses the main findings from the cases and explores the implications of these findings on the equitization patterns and outcomes. Finally, the last section, Section V.4, ends the chapter with some conclusions.

V.1- Introduction of the Cases

V.1.1- Case selection and criteria

While it might sound simple, the selection of cases and conduction of follow-up interviews have been extremely difficult in Vietnam. I have screened through a number of equitized SOEs, collected data about them, and made preliminary/informal talks with some of their management personnel. I finally came up with the four cases which are labeled according to their sector. For example, the first equitized SOE case was labeled as P1, whereas P stands for Printing, the sector that the SOE belonged to while number 1 stands for the chronological number of the case in the total case studies. Similarly, M2 and M3 are the two cases of equitized SOEs operating in the sector of mechanical engineering, while the fourth case, T4, worked in the transportation sector.

The above-mentioned four cases were selected based on the following criteria: (i) the level of State ownership and management, (ii) capital scale, and (iii) sector. Since I suspect that the interaction between the State patrons and enterprises is important to the equitization outcome, the four selected cases used to be subject to different levels of state management and thus under the control of different State patrons. In particular, in our case studies, while P1 was under the central State control, T4 was under a local government, whereas M2 and M3 were under the state management of a General Corporation. The hypothesis here is that different State patrons would have different preferred strategies of equitization and thus lead to different equitization outcomes in their subordinate enterprises. In other words, I would like to test the hypothesis that the closer the relationship between the state patrons and enterprises, the less progressive pattern of equitization is observed in equitized enterprises.

The second criteria for selecting the cases here is their capital scale. The hypothesis here is that SOEs with large capital scales would find it more difficult to opt for more progressive patterns of equitization than small SOEs. Among the four selected cases, P1 had the largest capital scale of above VND 10 billion while M3 and T4 were of small capital scale and finally M2 was the smallest.

The third criteria for selecting the cases is the sectors that these equitized SOEs belonged to. The hypothesis here is that the more strategic sector that the equitized SOE belonged to, the less progressive form of equitization that enterprise followed. Among the four selected cases, T4 belonged to the most strategic sector, as it used to provide public goods, or road construction and maintenance in particular. The three remaining cases were of less strategic sectors in the economy and thus were not prioritized to remain State-owned dominantly.

V.1.2- Description of the cases

The first SOE, hereafter referred as company P1, was a medium-sized company, working in the printing sector but under the central management of the Ministry of Agriculture and Rural Development (MARD). Although being medium in its capital scale, P1 was still the largest company among the four cases, with the total charter capital of VND 14 billion. The printing sector is considered rather important, but not strategic, by the State of Vietnam. However, since P1 did not belong to any main ministries in charge of the printing sector, i.e. Ministry of Industry for industrial printing or Ministry of Culture, Sports, and Tourism for printing of cultural and arts products, the enterprise was largely considered by its State patron, MARD, as belonging to non-strategic sectors. The implication of this is clear: it would be easier for the enterprises to be subjected to reform measures rather than to be remained in its status quo as a wholly State owned enterprise. P1 started preparing the equitization plan in 2003 and completed the transformation in the mid of 2004. P1 was also the company that I had the most interviews with various former and current managers. While talks with P1's former managers helped me understand better about the history of the company, interviews with current P1's managers and employees helped me link such history with the contemporary developments in the company. As a result, more space will be used to discuss the case of equitization in P1 below.

The second and third cases, hereafter referred as M2 and M3, were members of the same 90-GC, the Agricultural and Irrigational Mechanical and Electrical Engineering General Corporation. This 90-GC was also under the MARD's authority. M2 specialized on providing construction and related services for irrigational works while M3 specialized on producing motors and related equipments for agricultural machinery. While the 90-GC was large in its capital scale, the two members in the case study had rather small capital scales of below VND 10 billion. The general sector, agricultural engineering, was considered important to MARD, but not that strategic to the whole economy. In addition, their modest capital scale would certainly make the equitization mandate more compulsory for these two companies. M2 started preparing the equitization plan some time in 2002 and completed the process by the early 2003. M3 started a bit later in late 2003 and completed by the late 2004. I had several interviews with M2's technical manager cum the secretary of the company's first Shareholders Meeting in 2003. For M3, I worked mainly with the Chairman of the Labor Union at the company, who took part in the Board of Equitization and later on the Board of Management of the equitized company. In addition to the interviews, I managed to access to both companies' paperwork concerning the equitization plan, its implementation, and follow-up deeds.

The final case, hereafter referred as T4, was a local SOE established by Hanoi People's Committee or the Department of Transport and Public Works. The company's main tasks were to provide road construction and maintenance services for the suburban region in northern Hanoi. For Hanoi, the general sector of road construction and maintenance was considered strategic. However, since the company was assigned with providing the services mainly to the rural areas of the city, it, in fact, was not considered strategic by the city government. The company's size was also small, with only slightly above VND ten billion in capital. T4 was the latest to be equitized among the four companies: it started the preparation stage in 2004 and completed the process in mid 2005. I had several interviews with one of T4's managers cum member of the current Board of Management of the post-equitization company in charge of personnel and organizational matters. Similarly with the previous companies, I also had access to the company's paperwork concerning its equitization process.

Table 5.1: Case studies in equitization: a Summary

Company/Code	P1	M2	M3	T4
Sector	Printing	Agricultural engineering	Agricultural Engineering	Infrastructure (Road construction and maintenance)
State management levels	Directly under the supervision of MARD	Directly under the supervision of 90 GC for Agricultural and Irrigational Mechanical and Electrical Engineering	Directly under the supervision of 90 GC for Agricultural and Irrigational Mechanical and Electrical Engineering	Directly under the supervision of Hanoi Municipal People's Committee, Department of Transportation and Public Work
Location of the company in the strategic map of its State supervisor	Not important, not strategic	Important, but not strategic	Important, but not strategic	Important, but not strategic
Capital Scale (VND billion)	Medium (14)	Very small (2.4)	Small (6.8)	Small (11)

V.2- A Firm-level Analysis: Equitization Seen from Micro-Perspectives

V.2.1- Case 1: Equitization of a Central, Independent SOE

Company P1 is a printing company under the management of the Ministry of Agriculture and Rural Development (MARD), established as early as in 1970 from the infrastructure of a French-owned printing workshop set up during the colonization period in the early 1900s. Similar to other SOEs at that time, the company was mainly in charge of printing books, newspapers, and other materials for the agricultural sector. The company's direct State supervisor was then Department of Propaganda and Education at MARD. Since 1975, the company was moved to under the Institute of Agricultural Planning and Architecture at MARD, and thus switched to print geographical maps for the sector's specific needs. Also, during this period, the company started to print product "stamps" or labels for agricultural products such as tea or milk in accordance with MARD's assignment. From early 1980s, the company had extra activities (termed as Plan III in addition to the two official Plans I and II under the State mandate), allowing its workers to manually cut or fold the above-mentioned printed product stamps, labels, and packages. The then income from Plan III allegedly accounted for almost one fifth of its workers' total income.[317]

Similarly to the Plan III carried out since early 1980s, Doi Moi in 1986 marked the beginning of another range of bold "fence-breaking" activities for P1. Overtime working hours with higher pay-rate was a main source of extra income for the company's workers. The company laid off a number of redundant employees during this period, but rented them kiosks built in the front side of the company's building, so that these redundant workers could make a living by selling mainly construction materials and animal feeds and medicines whereas the company also earned extra revenues from the rents. Since the early of the 1990s, the company stopped renting kiosks to redundant workers and instead signed renting contracts with outside individuals and organizations. The income collected

[317] Interviews with P1's former manager and chief accountant, September-October 2007

from renting kiosks, and later on, office space, accounted for above 20 percent of company P1's total annual profit. The rest 80 percent came from the main production line of printing product labels and packages.[318]

Instead of being supervised by only one Department at MARD as before, starting from the early 1990s, P1 was under the direct management of Department of Planning and Investment at MARD in coordination with the Department of Finance and Accounting at MARD and Department of Enterprise Finance at MOF. The Department of Planning and Investment at MARD was responsible for the sectoral State management for P1, determining all State decisions relating to P1 in general and representing the State in P1. Meanwhile, the Department of Finance and Accounting at MARD regulated the financial and accounting system applied in P1 and the Department of Enterprise Finance at MOF oversaw the performance of the State capital in P1. As a result of such changes, P1 needed to maintain relationships with a wide range of State agencies, which were not only various Departments at MARD, but also different bureaus and offices at MOF.

Regarding the production activities, by the early 1990s, P1 no longer printed the agricultural maps, but focused on product labels and packages. The coverage expanded to other products rather than those of agricultural nature. However, the traditional customers in the agricultural sector, including key state-owned tea, milk, and tobacco producers, remained the biggest clients for P1. According the P1's management team, the company maintained a "good relationship" with their State direct supervisor since the early 1990s. In fact, MARD remained P1's State supervisor by name only as P1 exercised high degree

[318] Ibid., P1's financial and accounting data for various years

of autonomy in carrying its production activities. Also, since P1 had sufficient capital, as well as good access to capital for its business and investment needs, the label as a SOE under MARD just helped it little with financial issues. Finally, since the mid 1980s, P1 was able to find its own clients without any support from MARD. In actuality, MARD played little role in the relationship between P1 and its suppliers and customers.

The performance of company P1 before equitization had been quite satisfactory. The after-tax profits remained at an annual average from VND 1.5 to 2 billion during the period between 2001 and 2003, while the total company capital (including the State capital and own equity) was approximately VND 12 billion, making P1's ratio of after-tax profit to its own equity stood at about 15.6 percent.[319]

Regarding the equitization mandate, the issue was actually discussed within the company since as early as in the end 1990s, after the Government launched Decree 44 to accelerate the process. The then Director, approaching his retirement in about five years' time, however, was not interested in the issue, despite the fact that equitization might open an avenue for him to remain in his post beyond the retirement age.[320] The mandate came back to P1 from MARD in early 2000s when, as mentioned earlier, the company just went through a fierce competition to choose a new Director. The finally-selected, new Director was in his late forties, graduated from the Hanoi University of Mining and Geology, and had almost twenty years working at the company from a junior manager to

[319] The company's financial and accounting reports (2001-2003)
[320] In an interview in September 2007, the then chief accountant of P1 recalled to me that she did mention this to the incumbent Director, but his attitude was very indifferent. Perhaps he had not come to perceive the importance of such an early equitization to his career by then.

the head of the main workshop. Despite the fact that he was not initially nominated by the former Director for the post, the new director won the votes from the majority of the workers at the company. One interesting development during this period is that MARD initially proposed that P1 merged into MARD's main printing and publishing company instead of being equitized. This merger proposal actually was not new, but was repeatedly proposed time and again by MARD. However, it became serious later on, as P1 had to make a choice between merging to remain wholly State-owned or equitizing. If P1 accepted the merger, it would be very likely that P1's incumbent director and management board lost their jobs in the new company, since the other state enterprise was much bigger and worked in the mainstream of the sector, and thus certainly had more power to remain intact.

