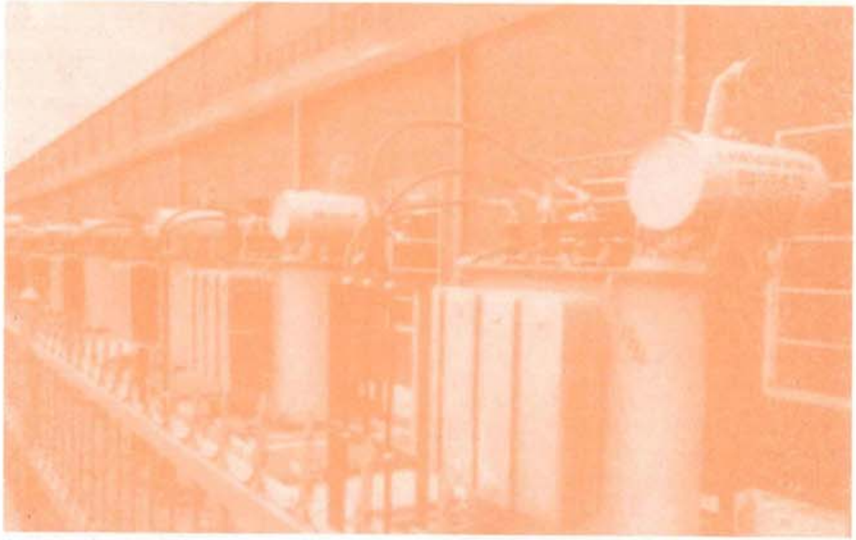
1. The need to determine objectivs for the privatization of government monopolies



Determining these objectives is important to the restructuring of state-owned companies, especially government monopolies and major corporations (referred to commonly as monopolies hereafter.) These objectives are stated in many circulars or decrees issued by the government in the past decade. They could be to improve the business performance, or enhance the role of workers as owners, or mobilize more capital for technological innovation, or create preconditions for the stock exchange, and so on.

But more important are unstated objectives pursued by either central or local governments. They prove to be main obstacles to the privatization program. Local governments

For The Success of the Policy to Privatize Government Monopolies

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and related governmental bodies could set up political or time barriers to obtain their objectives. For example, to turn workers into owners of the company, they could suggest selling the best part of shares to workers or limiting the number of shares sold to foreigners. But the most common argument is: the value of the company must be estimated exactly in order to take back money to the State, the more the better.

Perhaps these barriers aren't official reasons, they are only excuses. Official reasons sometimes lie in unstated objectives. It is because some governmental bodies don't want to privatize companies under their control. Both official and unofficial objectives affect strongly the privatization program. That is why the task of determining these objectives will affect the success of the program.

Then what are objectives of the coming privatization of monopolies? Are they similar to those of the previous program? In our opinion, the Government had better change its philosophy in determining the objectives for the present privatization of monopolies, and they could be even presented in a decree on this program.

To avoid unintended results produced by the last privatization program, the Government should affirm that this program aims at providing the public with benefits and services at low costs and improving the competitiveness of the whole economy in its integration process. The act of determining clear and long-term objectives could refute the argument suggested by high-ranking officials in monopolies which maintains that it is very hard to privatize monopolies because they have their own characteristics and they couldn't be evaluated correctly. Their argument makes the public and investors worry about the possibility of success of this program. If the Government is ready to pursue such long-term objectives, the revaluation of company's assets isn't much difficult. In this case, short-term objectives will be replaced by long-term ones. Arguments that tend to slow down the program will become less persuasive to the public.

2. Could the limit on the number of shares held by foreigners be raised or removed?

Although it is not publicized officially, the limit on the proportion of shares held by foreign investors reflects the fear of the flight of capital when foreign investors could send money to their home countries through capital accounts. Another reason is the fear of manipulation by foreign investors in privatized monopolies when the limit is raised.

As for the first reason, foreign experience shows that investors could send money home in many ways, such as transfer pricing. This fact explains the paradox when Italy decided to lift control over capital flows, the inflow tended to increase because foreign investors knew they could withdraw their money easily.

In Vietnam today, although the Ministry of Finance has made regulations against transfer pricing, we all know that foreign investors could do it as usual without facing protest from the tax agency. In addition, the present and development of derivatives, the outflow becomes simpler than ever. When both long- and short-term capital exist in capital outflows and inflows.

