

PRIVATIZATION IN CHINA, RUSSIA AND VIETNAM A COMPARISON

by VÕ THỊ QUỲ, MBA

Vietnam, China and Russia had similarities and some differences in initial conditions before reforming their economies. All of them had serious structural problems. Their economies were characterized by the domination of public ownership, price distortion, a closed economy and a heavily monopolistic industrial structure. Russia and Vietnam had serious unstable macroeconomic conditions such as high inflation rate, large fiscal deficits and huge current account deficits whereas Chinese macroeconomic conditions were more stable with mild inflation, small fiscal deficits. Specialization and division of labor in Vietnam and China were backward with a large agricultural sector and a small manufacturing one while those in Russia were more advanced with a small agricultural sector and a big manufacturing one. The similarity and difference in initial conditions between them are results of earlier policies that couldn't ensure the success of their economic reform but can affect the speed and results of the process.

Being socialist countries, they have shifted their economies from the centrally-planned mechanism to the market economy recently. China started its reform in 1978 whereas Vietnam began it in 1988 and Russia in 1991. In pre-reform period, their economies were based on the Marxist doctrine, that is, based on the public ownership for all means of production and abolition of private ownership. These countries have some similarities in politics, social structure and economy as presented in the Table 1 below. Their governments have recently recognized the role of the private sector although main emphasis is still put on the governmental control and planning. These countries' leadership intent to build a new mixed economic system in which both state and non-state economic entities operate in a mixed environment of plans and market forces. Their reforms aim at decentralizing state ownership and creating competitive markets. The reform has been carried out in two ways, trans-

Table 1: Similarities between China, Russia and Vietnam

Similarities	Annotation
1. Large area and abundant natural resources	Except for Vietnam
2. Labor	Surplus labor, labor mobility limited, low wage and salary (except Russia)
3. Large potential market	Serious lack of consumer goods because of emphasis on the development of heavy industry
4. Party control	Communist party has the highest power
5. Heavy industry	Heavy industry was considered as material and technological basis of socialist countries
6. High defense budget	Professional army
7. Large industrial enterprises	Result of centralization and industrialization of production
8. Heavy bureaucratic and tariff protection	Heavy governmental intervention
9. Subsidized public services	The government's representative of poor people
10. Low industrial productivity	Lack of competition in the economies
11. Need to initiate market-based economic reform	

ferring the state ownership to other entities by corporatization, and creating a market-oriented macroeconomic environment for all sectors. Nevertheless, their reforms and post-reform results aren't the same. China and Vietnam have gained success while Russia suffered losses in output (table 2)

place the central planning. Unlike China, Russia chose a "shock therapy" path where the massive, centralized privatization of state-owned enterprises was undertaken rapidly. Russia chose its way because it had a solid political reason. Instability of social and political climate required radical reforms having been imple-

Table 2: Post-reform China, Russia and Vietnam

Country	Reform period	GDP growth (%)	Export growth (%)
China (1980-1994)	1979-	9.5	10.4
Vietnam (1989-1994)	1989-	7.4	28.0
Russia (1991-1994)	1992-	-14.75	-

Source: World Bank, 1995

In general, Russia chose "normalizing transition" where property reform has progressed quickly, whereas China chose "passive revolution", the legitimacy of property reform must be created by the regime to reform their economies. In other words, China chose a "gradualist" path where incremental and partial reforms started as localized experiments that spread gradually to re-

mented quickly before particular interests redivided the society. Unlike Russian situation, the Chinese Communist Party was able to maintain central control and avoid democratic reform reforms of political institutions.

China started its economic reform in late 1978 with a strategy called "dual-track" approach, that is "the coexistence of a market track

and a planned track" which pervades almost every aspect of the policy making process to create a mixed environment of plans and market forces. Under sectoral reform, at the beginning, China has had a substantial change in property relation in rural areas since 1978. In 1977, all agricultural output was produced by the public sector. By 1982, although the legal title to land remained in the hands of local governments, essential rights associated with land ownership such as rights to control, sell, inherit and enjoy profit from the land were in the hands of peasants. Dual-track production and pricing took place in late 1978 with the rapid and comprehensive liberalization of the agricultural sector in which peasants received land and 15-year lease on the land and the government allowed prices of farm products to be decided by the market, while the industrial sector remained under the traditional central planning management. As a result, agricultural net output recorded a growth of 7.4% per year between 1978 and 1984, compared with the pre-reform average of 1.8%, and the industrial output maintained a growth rate existing in the pre-reform period.

