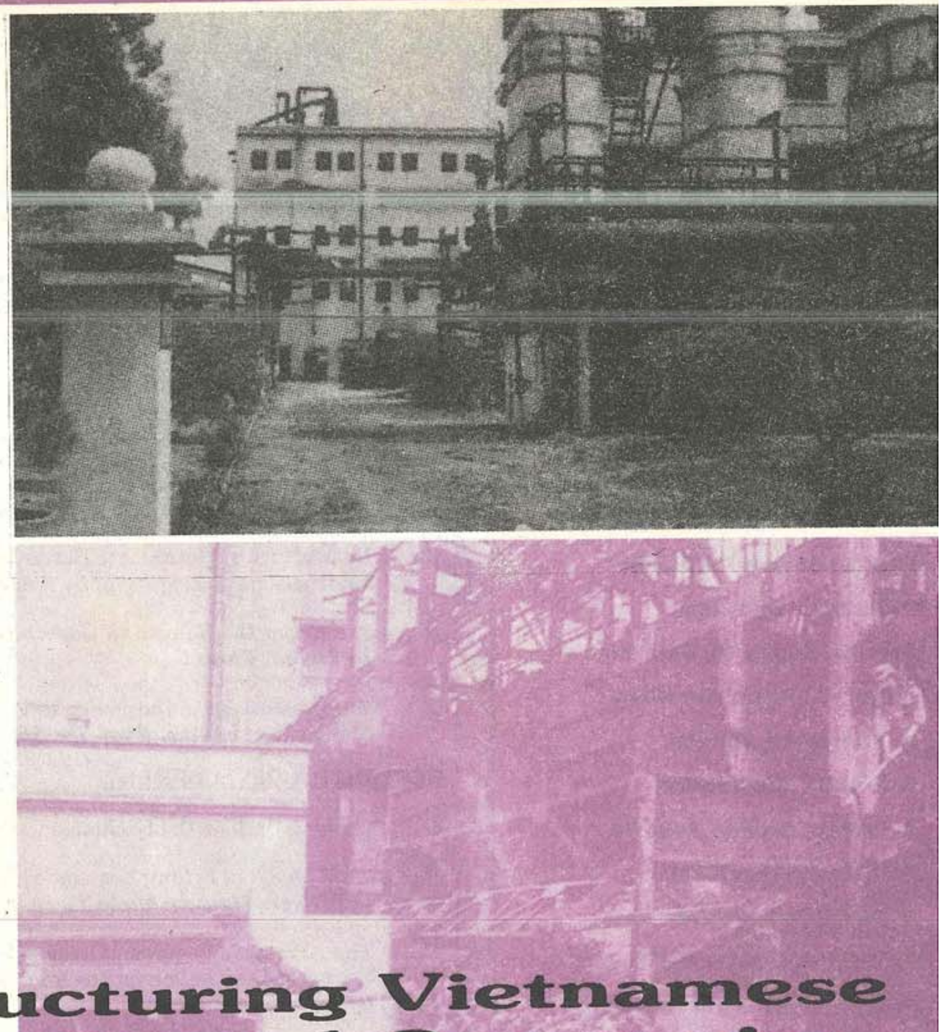

Restructuring Vietnamese State-Owned Companies for International Integration

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In recent years, companies of all kinds and forms have been established in Vietnam. Their competition has helped accelerate the economic growth and improve the living standard. Their organization, however, has revealed many shortcomings that affected badly the business performance and prevented them from coping with changes in the business climate. That is why measures to restructure companies become urgent.

1. Shortcomings of the organization of companies

a. The organization of state-owned corporations and companies is usually based on horizontal relations between administrative bodies instead of on cooperation, with the result that they fail to cope with changing situations.

b. Rights and duties of units, individuals and various levels of management aren't clarified. Rights aren't delegated (or delegated poorly) to subordinates. Information system is separated from governing system, which hinders the development of the company.

c. Rights aren't linked with duties, which makes it hard to determine who are responsible for failures.

d. Most state-owned companies are overstaffed while delegation of work isn't clear enough, which leads to conflicts between departments and between managers.

e. Assets belonging to the corporation and its subsidiaries aren't divided and defined clearly. Legal entities held by the corporation and by its subsidiaries aren't ensured, with the result that the corporation, along with its subsidiaries, isn't a unified force.

f. The corporation not only controls part of the share capital of subsidiaries, but also provides them with market shares and necessary know-how, while policies on the public sector (relating to capital accumulation, reinvestment, amortization, business autonomy, etc.) fail to help the corporation and its subsidiaries develop into a strong group.

