REARRANGEMENT OF STATE COMPANIES

SITUATION AND PROBLEMS TO BE SOLVED

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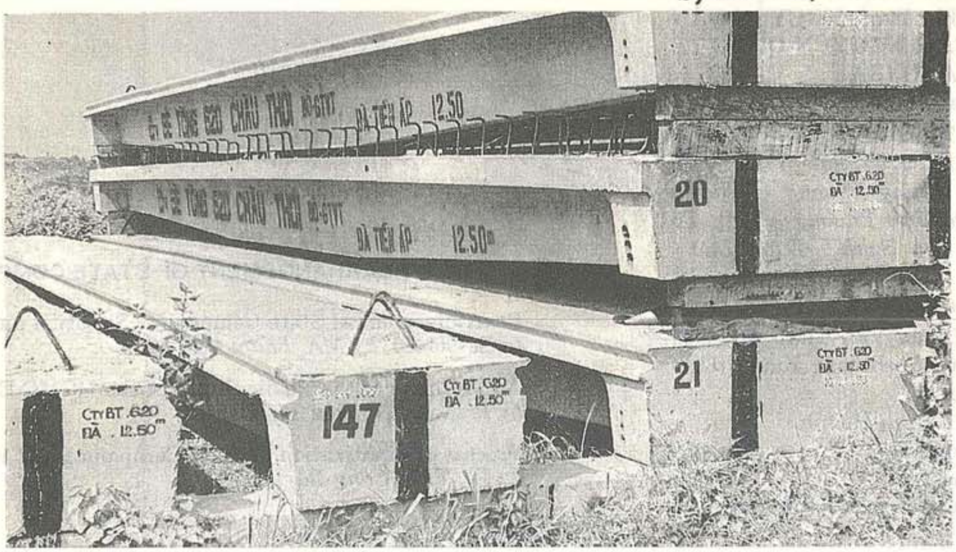
I.STATE COMPANIES AFTER 12 YEARS OF ECONOMIC REFORM

After 1975 when the country was unified, Vietnam had a great opportunity to develop, however many things, such as disastrous consequences of the long war, low starting point of the economy, poor relations with neighboring countries, and especially, mistakes in economic policies; combined to put Vietnam in a serious economic crisis in 1985.



In the 10-year period from 1975 to 1985, the national income increased by only 3.7% a year, agricultural output by 3.8% and industrial output by 5.2%. Production grew slowly and inflation rate reached a three-digit level and peaked at 774.7% in 1986.

The 6th VCP National Congress in December 1986 set forth new policies on economic reform and affirmed that the main dynamic of the economic reform was innovations in economic managing machinery. The economic reform has produced remarkable results, helped Vietnam pass its crisis and created solid preconditions for development: the annual growth rate increased from 4.9% in the years 1986-90 to 7.7% in the period 1990-95 while the inflation rate reduce from 774.7% in 1986 to 12.7% in 1995.

The economic reform shows that the role of the public sector has become more and more important. Before 1986, the public sector represented only 38% of the GDP and this percentage increased to 42% in 1995. The growth rate of the public sector in the early 1990s was 10.5% in comparison with 6.1% realized by the non-state sectors.

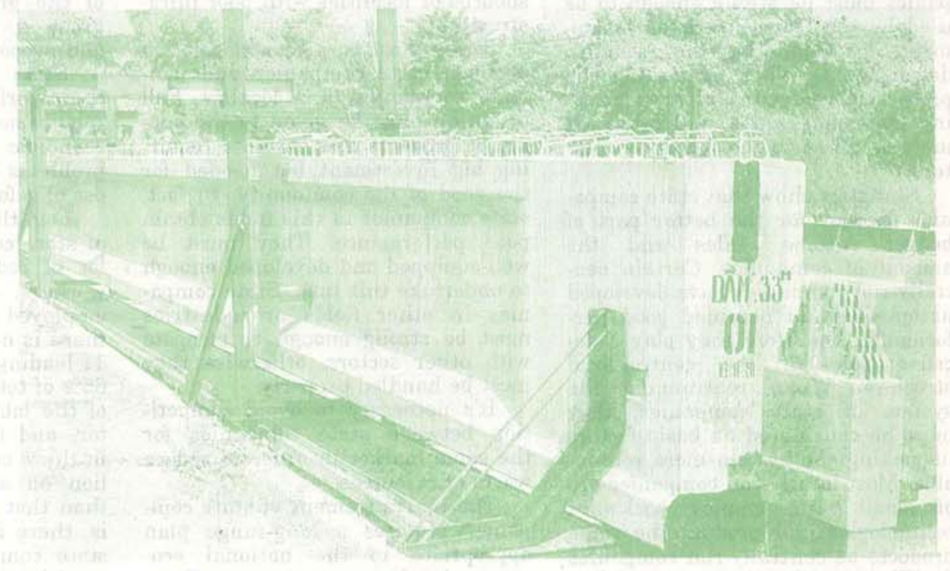
When the new economic mechanism* was introduced, most state companies faced shortage of capital, poor technology and poorly-prepared business strategy. That is why one of main objectives of the reform in the public sector was to restructure and rearrange state companies with a view to keeping government investments from being thinned out and improving the performance of state companies. To achieve this objective, many measures have been taken (making new register of state companies, dissolving loss-making state companies, equitizing state companies, forming major corporations, etc.) and they have produced good results to a certain extent. The process of rearranging state companies has gone through two major stages:

