WTO Rules and Reform and Development of the Public Sector in Vietnam

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Vietnam has become an official member of the WTO, with the commitment to open the domestic markets the foreign competition against the whole economy, and state-owned companies in particular, will be very fierce. The WTO membership will become a greater pressure that helps accelerate the reform in the public sector. The new Companies Law passed on Nov. 29, 2005 came into effect on July 1, 2006 and it will regulate all companies as from 2010. Thus, the public sector has three years to reform its state-owned companies. This will be a great pressure for ones that are reluctant to engage in the reform.

In the past few years, the reform in this sector has always been considered as an urgent task with a long-term strategic meaning to the effort to reform and develop the economy. The reform in state-owned companies has produced positive results. Their numbers has been reduced and their size improved. After the reform, especially the equitization, most state-run companies have improved their financial situation, productivity, income and investment in fixed assets. But regardless of these positive changes, their business performance is still poor and tasks of handling doubtful debts and supervising financial matters are not as effective as expected.

As companies partly owned by the State, they hold some 70% of the national fixed assets, 20% of the gross investment, 50% of the public investment, 70% of borrowings from foreign banks and some 60% of total loan from state-owned commercial banks. Their share in the annual GDP, however, is only 38.4% on average. Their operations are still imbued with habits from the centrally-planned mechanism: lack of proactive approach to their problems, reliance on privileges offered by monopolistic position, wrong decisions on investment and waste of money.

According to the 2003 State-Owned Companies Law, their accounting books must be audited every year. In a project in cooperation with Japanese partners to audit 100 state-owned companies, their business performance and financial records have been publicized for the first time. Until recently, the State Auditing Agency has been able to announce the audit result of 19 state-owned corporations. It shows that four of them (21%) suffered a total loss of VND214 billion in 2004; 11 others (58%) suffered a aggregated loss (up to Dec. 31, 2004) of VND1,058 billion. Pre-tax profit ratio of audited companies is very small: 0.18% in the Building Materials Corporation; 0.42% in the Shipbuilding Corporation; 0.45% in the Communication Works Corporation 4; AND 0.8% in the Clothing Corporation.

According to Hồ Xuân Hùng – Deputy Chairperson of the Board of Reform and Development of State-Owned Companies, there are over 100 large-scale corporations in the public sector and only 40% of them have some competitive edge for the time being. In the long run, when the domestic market is open to foreign companies, these corporations will face great dangers if they can't complete necessary preparations. Particularly, the banking system is very slow to reform itself. Some directors lack a long view and think the international integration is not their business. Some others may have some strategic views and want to carry out radical reforms but they can't do anything because of various reasons. This is a worrying situation during the international integration.

Why do state-owned companies have poor business performance in spite of numerous advantages and preferential treatment? How can their competitiveness be improved? Answering these questions is no easy task.

Foreign experience shows that the reform in state-owned companies can only be successful when it is placed within the overall economic reform and carried out consistently by various measures, such as privatization or equitization, radical changes in the management of state-owned companies, having them put for sale or declared bankrupt. In the past decade, the equitization has been considered as a right policy that produced initially important results for the economic reform. But it is not the sole solution that can revive all state-owned companies. It is only a measure among others that aim at diversifying their ownership and improving their management mechanism.

In my opinion, one of the biggest obstacles to effort to reform and develop the public sector are: wrong concepts of owners and assigned managers, confusion between the state's control and companies' autonomy in business, and contradiction between interests of different parties in the reform and development of state-owned companies.

I think that the effort to change state-owned companies into one operating according to the Companies Law is impossible if their ownership and management experience no changes. This is a direct cause for the prolonged impasse for the process of reforming and developing state-owned companies, and of the reform in the state economic control as well. Many governmental bodies are trying to puzzle out how to become good investors when they have to manage too many state-owned companies and investment projects. All efforts to free them from the task of governing these companies and projects only lead to replacement of these governing bodies by others and entirely fail to remove burdens on administrative bodies. In most state-owned companies, responsibility for control over the capital from the national budget is not clear enough with the result that nobody takes this responsibility. That is why the leadership of state-owned companies (the party that employs the state capital in the company) paid almost no attention to productivity, product quality and business performance.

To overcome these prolonged difficulties, in my opinion, the governmental bodies must be freed from the role as investors and the task of running state-owned companies in the free market. State-owned companies are only formed in fields where private companies refuse to, or can not, engage in. This measure can help develop an active market economy.

In addition, enhancement of state-owned companies' competitiveness during the international integration is not only limited to physical re-arrangement of companies but the most difficult problem to solve is how to enhance their inner strength after the reform. One of the most important strengths is their human resource. At present, many state-owned companies have changed from "reducing the labor cost thereby cutting the production cost" to "investing in the human resource to improve the competitive advantage, business performance and profit." It's easy to realize that the development of human resource in the public sector is not as effective as in the private and foreign sectors. And as a result, the recent brain drain in state-owned companies has become alarming.

To deal with this situation, state-owned companies had better establish a system of viewpoints and policies to recruit, train, develop and retain skilled laborers. In good working conditions and with reasonable treatment, laborers can reach their full potentials, improve their productivity and contribute better to the business performance of the company. This will be a sustainable competitive advantage for the company.■

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