In order to avoid this merger plan, P1 therefore did have to "work" hard to persuade MARD to give it up and allow P1 to go ahead with preparation for equitization. The main reason that P1 used in order to persuade MARD was the fact that its field of business and production was totally different from that of the Agricultural Publishing House (name of the other company in the merger proposal) and thus the merger would do harm rather than good to both companies. Certainly not only logical reasoning might work that well in this case, but also the "good relationship" between the company and its State patron did.[321] As a result, P1 was allowed to go ahead with equitization. It started to prepare the equitization proposal in end 2003 and completed the equitization process in mid 2004. The State capital at P1 was determined by a Valuation Board comprising of

[321] Interviews with P1's managers (the incumbent Director and his Deputy in charge of technical issues) during fieldtrip in September-October 2007.

representatives from MOF, MARD, and the company's Director at VND 14 billion (or approximately USD 1 million), increased by VND 2 billion in comparison with the actual value of P1's fixed assets at the point of valuation. This VND 2 billion increase was determined by the Valuation Board as the intangible value of the company derived from its high profitability and good reputation.

The method of equitization provided another arena for bargaining and negotiation between P1 and its direct State supervisor - MARD. As usual, MARD's initial intention was to have at least 51 percent State share in the company's capital in order to maintain its grip on the company. However, the company director proposed an equitization plan in which the State only kept its 25 percent capital share. When being asked about why he chose that figure, the director explained 25 percent State ownership was the safest choice for his position to be secured at the moment. If the State share in the company was higher than 25 percent, or up to 51 percent as suggested by MARD, there would be no real change in the company's actual status and the possibility of State intervention into the company's daily activities would thus still looming over the post-equitization company. On the other hand, if the State share was lower than 25 percent, more shares would be sold to either the director's competitors within or outside the company, which would certainly put the director in the danger of losing the control power over the post-equitization company. Another reason for not choosing a very low State share in the total capital, as explained by the director, was that the company might still need the State warranty (through MARD) if it wanted to borrow money from banks. Therefore, the rate of 25 percent State share was the safest choice for the incumbent director. It would help him to remain in his seat in the post-equitization company on the one hand, and ensure that the post-equitization company could still enjoy various advantages from being partially owned by the State on the other hand.

As a result, the company went through equitization by selling part of the State capital in together with issuing new shares, doubling the post-equitization capital level to VND 27 billion. The structure of share ownership in P1 after equitization was as follows: the State owned 25 percent, the company's managers and employees owned 54.8 percent, and outside investors 20.2 percent. MARD initially represented the State in managing the State capital in P1 for the first two years after equitization. Since mid 2006, the State capital in P1 has been put under the management of SCIC. Company P1 planned to issue additional shares by end 2007, raising its total charter capital to VND 54 billion, in order to invest in buying two new printing machines for its current printing unit and launching a new printing factory. Its long term vision was to develop into a holding company model, with both direct and indirect investment in other printing factories in the region.

V.2.2- Cases 2 and 3: Equitization of GC Members

Both companies M2 and M3 were under the same GC before and after equitization- the 90-GC for Agricultural and Irrigational Mechanical and Electrical Engineering. This GC was, in fact, the result of a merger between two 90-GCs, one in Ministry of Fishery and one in Ministry of Agriculture and Food Industry, in 1995 when the two Ministries together with Ministry of Forestry were merged into MARD. Basically, M2 provided construction services mainly for irrigational works in the countryside while M3 produced agricultural machinery and equipments such as rice mills. Both M2 and M3 had very small capital scales and were not lying in the main line of business of the GC. The relationship between M2 and M3 and the GC was thus perceived by M2's and M3's employees and managers as mainly administrative-based rather than business-oriented. In fact, M2 and M3 were independent SOEs for a long period of time before they were added to the GC as its members in the mid 1990s. There are certain benefits that M2 and M3 enjoyed from being GC members. For example, from time to time, they participated in bidding for economic contracts under the GC name together with some other members, which, to a certain extent, did help them win the contracts. Or the GC guarantee was also needed in case M2 or M3 wanted to borrow money from banks. However, these benefits seemed marginal to both companies. Their managers clearly expressed that they considered themselves as autonomous entities from the GC.

The equitization mandate came to M2 and M3 from its direct State patron, the 90-GC, in early 2003 and 2004 respectively, as stated in the GC's overall equitization plan. These timelines, according to sources within the two companies, were previously discussed and agreed among MARD, the GC, and SOE members. The pre-equitization value for both M2 and M3 were rather low, standing at slightly above VND 2 billion and VND 5 billion, respectively. Both figures, however, did not reflect the true value of the companies. In fact, most of the two companies' bad debts were cleared. Second, the value of a number of workshops and buildings constructed on the territory of the two companies was not counted into their pre-equitization values. And finally, the value of a joint-venture between M3 and another foreign partner between 2001 and 2004 was not counted into its pre-equitization value either.[322]

In both M2 and M3, the State share remained dominant in the post-equitization capital structure. Sources from M2 alleged that the GC had violated the State policy of not keeping controlling shares in small SOEs of less than VND 10 billion in capital. After equitization, the State share in M2 was 51 percent while that in M3 was 52 percent. As the result, the relationship between the GC and the two companies after equitization remained the same patron-client relationship as before equitization. Moreover, the GC seemed to intervene more into the daily operation of M3 as the GC Deputy Director now actually replaced the incumbent Director in running the company on a day-by-day basis. He moved his office permanently to M3's building office and virtually signed all the company's paperwork.

V.2.3- Case 4: Equitization of a Local, Independent SOE

Company T4 was established in 1965 as a local, independent SOE under the management of the Hanoi People's Committee or the Hanoi Department of Transportation and Public Works in particular. The company was one among the four local state enterprises that provided the construction and maintenance of roads and pavements in Hanoi. T4 was responsible for the northern outskirt of Hanoi, or the construction and maintenance of mainly rural roads and public works. Another company was in charge of the southern outskirt, while the other two companies were in charge of the urban districts of Hanoi.

[322] Interviews with M2' and M3's managers during September-October 2007, M2's and M3's financial reports for various years

Among the four companies, T4 was the smallest, with a modest capital scale of VND 11 billion (or approximately USD 0.7 million), as compared with the largest company of more than VND 100 billion. In spite of having a small capital scale, T4 has a rather complex structure with headquarter located in Hanoi and a number of offspring enterprises located in the outskirt of Hanoi.

The first arena for negotiation and bargaining between T4 and its direct State patron did not come from the equitization mandate, but from a rather controversial decision made by the Hanoi People's Committee in the late 2003 and early 2004, asking the above-mentioned four companies to merge into a wholly State owned Limited Liability Company. Such a merger would certainly be unfavorable for T4's incumbent director. The company was too small to compare with the remaining three and the director thus would be in no position to secure his presence in the Board of Management of the newly-formed limited liability company. In resisting the merger plan, T4 and another small company in the group of four proposed equitization with the Hanoi Municipal People's Committee and the Hanoi Department of Transportation and Public Works. One of main factors that supported T4 in negotiating with the Committee was the close relationship that the company's incumbent director had with the Head of the Hanoi Department of Transportation and Public Works.[323] Consequently, only the biggest company among above mentioned four companies transformed into wholly State owned Limited Liability Company while the rest three went through equitization.

[323] However, huge amount of bribes was also involved in the process, according to a T4's former member in Board of Management. Author's interviews with T4's managers during September-October 2007.

Company T4 started the preparation for equitization in 2004. The second arena for bargaining between T4 and its State supervisor emerged during the valuation stage. The value of the company, standing at VND 11 billion, was higher than its actual value, according to internal sources within the company. The main reason for setting the company's value at VND 11 billion was to reach the minimal charter capital required for those wishing to do business in the real estate field. Again, the close relation between T4's director and the Hanoi Department of Transportation and Public Works had helped T4 to get approval from the municipal committee over such a high pre-equitization value.

Table 5.2: Summary of the equitization process in the four companies[324]

Criteria	**P1**	**M2**	**M3**	**T4**
Method of Equitization	Sell part of the State capital in together with issuing new shares to the employees	Issue new shares to employees	Sell part of the State capital in together with issuing new shares to the employees	Sell all State capital to employees and outside investors
Charter capital of the Joint Stock Company, in which	VND 27 billion	VND 5.14 billion	VND 8.7 billion	VND 11 billion
- Percentage of the State share (%)	25	51	52.69	0
- Managers and Employees (%)	54.8	49	47.31	85.45
- Outside investors (%)	20.2	0	0	14.55
Number of labors/employees before equitization			284	
Number of labor redundant			123	150

How much the State capital should be remained in the company after equitization was also another crucial issue. The threat of being taken over by the biggest company among the group of four would still loom over T4 if the State capital was to remain. Rumors talked about the possibility that the municipal committee would delegate the biggest company among the four, now transformed into a wholly State-owned limited liability

[324] compiled from various financial reports of the four companies for various years

company, to manage the State capital in the rest three equitized companies. To avoid this situation, company T4, again, managed to persuade the Hanoi Municipal People's Committee to approve its equitization plan with zero percent of the State capital. The company completed its equitization process by mid 2005 with 90 percent State capital sold to the company's managers and employees while the rest 10 percent to outside investors through public auctioning. Among the other two companies that went through equitization at the same time with T4, one was also wholly equitized while the other one was equitized with a certain percentage of State shares which, as expected, was kept by the remaining biggest SOE in the group.