-Stage 1 (1990-94): Main tasks in this period were: reorganizing state companies, dissolving loss-making companies, and beefing up companies with good performance. The Government issued the Decree 388/HĐBT, Decision 315/HĐBT and Instruction 500TTg to rearrange the system of state companies. The number of loss-making companies was reduced remarkably: from 12,296 in 1989 to 5,962 in 1995 (1,953 of which were under the management of central governmental bodies, and 4,009 under local governments. Of state companies stopping operation, 35% of them were dissolved and 65% merged. Most of them were of small scale and suffered great losses.

The rearrangement of state companies has helped to improve the business performance of the system, reducing the proportion of loss-making companies from 35% in 1990 to 9.7% in 1994, and increasing the proportion of profit-making companies from 63.5% in 1991 to 78% in 1995. Net profit made by this sector increased from VNĐ3,275 billion in 1992 to 7,151 billion in 1994 and 13,480 billion in 1995. In 1995, return on capital reached 19.2% and return on sales reached 5.55%. According to the Ministry of Finance, the outcome of VNĐ1,000 employed by state companies was as follows:

Results	1900	1994	1995	Comparison	
				1995/1990	1995/1994
Sales	2,672	2,850	3,458	129.4%	121.3%
Profit	96	142	193	201.0%	135.9%
Payment in tax	357	450	322	90.2%	70.1%

The rearrangement of state companies also helped to reduce government subsidy from something equivalent to 8.5% of the GDP to 0.5% while the share of state companies in the GDP increased from 32% in 1994 to 42% in 1995.



-Stage 2 (1995-96): In this stage, the system of state companies was made more reasonable and effective, therefore it could play the leading role in the economy. The Government formed 18 general corporations (by the Decision 91/TTg) and 73 corporations of smaller size (Decision 91/TTg) in order to concentrate capital and other inputs needed for improving the competitiveness and establishing strategic orientation of key industries. These corporations controlled some 2,000 state companies (equaling 30% of state-run companies or 70% of centrally-run companies) and 80% of capital and gross output of the public sector. This means that they could cause great effects on the economy as a whole.

The rearrangement of state companies has apparently produced encouraging effects, however, it also had defects and created obstacles to operation of state companies. Some major ones are as follows:

1.After rearrangement, many state companies keep on making losses: Since the beginning of 1997, only some 300 out of 5,000 state companies have been able to make profit and have shouldered over 80% of total payment in tax from the whole system of state companies. Most of the rest have operated poorly, some of them have even been on the brink of bankruptcy.

2.The structure of state companies is unreasonable: State companies could be found in all industries and localities (even in the remotest areas) with the result that the number of small-scale state companies are too numerous to be financed by governments of all levels. The Government needs some VNĐ10,000 billion to ensure state companies 30% of their working capital while the budget can provide only VNĐ200 billion a year.

3.Most state companies are badly in need of capital: 50% of them have a capital of under VNĐ1 billion on average and 25% have a capital of 1-3 billion. Most of them have only 10% of their registered capital as working capital, that is, they need some other 20% to reach the minimum level of working capital. This situation forces them to use short-term loans with high interest rate as working capital. That is why their return on investment and capital turnover are low and many of them are on the brink of being default.

4.Technological level of state companies is low: Technology employed by most state companies is at least 20 years older than what are used by most foreign counterparts. Certain companies are using 50-year-old production lines. Of centrally-run companies, 54.3% use general techniques, 41% have had their production lines mechanized and 4.7% use automatic equipment and machines. The situation in locally-run companies is worse. Backward technologies lead to poor labor efficiency, product quality and competitiveness.

5.There is unhealthy competition between state companies of the same industry and in the same locality.

6.The mechanism for controlling state companies is imperfect and slow to change: Too many governmental bodies control and inspect state companies but no body bears full responsibility for what state companies have done. The Government has no measures to encourage better business performance, that is, help state companies make the best use of available resources. These resources are sometimes used for serving personal interests or people with vested interests in the state companies.

The above-mentioned achievements and defects in the rearrangement of state companies mean that it must be carried out continuously and more profoundly with a view to helping state companies play well their leading role in the economy. For the time being, it's necessary to develop a more reasonable structure and change the system of state companies both qualitatively and quantitatively in order to facilitate the capital accumulation needed for the industrialization and modernization.

