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Vietnamese Local State-owned Enterprises (SOEs) at the Crossroads: Implications of SOE Restructuring at the Local Level

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March 2009

Abstract

This paper aims to capture the changing features of local SOEs under the national SOE restructuring program in the 2000s. The national policy on SOE reform in this phase had an effect of considerably clarifying and narrowing down the *raison d'être* of SOEs, which has been put into practice at the local level through provincial master plans. Consequently, some signs of an important change are observed: the structure of the local SOE sector is being standardized to a certain extent, and the remaining local SOEs are becoming more geared to the needs of a market economy. This trend would have far-reaching implications for the policy implementation and public service delivery by localities, which in turn would affect the long-term development of non-state sectors.

Keywords: state owned enterprise, local government, Vietnam

JEL classification: L32, L33, P39

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Vietnamese Local State-owned Enterprises (SOEs)¹ at the Crossroads: Implications of SOE Restructuring at the Local Level

Futaba Ishizuka

1. Introduction

It is widely acknowledged that Vietnam's SOE sector underwent a large-scale restructuring in the early 1990s. At that time, the main target of the restructuring drive were the numerous small local SOEs suffering from chronic deficits. In recent years, SOE restructuring is again gathering momentum. Assuming that major features of this stage of SOE restructuring can be described as "keeping the big and releasing the small,"² it seems almost inevitable that local SOEs that are generally smaller scale relative to their central counterparts will once again be the main focus of the renewed restructuring efforts.

This paper aims to capture the changing features of local SOEs under the national SOE restructuring program in the 2000s. It turns out that this indeed seems to be a critical juncture for local SOEs. It is not just that the presence of the local SOE sector has been rapidly shrinking in many aspects. The current SOE restructuring seems to be actually transforming the role of local SOEs in the economy into one that is more suited to a market economy, as far as type of business of these enterprises is concerned. Changes, however, are not in a single direction, as the principle of "keeping the big" is also being applied to local SOEs. Nevertheless, at least the *raison d'être* of SOEs has been clarified and narrowed down, which has had a visible impact on the sectoral structure of local SOEs. This can be contrasted with the SOE restructuring in the early 1990s where a view to restricting the role of SOEs was apparently lacking.

The rest of this paper will be structured as follows: Section 2 looks briefly at

¹ In the State-owned Enterprise (SOE) Law before its 2003 amendment, a State-owned Enterprise was defined as an economic organization, which is capitalized, set up, organized and managed by the state. According to the 2003 SOE Law, not only state companies with 100% state capital, but also joint-stock and limited liability companies with dominant state share are classified as SOEs. Local SOEs are those SOEs under local control. Local SOEs are mainly under provincial People's Committees, but there are also those under local branches of the Communist Party and other organizations, district People's Committees and the like.

² Cheshier et al. [2006] borrow this phrase which is originally used in the Chinese SOE reform to analyze the SOE reform in Vietnam.

the impact of SOE restructuring in the early 1990s on local SOEs and the sectoral structure of local SOEs as of 2000; Section 3 examines the SOE restructuring policy in the 2000s at the national level as embodied in the three Prime Minister Decisions, as well as its application in the provincial master plans; Section 4 refers to statistical data to reveal major changes in the local SOE sector between 2000 and 2006; Section 5 takes a glimpse at the features of remaining large-scale local SOEs in the mid-1990s; and Section 6 summarizes the findings and highlights some issues for future research.

2. Vietnamese local SOE sector up to 2000

2.1 Impact of SOE restructuring in the early 1990s at the local level

The large-scale SOE restructuring in the early 1990s was initiated by the Council of Ministers Decree 388 of 20 November 1991 on the establishment and liquidation of SOEs. This Decree required the heads of ministries and equivalent institutions under the Council of Ministers (hereinafter referred to as ministries), and of People's Committees of provinces and centrally controlled cities (hereinafter referred to as provinces), to take necessary actions to either re-register or liquidate all SOEs under their respective jurisdictions. The ministers and People's Committee chairmen were to complete application for re-establishment and implementation of liquidation plans fundamentally by the end of the first quarter of 1992.³

The enterprises to be liquidated were those suffering from deficits for many years and judged unable to solve this problem by such tactics as changing products, reinvesting in equipment or organizational restructuring (including merger with other enterprises and transformation into a collective). For the moment, however, the liquidation policy was not applied to large-scale enterprises or those providing important products or services, whose closing down would negatively affect other economic branches or enterprises.⁴ There were no clear criteria for what constituted "large-scale" or "important products or services," though.⁵

At the time this decree was issued, the proliferation of loss-making SOEs, which were predominantly small-scale local SOEs, was a major concern to the policy makers. According to Tran Hoang Kim and Le Thu [1992: 64–65], in 1989, there were

³ Council of Ministers Chairman Instruction 393 of 25 November 1991.

⁴ Council of Ministers Decree 315 of 1 September 1990.

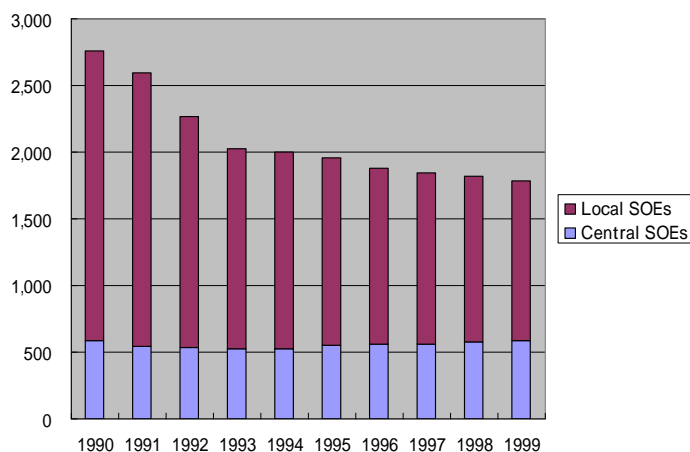
⁵ Van Arkadie and Mallon [2003: 149] notes that "strategic state enterprise was not defined, but was understood to include enterprises that contributed to national defense, public utilities and enterprises producing basic factors of production (for example, steel and cement), and key services such as banking."

some 12,000 SOEs nationwide, of which 10,389 were under local management. In the same year, up to 4,584 SOEs were operating with losses, about 90% of which were small-scale local SOEs. As a result of the restructuring in the early 1990s, the total number of SOEs reduced by nearly half to 6,310 in 1995, of which 4,463 were local SOEs (Riedel and Turley [1999: 33]).

The reduction in the number of SOEs was achieved mainly through mergers and liquidations. About 3,000 enterprises were merged with other SOEs, and about 2,000 liquidated, whose assets were generally sold to bidders from the state or private sector. Most liquidated and merged enterprises were reportedly small-scale local SOEs with fewer than 100 employees. The total assets of liquidated enterprises were estimated at less than 4% of total SOE assets (Van Arkadie and Mallon [2003: 126–127]). While the reduction in the number of enterprises was considerable, this phase of SOE restructuring presumably had only limited impact vis-à-vis the total volume of enterprise activities.

Such features of the reform square with the findings from the statistics on industrial SOEs.⁶ During the 1990s, the number of industrial SOEs declined most significantly between 1991 and 1993 (Figure 1). Most of the reduction fell on local SOEs, and the number of central SOEs remained largely unchanged throughout the 1990s.