V.2.4- Post-equitization Performance of the Four Companies

Regarding the management personnel issues, the incumbent management teams remained the same in the four companies after equitization, except for M2. M2 is a special case as its management team was in transition while equitizing. The incumbent director before equitization approached his retirement and one of his Deputies was planned by both MARD and the GC to take over the post. However, the first General Assembly of the Shareholders hold after the M2 completed the equitization process voted for another Deputy to be the General Director of the company, which was later approved by MARD and the GC. Company M3 is also worth mentioning as the GC's Deputy General Director, being the Chairman of M3's Board of Management after equitization, literally took over the post of the company's incumbent director. The incumbent Director was asked to only focus on some unresolved issues in a joint-venture between M3 and another partner in the early 2000s, while daily activities of the post-equitization company were conducted by the Chairman.

Company T4's incumbent Director remained in his seat after equitization. He also performed the role of the Chairman in the Board of Management of the equitized company. Other members in the Board of Management were one Deputy Director, the Chairman of the Labor Union, the Chief Accountant, and the former Head of the Labor-Salary Division, and two directors of dependent construction enterprises. Interestingly, sources from some members in the Board of Management revealed that they got their seats in the Board not with their own money. Instead, the incumbent Director cum Chairman had used the company's funds to purchase shares for them. He wanted their loyalty and support in return. As a result, despite the company's poor performance and failure to pay salaries to staff in time, none of the members in the Board raised their voice against the incumbent Director.

Regarding the post-equitization economic efficiency and profitability, among the four companies, only company P1 performed better than in the past, with profit from its main line of production accounted for a larger part in its total after-tax profit. After equitization, P1 has moved its manufacturing units and offices to an industrial park in the southern suburb of Hanoi, while it formed a joint-venture with some private company to develop a real estate project in its former location on one of the busiest streets in Hanoi. The revenue from such real estate project has earned P1 about VND 1.7 billion annually (out of the total profit of VND 7.1 billion in 2006).

The rest three companies (M2, M3, and T4) all had troubles in sustaining its main line of production. M2 and M3 relied substantially on the revenues collected from renting office space as their main production activities were barely able to cover the incurred costs. Company M2 completed the construction of a new office building after equitization and earned about VND 1 billion annually from rents (which accounted for about 30 percent of its total after-tax profits/revenues). Company M3 renovated the old office space and rented it to an automobile seller at the rate of VND 1.6 billion per annum for a period of six years. M3 was also on the process to work out with the GC over a plan to build another 9-storey office building within its territory and expected to earn a substantial portion of profit from this new real estate project.

Company T4 was the worst performer among the four. The company relied solely on its main production line which in turn suffered substantially from the company's mismanagement. Unlike the other three companies who were entitled with land use rights for large areas of land in front of some of the biggest roads and highways in Hanoi, T4 did not have any strategic locations and all its real estate development projects were still in the preparatory stage. As a result, the company was not able to pay its administrative staff for at least the first six months of 2007.

V.3- Main Findings and Discussions

V.3.1- Who Initiated Equitization and for What?

We do not have one single answer for all four cases. If the enterprise is the one who proposed the equitization initiative most clearly in the case of T4, the direct State patrons, or the 90-GC, initiated equitization in the cases of M2 and M3. It is not very clear that who initiated the equitization mandate in the case of P1. However, it seems that P1 shared, more or less, a similar experience with T4. The State patron did propose a merger plan first but was rebuffed by the enterprise, and then came the equitization initiative. This, interestingly, led us to an important finding about motives and purposes of those who initiated the equitization mandate.

V.3.1.1- The Direct State Patrons as the Initiator of the Equitization Mandate

For the initiator being the direct State patrons, would the purpose be to get rid of loss-making, inefficient enterprises by divesting the State capital invested in these companies? The information from the above-studied cases hardly points to an affirmative answer to this question. As for the case of M2 and M3, I find that the 90-GC initiated the equitization mandate on these two enterprises with a clear purpose of intruding further into their operations and thus inserting even tighter control over them than it would be in the past. As a result, the 90-GC managed to apply a very similar pattern of equitization in both M1 and M2. The State capital in the two companies after equitization remained above 50 percent, creating legal avenues for the GC to participate in their Boards of Management. Such pattern of equitization allows the GC to replace the incumbent management team in M3 in controlling the company’s daily activities. Similar outcome should be expected in M2, as the GC's Director General was expected to become the Chairman of the company's Board of Management in 2008. Before 2008, the Chairman position had been held by the incumbent Director of the company.

V.3.1.2- State Enterprises as the Initiator of the Equitization Mandate

The next question would be: for the initiator being the state enterprises, then what would be their purposes? Would they really want autonomy from the direct State patrons and thus reduced to zero State ownership in their enterprises? Again, from the four cases, the answer to these questions is No. It is most evident in the case of T4, as the threat of being taken over by another state enterprise was so great that the incumbent director was driven to opt for the most pro-active form of equitization despite the fact that the company had been fed mainly by its State patron. All the State capital in T4 was sold to its employees and outside investors and none were retained by the State. In other word, the risk of being taken over would still loom over the company if any of State ownership was kept.

P1, as was mentioned earlier, also faced the risk of being taken over by another state enterprise, but to a less extent than T4. The merger risk ceased once the merger proposal had been put down by MARD and the enterprise. It explains why the incumbent director of P1 chose to set the State ownership target in the post-equitization company at 25%, instead of opting for such vigorous elimination of the State ownership as in the case of T4. Interestingly, despite the fact that the company was highly autonomous from its State patron, its incumbent director hinted clearly that he still valued the State patronage over his post-equitization enterprise. As he said:

> "Some State ownership means that you are still some "state enterprise", not an entirely private company. It would help a lot. If you are an entirely private company, you are nothing in the State's and people's eyes. It causes troubles for your employees as well. When they get married, they need us to certify that they are still single and thus able to get married. However, sometimes the State authority does not trust our certification simply because we are a private company."[325]

Some State ownership retained in post-equitization companies, thus, is highly appreciated, not only because of the different social attitudes towards different economic sectors and components, but also, and mainly, due to different treatments by the State to these sectors. All in all, state enterprises have still been accorded more favorable treatment over the rest. That is also the main reason for P1's director to insist on keeping some State ownership in his company. Although the company has been doing well over the past two decades with little help from its State patron, it still might need the support from the State later on in case of difficulties.

V.3.1.3- Implication on Equitization Outcomes

The implication on the equitization outcomes is thus clear. Being the direct State patrons or enterprises, their first and ultimate purpose in initiating equitization was not to reduce the State ownership in state enterprises as set out in the policy papers. As a consequence, the expected outcomes of equitization, such as improved corporate finance or

[325] Interview with P1's Director in October 2007

mobilization of the private capital, have not yet realized during the equitization process. In addition and more importantly, the equitization process progressed just gradually and incrementally, instead of following the "big-bang" approach, in order to suit the interests of both the State patrons and enterprises.

Slow and incremental equitization

The State patrons, or the same 90-GC in this case study, used equitization as an effective means to consolidate their power rather than to let go their members. As a result, the pattern of equitization in GCs and their members was mainly to retain the dominant State ownership in these enterprises. Such pattern of equitization proved to strengthen the GCs' power substantially. First, equitization helped the GCs penetrate more deeply into the operations of their members who used to retain a greater degree of autonomy from the GCs before equitization took place. By representing the dominant State share in equitized members, GCs' managers and leaders often secured at least one position in these members' Boards of Management. Second, the equitization process brought about "real money" for the GCs. GCs were allowed to use the equitization proceeds collected from the process of equitizing their members for different purposes at their disposal. The equitization proceeds indeed become a source of finance for GCs to invest into establishing new subsidiaries, mostly in form of shareholding companies or one-member limited liability companies owned by the GCs.[326]

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[326] Khiet Hung, **"Cong bo "suc khoe" cua tap doan, tong cong ty" (Disclosure about "health" conditions of economic groups and General Corporations)**, *The Youth Newspaper*, July 2008, access online at http://www.tuoitre.com.vn/Tianyon/Index.aspx?ArticleID=268153&ChannelID=11

As for the case of M2, the Board of Management has recently discussed to seek to reduce the State ownership from the current level of 51 percent to less than 50% in order to avoid the status of "state-owned-enterprise" and to be classified as "private company". The reason for such move is due to the requirement for a number of international donors to give priority for private companies in bidding for infrastructural projects sponsored by them. The dominant State share in M2 has prevented the company from participating and winning in a number of such bidding. However, it seems that some internal transfers have been made during the process as well: the GC's Chairman would also assume the Chairman post in M2 while the reduced State ownership (of about 2 to 3 percent) would be transferred directly to M2's incumbent director. Meanwhile, no recent plans about further reducing the State ownership in M3 have been reported.[327]

Again, when enterprises initiated the equitization proposal, it did not automatically mean that these enterprises wanted autonomy from their State patrons. In most of the cases in my study, only enterprises facing severe threats opted for equitization. While they chose equitization, their preferred strategies were often involved the retaining of some State ownership rather than to privatize the companies fully.

Official objectives of equitization unmet

As was mentioned above, since both State patrons and enterprises implemented the equitization mandate not for the purpose of reducing the State ownership and improving the corporate governance, as the case study shows us, these objectives have yet been

[327] Author's interviews with M2's and M3's managers during fieldtrip in Vietnam in September-October 2007

achieved in the equitization process. Among the four cases, only P1 seemed to fare better after equitization. However, P1 did perform very well in the past and it is all possible that the seemingly improved performance might be due to different accounting and reporting practices used by the post-equitization company. Meanwhile, company T4, after being fully privatized, performed the worst and has currently been on the brink of bankruptcy. The correlation between equitization and post-equitization performance and corporate governance is also not clear in M2 and M3. M3 provides us an interesting case, as the more intruding role of the GC into the company's activities after equitization, in some aspects, has brought more works and contracts from the GC to the company and, according to the observation of one M3's manager, this has improved the company's revenue slightly. However, no clear improvements in both M2 and M3 have been observed, as their main lines of production remained the same and the only activity that seemed to increase their post-equitization revenues and profits was renting office space.