During the first half of the reform decade, the main source of growth came from the decentralizing reform in the agriculture whereas during the second half, the motivation of economic growth was the creation of new economic entities in the non-public sectors. Labor surplus from the agricultural sector because of higher productivity led to the development of private small businesses and community-owned industrial en-



terprises (township and village enterprises -TVEs.) Moreover, ownership and production reform under the dual-track approach was extended to the industrial sector 1984. The share of planned production in the industrial output reduced from over 90% in 1978 to 5% in 1993. The Chinese government allowed local governments, foreigners and private persons to own firms and stocks. SOEs produced nearly 80% of the gross industrial output in 1978 and this percentage reduced to 65% in 1985 and less than 50% in 1992 while private and foreign sectors provided 14% in 1998. During this period, the annual growth rate of the industrial output increased from 8.5% to 15% (1993). In general, the urban non-public sec-

tor has grown slower than rural enterprises because the scope of SOEs was much bigger in cities than in rural areas.

Privatization took place in Russia in the early 1990s with the most important goal of depoliticization, or freeing them from politicians' control. The way for doing so is to transfer the control and cash flow from politicians to the hands of enterprise managers and outside investors. Some authors (Maxim Boycko, Andrei Shleifer and Robert Vishny) pointed out that the ideas behind the Russian privatization were: (1) Russians would respond rationally to economic incentives; (2) the state influence on the economic life was the basic cause of inefficiency, and (3) the government didn't really own assets that needed to be privatized. That is why some others (Joseph R. Blasi, Maya Kroumova and Douglas Kruse) assumed that the privatization had to comply with five basic principles: first, privatization had to be carried out quickly before the window of political opportunity closed, the possibility of rapidly separating the economy from the state power disappeared and the stealing of assets developed from an art into a science; second, each interest group would be offered enough potential ownership of the economy to persuade the Supreme Soviet to pass the privatization law; third, the privatization process had to be simple (that is giving incentives to all participants to implement privatization on their own without government approval); fourth, privatization would occur only if Russian citizens wanted it to; and finally, most of the shares



Photo by Hoàng Tuấn

in enterprises would have to be given away or sold at very low prices because ordinary citizens would not have enough money to participate otherwise. Therefore, the speed and scale of privatization in Russia has far outpaced compared with Vietnam and China.

After 1991, Russia implemented the "shock therapy" to replace the central planning economy with a rudimentary market economy. At that time, Russia needed to privatize some 25,000 medium- and large-scale firms in a reasonable period of time. If these firms were properly valued, prepared for auction, or restructured prior to sale, the privatization could need a century to finish the process. Consequently, massive voucher privatization of manufacturing firms was chosen as a main way in which the state withdrew its stake from industry and achieved a switch to pri-

Table 4: Vietnam's GDP in 1990-2000 at fixed 1994 price by sector (VND bil.)

Year	GDP	Agriculture, forestry and fishing	Industry and construction	Service
1990	131,698	42,003	33,221	56,744
1991	139,634	42,917	35,783	60,934
1992	151,782	45,869	40,359	65,554
1993	164,043	47,373	45,454	71,216
1994	178,534	48,968	51,540	78,026
1995	195,567	51,319	58,550	85,698
1996	213,833	53,577	67,016	93,240
1997	231,264	55,895	75,474	99,895
1998	244,596	57,866	81,764	104,966
1999	256,272	60,895	88,047	107,330
2000	273,582	63,353	96,916	113,313

Source: Vietnam General Statistics, 2000

Table 3: Structure of the GDP by ownership from 1995 to 2000 (%)

Sector	1995	1997	1998	1999	2000
1. Public sector	40.18	40.48	40.00	38.74	38.98
Non-public sectors	59.82	59.52	60.00	61.26	61.02
– Collective	10.06	8.91	8.90	8.84	8.53
– Private	3.12	3.38	3.41	3.37	3.30
– Household	36.02	34.32	33.83	32.93	32.03
– Mixed	4.32	3.84	3.83	3.89	3.90
– Foreign	6.30	9.07	10.03	12.24	13.25
Total	100.0	100.0	100.0	100.0	100.0

Source: Vietnam General Statistics, 2000

Figure 1: Structure of GDP by ownership in 1995

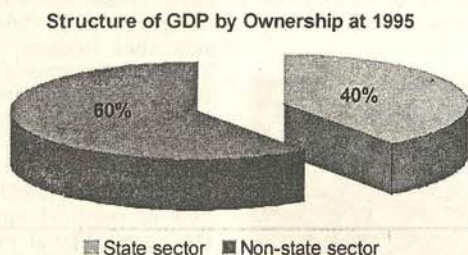
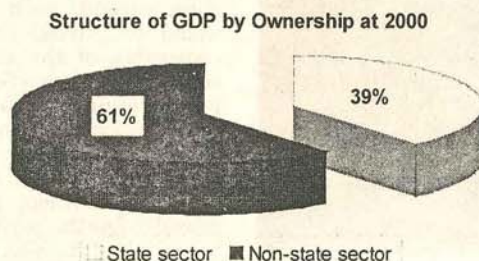