Figure 1. Number of industrial SOEs in the 1990s (Unit: enterprise)



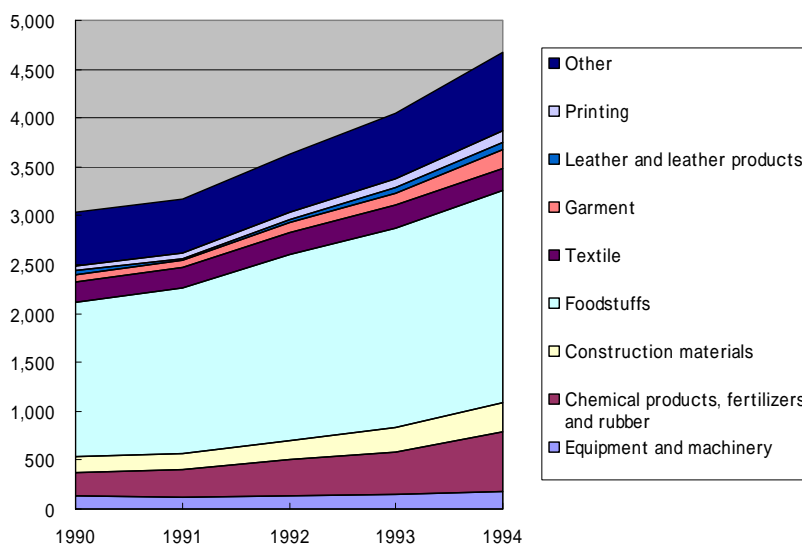
Source: GSO[1996], GSO[2000]

Now, we will examine changes in the structure of industrial output value by local SOEs in the period when the major reduction in the number of local industrial

⁶ Industrial SOEs comprised about 30% of the total number of SOEs in 1995.

SOEs occurred. The share of local SOEs in the total industrial output value of the country declined slightly between 1991 and 1994, from 21.7% to 20.1%. Figure 2 shows the trend of industrial output value by local SOEs in the same period.

Figure 2. Trend of industrial output value by local SOEs at constant 1989 prices, 1991–1994 (Unit: billion dong)



Source: GSO [1996]

Between 1990 and 1994, while the number of local industrial SOEs decreased by nearly one-third, the individual output value in major industrial sectors by local SOEs, as well as the total industrial output value, was growing without apparent interruption. Put differently, no drastic change in the sectoral structure of industrial output value is observed in this period. The SOE restructuring in this stage did not seem to affect the sectoral structure of local SOEs (i.e., did not make them concentrate on, or withdraw from, particular sectors), at least within the industrial branch.

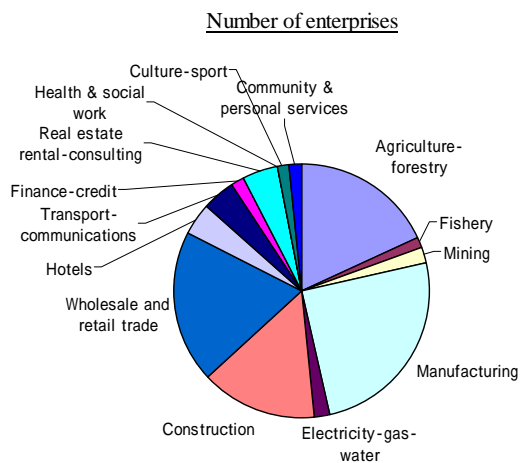
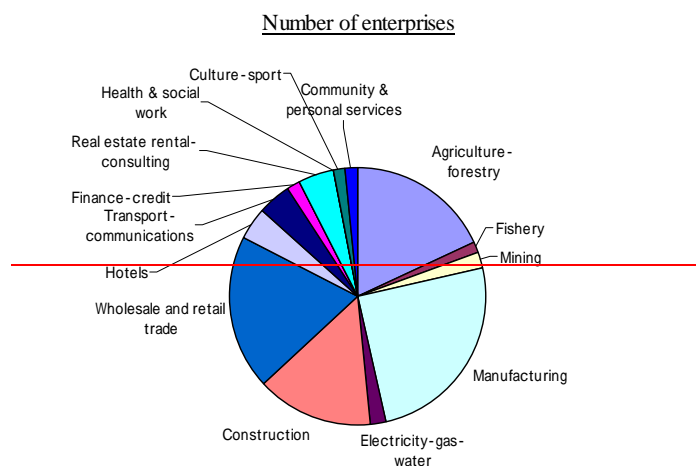
2.2 Structure of the local SOE sector as of 2000

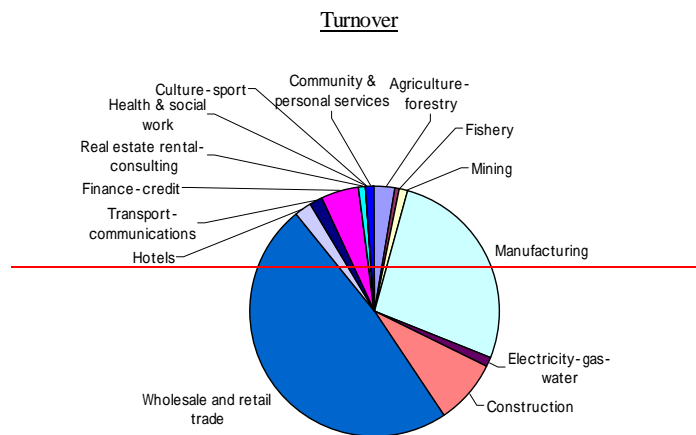
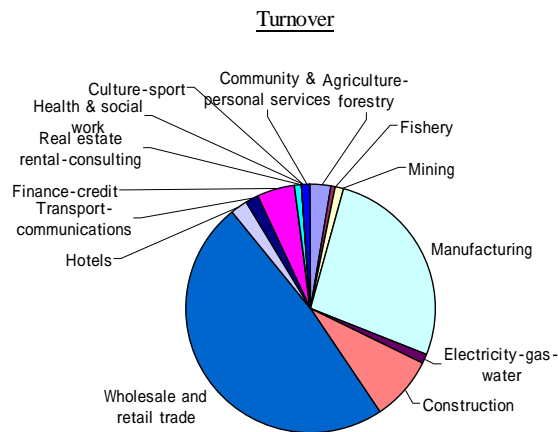
The Vietnamese local SOE sector encompasses enterprises operating in a wide range of fields, including those generally supposed to be the public domain (such as water and waste disposal) and those that are not. Before discussing the impact of SOE reform in the first decade of the twenty-first century, this section will briefly review the structure of the local SOE sector in terms of type of business.

The breakdown of the number of enterprises and of their turnover by economic branches is demonstrated in Figure 3. As to the number of establishments, up to 77% of local SOEs are found in four branches: manufacturing (25%), commerce

(19%), agriculture-forestry (18%), and construction (15%). In terms of turnover, commerce takes up about half of all local SOE turnover, followed by manufacturing (27%) and construction (8%). Average turnover of one local SOE is the highest in the finance-credit branch, followed by commerce.

Figure 3. Structure of local SOEs by economic branches (2000)





Source: GSO [2002]

On average, a Vietnamese province at the end of 2000 owned about 60 enterprises under its management, consisting of 11 in agriculture-forestry (for instance, state-owned farms and plantations, enterprises providing breeding or irrigation services, etc.), one in fishery, one in mining, 15 in manufacturing, one in electricity-gas-water (mostly water), nine in construction, 12 in commerce, two in hotel-restaurant, two in transport-communication, one in finance-credit (mostly construction lottery), three in real estate rental-consulting, one in culture-sport (publishing, film-making, etc.) and one in community and personal services (waste disposal, drainage, etc.).

In practice, the number and structure of local SOEs varied greatly between provinces. As of the end of 2000, Ho Chi Minh City (HCMC) had the largest number of local SOEs (303), and Binh Phuoc Province the smallest (16).