V.3.2- Government-Enterprise Bargaining and Contributing Factors

V.3.2.1- Factors Shaping Enterprises' Bargaining Power in Equitization

From the four above-studied cases, the two following key factors have emerged as substantially shaping SOEs' bargaining leverage in their negotiations with the State patrons over the implementation of the equitization mandate: the SOEs' de facto autonomy and their connections with the State agencies. It should be noted that the de facto autonomy is not the same with the official managerial autonomy granted by the SOE Laws or any legal documents enforced by the State, but defined as the actual independence and freedom enjoyed by the SOEs in managing its daily activities in relation to both their direct and indirect State supervisors. The de facto autonomy, thus, is dependent on a number of sub-factors/variables, such as the SOE's size, location, business performance, and strategic position in the sector. The second factor, the political connection, is defined as the level of closeness between the SOE managers and their State patrons. The case study points to a correlation between the two above-mentioned factors and the outcome of negotiations and bargaining between the SOEs and their State patrons over the implementation of the equitization mandate. In particular, the higher degree of de facto autonomy an SOE possessed, the better bargaining leverage it would enjoy and, thus, the more favorable equitization outcome it would potentially achieve. Similarly, the closer the political connection between the SOE and its State supervisor, the easier for the SOE managers to get their supervisor to approve their strategies and plans over the equitization mandate.

Among the four cases, company P1 appears to have the highest degree of de facto autonomy from its State supervisor. In fact, P1 had attained an increasing degree of de facto autonomy over time due to a combination of various factors. The overall de jure liberal environment for SOEs, especially since the launch of Doi Moi in the latter half of the 1980s, certainly granted P1, as an SOE, increased autonomy in its daily operations. In addition, the company's main production activities did not lie in the main sectors under the State management of MARD, thus creating even more room for P1's managers to maneuver. As a result, P1 had literally conducted its business with little guidance from MARD since the late 1980s. It managed to find its own sources of inputs, market its products and technology on a market-competitive basis, and to serve its own clients. Last but not least, the company's good performance helped it substantially in financing as well as seeking sources to finance its investment projects. The company seldom asked for capital top-ups from the State Budget but preferred to borrow from banks to finance its investment projects. The good financial record, according to P1's Director, made P1 a value customer of many banks. This allowed the company to choose banks and loans with the best terms and conditions. Such high level of managerial autonomy attained by P1 has been somehow conflated by its managers to the de facto ownership right. In fact, that sense of ownership had been strongly felt and shared among the company's managers and employees.[328]

Coming back to the equitization process in P1, the high degree of autonomy helped P1 considerably in persuading MARD to give up the merger plan and to approve the equitization plan prepared by the company. However, it should be noted the high degree of de facto autonomy alone might not be enough if P1 had not possessed a good relationship with its State patron. The high degree of de facto autonomy, in fact, does not automatically mean that P1 was absolutely safe from the State interventions. This fact was clearly mentioned in the author's interviews with P1's managers during her fieldtrip in 2007. In order to get its equitization plan approved by the State patrons, P1 had managed to maintain "good relationships" with a rather wide range of involving State agencies, among which, to name a few, are not only various Departments under MARD but also MOF and the Municipal People's Committee in Hanoi.

[328] Author's interviews with P1's managers and workers during her fieldtrip in September-October 2007 in Vietnam

The case of company T4 provided a rather contrasting picture to P1. Unlike P1 which managed to attain a high degree of de facto autonomy from its State patrons, T4 relied heavily on their State supervisor – the Municipal People's Committee of Hanoi and its functional Department of Transportation and Public Works in particular. Half of the company's annual revenue, about VND 3 billions, came from the projects of road maintenance assigned by the Municipal authority. Therefore, in the case of T4, it is the close political connection, not the high degree of de facto autonomy, which played a crucial role in helping the company to escape the merger plan and subsequently to secure its plan of fully privatizing the company. In addition to the allegedly close relationship between the company's incumbent Director and people at the Hanoi Department of Transportation and Public Works, internal sources in the company pointed to the spending of a few billions of Vietnamese dongs by the company's Director during this period in order to work things out with the necessary State patrons.

In the remaining cases of M1 and M2, both the de facto autonomy and political connection were not significant, and thus had much less impact on the bargaining leverage for the two companies. The legal status of being GC members limited the de facto autonomy of both M1 and M2 to a great extent. The 90-GC, the direct State supervisor of M1 and M2, proved to have strong grips on their members and thus totally replacing MARD in playing the role of the State in these two companies. In other words, the GC, after various corporatization waves during the 1990s, had become another administrative layer between its member companies and MARD. The relationship between the GC members, such as M1 and M2, and MARD, as the official State supervisor in these companies, thus became weaker. Limited autonomy from the GC in couple with loose connection with the higher State agencies, therefore, resulted in unfavorable bargaining leverages for both M1 and M2 in their negotiations with the 90-GC. As a result, the 90-GC managed to apply a very similar of pattern in equitization in both M1 and M2. The State capital in the two companies after equitization remained above 50 percent, creating legal avenues for the GC to participate in their Boards of Management. Such pattern of equitization allows the GC to replace the incumbent management team in M3 in controlling the company's daily activities. Similar outcome should be expected in M2, as the GC's Director General was expected to become the Chairman of the company's Board of Management in 2008. Before 2008, the Chairman position had been held by the incumbent Director of the company.

Table 5.3: Summary of factors shaping the equitization in the four companies

Criteria	**P1**	**M2**	**M3**	**T4**
Size (capital scale)	Medium	Small	Small	Small to Medium
Strategic Location	Yes (less)	Yes	Yes	No
Financial performance	Good	Average	Average	Average (Less)
National/Local Priority	No	Yes (Less)	Yes (Less)	No
Degree of Autonomy	High	Low to Medium	Low to Medium	Low
Political connection	Medium	Low to Medium	Low to Medium	High, close relationship between the incumbent Director and the head of the State patron agency

V.3.2.2- Implications to the Outcome of the Equitization Process

As mentioned in the previous section, the multiple case study conducted in this thesis pointed to a correlation between the degree of de facto autonomy and political connection possessed by the equitized company and the company's bargaining leverage in negotiations with its State patrons over the implementation of the equitization mandate. We now investigate further the impact of such correlation on the outcome of the equitization process. Among the four cases, the equitization process in P1 and T4 proceeded in a manner that was in favor for the companies. Most of proposals from the two companies over various equitization issues were eventually accepted by their State patrons. The equitization outcome, thus, led to a less percentage of State shares in both companies after equitization. The State share in P1 was 25 percent while that in T4 was nil.

On a contrary, when the de facto autonomy and political connection possessed by the SOE were insignificant, its bargaining leverage was also considerably limited. As both M1 and M2 were under the tight control of the GC, they had little leverage in bargaining with the GC over the implementation of the equitization mandate. The equitization process for these two companies, consequently, proceeded in an unfavorable manner to both of them. After equitization, the State retained a dominant share in both companies, which paradoxically allowed the GC to intervene to a greater extent into their operations. Equitization thus became a legal tool for the GC to penetrate into their members' operations and activities. This is clearly illustrated in the case of M3 whose incumbent management team kept their seats after equitization but the GC's managers de facto replaced them in dealing with daily activities of the equitized company.

V.4- Government-Enterprise Interactions in Equitization

The actual implementation of the equitization mandate at the enterprise-level is more complicated than the simple assumption about the collaboration between the State patrons and their subordinate enterprises in resisting the equitization mandate. What we have seen from the case study is that both State patrons and state enterprises have different preferred strategies of equitization surrounded by the different specific contexts. The State patrons often initiate the equitization mandate on their subordinate enterprises if this helps strengthen their fiscal position and power. On the other hand, state enterprises resort to equitization as a means to avoid the risk of being taken by other entities, often bigger state enterprises of the same sector. These enterprises are often small in capital scale and belong to non-strategic sectors of the economy. However, state enterprises that opt for equitization, if possible, would still prefer to keep at least some State ownership in their post-equitization capital structure. How much is the actual state ownership retained in an equitized enterprise is, however, determined by bargaining and negotiations between the enterprise and its State patron in their very specific context of equitization. As is found in the case study, the ability for enterprises to get their preferred equitization strategies approved by the State patrons depends on a combination of factors, including, but not limited to, the enterprises' autonomy from and closeness with their State patrons, the sector they belong to, as well as the strategic location of the enterprises in the eyes of their State patrons.

As a consequence, the equitization process in Vietnam has moved slowly and incrementally in order to suit the interests of both enterprises and their State supervisors.

By 2008, or more than a decade after the formal equitization was enforced, only about or even less than one fifth of the State ownership in the state enterprise system was sold to enterprise employees and outside investors.[329] The remaining 80 percent was still in the hands of the State. Also, as the interests of both the State patrons and their subordinate enterprises have not been always the same with the official objectives stated by policy papers, the actual equitization process taking place at the enterprise level often seeks to cater these interests rather than to reduce the State ownership in the state enterprises system, to mobilize capital investment from the private sector, and to improve the corporate governance in equitized enterprises.

[329] Quang Chính (2008). By 2008, the State equitized 50 percent of slightly above VND 100,000 billion of its capital investment in state enterprises, accounting for about 40 percent of the total State capital invested in the whole system.

CONCLUSION

The contemporary approaches to economic reforms in Vietnam have been looking through the lens of policies versus process or State versus Society. For example, Vietnam researchers following the rational statist approach view the formal equitization program as a rational search for the best policies to deal with the SOE problem. Despite policy irrationalities, resistances, and delays, the underlying assumption of this approach is a strong, dominant role of the rather unified and coherent State of Vietnam in the overall process. Meanwhile, researchers following the "reform as a process" approach posit a heavier weight to the role of local states and SOEs and a less significant role to the central State and its policies. While largely ignoring the role of the State and its policies in the formal equitization process, "reform as a process" theorists detect a pattern of collaboration between State patrons and their subordinate enterprises in resisting the equitization mandate.