Figure 2: Structure of GDP by ownership in 2000



vate ownership and control. By 1997 outsiders were assumed to hold about 39% of the total, up from around 20% in 1994. Moreover, the main achievement of the privatization is that the government has retreated from economic activity and the transfer of control rights from politicians to managers and investors. In the past decision makers for firms were sectoral ministries from Moscow, but now managers are deciding who they do business with and how, including major decisions about asset sales, mergers, and joint ventures, without consulting their former ministries.

In detail, China started ownership reform so quick and successful firstly in rural or agricultural sector but the change happened even more slowly in the industrial sector later. In Russia, formal and legal privatization progressed quickly in the industrial sector after the collapse of the USSR while in rural areas, however, the privatization has gone much slower.

Harry Williams explained the difference in the results is because of the following reasons:

- Russian farmers have been less active in seizing land than their Chinese counterparts;

- Russian agriculture was highly subsidized, i.e. Russian farmers received benefits more like Chinese state workers than Chinese peasants;

- Russian farms were run more like factories than Chinese farms, and therefore their farmers have less control of production process and their leaders are like state functionaries; consequently they have more

Figure 3: GDP 1990-2000 by sector (VND bil.)

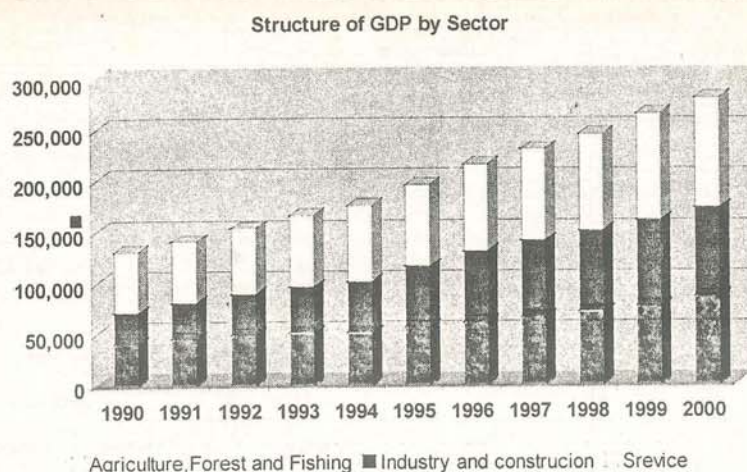
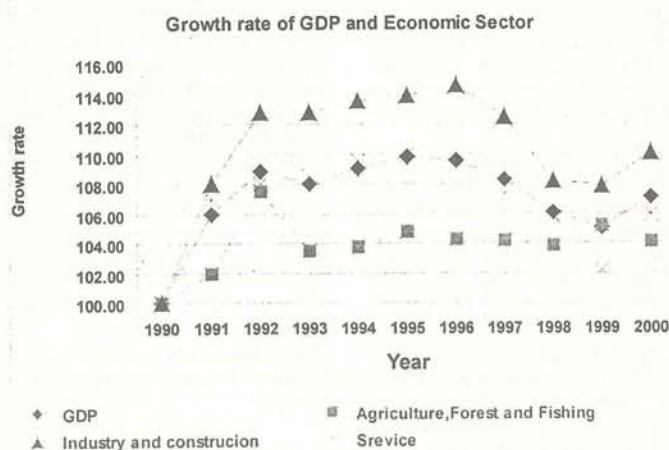


Table 5: Growth rates of GDP and sectors in 1990-2000 (previous year = 100)

Year	GDP	Agriculture, forest and fishing	Industry and construction	Service
1990	100.00	100.00	100.00	100.00
1991	105.81	102.18	107.71	107.38
1992	108.70	106.88	112.79	107.58
1993	108.08	103.28	112.62	108.64
1994	108.83	103.37	113.39	109.56
1995	109.54	104.80	113.60	109.83
1996	109.34	104.40	114.46	108.80
1997	108.15	104.33	112.62	107.14
1998	105.76	103.53	108.33	105.08
1999	104.77	105.23	107.68	102.25
2000	106.75	104.04	110.07	105.57

Source: Vietnam General Statistics, 2000

Figure 4: Growth rate of GDP and sectors



to lose and less to gain from transformation of agriculture.