In the four branches where local SOEs concentrated most, enterprises were distributed rather unevenly among provinces, resulting in the above-mentioned variation of the local SOE sector. In manufacturing, commerce and construction, the two big cities, HCMC and Hanoi, had far more enterprises than others.⁷ Even if the two cities were set aside, an average province in the Red River Delta (excluding Hanoi) owned two to three times more local SOEs than an average province in the Mekong Delta in these three branches. In the agriculture-forestry branch, Dak Lak topped all provinces with 58 enterprises, and the average number of local SOEs in this branch among four Central Highlands provinces amounted to 32, whereas in the Mekong Delta, the average number of local agriculture-forestry SOEs per province was only two.

In contrast, in other branches (fishery, mining, water, hotel, transportation, finance, real estate rental, culture and community/personal services), differences in the number of local SOEs among provinces were much less significant, with many provinces having zero to two enterprises, and more than 90% of all provinces having zero to five enterprises in each branch. It can be said that, roughly speaking, enterprises that serve the public interest tend to be found in the latter group of branches, and those that engage in business activities side by side with private sector actors tend to be found in the former group of branches.

3. Implementation of local SOE restructuring since 2000

3.1 Guidelines provided in three Prime Minister Decisions

Since the turn of the century, a second wave of local SOE restructuring has been observed.⁸ Major underpinning for this stage of restructuring was a series of Prime Minister Decisions on the classification of SOEs (both central and local).

Decision 58 dated 26 April 2002 set criteria (based on field of operation, production scale, capital level, etc.) for classifying SOEs into categories such as 1) those in which the state would maintain 100% of the capital, 2) those to be equitized, in which the state would hold more than 50% of the shares, and others. Before Decision 58, there were similar provisions, such as Government Decree 44, which specified the kind of SOEs not to be equitized, and those to be equitized, in which the state would

⁷ The average number of local SOEs per province excluding HCMC and Hanoi was 12 in manufacturing, 10 in commerce, and eight in construction. On the other hand, the number of local SOEs in HCMC in these branches was 120, 54 and 47, and that in Hanoi 76, 45 and 42, respectively. Enterprises in these two cities comprise 21, 14 and 16% of the total number of local SOEs in these three branches, respectively.

⁸ On the overall trend of SOE reform and related institutional developments, see Ishida [2008], Cheshier et al. [2006] and Mekong Economics [2002], among others.

hold dominant shares, in a similar manner. However, Decree 44 provided guidelines on the selection of enterprises to be equitized, whereas Decision 58 required the heads of supervisory institutions of SOEs to determine whether to maintain state ownership or not of all SOEs under their respective jurisdictions, based on the criteria set out in it. In that sense, this Decision is rather comparable with the Council of Minister Decree 388 of 1991.

A summary of Decision 58 is provided in Table 1. As can be seen from the table, the Decision lists activities and other conditions for enterprises to be maintained as 100% state-owned and those in which the state would retain the dominant shares, grouped under two headings of “business enterprises” and “public welfare enterprises” respectively. Enterprises that do not fall under the above categories are basically to be equitized, in which the state would maintain a lower degree of shares or no shares; those with state capital of less than five billion dong are, if they failed to be equitized, to be sold or handed over to employees’ collectives; and business enterprises with chronic deficits or public welfare enterprises failing to fulfill their mandates are to be merged, dissolved or bankrupted.⁹

Table 1. Summary of Decision 58

SOEs to be maintained 100% state-owned	Business enterprises	<ol style="list-style-type: none"> 1) Those in state monopoly sectors (production and supply of explosives, toxic chemicals and radioactive substances, national electricity transmission systems, national and international communication axis networks and production of cigarettes) 2) Those with capital of 20 billion dong or more, average contribution to state budget in the last three years of 3 billion dong or more, applying high technology, contributing to macroeconomic stabilization and operating in the following sectors: generation of electricity, exploration of certain important minerals such as crude oil and natural gas, coal, etc., manufacture of certain mechanical engineering products, manufacture of certain important consumer goods and foodstuffs, wholesale of food, wholesale of petroleum, etc.(19 items) 3) Those which guarantee the needs for developing production and improving the material and spiritual life of rural people and ethnic minorities in mountainous and remote areas 4) Those which have a special nature (publishing houses except textbook publishing, etc., construction lottery and those operating in important branches decided by the Prime Minister)
	Public welfare enterprises	Those operating in the following sectors: printing bank notes, flight control, defense and security areas, publishing of textbooks, etc., management and maintenance of national railway and airport systems, management and maintenance of important road, waterway, and

⁹ Decree 103 of 1999 and Decree 49 of 2002 stipulate conditions, procedures, etc. for transferring (to employees’ collectives), selling, business contracting and leasing of SOEs. Decree 180 of 2004 provides conditions, procedures, etc. for establishment, reorganization (such as merger or division) and dissolution of SOEs.

		seaport systems, management and exploration of large-scale waterworks, water drainage in cities, public lighting, etc. (14 items)
SOEs to be equitized, in which the state would retain dominant shares	Business enterprises	Those with capital of 10 billion dong or more, average contribution to state budget in the last three years of 1 billion dong, and operating in the sectors listed in 2) above. Others (manufacture of sugar, milk and edible oil, assessment of goods, printing except labels, marks and package, labor cooperation and trading in fair and exhibition floor space)
	Public welfare enterprises	Those operating in the following sectors: manufacture of plant varieties, animal breeds and frozen sperms, offshore fishing, technical inspection of motorized means of transportation, management and maintenance of road and waterway systems, management and maintenance of important railway station and car terminals and management and exploration of waterworks

Source: Prepared by the author based on 58/2002/QĐ-TTg

Decision 58 has been revised twice by Decision 155 of 2004 and Decision 38 of 2007. As a result of these revisions, the scope of enterprises to remain as SOEs has basically become narrower. If we simply count the fields of activity as listed in Decision 58, there were 41 items (including 27 for business enterprises and 14 for public welfare enterprises) for enterprises to remain as 100% state-owned, and 30 items (including 24 for business enterprises and six for public welfare enterprises) for those in which the state would retain dominant shares.¹⁰ Decision 38, on the other hand, lists only 19 items for the former and 26 for the latter.¹¹ Table 2 shows a summary of Decision 38.

Table 2. Summary of Decision 38

SOEs to be maintained 100% state-owned (Article 1)	Those operating in the following sectors: production and supply of explosives, toxic chemicals and radioactive substances, defense and security areas, management and exploration of national and urban railways, flight control, radio and television, construction lottery, publishing, newspapers and journals, printing and coining of money, production of cigarettes, management and exploration of large-scale irrigation systems, planting and protecting headwater forests, policy based finance, etc. (19 items)
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¹⁰ Actually, some of these “items” in Decision 58 include a number of products. For instance, “production of some important consumer goods and foodstuff” is counted as one item here, but includes six products (newsprint and writing paper, textiles and fibers, over 3 billion pages/year of printing, salt, over 50 million liter/year of beer and over 10 million liter/year of alcohol and liquor).

¹¹ In addition, “business SOEs that fulfill the needs for developing production and improving material and spiritual life of rural people and ethnic minorities in mountainous and remote areas” and “SOEs operating in important branches decided by Prime Minister” are included in the category of enterprises to be maintained as 100% state-owned in Decision 58. In Decision 38, “business SOEs that guarantee the needs for developing production and improving material and spiritual life of ethnic minorities in mountainous and remote areas” are among those in which the state is to retain dominant shares.

