



Vietnamese-Style Group of Companies

by Ass. Prof. Dr. TRẦN NGỌC THO

Vietnamese groups of companies are cloned hastily and they have become clay-footed giants with the task of coping with foreign challenges and competition. Success is still uncertain but the risk degree is too high. In economists' eyes, this is an unwise decision. It's advisable to establish only one group or two in a pilot scheme if it is much needed. Don't make it a fever.

1. From an idea

Ten years after the PM made Decision 91 on a pilot scheme to establish state-owned corporations in form of group of companies, 18 corporations have come into being and gained some achievements. They are the biggest concerns in Vietnam, hold most of state capital in companies, account for 70% of the budget income from the public sector, and become useful instrument for regulating the whole economy because they have total control over certain industries (97% in coal, 94% in power supply, etc.)

Their operations in the past few

years, however, started to reveal shortcomings. Affiliates are grouped by administrative decisions, therefore in fact, the establishment of corporations is act of gathering state-owned companies in the same industry and market segment. In addition, board of directors has a minor role and acts as an intermediary between the director-general and governing ministry, and it has no autonomy in working out strategies for the corporation.

In addition, the administratively-decided relation between corporations and their affiliates is the one between superiors and subordinates instead of between investors and investment recipients and not based on division of benefits. As a superior, however, the corporation has no investment in its affiliates that have operated independently, and as a result, its superior position exists only on paper. Few corporations among 18 ones established by Decision 91 do well the task of coordinating and regulating efforts and resources of affiliates. That is why the corporation's performance

was poor.

Is establishing groups the only measure to deal with the above-mentioned shortcoming?

Is establishing groups one of measures to deal with foreign competition when the domestic is open as required by the WTO?

The establishment of groups is carried out hastily and it looks like a fever when six out of 18 corporations are turned into groups in a pilot scheme: Post-Telecommunications, Cement, Oil, Coal, Electricity and Clothing Corporations. But a group of companies is not mere an addition of companies.

2. To groups of Vietnamese style

Policy-makers want to establish as fast as possible Vietnamese groups in order to cope with challenges brought about by the international integration. Besides the above-mentioned corporations, state banks also want to form a group. And more recently, the state-run HCMC Fund for Municipal Development is planning to develop into a group.

Vietnamese state-run groups

come into being with decision by the Government in which corporations and their affiliates are rearranged and reorganized (instead of being merged, acquired or amalgamated), and the State holds 100% of capital of most important company members, 50% in less important ones, and less than 50% in some others.

A high stake held by the State reflects an obsolete way of thinking that wants to maintain the leading role of the State. In this trend, many other groups will be cloned while most corporations and affiliates gain poorer performance in comparison with non-state companies.

Strangely, there are public utility companies in these groups because in nature these companies don't aim at profit or pay much attention to competition. And as a result, some groups have to support some public utility companies.

WB experts are of the opinion that a group in the world is very different from what Vietnam is trying to establish. Moreover, local economists and even persons responsible for building these state-run groups couldn't identify the Vietnamese style group.

According to the WB, the nature of a group is determined by the accounting standards, while local groups are applying Vietnamese accounting standards. Besides, there are many other problems, such as mechanisms for managing and supervising groups, procedures for declaring bankrupt, overseas investment by the group, its ownership structure, etc. These problems of the nature of a group are still totally strange to Vietnamese groups. They don't even have a solution to the use of hired director, one of the simplest problems. Perhaps this is the reason why other corporations, except for the Post-telecommunications Corp., couldn't work out their plans to develop into groups.

Vietnamese style group model has been discussed on media and at research centers, and many foreign

experts have been asked for opinions. They all felt confused and couldn't introduce any model for Vietnam because there is no precedent in the world for groups established by administrative decisions. After many discussions, these foreign experts could only advise extreme caution. The only reason for their opinion is the fact that China, a giant compared with Vietnam, has had only three or four groups up till now.

3. A new risk for the economy

There are many risk involved in the formation of such groups but the predictable one is whether such groups could cope with financial shocks. Many large-scale but badly managed Korean chaebols collapsed in the 1997 financial crisis while many small-size Taiwanese companies survived.

When large sums of money are put in groups where nobody involved has a clear idea about them, a regional financial crisis, or an oil shock, or a global depression will certainly affect badly the economy and make millions of people fall into poverty because of bankruptcies of groups.

In addition, Vietnam is facing corruption in large corporations. A WB anti-corruption survey in 2004 shows that the bigger the size of groups, the more uncontrollable the corruption, which makes the production cost increase remarkably and reduces the group's competitiveness. Right after the plan to form the Post-Telecommunication Group was announced, it was disappointed to find that high-ranking officials had connived with suppliers to increase prices of equipment bought by 45 times, and all leaders of the future groups, when asked, said they knew nothing about it.

At present, there is no mechanism for supervising investments made by corporations in local or foreign joint ventures. The press have recently discovered that the EVN had bought fake electricity meters from a company run by insiders.

The formation of groups in Vietnam is only in preparation stage and the size of these groups is not big, but the corruption is widespread because of the lack of a mechanism for supervising their operation. How can we discover corruption and embezzlement cases when state-run groups come into operation and larger sums of money from the State are put in them?

4. Better competitiveness instead of new super-monopolies

With all capital held by the State and direct or indirect intervention from the Government, the public and non-state companies will have to depend on state monopolies for years to come. Realities show that in spite of protest from the public opinion and disapproval from the Government, the EVN insists asking for permission for raising the selling price on the grounds that it need more money for development plans while its service is very poor. Blackout is common during the dry season. Only super-monopolies could survive and develop well when they charge higher prices and reduce product quality instead of gaining more profit by improving their performance.

Realities show that the only way to help groups come into being and operate well is to liberate and open all markets to both foreign and domestic competition in order to create counterbalances to state monopolies and allow more options for consumers.

Conclusion: All groups in the world develop by degrees according to economic laws while groups in Vietnam are cloned by administrative decisions. They will become clay-footed giants and this effort will certainly lead to very high degrees of risk. This is an unwise decision. Policy-makers should cautious about forming too many groups when necessary conditions are still lacking. If this is an urgent task, Vietnam can only form one, or two at most, group in a pilot scheme because the money put in the state-owned groups is from taxpayers ■