- The ideology of farming has much less currency in Russia than in China.

- China limits the pace of change in urban areas because of its emphasis on stability and the desire to control the class forces released by reform.

Compared with China and Russia, Vietnamese economy was less centralized and concentrated during the pre-reform period. The difference in the degree of centralization is reflected in the number of SOEs. China and Russia had thousands of SOEs while Vietnam just had some 12,000 SOEs in the pre-reform period. Vietnam started its renovation process from industrial sector and emphasized the reform of SOEs in 1988, after China almost 10 years. The scale of privatization in Vietnam is so small compared with China and Russia. More than 10 years carrying out the privatization, the Vietnamese government privatized some 530 SOEs, which virtually is partly privatized. Share offering has limited to outside investors. The government still holds a large fraction of ownership in privatized SOEs and deeply controls them in terms of business planning. The conflict between investors and director board members who are representatives for the State is a serious problem in privatized SOEs. Although the government has recognized the importance of the private sector in the market economy and encouraged its development, the private sector now only plays a minor role while the public sector still plays an important one in the economy (see Table 3 and figures 1 and 2 below.)

However, the Vietnamese economy has greatly changed after 10 years of reform. Before 1990, the Vietnamese structure of industry was characterized by large agricultural and service sectors; and now it shows a tendency towards manufacturing and service ones. Obviously, the macroeconomic effects of privatization program are more difficult to measure because of many events taking place at the same time.

Up to July 29, 2001 the number of SOEs totally and partly privatized has been 529, accounting for 11% of the existing SOEs. According to the SOE Renewal Commission, 57% of these SOEs are in manufacturing, transport and construction businesses, 38% in trading and service, 5% in agriculture, forestry and fish-

Table 6: Type and speed of reforms in China, Russia and Vietnam

Type of reform	Speed of reform		Result
	Rapid reform	Gradual reform	
Macroeconomic stabilization	Vietnam, China		Successful
Exchange system			Successful
Devaluation		China, Vietnam	
Trade Liberalization			
Reduce tariffs	Vietnam, Russia	China	Successful
Agricultural reform			
Land reform	China		Successful
Agricultural prices	Vietnam		Successful
		China	Positive, unfinished
Price reform			
Free Most prices	Vietnam, Russia		Successful
Prices of necessities		China	Positive
Financial reform	Russia		Unfinished
Demonopolized banking		China, Vietnam	Positive, unfinished
Ownership reform			
Small private companies	China, Vietnam and Russia		Successful
Privatization of large SOEs	Russia		Some positive result
		China	Positive
Institution- building			
Legal infrastructure & social safety net	Vietnam, Russia		Positive, continuous
Fiscal decentralization		China	Positive, unfinished

Source: Vinod Thomas & Yan Wang, 1997

ing. Statistics showed that the manufacturing and construction sector that has the largest number of privatized SOEs has the highest growth rate, and higher than the GDP growth rate in the same period. The line representing the growth rate of the sector always lies above the lines representing the growth rates of other sectors and the GDP. Agriculture, forestry and fishing sector with a few SOEs privatized has the lowest growth rate at the same period. Of course, the result above is not only brought about from the privatization, because it is impacted by many different factors such as economic reform, reallocation of input factors, or the decentralization of management in the economy. The macroeconomic effects of the privatization program are more difficult to measure because of many events taking place at the

same time. However, it could not deny that the high growth of sectors privatized has contributed to the GDP growth rate of Vietnam in recent years.

In short, differences and similarities in Chinese, Russian and Vietnamese economic reforms can be summarized as in the following table.

Generally, the paper tried to show that there have been great changes in the socio-economic trends in Vietnam. The restructuring of SOEs' ownership has brought about positive results for both equitized SOEs and the economy. However, the beneficial effects of the restructuring might be greater than what are achieved if its procedure is simpler and clearer than the existing one. Moreover, the paper also figures out that the Vietnamese government

hasn't given up its ambition to control the economy through establishing the domination of SOEs in key industries and still holding a large fraction in the ownership structure of privatized SOEs. The role of the private sector in the economy is still moderate. One can assume that the recent success of the Vietnamese economy is an immediate efficacy. To be successful in a long term, the Vietnamese economy needs a suitable mechanism that gets along with the market economy. Finally, the restructuring in Vietnam is so much different from that in China and Russia in terms of pace and scale although many restructuring practices from those two countries have been adopted by the Vietnamese government. ■