SOEs to be equitized, in which the state would retain dominant shares (Article 2)	Those producing and supplying products or services of public interest (Clause 1)	Maintenance of national railway system, production of scientific films, newsreels, documentaries and films for children, drainage in cities, public lighting in cities, basic geological and meteorological surveys, production and preservation of plant varieties, animal breeds and frozen sperms, production of vaccines, etc. (9 items)
	Those which guarantee the needs for developing production and improving the material and spiritual life of ethnic minorities in mountainous and remote areas (Clause 2)	
	Those playing a role of guaranteeing macroeconomic balance and market stability (Clause 3)	Generation of electricity with capacity of 100 MW or more, exploration of important minerals such as coal, exploration and processing of crude oil and natural gas, building and repairing of means of air transportation, production of pig iron and steel with capacity of 300,000 tons per year, production of basic chemicals, chemical fertilizer and plant protection drugs, planting and processing rubber and coffee, manufacture of newsprint and high-quality writing paper, wholesale of food, wholesale of petroleum, production of beer over 100 million liters per year, etc. (17 items)

Source: Prepared by the author based on 38/2007/QĐ-TTg

It is worth noting that Decisions 58 and 155 also stipulate criteria for General Corporations (GCs) in terms of sector, capital level, contribution to state budget and competitiveness. Existing GCs that do not meet these criteria shall be reorganized by merging or dissolving. Regarding the criteria for GCs, these two Decisions have almost the same contents (listing 16 sectors, setting minimum capital as 500 billion dong in principle, etc.).

What are the main features of the SOE restructuring policy in the 2000s embodied in these three Prime Minister Decisions? Firstly, it can be said that, as in the Council of Ministers Decree 388, SOEs that are “large-scale” or “providing important products or services” are excluded from the object of restructuring. However, in this new phase of SOE restructuring, only these enterprises are to be maintained as SOEs. Those that fall outside of these categories, even if they are profitable, are not intended to be maintained as SOEs.

Secondly, the definition of “large-scale” or “important products or services” has become reasonably clear. Moreover, generally speaking, many of those activities listed in Article 1 and Clause 1, Article 2 of Decision 38 are not wide of the mark as activities of public enterprises in any market economy. The move from Decision 58 to Decision 38 can also be seen as one to focus more on essential activities for public enterprises in a market economy. On the other hand, Section 3, Article 2 of Decision 38, as well as the provisions on GCs, still include a variety of important industries for Vietnam.

Another distinct feature is that those enterprises subject to restructuring can, if

judged commercially viable, continue to exist as independent enterprises through equitization. Since the 1990s, experiences of equitization have accumulated and an appropriate legal framework has developed, which has made it a viable option for the state to maintain those enterprises that do not need to remain as SOEs while withdrawing its stakes in them. This in turn would enable the state to limit the scope of SOE activities as mentioned above without much socio-economic disruption.

3.2 Provincial SOE restructuring master plans (2003–2005)

The question then arises: How has the national policy on SOE reform examined above been implemented at the local level? As mentioned earlier, Decision 58 required the heads of the ministries, provincial People’s Committees and GCs 91, to apply its guidelines to all SOEs under their authority and build comprehensive master plans. In response, 104 master plans for 2003–2005 were submitted to and approved by the Prime Minister, of which 61 were prepared by localities.

These master plans were later revised in accordance with the revision of Decision 58: the original master plans 2003–2005 were partially revised to make master plans 2005–2006, which were followed by master plans 2006–2010. Considering the fact that the 2005 Enterprise Law stipulates that the transformation of SOEs into either limited liability or joint-stock companies shall be completed by mid-2010, this phase of SOE restructuring is supposed to be wrapped up in 2010.¹²

Here we would like to focus on the contents of the 61 provincial master plans for the period 2003–2005. These master plans are not structured in a way fully corresponding to the categories of Decision 58. Table 3 is an attempt to sort out the information provided in these master plans.

¹² However, in 2008, due to the difficulties in the stock market, the target of transforming the ownership form of all SOEs by 2010 seems to have been postponed (“SOE restructuring speeds up,” Viet Nam News, 14/07/2008).

Table 3. Overview of the 61 provincial master plans for SOE restructuring (2003–2005)

Categories	No. of enterprises
SOEs in which the state maintains 100% of the capital	960
Public welfare enterprises	332
Business enterprises	577
Unknown	45
One-member limited liability companies	6
SOEs to be equitized	1,330
In which the state retains more than 50% of the shares	338
In which the state retains at least 51% of the shares in the first offering	185
In which the state retains a lower degree of shares or no shares	777
Unknown	30
Others	570
Merged	248
Transferred to workers' collective, sold	124
Business contracting, lease	9
Dissolved, bankrupted	112
Transferred to under management of other organizations such as GCs	35
Transformed into public service unit	42
Unknown	26
State-owned farms and plantations	149

Source: Prepared by the author based on MPI[2004]

Notes: 1) Some 100 state-owned farms and plantations are included in the categories of “public welfare enterprises” and “business enterprises” to be maintained as 100% state-owned.

2) Master plans of 29 out of 61 provinces have the category “To be equitized: in which the state retains at least 51% of the shares in the first offering,” which does not appear in Decision 58. It is not clear what kind of enterprises fall in this category.

It is not easy to pin down the number of SOEs at the beginning of these plans, as the plans include such cases as newly establishing an enterprise by separating a part of existing SOEs, but if we take the sum of the enterprise numbers in all categories in the list for approximation, it makes up 3,035. As to the number of SOEs most probably remaining at the end of these plans, we would sum up the number of enterprises in four categories: “Enterprises in which the state maintains 100% of the capital,” “Enterprises to be equitized, in which the state retains more than 50% of the shares,” “Enterprises to be equitized, in which the state retains at least 51% of the shares in the first offering” and “State-owned farms and plantations,” which adds up to 1,632, some 54% of the number of enterprises at the beginning of the plans.¹³

¹³ Regarding state-owned farms and plantations, many of them are treated separately from other SOEs as there are a set of legal documents specifically on the reform of these entities, such as Decree 170 and Decree 200 of 2004. In a nutshell, state-owned farms and plantations shall be transformed into appropriate organizational forms based on their main purpose (whether business or public welfare), and those judged to be inefficient shall be dissolved. In 2006 and 2007, 314/342 farms and 353/355

There is a difference of about 300 between the above figure at the beginning of the planning period and the number of SOEs as of the end of 2002 in the Statistical Yearbook. Presumably, this difference is mainly explained by the fact that the Statistical Yearbook data include many enterprises that are in the process of equitization.¹⁴ Overall, these plans do seem comprehensive. Some of these plans even note the deadline for reporting to the Prime Minister on cases which the local authorities for some reasons could not determine how to handle by the time the plans were made.

What can be inferred from this table? Firstly, equitization has in practice become a principal measure in restructuring SOEs. In this first set of master plans, the number of SOEs to be equitized has already far exceeded that of SOEs to be maintained as 100% state-owned.

Having said that, of the SOEs to be equitized, only about 60% would be de-nationalized right away. The master plans also include not a few enterprises to be merged with other SOEs or transferred to positions under the management of central GCs. About one out of five enterprises to be reduced would be neither de-nationalized nor dissolved.

Nevertheless, if we add up the numbers of enterprises to be de-nationalized through equitization, dissolved or bankrupted, and sold or transferred to workers' collectives, that would amount to about one-third of the total number of enterprises at the beginning of the plans. In other words, one-third of all local SOEs were to be reduced more or less substantively, which is indeed significant at least in terms of number.

