

WILL STATE COMPANIES BE EQUITIZED FASTER AFTER DECREE 44/CP?

by TRẦN TÔ TÙ

Recently, the Government has replaced Decree 28/CP with Decree 44/CP dealing with the task of changing state companies into joint stock companies (or equitization of state companies). This shows that the Government is determined to restructure the system of state companies and many people hope that this Decree will help accelerate the equitization program which has been carried out too slowly so far.

I. WAS IT SLOW OR FAST?

First of all, we had better examine whether the speed of the equitization program in recent years was slow or not. In fact, it's difficult to assess the equitization as slow or fast because there is no criterion for this program. More exactly, we have no master plan for this program with a definite deadline which enables us to make correct assessments.

In present conditions when both policy-makers, directors of state companies and the public have just begun to get accustomed to limited companies and stock exchange, when the Companies Act hasn't been perfected and the Government has only limited experience of selling companies, so we can consider the equitization of some state companies within some years as fast enough. On the other hand, if we take into consideration the demand for rapid equitization of state companies as a way to restructure the system of state companies and make the public sector financially strong enough to play the leading role in the economy, then the speed of equitization in the past few years was too slow.

Thus, the speed of equitization



isn't the problem when the Government hasn't set forth a master plan for equitization with clear-stated targets and a clear-cut deadline. What we should pay attention to are how this program is carried out and what lessons could be drawn from this program in the past few years. Unfortunately, the Government hasn't summed up the equitization of some state companies in recent years while the Decree 28/CP, and the Decree 44/CP, wanted to introduce this program at a larger scale.

For example, up to now, the pilot scheme to equitize state companies in the past provided no experience needed for the equitization of state companies in trading, tourism, foreign trade, agriculture and transport businesses. So there is no surprise when the equitization of state companies in HCMC- the city with the

biggest amount of state companies being equitized so far- met with a lot of difficulties needed to be studied and solved.

II. WILL THE EQUITIZATION BE FASTER AFTER THE DECREE 44/CP?

We must wait for the answer to this question from reality. It will be highly optimistic to think that the equitization will be faster after the Decree 44/CP. The equitization process depends on many factors this Decree hasn't provided for.

It's worth noting that the equitization is only part of a bigger plan: the plan to reallocate public investment and other resources, and restructure the system of state companies. To carry out this plan,

lists of state companies to be equitized must be made. If the Government keeps on waiting for ministries to make these lists, a lot of time will be wasted and this plan will never be done. At present, some ministries have made lists of state companies to be equitized but they considered them more as a formal response to the equitization program launched by the Government than as an effort to restructure systems of companies under their control. The equitization program can't be carried out faster if three lists of state companies to be dissolved, equitized and maintained aren't made.

Studying state companies equitized recently, we saw that it took from nine to 79 months (27 months on average) to complete equitization procedures. This waste of time came

our society: the red tape and the lack of coordination of governmental bodies. And now, even the Decree 44/CP delegates rights to equitize state companies and revokes audit of state companies during equitization, there is still no hope of faster equitization.

Moreover, it's useful to remind that the equitization of state companies is a process of selling them, and these commodities may or may not be saleable even if the seller wants badly to sell them. Some optimists think that state companies will sell out fast because there have been rushes for shares in some equitized companies. But at that time, the demand exceeded the supply because only a few state companies had been equitized. Will the supply exceed the demand when company after company is equitized?

III. ARE THERE ONLY TWO TARGETS?

Like the Decree 28/CP, the Decree 44/CP also asserts that the equitization of state companies aims at two targets:

1. Attracting capital from local and foreign individuals and organizations in order to replace old technology and equipment, create more jobs and improve competitiveness, thereby reforming the system of state companies.

2. Making workers real owners of the state companies in order to create new dynamic of the company, improve its business performance and raising workers' income.

Are they two only targets that the equitization aims at? Could it aim at other ones?

To diversify ownership of companies and combine local companies to improve their competitiveness is what the Government and Party have put stress on but it seems to me that full attention hasn't been paid to this policy. If local companies are still of small and medium size, they certainly go bankrupt when competing with foreign giants. This situation requires the Government to develop a strategy to support local companies, and at the same time, these companies must find out forms of broad cooperation as replacement for the form of bilateral cooperation that has become very common now.

The form of cooperation we suggest here is the group of companies whose core is a big joint stock company acting as a parent company. This parent company may be newly

formed, or equitized, or changed from a state company or a limited company.

At first, shareholders of the parent company consist of selected organizations: its suppliers, distributors, important customers and wholesalers (in a vertical amalgamation), or commercial banks, finance companies, mutual trusts, real estate companies and industrial park development companies (in a conglomerate amalgamation). After a length of time, the parent company can sell its shares on both local and foreign capital markets.

The cooperation is based on common interests (dividend shared out to shareholders and rise in price of shares on the stock market) enjoyed jointly by both parent company and other members.

Through this form of cooperation, the public sector can affect and control other sectors by holding a large amount of shares, instead of using administrative measures. Moreover, state-run corporations can adopt this form of cooperation in order to avoid obstacles arising from management mechanism, attract various sources of finance and expand into a group of companies with improved international competitiveness.

Thus, a company without a need for equitization can consider the equitization as part of its long-term strategy, that is, the equitization could be aimed at forming a cooperation between companies with common interests by selling their shares to one another.

IV. IS THERE A NEED FOR AN EQUITIZATION POLICY?

A head of a local government has once asked a foreign advisor: "What

do you think of the policy to sell shares on credit to workers of the equitized company?" The answer was another question: "What do you want equitization for? If you are a seller, you must pay attention to buyers with enough money to pay."

This dialogue shows that each policy has a definite target. There is hardly a multi-target policy.

Unluckily, in many companies equitized recently, their targets and policies haven't been defined clearly. All of them have adopted targets and policies proposed by the Government's decrees. In our opinion, a state company before equitization can arrange those three targets (including the third target suggested above) in order of importance, and then, appropriate measures and policies could be worked out.

For example, a company wants to increase its share capital, then value of all assets must be kept unchanged and more shares must be sold to its workers and the public, and only a very small amount of shares is sold on credit.

On the other hand, if the main target is to make workers real owners of the company, all measures could be taken to help workers become shareholders, and only a small amount of shares is sold to the government and the public.

If the equitization aims at forming the cooperation between companies, the most important problem is the structure of shareholders. The better part of shares will be sold to companies with close relations with the to-be-equitized company. The sale of shares must be based on the company's development strategy.

In short, no government decree can make state companies equitized overnight.