The author of this thesis, while not arguing that the above-mentioned approaches are wrong, finds that both approaches tend to view the equitization process in Vietnam through their polarizing lenses. The rational statist approach examines the process purely as policy developments and thus pays exclusive attentions on the role of the State in the process. The "reform as a process", meanwhile, focuses mainly on the micro interactions between State agencies and enterprises to fight against the equitization mandate. What distinguishes my approach in this thesis is that I combine both of these above-mentioned perspectives into one common framework of analysis. Instead of focusing on either the policies versus the process or vice versa, I try to look at the impacts of both policies and process, and their interactions on equitization. In so doing, I argue that policies, process, and their interactions have contributed significantly to the slow and non-linear implementation of the equitization mandate.

The dual dynamics model – the analysis framework introduced in this Thesis is composed of the three main theoretical approaches, i.e. the Fragmented Authoritarianism model, theories on government – business interactions, and the Garbage Can theory. The dual dynamics model analyzes the bargaining and negotiations among various bureaucratic agencies over the making/revising of equitization policies at the macro level (*the macro dynamics*) and between the State patrons and their subordinate enterprises over the actual implementation of the equitization policies at the micro level (*the micro dynamics*). While Chapter IV investigates the macro dynamics by using the combined framework of the Fragmented Authoritarianism model and Garbage Can theory, Chapter V investigates the micro dynamics within the combined framework of theories on government-enterprises interactions and the Garbage Can theory. In the following, we start with a recap of the main findings of Chapters IV and V on the above-mentioned dynamics. We move on with an analysis of interactions between these two dynamics and their implications on the equitization process. The theme of gradualism in Vietnam's equitization is then re-visited. Some further notes on the dual dynamics model in equitization are also presented. A brief discussion about the future of the equitization process in Vietnam ends the thesis.

Recap on the Dual Dynamics in Equitization

As was pointed out in Chapter IV of this thesis, authority fragmentation and instability have fostered bargaining behaviors among various State actors involved in the making and revising of equitization policies. A wide and increasing range of State agencies have been engaged in continuous bargaining and negotiations over contentious issues in equitization policies in order to seek consensus over policy changes. As a result, policy changes are often incremental and slow in implementation. Also, the maneuvering of both new and old institutions among the three streams of politics, problems, and policies has resulted in unexpected policy outcomes rather than those predicted by the Fragmented Authoritarianism model.

Meanwhile, at the micro level, as was pointed out in Chapter V of this thesis, different preferred strategies, different interests, and motives have led the State patrons and their subordinate enterprises to engage in bargaining and negotiations over the actual implementation of the equitization mandate. In particular, the State patrons only preferred to equitize their subordinate enterprises if such a move helps to strengthen their fiscal position and power, as in the case study of the 90-GC for Agricultural and Irrigational Mechanical and Electrical Engineering. On the other hand, state enterprises also resorted to equitization as means to avoid being taken over by other entities, often bigger state enterprises of the same sector. The pattern of equitization should help these enterprises to avoid being taken over on the one hand while also allow them to retain some State ownership in their post-equitization capital structure. How much is the actual state ownership retained in an equitized enterprise is, however, determined by bargaining and negotiations between the enterprise and its State patron in their very specific context of equitization. As was found in Chapter V, the ability for enterprises to get their preferred equitization strategies approved by the State patrons depends on a combination of factors, including but not limited to, the enterprises' autonomy from and closeness with their State patrons, the sector they belong to, as well as the strategic location of the enterprises in the eyes of their State patrons.

Also, as the interests of both the State patrons and their subordinate enterprises have not been always in line with the official objectives stated by policy papers, the actual equitization process taking place at the enterprise level often seeks to cater these interests rather than to meet those official targets of reducing the State ownership in the state enterprises system, mobilizing capital investment from the private sector, and improving the corporate governance in equitized enterprises. The actual pace of equitization at the micro level is thus slow and incremental.

Macro-Micro Interactions in Equitization and Implications

As was pointed out earlier in Chapter II, the macro and micro dynamics are not separated from each other but combine to create a "vicious cycle" in the making of equitization policies in Vietnam. Here, let us take a closer look at the interactions between the above-mentioned dynamics as well as their impacts on the equitization process.

The slow and incremental implementation of the equitization mandate at the micro level often triggers new rounds of bargaining and negotiations over policy changes at the macro level to seek to speed up the process. As was seen in Chapter IV, the delays in implementing the official equitization mandate during the late 1990s had fostered the Central State to offer a number of fiscal incentives for both local governments and GCs to accelerate the equitization process in these localities. In particular, local governments and GCs were allowed, starting from 1998, to keep the proceeds collected from the equitization process at local enterprises and GC members and to use them almost entirely at their discretion. In addition to such decentralization of the Equitization Funds, another Fund, the Worker Redundancy Fund, was also established in the early 2000s to provide subsidies for redundant workers resulted from the equitization process.

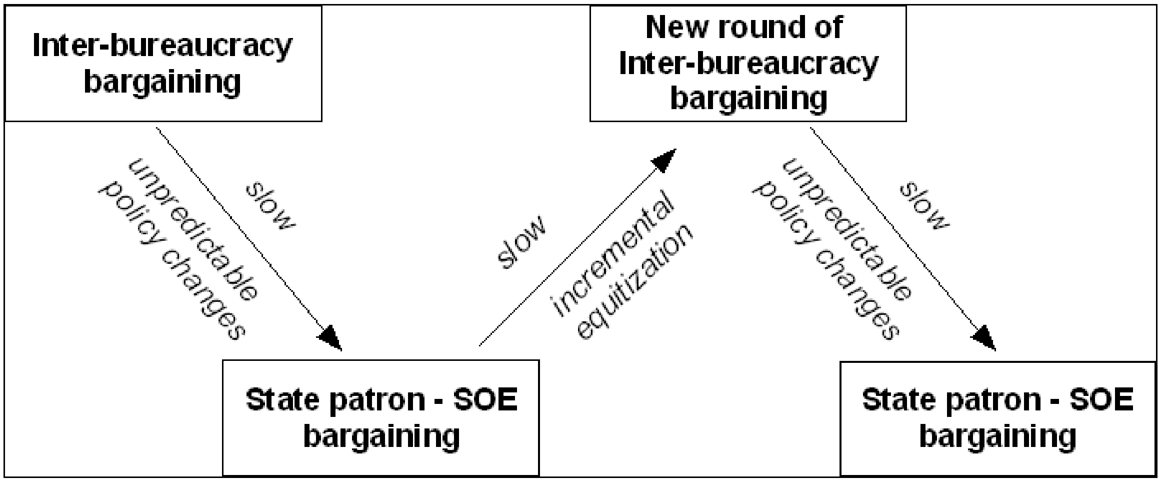
However, not all policy changes at the macro level are passed easily. Authority fragmentation and instability has led to protracted negotiations and bargaining among an increasing range of State actors involved in the process. Policy changes, in turn, are thus often slow and incremental too. The direction of policy changes is sometimes also difficult to predict. Such a dynamics at the macro level has resulted in a unique environment of legal framework regulating the equitization process: ambiguous and unclear rules and regulations. And such environment has created significant impacts on how State patrons and subordinate enterprises formed their own strategies in equitization at the micro level. As was discussed in Chapter V, the State patron for GC members, the 90-GC for Agricultural and Irrigational Mechanical and Electrical Engineering was the one who initiated the equitization process in its member enterprises, M2 and M3. And while initiating the equitization in its members, the 90-GC chose to sell less than half of the State ownership in both member enterprises. This pattern of equitization marked a striking difference from the common exercise/practice among other State patrons such as local governments or line Ministries. Both local governments and line Ministries, such as the Hanoi Municipal People's Committee and MARD in the case study in Chapter V, initially tried to avoid equitizing their enterprises at all costs; however, when equitization finally became unavoidable, they did not insist on keeping dominant State shares in equitized enterprises. What are the factors that caused different State patrons to embark on different equitization strategies? An examination of equitization policies during the period between 2002 and 2006, when the equitization process of all four enterprises in the case study took place, reveals to us important policy changes that might pose different impacts on different State patrons.

For example, before 2002, as was mentioned in Chapter IV, only local governments and 91-GCs were allowed to set up their own Equitization Funds. As a result, most of 90-GCs were reluctant to equitize their members since they gained nothing from the practice. Some 90-GCs started requesting the Government to allow them to set up their own Equitization Funds and actually got the approval. This had led to the issuance of Prime Minister's Decision 174 in 2002 that allowed Equitization Funds to be established at 90-GCs as well. Such policy change was thus one main reason for the 90-GC for Agricultural and Irrigational Mechanical and Electrical Engineering to initiate the equitization process in M2 and M3. In fact, equitization brought back "real money" to the GC through equitization proceeds collected to its own Equitization Fund.

In addition to the Equitization Funds issues, policy changes regarding the State representation in post-equitization enterprises with some State ownership also affected the manner the State patrons formulated their preferred equitization strategies. Before 2004, all the State patrons were delegated to manage the remaining State share in equitized enterprises. However, since 2004, line ministries and local governments have been asked to transfer this right to the State Capital and Investment Corporation (SCIC) while GCs have still been allowed to exercise this right in their equitized members. Such policy change explains why the 90-GC in the case study, while initiating equitization in its member enterprises, chose to keep at least half of the State ownership in these enterprises. On a contrary, initially both MARD and the Hanoi Municipal People's Committee tried to avoid the equitization mandate as much as possible but when it came down to equitization, how much of the State ownership remained in equitized enterprises then did not bother them much. In fact, as in the case of T4, the local government of Hanoi even accepted to let go the whole enterprise.

In summary, the slow and incremental implementation of the equitization mandate at the micro level has been fed back to the macro level and thus triggered new rounds of bargaining and negotiations over possible policy changes. In turn, policy changes, as a product of the macro dynamics, then have had impacts on both the State patrons and their subordinate enterprises in forming and/or revising their preferred equitization strategies. This macro-micro interaction has created a sort of "vicious cycle" within the equitization process in Vietnam.

Macro-Micro Interactions: a "Vicious Cycle"



As a consequence, the overall equitization process in Vietnam has been characterized as slow and non-linear. By 2008, i.e., more than a decade after the formal equitization was enforced, less than one fifth of the State ownership in the state enterprise system was sold to SOE employees and outside investors. The remaining over eighty percent ownership of the SOE system was still in the hands of the State.[330] However, the pace of equitization was not always slow, but featured with two accelerated periods between late 1998 and 2002 and between 2003 and 2006.