The question then is the substance of the reduction: what kind of enterprises were to be crossed out from the list of SOEs and what kind of enterprises remained? The provincial master plans only indicate names of enterprises, but names often do contain some words suggesting the enterprise's line of business. A rough count of such names shows that, of the 960 enterprises to remain as 100% state-owned in the master plans, there are some 110 state-owned farms and plantations, some 110 irrigation

plantations were thus transformed into farm/forest products companies under state control.

¹⁴ According to the National Steering Committee for Enterprise Reform and Development (NSCERD), in 2004, equitizing a local SOE took 422 days on average ("*Co phan hoa doanh nghiep nha nuoc: Can co su quyet tam tu nhieu phia*", Sai Gon Giai Phong, 25/2/2005). Besides, there are local SOEs that belong to organizations other than provincial People's Committees, such as local branches of the Party and other organizations, or district People's Committees, which are likely to be omitted from the provincial master plans.

companies, some 60 water companies, some 60 construction lottery companies, some 35 road management and repair companies, some 35 printing companies, some 30 urban environment companies, some 20 publishing houses, film companies and companies producing other cultural materials, some 15 automobile inspection companies and some 15 textbook and school equipment companies (altogether they comprise more than half of the 960 enterprises). There are also not a few enterprises whose names include such terms as housing, public works, breeding, (management of) parks, terminals or seaports and mining.

Admittedly, the company names suggest that the group of enterprises to remain as 100% state-owned is composed of somewhat more diverse enterprises than implied by Decision 58. Nevertheless, many of them do seem to be in line with the intention of the Decision. A substantial part of the enterprises in this category are associated with some public services or activities of public interest. Furthermore, the 100% state-owned enterprises are to comprise about 65% of remaining local SOEs when the plans have been implemented.¹⁵ At the individual province level, only six provinces would have more enterprises with dominant state shares than those 100% state-owned; on the other hand, in four provinces, all remaining local SOEs would be 100% state-owned.¹⁶

In sum, the provincial master plans seem to essentially reflect the national guidelines on SOE restructuring, although the planning did not involve an automatic application of criteria. Consequently, it is foreseen that close to half of the total number of local SOEs existing at the beginning of the planning period would be reduced within three years. Even excluding those mergers and transfers within the state-owned sector, the “substantive” reduction would amount to one-third of the total. Allowing for the generally small size of enterprises to be restructured, still it would be fair to say that the implementation of these master plans is expected to have some visible impact upon the local SOE sector.¹⁷

¹⁵ Excluding state-owned farms and plantations. SOEs equitized prior to the preparation of these master plans in which the state retains dominant shares are disregarded here.

¹⁶ The former group of provinces include Hai Duong, Quang Ninh, Tay Ninh, Binh Thuan, An Giang and Ben Tre, and the latter group include Ha Tay, Bac Ninh, Kon Tum and Binh Phuoc.

¹⁷ To what degree these master plans have actually been implemented is unknown to the author, but it seems likely to be considerable. For instance, according to Official Letter 152 of NSCERD dated 29 November 2004, in the first 11 months of 2004, Hanoi has achieved 89.3% of the SOE reform plan (equitization only), HCMC 76.5%, and Hai Phong 71%. Seemingly the achievement rate is calculated based on annual plans that include cases carried over from the year before. The World Bank has been supporting

4. Statistical changes in the local SOE sector (2000–2006)

This section will mainly examine the data from Statistical Yearbooks and Enterprise Censuses to observe changes in the local SOE sector under the current SOE restructuring drive.

4.1 Size of the local SOE sector and of an average local SOE

Firstly, changes in the size of the local SOE sector, in terms of number of enterprises, number of workers and turnover, are shown in Table 4. Between 2000 and 2006, the total number of local SOEs declined from 3,692 to 1,962, a decrease of some 47%.¹⁸ Looking at the year-on-year trend, from 2000 to 2004 (excluding 2002), the total number of local SOEs was reduced by about 10%, and in 2005 and 2006, 13%–14%, maintaining the pace of reducing some 300 or more a year.¹⁹ As to the size of labor in the local SOE sector, after the peak year of 2002, it has also contracted with increasing speed: the change between 2000 and 2006 is minus 33%. Regarding turnover, while the actual figure shows an increase of some 50% over the six years, the local SOE share in the total enterprise turnover has been steadily declining over time.

Table 4. Total number of enterprises, employees and turnover in the local SOE sector since 2000

	2000	2001	2002	2003	2004	2005	2006
Number of enterprises	3,692	3,358	3,311	2,947	2,629	2,261	1,962
YOY	-	-9.0%	-1.4%	-11.0%	-10.8%	-14.0%	-13.2%
Share in all enterprises	8.7%	6.5%	5.3%	4.1%	2.9%	2.0%	1.5%
Number of employees	787,321	762,846	815,438	800,988	732,511	605,201	526,633
YOY	-	-3.1%	6.9%	-1.8%	-8.5%	-17.4%	-13.0%
Share in all enterprises	22.3%	19.4%	17.5%	15.5%	12.7%	9.7%	7.8%
Turnover	127,777	125,392	144,379	161,445	175,826	175,002	189,696
YOY	-	-1.9%	15.1%	11.8%	8.9%	-0.5%	8.4%
Share in all enterprises	15.8%	14.0%	12.1%	11.2%	10.2%	8.1%	7.1%

Source: GSO[2008a]

Nationwide, the share of local SOEs in the total enterprise workforce has

a project to monitor the implementation of the 104 SOE restructuring master plans.

¹⁸ Regarding such data as the number of enterprises, there are some discrepancies between the Statistical Yearbooks and the Enterprise Censuses, seemingly because the Censuses use preliminary figures. For instance, the number of local SOEs as of the end of 2000 is 3,692 by the Statistical Yearbook and 3,654 by the Enterprise Census.

¹⁹ Considering the fact that the definition of SOEs was broadened in 2003, the substantive decrease is supposed to be somewhat larger.

declined from 22% to 8%, and that in the total enterprise turnover from 16% to 7%, between 2000 and 2006.²⁰ The changes seem even more drastic at the individual provincial level. Table 5 shows the distribution of provinces according to the local SOE share of enterprise labor and turnover, respectively. The median value of local SOE share in both enterprise labor and turnover dropped to less than one-third in this six-year period.²¹

Table 5. Local SOE share of number of employees and turnover in all enterprises by province

No. of employees in Local SOEs / No. of employees in all enterprise	Number of provinces	
	Year 2000	Year 2006
60% +	8	0
50% - 60%	5	0
40% - 50%	16	0
30% - 40%	11	4
20% - 30%	12	15
10% - 20%	7	22
Less than 10%	2	23
Turnover of local SOEs / Turnover of all enterprises	Number of provinces	
	Year 2000	Year 2006
60% +	4	0
50% - 60%	7	0
40% - 50%	10	0
30% - 40%	18	4
20% - 30%	10	10
10% - 20%	8	22
Less than 10%	4	28

Source: GSO[2002], GSO[2008b]

Next, changes in geographical distribution of local SOEs will be examined. As noted earlier, an average province in 2000 had 60 local SOEs, whereas the number decreased to 31 in 2006.²² In 2006, only the two largest cities, HCMC and Hanoi, had more than 100 local SOEs (229 and 127, respectively). The province with the smallest number of local SOEs was Ha Giang Province, which had only two. Five provinces had 10 or fewer local SOEs, and up to 24 provinces had 20 or fewer.