The international integration will force the Government, to allow foreign financial institutions offer the derivatives officially as their local counterparts did. This means that foreign investors have a wide range of practices to transfer their money home regardless of efforts by the Government to limit the proportion of shares they hold in local companies. The best way to prevent them from doing so is to make the business climate in Vietnam more attractive, thereby encouraging them to invest more in Vietnam instead of withdrawing money from this market. Apparently, the solution doesn't lie in the regulation about the limit on the proportion of shares allowed for foreign investors.

Another worry by policy makers is worth sharing: the act of raising the limit on the proportion of shares held by foreign investors relates to security of the national economy. However, the 30% limit allowed for foreigners seems too conservative, which could lead to another difficulty because this limit discourages most international financial institutions from investing in privatized monopolies. Realities show that only small mutual funds stayed and made investments in Vietnam and most of them are content with gathering information and waiting for more progressive changes. Most major funds have left Vietnam for 10 years and shown no sign of return. The necessary adjustment to the coming policy is to determine what industries should be under total control by the State. In my opinion, they could only be oil and electricity. As for other monopolies in steel, cement, engineering, chemicals, insurance, banking and aviation, the Government had better raise, and then remove totally, the limit on foreign ownership.

3. Opening markets for services on the way to WTO

Even if the monopolies are privatized, the public will be still able to worry about possibility of price hiking and poor services and goods from these privatized monopolies because the State still hold 51% of the share capital and can make direct or indirect interventions. In fact, the Vietnam Electricity Corporation (EVN) has tried its best to ask for permission to raise the price of electricity to US$0.07 per Kwh by 2005 regardless of protest from the public and disapproval from the Government. The argument that the EVN wants to hike the price to cover some 15% of the new investment in the coming year isn't persuasive enough. Moreover, recent increases in the prices of drugs and steel revealed the State failure to control market prices. Will the privatization of steel, cement or aviation monopolies with 51% of share capital held by the State ensure better quality and lower cost for services they supply? Although the Government requires monopolies not to let prices of they services and goods rise higher than those offered by regional counterparts, this requirement is ambiguous and could be interpreted in a manner that protects benefits of monopolies. They find it easy to make the best use of loose regulations and control to increase the selling prices.

The most basic shortcoming of the regulation is the fact that it is based on the purchasing power parity.. Adjustments to the price of services and goods from monopolies could make it equal to the common level of price in the region immediately, but the purchasing power parity is not in a static state. Other factor, such as inflation and exchange rates; and government intervention, can change the parity with the result that the public will suffer losses. It's worth noting that there is no theory of international trade and no reality shows that the purchasing power parity is the standard for decisions on the prices on the domestic market. These prices are determined by market forces while the purchasing power parity is only result of changes in the inflation and exchange rates. Moreover, one of the basic assumption for a common level of prices among relating economies, that is, the existence of a purchasing power parity, is only valid in a perfect market that is free from all barriers and restrictions from governments. Such a market has never existed in Vietnam. The regulation that allows prices on the domestic market to rise to the common level in the region is a disasrous loophole that could be exploited by monopolies to raise the prices. If it is the case, super-profit after the privatization will in the hand of shareholders instead of going to the public fund. Such a privatization is very harmful. The public may enjoy better benefits if they are still government monopolies.

Therefore, the most radical and long-lasting solution to the privatization of monopolies is to open the markets for these monopolized services and goods. Without carrying out this solution, the privatization pro-

gram for monopolies couldn't produce intended results. The Government should observe the markets- open-to- everybody principle. The privatization couldn't remove the monopoly totally. It must be linked with a new mechanism for fair competition in order to improve the competitiveness of the economy as a whole.

4. Evaluation of monopolies

The most controversial problem today is the evaluation of monopolies. The Ministry of Finance introduces a method that aims at preserving the State assets, which make the method less flexible and applicable. Regulations about formulas for evaluation and the role of a pricing commission introduced by the Ministry of Finance prove to be unrealistic because the selling and buying prices must be suitable to the state of market forces at specific times. At present, the Government wants to have monopolies evaluated by foreign consultant companies and put immovables up for auction because they represent a large proportion in the value of the monopoly. After that, shares could be sold openly on the stock exchange.