2. On a reform in the public sector

The reform, or restructure, in this sector must aim at improving the business performance and competitiveness, and making state-owned companies a real instrument for modernization and industrialization; and developing the socialism-oriented market economy.

Companies in the public sector could be divided into the three following groups:

(1) The State holds the whole share capital of companies operating in industries that must be under government monopoly or beyond the reach of private companies; and defense-related industries. Companies of this group couldn't be privatized or go public and they operate according to the State-Owned Companies Law.

(2) The State holds the whole, or more than half the share capital of companies operating in key industries that determine the sustainable development and serve the good of the community. They include mostly large-scale companies accounting for major budget income and leading the way in application of high technologies.

Companies of this group could be privatized with more than half the share capital held by the

State; or turned into limited companies totally controlled by the State; or turned into joint stock companies whose shareholders are state-owned companies operating according to the Companies Law.

(3) The State doesn't invest in; or hold any shares; or hold only a small number of shares of companies of this group. It includes companies that don't operate in industries housing the two abovementioned groups; and companies suffering losses for years and failure to pay taxes and other financial obligations.

Companies of this group could be privatized, sold, leased, dissolved, or merged with others.

As for state-owned corporations established by PM Decisions 90 and 91 issued in March 1994, they must have big legal capital, ability to mobilize various sources of finance, close relations and cooperation with other partners in various industries, modern technologies and management methods, high productivity, and strong competition on both foreign and domestic markets. If they fail to reach these standards, they could be restructured or turned into other forms of state-owned companies.

The State had better maintain or establish state-owned companies in the following industries: oil exploitation and refinement; fuel trading, production and distribution of electricity and coal, metallurgy, engineering, cement, post- telecommunications, aviation, railroad, shipping, chemicals and fertilizer, pharmaceutical, construction, food trading and processing, banking and insurance.

As for state-owned corporations of smaller scales (under VND500 billion) operating the abovementioned industries, they could be dissolved or restructured by turning into other form of companies regulated by the Companies Law.

In industries where conditions are favorable enough, certain corporations could be merged into economic groups, especially in oil, telecommunication, electricity and construction.

3. Reforming the establishment of state-owned companies

Most state-owned companies could be established as joint stock companies according to the Companies Law. The establishment of new companies is only under consideration when the cases are urgent, conditions are favorable, and the industries in question are of key positions. The State had better establish new companies only in industries which the State want to monopolize or are beyond the reach of private companies. The establishment of new public utility companies must be considered strictly with a view to supplying good services and commodities to the public.

Procedures for establishing new state-owned companies must ensure good control for the State and prevent poor business performance and structure caused by unruly establishment of state-owned companies.

In the coming years, the number of new state-owned companies is not high, only one governmental body is needed for estimating establishment plans. This body is responsible to the central government and the establishment of new state-owned companies, after getting approval from the goverment, will be carried out according to current regulations.

4. On policies on state-owned companies

To ensure fair competition and encourage autonomy in business, the State had better cut all subsidies to state-owned companies and give preferential treatment through the tax policy if need be. For the time being, necessary measures must be taken to handle debts owed by state-owned companies to banks and public funds. After that, a debt and asset management company could be established to deal with this problem.

Anti-trust and Fair Competition Laws are much needed for protecting consumers' interests and encouraging companies from all sectors to compete and cooperate within the framework of law. In addition, the State should develop a mechanism for controlling prices and regulating super-profit and avoid letting only one state-owned company operate in monopolized industries.

After restructuring state-owned companies, the State must provide them with necessary starting capital and stop requiring them to make contributions to the budget, thereby encouraging them to operate in the same manner as private companies. No more capital could be supplied, and if any, it must be considered as investments on the condition that they are productive enough.

All state-owned companies must ensure annual audits carried out by independent auditing companies. Auditing result will serve as a legal basis for estimating the business performance and possibility of surviving of the companies.

We believe that strong measures could enhance the public sector and help them compete fairly and successfully with all rivals on both foreign and domestic markets, thereby integrating the Vietnamese economy into the world market and ensuring the socialist orientation of the economy.■