

EQUITIZATION AND THE GOVERNMENT'S ROLE OF ECONOMIC REGULATION

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I. THE NECESSITY OF EQUITIZATION OF STATE ENTERPRISES

Before Decree No 388 was issued, there were approximately 12,000 state enterprises. According to statistics, we can feel sure of the leading role of the public sector in our economy. This sector produced 36% of gross social product, 56% of gross industrial product and contributed 60% of the national budget. But studying economic performance, we can see a lot of weaknesses in this sector.

Holding over 90% of gross investment, 80% of total bank loans but only 20% or 25% of these enterprises made some profits, 30% or 35% of them suffered losses, and the rest faced financial difficulties or could only make ends meet. On the other hand, the average rate of return of this sector reached only 0.97% per year in comparison with 2.16% per year in other sectors. Thus, 1 VND invested in the public sector could make a profit of VND 0.04 per year only in comparison with 0.12 in other sectors.

Causes of this situation could be as follows:

The state enterprises have been lasting a long time in subsidized mechanism. The government took the

profits, suffered losses, invested for development and prevented these enterprises from competition of other sectors.

The government owned the assets of state enterprises but didn't control them directly. Directors were assigned to manage these enterprises. This led to workers' indifference to the public assets and efficiency in using them. As for directors, although they were assigned to manage the enterprises, they knew that they had no ownership of these enterprises. If something is under the people's ownership, it's under ownership of an individual also, but this individual has no right to use it of his/her own free will or to decide what to do with these enterprises. If directors care about enterprise's future they should be prepared for risks. If they fail, they could be fired or disciplined; if they succeed, they have no hope of a deserving reward. If they are of an age when they ought to retire, they will not care about any risky opportunity.

As a result of these causes, the state enterprises

formed no relation between workers and means of production, and annihilated their creativeness and activeness.

Equitizing the state enterprises is a way to solve these problems, and to make the best use of country's resources.

Equitization is a way of changing a state enterprise into a joint-stock company. It's business comprising many private persons, or a joint venture between the government and private persons in which the private persons hold the better part of shares.

Joint-stock companies are called various names: Société Anonyme in France, Limited Company in England, Incorporated in the USA... but there is no difference in their nature, organization and operation.

A joint-stock company has its own legal entity, its operation is oriented and managed by a board of directors and a director. Shareholders are owners of enterprise's assets and the board of directors is elected by them.

Equitizing some state enterprises aims at restruc-

turing the public sector, and on the other hand, aims at realizing the following targets:

Diversifying the ownership with a view to encouraging competition and creating dynamic of economic development.

Identifying the real owners of the company. These owners, for the sake of their own interest, will work hard and actively to make the best use of company's assets and capital, and improve economic performance of the company. By doing this, the company will satisfy the market demand as best it could.

Saving the government from expenditures on these enterprises and at the same time, bringing back some money by selling shares. The government can keep on collecting taxes from these companies. The tax take could be bigger because these companies, after equitization, could make bigger profits. The national budget will be healthier and it can invest in more important plans in order to direct and regulate the economy.

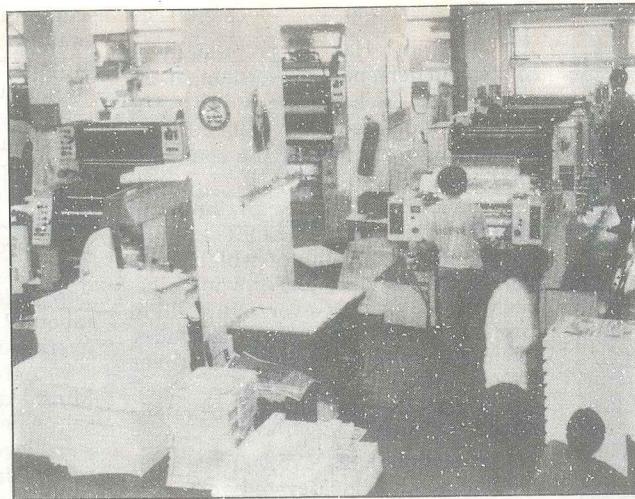
Helping capital market form and develop through issuing shares and bonds. The capital market will play an active role in mobilizing capital from

home and abroad, and encouraging personal saving.

Preventing companies from unnecessary intervention of administrative bodies. The companies can operate more actively and independently. On the other hand, on account of the nature of joint-stock company, the government's fund for doing business could be separated from the national finance in general, thereby avoiding a common situation in which the national budget is burdened with all failures of state enterprises.

The public sector couldn't be removed from the economy, but its percentage in the national economy need not be invariable. In well-developed industries, the government can equitize its enterprises there and transfer capital to other industries which need investment. By doing so, the government can realize planned projects and orient the economy towards desirable targets.

Equitizing the state enterprises is a process of changing the government's role from doing business directly to creating conditions favorable for activities of businesses. It's also a measure to limit corruption and preserve the



government's property.

II. DIFFICULTIES AND PROBLEMS SHOULD BE SOLVED

After pilot equitization of some state enterprises, the following difficulties and problems have arisen:

1. Difficulty in estimating tangible and intangible assets of the state enterprises: When the enterprise's assets aren't estimated exactly, either buyers or the government will suffer losses. On the other hand, it's hard to make a success of equitization because buyers never buy shares when they haven't got exact information about the enterprises.

This difficulty comes from:

- Most of the tangible assets of the state enterprises were sold at the lowest price to Vietnam by Socialist countries, because they were considered as a kind of help. So that price was far from actual price.

- The assets were estimated by enterprise's accountant at lower price in comparison with their actual value.

- Amortization was not calculated according to regulations. If it was done according to regulations, it can be unappropriate to the reality.

- It's hard to measure

exactly invisible attrition of equipment.

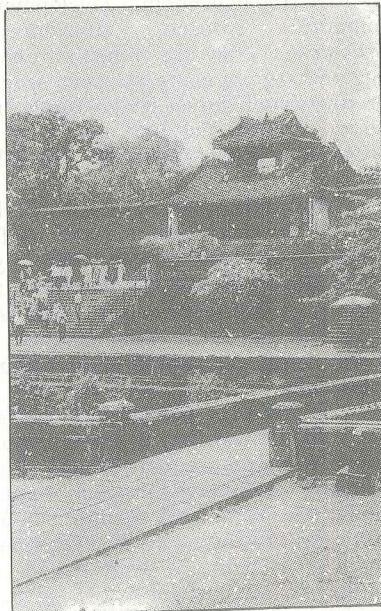
2. As for directors and leadership, they usually think that they will lose their interest and position, which can last for a long time in a state enterprise, to the board of directors after equitization. On the other hand, they had got used to subsidized mechanism and couldn't see the superiority of joint-stock company to the status quo. If their enterprises are making profits, they will satisfy and say no to any change.

3. As for workers, they can't buy shares because their income is low. Their knowledge of equitization is limited, or even incorrect. Besides, some of them want to depend on the government for job, income, housing, pension...

4. We lacked many conditions favorable for equitization: strong measures and policies, and a well-developed stock exchange.

These difficulties are problems which should be solved radically and completely in order to realize the equitization of the state enterprises successfully. In this task, the government has to give proof of its determination ♣

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