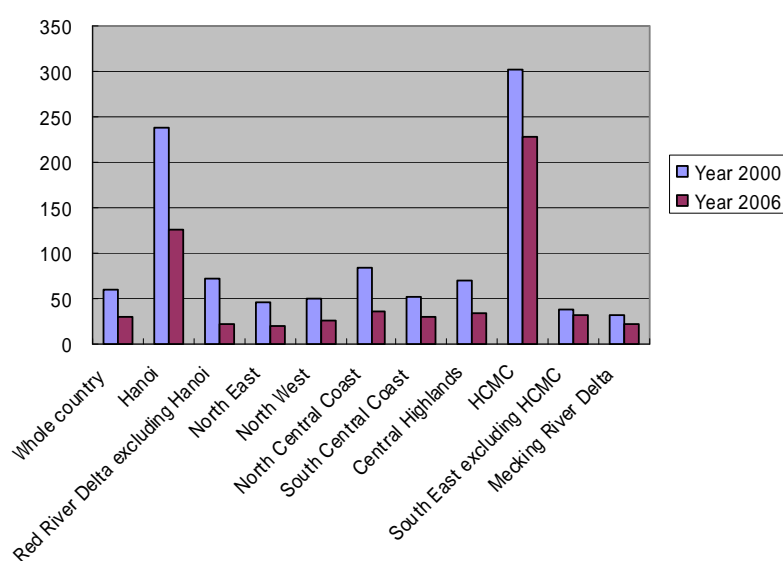
²⁰ This rapid decline presumably resulted from both the progress of restructuring in the local SOE sector and relatively fast growth in other sectors.

²¹ In localities that have a large local SOE sector, such as HCMC and Hanoi, the presence of local SOEs in the local economy tends to be relatively small. That is why the median value of provincial data is different from the national average. It is worth noting, however, that the statistical figures on enterprise workers or turnover generally exaggerate the differences between large cities and other localities, as they are counted in a locality where the enterprise's head office is located.

²² The number of provinces was 61 in 2000 and 64 in 2006.

Changes in average number of local SOEs per province by region are shown in Figure 4. Even excluding HCMC and Hanoi, in 2000, there were substantial regional disparities in average number of local SOEs per province, ranging from 31.5 in the Mekong Delta region to 84.5 in the North Central Coast. The gap had narrowed considerably by 2006, when the smallest average number of local SOEs per province was 20.1 in the North Eastern region and the largest 37.0 in the North Central Coast (excluding the two biggest cities).²³

Figure 4. Number of local SOEs per province by region (Unit: enterprise)



Source: GSO[2002], GSO[2008b]

If local SOEs are primarily reduced in the branches where they compete with private enterprises, it is not difficult to predict that such equalization would follow as restructuring proceeds, since the distribution of local SOEs among localities was most uneven in these branches, as mentioned earlier. It follows, then, that the equalization in the geographical distribution of local SOEs is likely to accompany a certain degree of standardization in the structure of the SOE sector with a set of public welfare enterprises at its core.

At the individual enterprise level, firstly, enterprises with a low level of capital decreased in both absolute and relative terms (Table 6). The proportion of enterprises

²³ On the other hand, the concentration of local SOEs in the two biggest cities has increased somewhat: 15% of the total number of local SOEs were located in the two cities in 2000, which increased to 18% in 2006. Of other centrally controlled cities, Hai Phong has relatively numerous local SOEs, but the number of local SOEs in Da Nang and Can Tho (established in 2004) is close to the national average.

with more than 10 billion dong in capital rose from 45% of all local SOEs in 2000 to 72% in 2006 (for comparison, the same ratio for central SOEs was 80% in 2000 and 90% in 2006). Average capital per enterprise almost quadrupled from 26.8 billion dong in 2000 to 102.6 billion dong in 2006. In other words, while the number of local SOEs halved in this period, the total capital of the local SOE sector doubled. It shows that, while sorting out smaller enterprises, the local authorities have also strived to increase the capital of large ones. The number of local SOEs with more than 200 billion in capital has tripled within the six years.

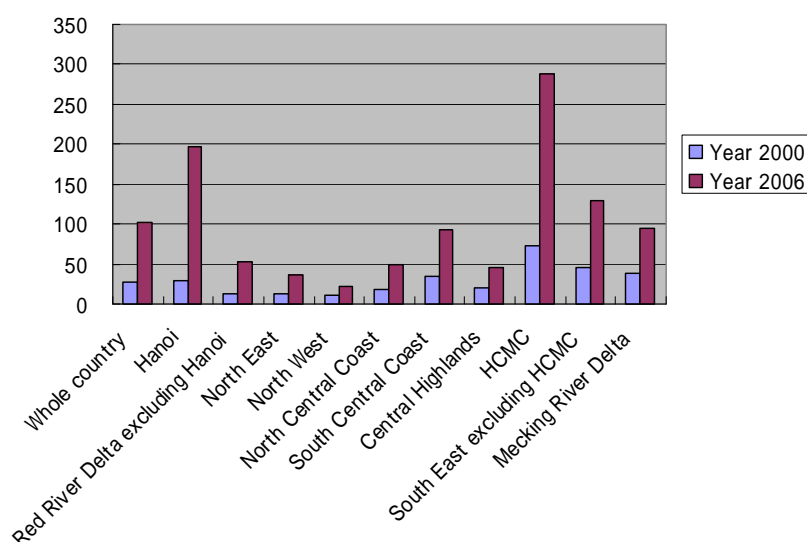
Table 6. Breakdown of local SOEs by size of capital (Unit: enterprise)

	Total	Less than 0.5 billion dong	0.5 ~ 1 billion dong	1 ~ 5 billion dong	5 ~ 10 billion dong	10 ~ 50 billion dong	50 ~ 200 billion dong	200 ~ 500 billion dong	500 billion dong or more
Year 2000	3,654	102	134	1,078	687	1,205	376	60	12
Year 2006	1,962	19	17	249	274	735	448	148	72

Source: GSO[2002], GSO[2008b]

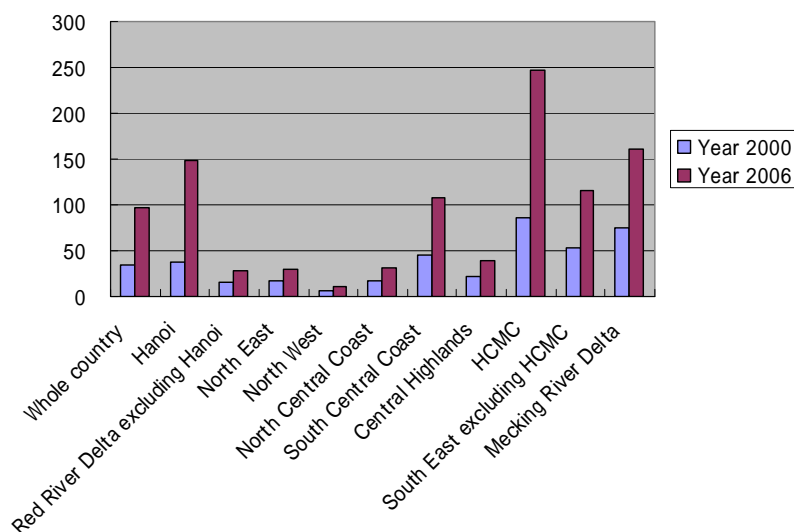
Secondly, the average number of employees per enterprise in the local SOE sector was 268, and the average turnover 96.7 billion dong, in 2006, a 25% and 178% increase from 2000, respectively. The regional disparities regarding average size of capital and turnover of local SOEs have increased (Table 6, Table 7).