II.KEEPING ON REFORMING STATE COMPANIES

The continuation of the reformation of state companies in Vietnam today is an important task in the economic reform, especially in a period when Vietnam is trying to integrate into the world community. The process of reforming and developing state companies must aim at the following targets: (1) State companies must play the leading role in the economic development, (2) State companies must undertake the task of directing and helping other sectors to develop, and (3) State companies must be strong enough to be used by the Government as instruments for regulating the economic development. When continuing the process of reforming and rearranging state companies, full attention must be given to the following matters:

Statistics show that state companies account for the better part of budget income, sales and the amount of companies. Certain centrally-run companies have developed nationwide and obtained good performance, therefore they play a decisive role in the central-local structure. When rearranging the system of state companies, they must be considered as basic factors in making the system more reasonable. Most locally-run companies are of small size, employ backward technologies and produce the same products as centrally-run companies do. That is why their competitiveness is poor. These companies must be restructured, otherwise the Government will trade enormous investments for poor business performance.

In reality, the market mechanism has come into being and caused great effects on all companies. The national market becomes unified and mobility of factor inputs is on the increase, therefore metropolitanism or localism becomes meaningless. There have been more and more national brands, therefore it's unnecessary to distinguish between centrally-run and locally-run companies. However, local governments could be allowed to decide on the supply of public utility services according to national rules and regulations.

The fact that many governmental bodies control state companies but no ones are really authorized to regulate the operation of the system has led to a cumbersome machinery that fails to control all state companies. Therefore the management function of administrative bodies in the subsidized economy must be replaced with a governmental body authorized to control all state companies all over the country.

As a legacy of the old mechanism, the concentration of too many state companies in big cities has made it difficult to protect the environment and control the growth of cities. It's necessary to move manufacturing companies to suburbs, especially companies causing pollution or occupying large areas. Preferential treatment must be given to companies that build their factories in suburbs or localities with poor infrastructure.

There must be a correct relation between state companies and nonstate companies in a locality. Full attention muşt be given to the supply of products and services requiring big investment but needed for the good of the community. In fact, state companies in this fields obtain poor performance. They must be well-equipped and developed enough to undertake this task. State companies in other fields or industries must be strong enough to compete with other sectors, otherwise they must be handled properly.

It's necessary to avoid competition between state companies for the same market in order to reduce waste of resources.

The rearrangement of state companies requires a long-range plan appropriate to the national economic development strategy. State companies must be divided into groups for rearrangement purposes:

-Group 1 includes state companies taking part in the national defense or operating in vital industries that must be totally under the government's control. In this group, companies with poor performance must be dissolved and replaced with the new ones.

-Group 2 consists of companies supplying public utility services and companies acting as government's instruments for regulating the economy. These companies usually need big investment but their return on investment is low. The government could put them totally under its control, but to a certain extent, successful companies from other sectors could be allowed to cooperate, or work in partnership, with state companies.

-Group 3 comprises state companies with ability to perform well and contribute a lot to the budget income. The Government can hold the better part, or all of their shares if need be. In favorable conditions, the Government had better encourage other sectors to invest in these companies.

-Group 4 is composed of state companies of other kinds. These companies aren't necessarily under the state ownership and could be equitized, sold or dissolved.

Except for the group 1, other state companies must operate under the market mechanism, they could be dissolved if their performance is poor. The Government had better invest strongly in companies of groups 1 and 2 and major companies of the group 3. Companies of the group 4 must be handled quickly and properly.

State companies must improve their performance in order to meet requirements posed by the national economic reform, however, many problems have arisen from the process of reforming state companies.

(1)Although the rearrangement of state companies could result in a lot of redundancies (some 800,000 workers, or 30% of the workforce employed by the public sector), but there is no other choice. At present, 11 leading state corporations control 65% of total capital and employ 27% of the labor force of the public sector, and the per capita investment in these corporations is VNĐ66 million on average, not much higher than that in the private sector, that is, there is a great labor surplus in state companies. The best solution to this problem is to develop the private sector with a view to creating more jobs.

(2)Unlike foreign groups that usually include companies in different industries, most Vietnamese corporations are groups of companies within the same industry. A survey conducted in HCMC and Hà Nội reveals that only 13% of state companies (most of them are of small scale) in those two cities are in need of a corporation, that is, a corporation is only of benefit to companies that aren't strong enough to find a foothold in the market. To form corporations by combining all state companies within the same industry have probably caused damage to leading companies because they are forced to share losses with unsuccessful companies. Moreover, in a large-scale corporation, the management task will be more complicated and be able to lead to a lack of creativity. And when there is only a big corporation in an industry, there will be the monopolization■