These principles are radical and suitable to international practices, but the greatest challenge, in my opinion, is the view on the evaluation of monopolies. Whatever prices worked out by international consultant companies are, they could be used for reference only. The most decisive factor is the acceptance of the market. What if the market only accepts a price lower than the one the Government offers? Will such governmental bodies as the Ministry of Finance who determines the price be responsible for this? If that is the case, we must consider it as a normal reaction of the public to the price because they think the consultant company may overestimate some factors.

The Government could deal with such situations by adopting only one fact: the value of a company is determined by the market force and independent from all evaluating methods and consultant companies. This is a great challenge to the privatization program. If it isn't solved, no authority is willing to approve the price of a monopoly even if it is suggested by a foreign consultant company with the result that the privatization program can't be carried out. It's worth remebering that all evaluating methods can only supply necessary information to both the seller and buyers.

5. Why are only preference shares issued after the privatization?

According to the plan to privatize the Bank for Foreign Trade of Vietnam (VCB), from VND2,000 to 2,500 billion worth of preference shares will be issued in 2004 equaling some 30% of the share capital. This information takes many investors by surprise because this class of share is usually non-voting. Explaining this decision, an SBV officials said, "This is a difficult task and it couldn't be done hastily." From the VCB example, the investing community is afraid that it could be "imitated" by other monopolies. This situation gives rise to the following qustions:

- Why does VCB issue preference shares instead of ordinary ones that allow more shareholders to take part in management?
- The price for the use of capital from preference shares is always higher than the price for loan capital because the preference share is riskier. Why does VCB issue these shares instead of securing loan capital?

VCB is one of the banks that obtain the best performance and investment in this bank is considered as the least risky. More often than not, such an enterprise need not mobilize capital by issuing shares, especially preference ones, to distribute risks because this practice is costly. What VCB need is managerial skills and experience from shareholders who want to see VCB become the first bank in Vietnam reaching international standards. If it doesn't need such contribution, it shouldn't issue preference shares and could look for loans instead. One official has said that the bank was considering how to make dividend high enough to attract potential investors. Why did they accept such irrational practice? Why didn't it welcome holders of ordinary shares - especially foreign ones- who are ready to share losses, profits, experience and managerial skills?

Considering those two questions and the regulation about the 51% of share capital held by the State, we could conclude that the VCB didn't want privatization and the issue of preference shares is a measure it takes to deal with this program. In other words, the policy to privatize monopolies hardly succeeds because it meets too many irrational obstacles. More importantly, these obstacles are set up by authorities of all levels with their own technical reasons. For example, banking authorities invoke reasons relating to the monetary policy, the post and telecommunications authorities speak of security or national defense, others refer the need to stabilize the economy.

This conclusion is beefed up when the public hear some high-ranking officials call for a longer track and time for ministries to study carefully the privatization of monopolies. Cautiousness is necessary but we will pay the penalty for prolonging the program too much. And more important is the loss of trust in the Government when the public and foreign investors are kept waiting for the Government to carry out what it promised. If the Government has no official and radical viewpoint, the privatization of monopolies this time will end in the same failure as the old one did.

6. Problems with policies

From the above analyses, we can see problems the Government should deal with to carry out the program successfully:

- Determining objectives for the privatization of monopolies.
- Privatization of monopolies must be linked with negotiations with trading partners about liberalization of markets for the monopolized goods and services on the way to the WTO in order to enhance the competitiveness and prevent monopolies or major corporations from making super-profit unfairly.
- Observing the principle of letting the market price companies.
- Are reasons for the State to hold 51% of the share capital sound enough?
- When do monopolies issue preference shares when starting the privatization? Will monopolies still be state-owned companies after the privatization? There is no company in the world with the State holds 51% of the share capital that is called a joint stock company. It is really a state-owned one.
- To what extent could monopolies invoke technical barriers and other reasons without hindering the privatization program? Many technical barriers of this kind make the public confused. The head of the post and telecommunication service has even said only doctors in this field could give opinions about this monopoly while doctors in information technology have no expertise to present their viewpoints.
- Publicizing a specific list and track for the privatization of monopolies and sanctions against violations.■