Figure 5. Average capital of a local SOE by region (Unit: billion dong)



Source: GSO[2002], GSO[2008b]

Figure 6. Average turnover of a local SOE by region (Unit: billion dong)



Source: GSO[2002], GSO[2008b]

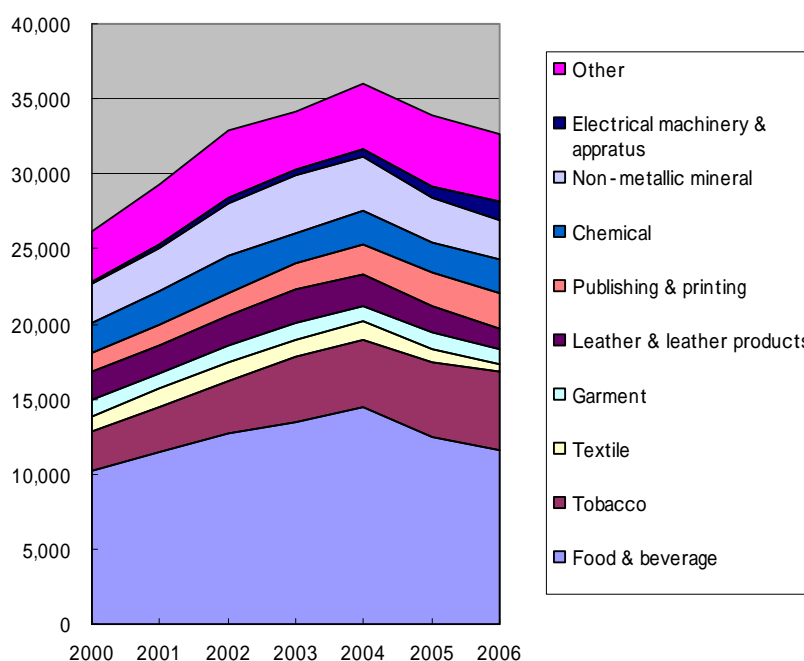
Thus, changes in various indicators suggest the impact of SOE restructuring in the 2000s. The number of local SOEs has fallen considerably, as has the number of employees in the sector, while the average size of a local SOE has increased. Aside from the two biggest cities, regional disparities in the average number of local SOEs per province have narrowed, which also implies that the sectoral structure of local SOEs has been standardized to a certain extent. On the other hand, more resources have been concentrated in large-scale local SOEs, seemingly resulting in a greater disparity between localities that possess such enterprises and those that do not.

4.2 ~~Changes in the sectoral s~~Structure of local industrial SOEs in the industry branch

Now we examine whether the sectoral structure of local SOEs has actually changed as expected, by focusing on industrial SOEs again. Figure 7 shows the trend in the industrial output value in the manufacturing branch from 2000 to 2006.²⁴

²⁴ The categorization in the industrial statistics in the statistical yearbooks has changed since 1995. Therefore, the data in Section 2 of this paper and those in this section are based on different classification methods.

Figure 7. Trend of industrial output value by local SOEs at constant 1994 prices, 2000–2006
(Unit: billion dong)



Source: GSO [2008a]

It is the first time since the beginning of the 1990s for the total industrial output value by local SOEs to decline in absolute terms.²⁵ It started to decline after 2004, as a result of output value decreases in many sectors. This trend is clearly observed in such sectors as food, textile, leather and non-metal mineral products manufacturing. These sectors are not included in the list of business fields where the state maintains its control over enterprises, except for large-scale enterprises producing certain products.

On the other hand, some sectors have been growing steadily both before and after 2004, and thus increased their shares in the industrial output value by local SOEs. These include tobacco, electrical machinery and apparatus and publishing and printing. Tobacco and publishing are two of the sectors reserved for 100% state-owned enterprises in Decision 38. Manufacturing of electrical machinery and apparatus was included in the list of activities for 100% state-owned enterprises in Decision 58 and for enterprises with dominant state shares in Decision 155 (with certain capital and other requirements).

It would be reasonable to assume that the number of local SOEs is decreasing in the sectors where local SOE output value is clearly declining. As far as the

²⁵ The share of local SOEs in the total industrial output value halved from 14.1% in 2000 to 7.3% in 2006.

manufacturing branch is concerned, it seems that the SOE restructuring in the 2000s has actually been proceeding selectively based on enterprises' line of business as a major criterion. The trend shown above is just a recent phenomenon, but it corresponds with the orientation of SOE reform policy examined above. Therefore, it is expected to continue unless the reform orientation changes. If this can be generalized in other branches, too, it would follow that the structure of the local SOE sector has indeed been changing basically in line with the guidelines provided in the three Prime Minister Decisions.

5. Large-scale local SOEs

In this final section, we would like to look at the features of large-scale local SOEs remaining in the mid-2000s.

We use a survey of the 200 largest companies in Vietnam (Cheshier and Penrose [2007]) as a starting point. The authors of this survey ranked all enterprises in Vietnam by number of employees, assets and turnover, and compiled a list of the top 200 enterprises based on the average of these individual ranks. There are 29 local SOEs in the Domestic Top 200 list (which excluded 100% foreign invested enterprises).²⁶ Table 7 indicates the names, main line of business and location of these 29 local SOEs. They are either local SOEs under the SOE Law or local one-member limited liability companies as of when the survey was conducted. Some of the enterprises in the list have already been equitized (including APTCO, DOCIMEX and TANIMEX), and a number of others (including the parent companies of GCs and other enterprise groups under the parent-subsidiary company model) are in the pipeline for equitization by 2010.

Table 7. Twenty-nine large local SOEs in the mid-2000s (Ranks are those in the Domestic Top 200 list)

Rank	English name	Short name	Sector	Province
24	Saigon Tourist Holding Company	Saigontourist	Hotels	HCMC
29	Hanoi Public Service and Transportation Co.	TRANSERC O	Passenger transport	Hanoi
37	Khanh Viet Corporation	KHATOCO	Manufacture of tobacco products	Khanh Hoa
40	HCMC Water Supply Co	SAWACO	Distribution of water	HCMC
50	Thanh Le Commercial Import Export Co	THALEXIM	Wholesale of crude oil	Binh Duong
85	Can Tho Agricultural and Animal Products	CATACO	Processing and preserving of fish	Can Tho

²⁶ The Domestic Top 200 list includes 117 central SOEs under the SOE Law, two central one-member limited liability companies, 14 joint ventures between SOEs and foreign partners, eight joint-stock or limited liability companies with the dominant state shares, etc.

	Company		and fish products	
88	Binh Duong Trading Investment and Development Corporation	BECAMEX	Building of complete constructions or parts thereof; civil engineering	Binh Duong
93	Hanoi General Production and Import-Export Company	HAPROSIMEX	Manufacture of wearing apparel	Hanoi
97	Phu Yen Material Company	PYGEMACO	Wholesale of crude oil	Phu Yen
100	Vissan Import Export Corporation	Vissan	Production, processing and preserving of meat and meat products	HCMC
103	Can Tho Sea Product Processing Export Enterprise	CASEAFOOD	Processing and preserving of fish and fish products	Hau Giang
105	Saigon Agriculture Corporation	SAGRI	Manufacture of fertilizers and nitrogen compounds	HCMC
124	Binh Duong Production and Import Export Co.	PROTRADE	Manufacture of wearing apparel	Binh Duong
127	Hanoi Trade Corporation	HAPRO	Wholesale of agricultural and forestry raw materials	Hanoi
129	Saigon Transportation Mechanical Corporation	SAMCO	Repair of motor vehicles	HCMC
131	An Giang Agriculture and Foods Import Export Co.	AFIEX	Wholesale of grains	An Giang
144	Ninh Thuan Agricultural Products Export Co.	NITAGREX	Manufacture of other food products	Ninh Thuan
145	Dong Nai Agricultural Products and Food Processing Import Export Co	DONAFOODS	Manufacture of bakery products	Dong Nai
152	Aquatic Food Trading Company	APTCO	Processing and preserving of fish and fish products	HCMC
162	Hanoi Clean Water Company		Collection, purification of water	Hanoi
166	HCMC Urban Environment Co	CIENCO	Solid waste disposal	HCMC
170	Dak Lak Rubber Co.	DAKRUCO	Growing of industrial trees	Dak Lak
172	Saigon Culture Company	SCPC	Publishing, printing and reproduction of recorded media	HCMC
180	Dong Thap Import Export Trading Co	DOCIMEX	Wholesale of grains	Dong Thap
184	Production Service Import Export Co.	TANIMEX	Renting of land	HCMC
195	Ben Thanh Tobacco Co		Manufacture of tobacco products	HCMC
136	Tin Nghia Import Export Co	TIMEXCO	Wholesale of crude oil	Dong Nai
163	Saigon Petro Co	Saigon Petro	Wholesale of crude oil	HCMC
165	Thang Long Metal Ltd.		Manufacture of cutlery, hand tools and general hardware	Hanoi