Vietnam's Equitization and Gradualism Revisited

Now we return to the very first question posed in the beginning of this thesis, i.e., where is the location of the Vietnamese equitization process in the world map of privatization? It is surely not a case of "big-bang" privatization as was witnessed in Russia and other former communist countries in Eastern Europe. Then, is it a case of "gradualism" in

[330] Quang Chính (2008).

addition to the Chinese experience? To some certain extent, equitization, or the Vietnamese version of privatization, fits as a case of gradualism. The State of Vietnam had moved very cautiously in launching the equitization program. It took at least five years since the term equitization was first coined for the pilot equitization program to be implemented and almost a decade for the formal equitization mandate to be approved. Among the four main SOE reform measures, equitization came the latest, after all the other three measures failed to solve the basic problems of the SOE system – high ratios of bad debts, low productivities, and inefficiency. The fact that the State agencies shied away from giving a concrete definition of the term "equitization" also points to a gradualist approach in equitization, as it contained equitization as an economic measure only in order to foster the socialist developments in Vietnam and defused any link between equitization and possible political reforms to denounce socialism. An analysis of various equitization policies over time might also point to gradualism in the policymaking process, in which the State carefully designed the policies with gradual and incremental changes in different periods/stages of the equitization process. The consequence of such gradualism is clear: the overall equitization has been sluggish, despite some recent periods of acceleration in the pace of equitization.

But this is not the whole story of Vietnam's equitization. A deeper analysis, as conducted in this thesis, reveals to us an alternative explanation to the observed gradual equitization process in Vietnam. By applying the dual dynamics model in investigating the policy-making process in equitization, the author of this thesis finds that the two seemingly parallel sets of bargaining – the inter-bureaucracy bargaining and the State patron-enterprise interaction, taking place in two separate stages – policy formulation/revision and policy implementation/feedback, have interacted with each other. These interactions are the main factors behind the slow, but non-linear, motion of the equitization process in Vietnam. My investigation of the inter-bureaucracy politics at the macro level points to both authority fragmentation and instability. As a consequence, policy changes in equitization have been often delayed and incremental not because of there were some coherent rational State setting such a slow pace but due to non-stop bargaining and negotiations among an increasing range of actors to search for consensus over these changes. Regarding the micro dynamics, instead of the collusive behavior of both State patrons and state enterprises in resisting the equitization mandate as often asserted by the "reform as a process" theorists, I find that, in fact, State patrons and enterprises did have their own preferred equitization strategies and these strategies were not necessarily coherent in most of the cases. Given the macro condition of unclear rules and regulations, such differences nurtured, again, the bargaining and negotiations between the State patrons and their subordinate enterprises over the actual implementation of the equitization mandate at the micro level. Interestingly, the motives behind these strategies were not often the same as the objectives stated in macro policies, i.e. to reduce the State ownership in the SOE system and thus to improve the corporate governance in these enterprises. As a consequence, the actual implementation process of the equitization mandate at the micro level moved slowly and incrementally in order to suit the interests of both concerning State patrons and their enterprises.

Further Notes on the Dual Dynamics Model: An Agenda for Future Research

As was mentioned in the introduction of this thesis, the dual dynamics model largely ignores the role of different elitist leaders and their ideology on the equitization process in Vietnam. In particular, due to the increasing tendency of bureaucratization and routinization of the Party works, the model simply assumes the conflation between the Vietnamese Communist Party (VCP) and the State/Bureaucracy and thus does not discuss their separate roles as well as interactions on the making of equitization policies. In fact, it is widely observed that all the negotiations and bargaining among various state agencies have been taking place within a broader context of parameters set by the VCP. Also, most of government officials taking part in these negotiations and bargaining are Party cadres and thus significantly influenced by the Party guidelines and directions regarding equitization. While the dual dynamics proves to be more efficient in explaining the dynamics of the equitization process in Vietnam, i.e. the "non-linearity" feature of the process, a study on the role of the VCP and its leaders would help explain better the overall gradual pace of the process over the past decade. Hence, a follow-up analysis on the roles of elites and their influence on the equitization process is therefore worth doing, and would complement significantly to the understanding about the factors that shape the trajectory of the equitization process in Vietnam.

An analysis of elitist politics would also contribute significantly for comparative studies on privatization in Vietnam and say, China. A quick review of current literature on comparing China and Vietnam points to the following observation. Although the two countries are considered as moving gradually in privatizing their state-owned enterprises, China still seems to fare faster than Vietnam and to have a more cohesive and consistent strategy of privatization.[331] Hence, while the dual dynamics model helps explain the similarities in these two countries, a comparative study on elites and their roles in the equitization process in Vietnam and China is expected to explain why privatization in China seems to fare faster than that in Vietnam.

Another interesting point about Vietnam's equitization is that the authority structure has been shifted during the process. In particular, equitization has brought about resources and power for a number of new actors involved in the process, such as 90- and 91-GCs or the State Capital and Investment Corporation (SCIC). For examples, as has been mentioned, GCs and their transformative variants recently found equitization as effective means to consolidate their power by accessing to resources created during the process on the one hand and further penetrating into their members' activities on the other hand. These tendencies have also been observed within SCIC. These giant corporations, interestingly, with their increased economic power, have been seeking vigorously to further strengthen their autonomy from the bureaucracy. Recent efforts by the central State to tighten its control over the GCs, through, for example, launching a new Decree to regulate the GCs' activities and operations, faced with fierce resistances from GCs, signaling an even tougher enforcement process if the Decree was to be issued

[331] For references regarding comparing China and Vietnam in economic reforms, and equitization in particular, one can see Vu Minh Khuong, 2009, **"Economic Reform and Performance: a Comparative Study of China and Vietnam"**, *China: An International Journal*, 7(2): 189-226, Allan Mendoza, **"The Capitalist Experiment of One-Party Socialist Regimes: Exploring the Political Economy of Economic Liberalization in China and Vietnam",** working paper, October 2009, electronic copy available at http://ssrn.com/abstract=1489722, or …

eventually.[332] A deeper examination on how equitization has become a means for power consolidation in these new institutions is therefore extremely necessary for the current scholarly on equitization in Vietnam.

Future of Vietnam's Equitization: a Conclusion

What will be the future for the equitization process in Vietnam? Perhaps there would be no single answer to this question. In 2006, the newly selected Prime Minister, Mr. Nguyen Tan Dung, announced the intention to accelerate the equitization process and target to complete the equitization process by 2009, one year earlier than the previous deadline of 2010. As was mentioned in Chapter I, also in 2006, Prime Minister Nguyen Tan Dung issued a Decision to dictate the schedule and detailed deadlines for the remaining GCs and state-owned economic groups to complete the equitization process. Will these political commitments be firmly realized? Policymakers at MOF seemed to be optimistic about the future progress of equitization. Although the equitization process has been delayed substantially so far, as some of them admitted, these officials strongly believed that with rational policy changes and improvements, the process will be guided efficiently in the future. Meanwhile, most of researchers whom I met and interviewed during my fieldtrips in Vietnam predicted that it would be extremely difficult for Vietnam to reach the above-mentioned targets in equitization by 2010, let alone by 2009 as committed by the Prime Minister.[333] In fact, the equitization process of a number of

[332] The Motherland, "**Lung tung Nghi dinh quan ly Tap doan" (Confusion over the Draft Decree to regulate GCs and economic groups**), 27/08/2008, access online at http://www.toquoc.gov.vn/?p=7458&ccat=16

[333] Author's interviews with officials and staff of MOF, CIEM, the World Bank, Asian Development Bank, and International Finance Corporation, and some other independent researchers during fieldtrips in Vietnam in 2007

GCs and state-owned economic groups has been delayed, causing a halt in the process during the period between 2006 and mid 2009.

Now it is time to come back to the question of what will be the future for equitization in Vietnam. It will surely not be a case of “big-bang” privatization as in Russia and the former communist countries in Eastern Europe in the early 1990s, unless it is headed by some necessary political upheavals. Vietnam’s privatization process would be likely more or less similar to the Chinese privatization route: gradual and incremental, seeking continuity within the process rather than break-away. What’s more in Vietnam perhaps is that it will be a bumpy road in which delays and deviance in policy formulation and implementation might not be purely stemmed from the reform ideology but also, and mainly, from the policymaking process itself. This reflects the enlarging role of the Bureaucracy, in comparison with the Party, in the making of economic policies, and thus the increasing tendency of bureaucratization and routinization in the equitization process within an environment stirred by various forces of decentralization and re-centralization in contemporary Vietnam.

