

## I. PHASES OF PRIVATIZATION

### 1. Pilot phase

This phase, started by the Decision 202/HĐBT/CT by the Council of Ministers, lasted from Aug. 2, 1992 to the second half of 1996 when the Decree 28/CP by the Government decided to introduce the pilot scheme to a larger scale. In this phase, the privatization was still strange to Vietnam and only a handful of directors of state-owned companies supported this policy (most of them were in the Southern provinces). Certain companies agreed at first to take part in this program, such as the HCMC-based Binh Minh Plastic Company under the Ministry of Light Industry. After working out the privatization plan in cooperation with the Central Board of Privatization and the Ministry of Light Industry, its leadership decided to drop this plan because they thought it could cause harm to their company. As a result, the pilot program could only privatize 14 state companies after three years and nine months, that is, less than four companies a year. Most of them were small-size companies capitalized at less than VND6 billion (Hiệp An Footwear Company, Container Transport Service Company, and Refrigeration Engineering Company, etc.)

After the privatization, however, these companies improved their business performance remarkably. Their capital increased by 120% compared with the period before the privatization. Their workforce increased by 38%, sales by 245%, profit by 220%, tax payment by 287% and average wage by 47%. These results were initial success of the program and helped clarify basic problems to be solved during the privatization, and more important, reveal obstacles to the program, such as relations between interests of laborers; company and the State, legal infrastructure, administrative procedures, and other technical issues.

### 2. Expanded pilot phase

Based on results of the 4-year pilot program, the Government made the Decision 28/CP on May 7, 1996 on "Turning some state-owned companies into joint stock ones." This Decision introduced policies and guidelines needed for dealing with obstacles and carrying out the privatization at a larger scale. Some important points in this Decision were:

- Introducing principles for classifying state-owned companies,

# Looking Back on the Privatization of State-Owned Companies

by Prof. Dr. VŨ HUY TŨ

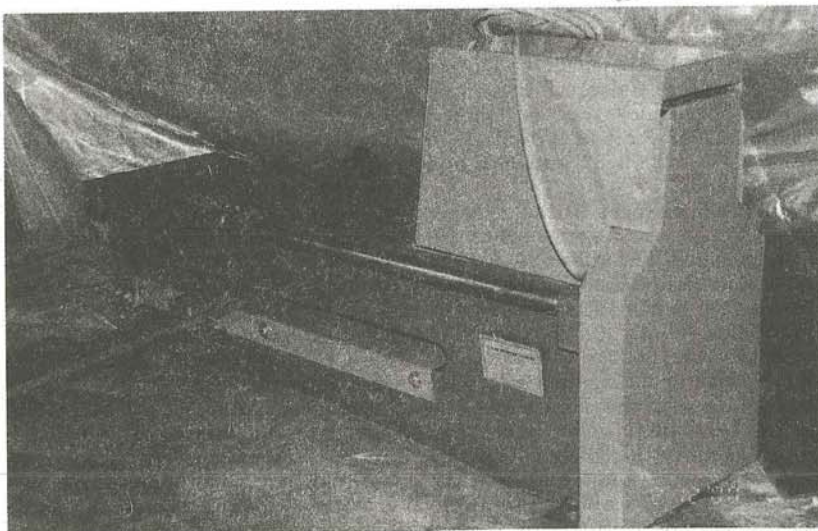


Photo by Hoàng Tuấn

- Making lists of industries and fields included in the privatization program according to the reform policy adopted by the VCP 8<sup>th</sup> National Congress,

- Asking ministries to issue guidelines on problems relating to the program (finance, labor, social insurance, method of privatizing, etc.)

This phase lasted for two years, from June 1996 to June 1998. The number of companies taking part in this program amounted to 100 and 80 of them were privatized, a much higher number compared with the first pilot phase. One of important stimulus for the program at this phase was the Notice No 63-TB/TW issued by the Politburo on April 4, 1997 providing its opinions about the program. It affirmed again the determination to privatize state-owned companies and stressed the responsibility of VCP units in such companies.