Source: Cheshier and Penrose [2007]

Notes: 1) Three enterprises from the bottom are local one-member limited liability companies.

2) Some enterprises in the list seem to apparently belong to organizations other than provincial People's Committees, and thus not covered in the provincial master plans.

Firstly, it is noted that, as expected, many of the largest enterprises are located in HCMC and Hanoi, while large-scale enterprises also exist in other provinces. In terms of region, southern provinces tend to have large enterprises. Of the 29 enterprises, 21 belong to provinces in the South East and Mekong Delta regions (of which 11 belong to HCMC).

Secondly, the list includes not a few GCs established recently. Nine GCs and one member company of a GC are found in the list, according to the information available to the author.²⁷ Of the nine GCs, up to seven were established after 2000.²⁸

²⁷ Ben Thanh Tobacco Co. is also counted as a GC here as it was transformed into the

Also, including non-GCs, at least 12 enterprises are operating under the parent-subsidiary company model.²⁹ This demonstrates that the integration and enlargement of large enterprises have been proceeding together with the restructuring of small enterprises.

Thirdly, many of these enterprises operate in sectors where they compete with private actors. There do exist enterprises providing major public services such as water (2), waste disposal (1) and public transportation (1),³⁰ but they are just one part. Some others including those dealing with tobacco manufacturing, publishing and wholesale of petroleum are operating in fields where the state sector so far maintains its monopoly. Others are operating in fields where private enterprises are also active. For instance, of the 29 enterprises, 13 engage in manufacturing, up to seven of which seem to mainly engage in light industry products production for export such as processing of agricultural or fishery products. Most large enterprises are operating in more than one line of business: taking these “side businesses” of large enterprises into consideration, the area for SOE-private competition would be even larger.

Fourthly, it is noticed that some large-scale local SOEs have changed their main line of business more than once in their not-so-long history, or are operating in multiple sectors that are very different from each other. Typically, local SOEs seem to have changed their business orientation or explored new fields at such junctures as the loss of their roles under the central planning system, the loss of the major export market due to the disintegration of COMECON, merger with other enterprises under SOE restructuring and liberalization of import export activities to non-state businesses.³¹ At

parent company of the newly-established Saigon Industry Corporation in 2005.

²⁸ According to the website of the Ministry of Planning and Investment, as of the end of February 2000, there were 76 GCs (established under Decision 90/1994/QD-TTg) nationwide, of which only nine were under localities.

²⁹ On the parent-subsidiary company model, see Ishida [2008].

³⁰ Only TRANSERCO operates passenger transportation as its main business, but SAMCO also provides public bus service.

³¹ For instance, BECAMEX IDE Corp. in Binh Duong was originally established in 1976 as Ben Cat General Trading Company, whose main activities were collecting and processing agricultural products and distributing consumer goods according to the state plans. After merging with seven other loss-making SOEs in 1992, the company expanded its business into producing and selling local specialties such as coffee, rubber, pepper and wooden handicrafts. Since 1996, in response to the liberalization of import-export activities, the company has proceeded to diversify its operations. Now its main business is construction, while it is also active in industrial zone investment, securities, pharmaceutical production, etc. BECAMEX IDC Corp. is the 49% shareholder of the Vietnam-Singapore Industrial Park, which was planned as a model for industrial park development in Vietnam. (FEI [2003: 425-428]; website of BECAMEX <http://www.becamex.com.vn/>)

a quick glance, it may seem that large-scale local SOEs tend to rest comfortably in protected and/or lucrative business, but they do seem to have had to successively adjust themselves to major environmental changes associated with the transition to a market economy. Events such as the formation of GCs and parent-subsidiary companies under the current phase of SOE restructuring could also be seen in this context.

6. Concluding remarks

The current phase of SOE restructuring is still under way, and it is hard to say that we have enough data to even evaluate its achievements so far. However, if we focus on its implementation at the local level, some signs of an important change can be observed. Vietnamese localities had built up rather diverse local SOE sectors in response to factors such as their respective geographic conditions and socio-economic situations. The ongoing SOE restructuring can be seen as an attempt to put an end to such a situation. Local SOEs have been restricted to either more-typical public enterprises under a market economy or large-scale enterprises in major industries. Many of those falling outside of these two categories have been de-nationalized mainly through equitization.

Consequently, some degree of standardization of the local SOE sector among provinces seems to have been taking place, with a group of enterprises providing what could be broadly called public services as a common element. On the other hand, a number of large local SOEs still continue to operate in the fields where private enterprises are also active, either as their main line of business or as a sideline. These companies have indeed been assigned more resources, while smaller enterprises have undergone restructuring. Nevertheless, even including these large enterprises, many indicators demonstrate that the presence of the local SOE sector is contracting, especially in areas generally not considered as the public domain.

One thing to note is that whether local SOEs have substantially withdrawn

Another example is PYGEMACO in Phu Yen. The company was established in 1981 as Tuy Hoa Material Supply Company, which engaged in selling fertilizer, pesticide, cement, etc. It was re-registered in 1992 as Phu Yen General Material Company. In an effort to overcome the vulnerability of quota-dependent export activities, the company established a factory to process cashews for export in 1995. Currently, it is one of the largest exporters of cashews in Vietnam. In 1999, the first oil storage facility in Phu Yen invested by PYGEMACO started operation. The company's main business at present is wholesale of petroleum.

(<http://baophuyen.com.vn/portals/0/Quangcao/vtth/baopy.htm>, retrieved 4 February 2009)

from certain sectors in certain localities is a question to be verified. The Vietnam Provincial Competitiveness Index survey which has been conducted by the Vietnam Competitiveness Initiative since 2005 uses a questionnaire which includes questions on issues such as the evaluation of provincial equitization policy and perception of provincial favoritism towards equitized local SOEs, in the eyes of private enterprises. The 2008 version of this survey reports that, of all enterprises that answered the question, 17% in the lowest province and 42% in the highest agreed to the statement that (provincial) favoritism towards equitized companies is an obstacle to their business. This suggests that there are cases (at least according to private enterprises' perception) in which relations between local authorities and the "restructured" enterprises remain largely unchanged even though SOE reform has formally been proceeding.

Indeed, there are a number of other issues to be addressed, too, such as how the remaining enterprises fare in fulfilling their mandates, how the large-scale local SOEs would be further screened, and possible differences in reform approach among provinces and their consequences (in terms of impact on local budgets, local policy implementation, or public service delivery, for instance). These are some of the possible topics for future research.

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