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Appendix: Changes in the Legal Framework on SOE Equitization during 1996-2006

Legal Framework	**Decree 28(1996) and 25 (1997)**	**Decree 44 (1998)**	**Decree 64 (2002)**	**Decree 187 (2004)**	**Decree 109 (2007)**
Purposes	(i) to mobilize capital from private sector; and (ii) to improve the enterprise management	(i) to mobilize capital from the whole society, including individuals, domestic and foreign economic and social entities, in order to invest into technological renewal, create new jobs, develop the enterprises, enhance the competitiveness, and reform the SOE structure; (ii) to facilitate the ownership role of SOE employees and other shareholders in the SOEs, to change the corporate governance in order to achieve economic efficiency, development of State assets, increases in employees' income, and	(i) To enhance SOEs' economic efficiency and competitiveness, to create SOEs of multiple ownership dominated by employees, to create strong impetus for dynamic corporate governance so that SOEs can use the State's as well as their own capital, assets, and other resources the most efficiently; (ii) To mobilize capital from the whole society, including Vietnamese and foreign individual, economic and social institutions to invest into technological renewal and business development; (iii) To facilitate the	(i) to transform SOEs that the State does not need to keep 100% ownership into enterprises of multiple ownership, to mobilize capital from domestic and foreign investors in order to enhance the financial capability, reform the technology and corporate governance in order to strengthen the efficiency and competitiveness of the economy; (ii) to ensure the harmonization of State's, enterprises', investors', and SOE employees' interests; (iii) to ensure information disclosure and transparency according to the market principles, to avoid the closed-door equitization, and to attach	(i) to transform SOEs that the State does not need to keep 100% ownership into enterprises of multiple ownership, to mobilize capital from domestic and foreign investors in order to enhance the financial capability, reform the technology and corporate governance in order to strengthen the efficiency and competitiveness of the economy; (ii) to ensure the harmonization of State's, enterprises', investors', and SOE employees' interests; (iii) to ensure information disclosure and transparency according to the

Legal Framework	**Decree 28(1996) and 25 (1997)**	**Decree 44 (1998)**	**Decree 64 (2002)**	**Decree 187 (2004)**	**Decree 109 (2007)**
		contribution into the national economic growth.	ownership role of SOE employees and other shareholders, to strengthen the investors' supervision upon SOEs, and to harmonize the benefits of the State, SOE managers, employees, and investors.	the equitization process to the development of capital and securities markets.	market principles, to avoid the closed-door equitization, and to attach the equitization process to the development of capital and securities markets.
Scope	Only SOEs of small and medium size, in which the State does not need to retain its 100% State ownership, and are profitable	SOEs that the State does not need to retain 100% State ownership	All SOEs that the State does not need to retain 100% State ownership, regardless of their production and business performance/outcomes.	All SOEs that the State does not need to retain 100% State ownership, including GCs, SOCBs, and State-owned financial institutions, independent SOEs, self-accounting dependent members of GCs established by the State, or dependent SOE members of GCs. List of SOEs that the State needs to retain 100% ownership will be determined by the Prime Minister for each period. Conditions for SOEs	(i) independent SOEs established by line Ministries and local governments; (ii) Parent companies in economic groups and General Corporations (including the State-owned Commercial Banks); (iii) parent companies in "parent-child" complexes; (iv) independent members of GCs established and invested by the State; (v) dependent members of independent SOEs, economic groups,

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				eligibility for equitization: SOEs must still have State capital (excluding the value of land use rights) after deducting the value of unused assets, assets waiting for sales, loses, value reductions, public debts that are non-collectible and equitization costs	GCs, parent companies, or independent members of GCs; and (vi) 100% State owned limited liability companies
Means	(i) remain intact and issue new shares; (ii) sell part of the state capital; and (iii) separate a part of the enterprise for equitization	(i) remain intact and issue new shares; (ii) sell part of State capital; (iii) separate a part of the enterprise for equitization; and (iv) sell off all State capital	(i) remain intact and issue new shares; (ii) sell part of State capital; (iii) sell off all State capital; (iv) means (ii) and (iii) together with issuing new shares	(i) remain intact and issue new shares; (ii) sell part of State capital or sell part of State capital together with issuing new shares; and (iii) sell all of State capital or sell all of State capital together with issuing new shares	(i) remain intact and issue new shares; (ii) sell part of State capital or sell part of State capital together with issuing new shares; and (iii) sell all of State capital or sell all of State capital together with issuing new shares
Organization of Enterprises' Valuation		Enterprises of less than VND 10 billion in State capital determine their value upon approval of their direct State	The State supervisor of the equitized SOE will set up a Valuation Committee to evaluate the enterprise value with	For enterprises of at least VND 30 billion in value, the valuation need to be taken by evaluating agencies such as auditing	(i) SOEs whose assets value at VND 30 billion or more, or whose State capital values at VND 10

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		supervisors; Enterprises of VND 10 billion or more in State capital will be valued by MOF in cooperation with their direct State supervisors.	representatives from controlling agencies, MOF, and the SOE	companies, securities companies, price valuation agencies, investment banks, either domestic or foreign. The responsible State agencies will decide the selection of the evaluation agencies based on the list approved by the MOF. Enterprises of less than VND 30 billion in value do not necessarily to hire evaluating agencies to determine their value. In this case, the enterprises will determine their value themselves and report to the responsible State agencies for approval. The SOE valuation file needs to be submitted to MOF and responsible State agencies for approval.	billion or more, or who are in favorable locations must hire evaluation agencies such as domestic or foreign auditing companies, securities companies, price evaluation agencies, or investment banks to evaluate their values before equitization certified in the List published by MOF, subject to approval from the Steering Board of Enterprise Equitization; (ii) other SOEs are allowed to determine their value, subject to approval from their State supervisors.
Valuation methods	Asset method, based on booked values	Asset method, based on booked values	Asset method, based on booked values; but other methods are also allowed upon MOF approval as	(i) Asset method, based on booked values; and (ii) Discounted-Cash-Flow (DCF) method; or (iii)	(i) Asset method, (ii) DCF method; (iii) other methods at SOEs' disposal upon

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			well.	other methods subject to MOF's approval	MOF approval. The enterprise value determined by other methods must not lower than that determined by the asset method.
Land use right and enterprises' value		No mentioning, implicitly understood as not included in the valuation of SOE assets before equitization.	(i) For land rented for SOEs working in real estate and infrastructural services, the value of land use right will be included in the value of the SOEs before equitization. (ii) Otherwise, the land use right will not be included in the enterprises' value. SOEs in this case will be assigned with the land, or will rent the land from the local governments based on the rates stipulated by the local government.	(i) For land that equitized SOEs are currently using for building their own offices and manufacturing units, for agricultural and forestry production, for fishery production or salt production (including land assigned by the State with or without land use fees), the equitized SOEs are allowed to choose whether to rent the land or be assigned with the land in accordance the Land Law. - In case the equitized SOE chooses to rent the	(i) if the enterprise was assigned with the land use right for the land it is currently using, the value of land use right will be included in the enterprise's value before equitization: (ii) if the enterprise rents the land from the local government on the year-by-year basis, the value of land use right is not included in the enterprise's value; (iii) if the enterprise rents the land from the local government on a long-term basis (paying the rent once for the whole renting period), the value of land use right

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				land, the value of land use right is not included in the pre-equitization value of the enterprise - In case the equitized SOE chooses to be assigned with the land, the value of land use right is included in the pre-equitization value of the enterprise. The land use right will be priced by the provincial/municipal authorities based on the actual market price. For land assigned by the State to SOEs for commercial purposes (constructing private houses for sale or rent, building infrastructure for transfer or rent), the value of land use rights will be included in the pre-equitization value of the enterprises.	is included into the enterprise's value before equitization. The local governments are the ones who set/determine the value of land use rights in their localities in accordance with the Land Law.

Legal Framework	**Decree 28(1996) and 25 (1997)**	**Decree 44 (1998)**	**Decree 64 (2002)**	**Decree 187 (2004)**	**Decree 109 (2007)**
IPO methods				(i) direct share auctioning for SOEs selling shares of less than VND 1 billion in value, (ii) share auctioning at intermediary financial institutions for SOEs selling shares of more than VND 1 billion in value. For SOEs selling shares of more than VND 10 billion, the auctioning will be organized at securities trading centers in order to attract investors.	(i) open auctioning; (ii) underwriting; or (iii) direct negotiations
Who are able to buy Initial Public Offers (IPOs)	Vietnamese legal entities and individuals only; the pilot sale to foreigners subject to PM's separate decision	Vietnam-based legal entities and individuals (including overseas Vietnamese); the sale to foreign organizations and individuals subject to PM's separate decision	Any legal investors (either Vietnamese or foreign institutions and individuals), foreign investors are allowed to buy up to 30% of the company's legal capital in certain sectors/industries	(i) SOE employees; (ii) strategic investors (producer and provider of SOE inputs, consumers of SOE products, or those having long-term, strategic interest and benefits associated with the equitized SOE, allowed to buy up to 20% of the shares sold to outside investors under preferential prices; and	(i) domestic investors without any limits; (ii) foreign investors without any limits, except those in List C (Decree 108/2006/ND-CP dated 22 September, 2006); (iii) strategic investors, subject to decisions made by the Steering Board of Enterprise Equitization

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				(iii) other investors. Shares sold on open auctioning to outside investors must not be less than 20% of the company's charter/legal capital (in addition to shares sold to strategic investors and SOE employees under preferential prices). Preferential shares sold to SOE employees will be 40% less than the average auctioning prices. Preferential shares sold to strategic investors will be 20% less than the average auctioning prices. Shares sold to other investors will be priced at the average of all successful auctioning prices.	
Sales method and	(i) at the office of equitized SOEs; (ii)	(i) at the office of equitized SOEs; (ii)	At the office of equitized SOEs or through	SOEs are required to conduct open auction of	(i) open public auction; (ii)

Legal Framework	**Decree 28(1996) and 25 (1997)**	**Decree 44 (1998)**	**Decree 64 (2002)**	**Decree 187 (2004)**	**Decree 109 (2007)**
places	through nominated commercial banking system or financial companies	through nominated commercial banking system or financial companies; and (iii) securities centres	financial intermediaries. The equitized SOE is responsible for the sale of shares to its employees and their inputs' producers and providers, while intermediary financial institutions are responsible for the sale of shares to outside investors, through either share auctioning or underwritten issuance of shares in accordance with MOF's guidance. In case the amount of shares is small or else, the SOE might be allowed to conduct the share auctioning in its own.	shares whose value is at least 20% of their Charter capital; the open auction takes place at SOEs' office (if the value of shares of less than VND 1 bil.) and at financial intermediaries if the values of offered share is more than VND 1 bil. For those SOE offering more than VND 10 bil in shares, the auction will be held at securities centres.	underwritten issuance; and (iii) direct sale based on negotiations between the SOE and strategic investors
Right to buy IPOs	SOE managers and employees can buy up to 20-30% of enterprise value	Each institutional investor is allowed to buy up to 10-20% of the total issued shares; while each individual up to 5-10%	Foreign investors are allowed to buy shares up to 30% of the SOE's Charter capital in total; outside investors are allowed to buy at least 30% of the total issued shares	(i) strategic investors eligible to buy up to 20% of the total shares at preferential prices (20% less than the average auctioned price); (ii) employees eligible to buy up to 100 shares for each working year at	(i) strategic investors and other investors are allowed to buy not less than 25% of the legal capital, not less than half of which should be sold to other investors; (ii) labor unions at SOEs are