### 3. Large-scale privatization

This phase lasted for four years from the Decree 44/1998/NĐ-CP dated June 29, 1998 on the "change from state-owned to joint stock companies" to the Decree 64/2002/NĐ-

CP dated June 19, 2002. This is the longest phase compared with the others and the one that achieved the best result with 896 companies privatized. This result originated from achievements in the first two phases and from the Decree 44/CP that introduced various measures to deal with obstacles to the program and policies to transform the ownership of state-owned companies. These policies dealt with debts owed by state-owned companies, evaluation of assets, use of company's funds, interests of laborers, tax incentives, mobilization of new capital, and solutions to redundancy. In this phase the decision to privatize the company wasn't made by the leadership of the company but by the body that established the company, that is, the central government, ministries, chairpersons of provincial people's committees and directors-general of corporations.

### 4. Privatization after the 3<sup>rd</sup> Conference of the VCP Central Executive Committee of the 9<sup>th</sup> term

In fact, this phase has lasted for only one year from the Decree



64/2002/NĐ-CP dated June 19, 2002 up to now. The Decree repeated the task of reforming the performance of state-owned companies in the years 2002-05 set forth by the 3<sup>rd</sup> Conference of the VCP Central executive Committee and introduced new measures to achieve target set for the privatization program up to 2005.

To carry out this task, the central government and ministries have issued some 20 documents relating to the privatization in order to clarify objectives and methods of privatization, rights to shares issued by the privatized companies, obligations and rights of privatized companies, government protection for investors, evaluation of company assets and liability, use of proceeds from the sale of shares held by the State, policies on privatized companies and their workforce, etc. However, the program slowed down in this phase. It privatized only 180 companies in 2002 and 60 others in the first half of

2003 compared with 265 privatized in 2001.

In my opinion, there are four causes that slowed down the program:

- Both governing bodies of the company and the workforce didn't support the program for fear of losing positions, jobs and relating interests. All of them are too dependent on subsidies from the Government.

- The central government itself, or more exactly, its high-ranking officials, want to keep controlling all industries regardless of whether they are key ones or not.

- Different markets needed for the development of privately-run companies haven't come into being or have just been in their first stage of development. And as a result, the legal infrastructure for the mixed economy hasn't been perfect.

- The Government is slow to issue guidelines and directives on the privatization at provincial level. The

Decree 64/CP was issued nine months after the Resolution of the 3<sup>rd</sup> Conference of the VCP Central Executive Committee. All ministries took a long time to issue long-awaited guidelines on the said Decree in 2003.

## II. MEASURES TO ACCELERATE THE PRIVATIZATION

### 1. Targets set for the year 2005

In June 2003, 105 privatization plans prepared by ministries and provincial authorities were approved by the Government. The overall target is that the State will control only 1,920 companies by 2005, and most of them are public utility services and some monopolies. This means that 3,255 state-owned companies are to be privatized in the years 2003-05. Of this number, some 70 (3%) will be dissolved

698 sold or leased, and 2,500 (77%) privatized. In 2003 the program plans to privatize some 860 companies. This is no easy task.

### 2. Main measures

(1) Meanings, objectives and benefits of the privatization must be disseminated among managers and laborers of companies in question, especially ones the Government needn't keep under total control. In addition, those who hinder or cause difficulties for the program must be punished properly.

(2) The Government keeps removing the old mechanism in which the state-owned companies should be under control of either ministries or provincial authorities in order to ensure the autonomy in business for companies and rights of the owner for the State.

(3) Organization of corporations 90 and 91 must be reformed as required by the Decision 58/2002/QĐ-TTg made by the PM on April 26, 2002 with a view to diversifying the ownership of affiliates of the corporation. The reform must aim at turning the corporation into a holding company that holds more than half the share capital of the affiliates.

(4) Necessary measures must be taken to develop all kinds of markets for real estate, securities, labor, technology, etc. This means that the Government had better recognize these commodities and the trade in them.

(5) Cooperation between governmental bodies at both provincial and central levels must be beefed up and expertise of related officials must be enhanced in order to facilitate the program. ■