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				preferential prices (40% less than the average auctioned price)	allowed to use official funds (belonging to the unions) to buy no more than 3% of the legal capital. These shares are kept by the Labor Union at enterprises and are non-transferable; (iii) no preferential prices for strategic investors, but employees enjoy 60% off of the average auctioned price
Approving Agencies	**SELECTION:** Line Ministries and PPCs select SOEs for equitization and report to NSCE, MOF, and MPI for supervision; GCs select member SOEs for equitization and report to PM for approval; **APPROVAL of enterprise value:** MOF; **APPROVAL of equitization plan and**	**SELECTION:** Line Ministries and PPCs often select and approve SOEs for equitization; GCs select SOEs and report to PM for approval; SCs select SOEs and report to line Ministries and PPCs for approval; **APPROVAL of enterprise value:** MOF approves of enterprise value (for those of more than VND 10 billion in	**SELECTION:** Line Ministries and PPCs often select and approve SOEs for equitization; GCs select SOEs and report to PM for approval; non-compliance and non-implementation subject to penalties **APPROVAL of equitization plan (including the enterprise value) and DECISION to**	**SELECTION:** Line Ministries and PPCs often select and approve SOEs for equitization; GCs select SOEs and report to PM for approval; non-compliance and non-implementation subject to penalties **EVALUATION of enterprise values:** valuation taken by Valuation Rating Agencies approved by MOF for SOEs of more	**SELECTION:** Line Ministries and PPCs often select and approve SOEs for equitization; GCs select SOEs and report to PM for approval; non-compliance and non-implementation subject to penalties **EVALUATION of enterprise values:** valuation taken by Valuation Rating Agencies approved by

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	DECISION to transform SOE into JSC: For SOEs of VND 3-10 bil. in State capital or member of 91 GCs: PM (through NSCE); for SOEs of smaller capital scale: controlling Ministries or PPCs	charter capital); **APPROVAL of equitization plan and DECISION to transform SOE into JSC:** PM for SOEs of more than VND 10 bil. in State capital; Line Ministries and PPC for SOEs of less than VND 10 bil. in State capital.	**transform SOE into JSC:** Line Ministers, PPCs' Chairmen **SUPERVISION of the whole process:** NSCERD and MOF	than VND 30 bil. in their assets; self-evaluation if less than VND 30 bil., but subject to MOF and controlling agencies' approval; **APPROVAL of equitization plan and DECISION to transform SOE into JSC:** Line Ministers, PPCs' Chairs; **SUPERVISION of the whole process:** NSCERD and MOF.	MOF for SOEs of more than VND 30 bil. in their assets; self-evaluation if less than VND 30 bil., but subject to MOF and controlling agencies' approval; **APPROVAL of equitization plan and DECISION to transform SOE into JSC:** Line Ministers, PPCs' Chairs; **SUPERVISION of the whole process:** NSCERD and MOF.
Proceedings collected from equitization	Managed centrally by Ministry of Finance for non-current expenditure items of the development investment purposes only	The proceeds collected from selling State capital after deducting the equitization costs will be used by PPC (for local independent SOEs), MOF (for central independent SOEs), and 91 GC Board of Management for the following purposes: (i) training	The proceeds collected from equitizing central, independent SOEs will be transferred to the Central Equitization Fund for SOE re-arrangement managed by MOF, from local, independent SOEs to local Funds managed by PPCs, and from GC members to GC Funds.	The proceeds collected from equitizing SOEs (including the proceeds collected from selling the State capital in SOEs and the surplus collected from issuing additional shares in equitized SOEs) will be used for the following purposes: (i) Covering the	(i) In case part of the State capital in the SOE is sold: the proceeds will be used to (1) pay for equitization expenses and redundancy costs, and (2) be transferred to the Equitization Funds for SOE re-arrangement at either GCs if equitized SOEs

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		and retraining for SOE employees; (ii) redundancy subsidies; and (iii) providing capital for prioritized SOEs or investing into equitized SOEs. The dividends paid by equitized SOEs to the State capital share will be transferred to (i) State Budget for equitizing the whole SOEs, or (ii) the direct supervising SOE in charge of managing the State capital in the equitized enterprise in case equitizing part of the independent SOE.		equitization costs (ii) Assisting equitized SOEs to implement policies for their workers during the equitization process, including redundancy/severance costs and re-training (iii)being transferred to GCs or independent SOEs in case the equitized SOEs are their dependent members. GCs or independent SOEs will use the proceeds to assist their business activities or pay for redundant workers in their SOE members. (iv) Being transferred to the Equitization Fund of SOE re-arrangement and equitization at MOF in case the equitized SOEs are GCs or independent SOEs, in	are GC members or the State Capital and Investment Corporation if otherwise. (ii) In case new shares are issued in order to increase the SOE's legal capital: the **capital surplus** will be used to (1) pay for equitization expenses and redundancy costs, (2) be left in the SOE in accordance with the ratio of new shares to the total legal capital, and (3) be transferred to the Equitization Funds of SOE Re-arrangements at either GCs or SCIC.

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				order to invest into SOEs that the State needs to retain 100% ownership but in capital deficiency, or equitized SOEs in which the State needs to keep controlling shares but does not have adequate amount to do so, to assist equitized SOEs in solving redundancy issue, and finally to invest into SOEs or other enterprises through SCIC.	
Equitization Funds for SOE Re-arrangements		Not yet established	The Equitization Funds will be used for the following purposes (in chronological order): (i) providing assistance/subsidies to redundant workers during equitization, (ii) assisting the re-training of workers in equitized SOEs, (iii) investing into		(i) An Equitization Fund for SOE Re-arrangement is established at SCIC to (1) assist SOEs in their re-arrangement process, (2) supplement SCIC's legal/charter capital in accordance with PM's decisions, and (3)

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			equitized SOEs to maintain the controlling share of the State in these SOEs, (iv) providing capital to SOEs in financial difficulties before equitization to pay for social welfare insurance for their workers, (v) providing liquidity for indebted SOEs in sales, and (vi) providing capital to existing SOEs in reforming their technology, improving competitiveness, and development.		invest into important projects, including capital-returnable infrastructure projects in accordance with PM's decisions. (ii) Equitization Funds established at GCs, economic groups, or parent companies are used to (1) assist the re-arrangement process at their SOE members, (2) supplement their legal/charter capital upon approval from their State supervisors, and (3) invest into business development in accordance with PM's decisions. The PM makes decisions on (1) establishment, management, and use of the Equitization Fund at SCIC, (2)

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					transfers among Funds at SCIC, GCs, groups, and parent companies, and (3) investments using the Equitization Funds into crucial and strategic projects upon MOF's proposals. MOF decides the rules and regulations on the management and usage of the Equitization Funds at GCs, groups, parent companies and supervises the management and usage of proceeds collected from equitization.
Who is in charge of managing the State capital in equitized SOEs	Ministry of Finance (General Department of State Capital and Assets Management)	Line Ministries, PPCs and 91 GC Boards of Management (in consultation with MOF)	Regulated in Decree 73/2000/ND-CP dated December 2000, basically unchanged in comparison with Decree 44	(i) the representation of the State capital in equitized SOEs will be regulated by the current legal framework on the management of State capital in enterprises (or Decree 73/2000/ND-CP	(iii) GCs, Economic groups, parent companies are responsible for delegating State representative for managing the State capital in equitized

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				dated December 2000); (ii) in case the equitized SOEs do not belong to the category that the State need to keep controlling shares, the State representative in these SOEs will decide the further divestiture of State capital in these SOEs in accordance with the current legal framework and in relevance with the specific conditions in each SOE.	members (iv) Line Ministries and PPCs (1) report to the Prime Minister to decide on the delegation of State representatives in equitized economic groups and GCs, (2) delegate representatives for State capital ownership in equitized SOEs, (3) transfer the right of representing the State capital ownership in necessary equitized SOEs to SCIC, and thus cooperate with SCIC in delegation of State representatives in these SOEs.
Incentives for equitized SOEs	(i) for equitized SOEs: 50% profit tax exemptions for the first two years and some other benefits; (ii) for SOE managers	(i) for equitized SOEs: eligible for preferential treatment stipulated in the Law for Domestic Investments or 50% profit tax exemptions	(i) for equitized SOEs: eligible for preferential treatment stipulated in the Law for Domestic Investments or 50% profit tax exemptions for	In addition to the incentives offered in Decree 64, equitized SOEs are also eligible for certain preferential treatments if they choose	No more preferential treatment as profit tax exemptions,…

Legal Framework	**Decree 28(1996) and 25 (1997)**	**Decree 44 (1998)**	**Decree 64 (2002)**	**Decree 187 (2004)**	**Decree 109 (2007)**
	and employees: eligible to buy a certain portion of shares at preferential prices and/or in credit and to keep their job at the equitized SOEs (if not, able to enjoy severance benefits)	for the first two years and some other benefits; (ii) for SOE managers and employees: to buy 10 shares (of VND 100,000 each) for each working year at 30% discount, …	the first two years and some other benefits; (ii) for SOE managers and employees: to buy 10 shares (of VND 100,000 each) for each working year at 30% discount, …	to list in the stock exchange according to the Law on Stock and Stock Exchange	
Organizational Structure for Implementation	Establishment of the National Steering Committee of Equitization at Ministerial-level (Chairman of the Committee is Head of National Steering Committee of Enterprise Reform, standing Deputy Chair is one Deputy Minister of Finance, non-standing Deputy Chair is Deputy Minister of Labor, Invalids, and Social Affairs, and one Member from the Labor Association): to supervise the whole	The role of NSCE is not mentioned any more in this Decree. Main State agencies responsible for the SOE equitization thus are: Ministry of Finance, other line Ministries, PPCs, Boards of Management for 91 GCs and 90 SCs	Establishment of NSCERD, however, with main function of helping the Prime Minister in directing, supervising, and enforcing State agencies in implementing the equitization mandate in accordance with the current rules and regulations.		No mentioning about NSCERD anymore, inclusion of SCIC into those State agencies in charge of implementing equitization mandate.

Legal Framework	**Decree 28(1996) and 25 (1997)**	**Decree 44 (1998)**	**Decree 64 (2002)**	**Decree 187 (2004)**	**Decree 109 (2007)**
	equitization process on the behalf of the Prime Minister and his cabinet.				