2015 ASEAN-Korea International Symposium:

Public Sector and Policy Reforms for National Development in Southeast Asia and Korea

State-owned Enterprise Restructuring in Vietnam: The case of VINASHIN and VIETTEL

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Bangkok, May 21-22, 2015

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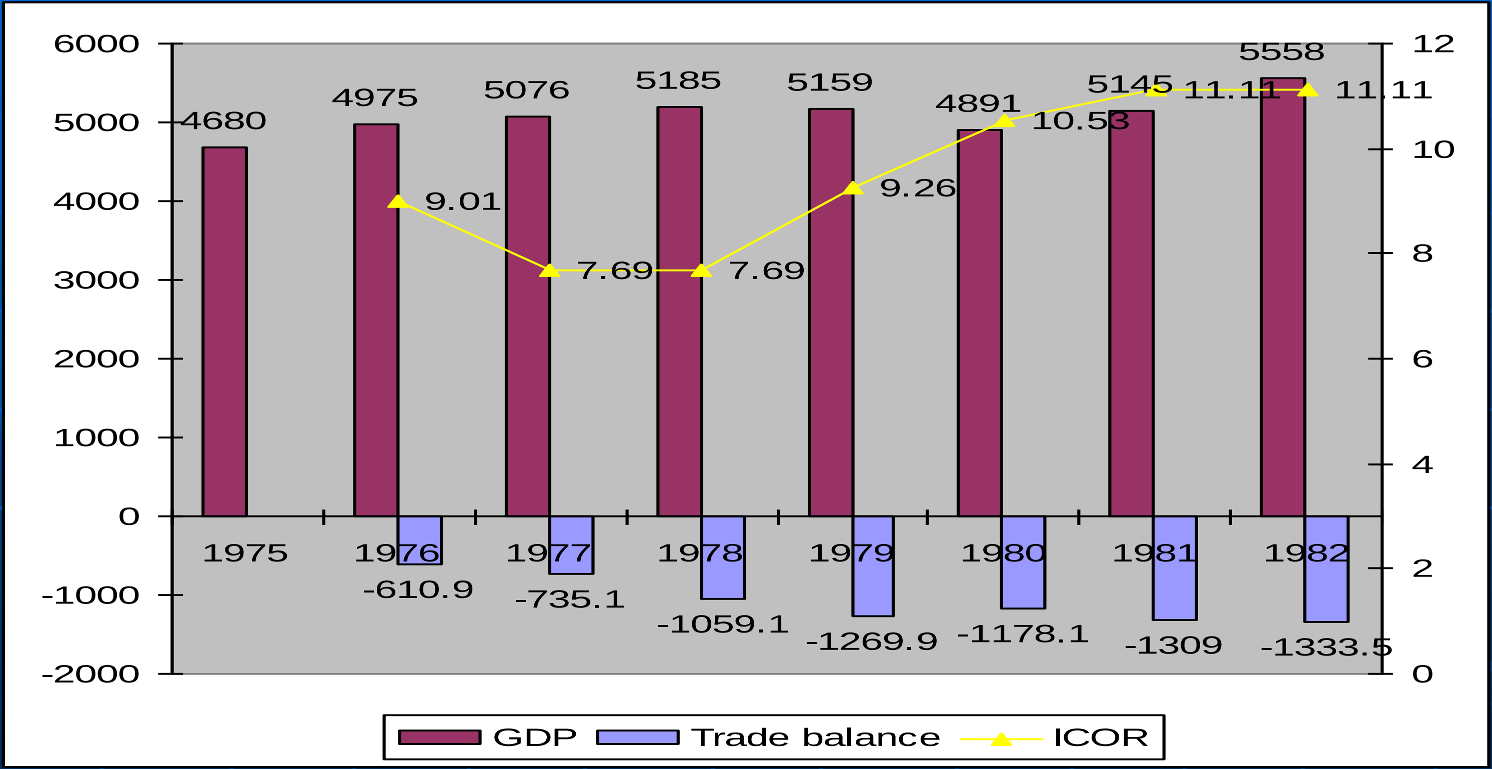
I. The contextualisation of SOE restructuring reform in Vietnam

- Right after the reunification in 1975, Vietnam expanded state-owned economic sector to the whole country and limited non-state sector in a centrally planned economy.
- Eventually, Southern Vietnam inheriting from a former capitalist-based economy was still largely controlled by private sector accounting for around 65% of its market.
- Serious economic slowdown especially in 1976-1986 decade.
- Poor infrastructure, food deficit, lack of economic management experience.
- 1975-1982: GDP per capita just about almost US$ 100 per year

Figure 1: GDP, Trade balance and ICOR figures of Vietnam, 1975-1982



Note: GDP and trade balance are in millions of US$.
Source: Own demonstration based on data from GSO and (Pham M.C. & Vuong Q.H)

The contextualisation ….

- A distinct macroeconomic feature of this period prolonging even over the next period until 1990s: Inflation. Hype-inflational level in 1985-1988 picking at 774.7% in 1986.
- Main causes: i) Chronical commodity supply shortage; and ii) state sector monopoly in a centrally planned and command economy eliminating almost all market relations.
- Collapse of the former Soviet Union and other former socialist countries in 1988-1989: i)Foreign aid from the former Soviet Union was cut down substantially; ii) 1986: just right before "Doi Moi" (Economic reform): Vietnam debted 30 other nations and international organisations with a total of US$ 2.7 billion which was huge compared to a very small size of Vietnamese economy at that time.
- + Vietnam had not yet been a member of ASEAN and its economic and cultural relations with the nations in the Association were very limited.
- *-→ forced Vietnam to find a way out and this led to a broad reform starting in 1986*

The contextualisation ….

- 1986: Strong confirmation that market economy is rational and can be applied in a "socialist" country.
- Three pillars of "Doi Moi" starting from 1986 include:
- i) Transferring the economy from a centrally planned system into a market-oriented operating one;
- ii) Developing a multi-ownership (or "multi-components") economy of which non-state sector is increasingly becoming important;
- iii) Actively integrating into regional and world economy
- The first Law on Foreign Investment was promulgated in 1987: open-door policy in investment

The contextualisation ….

- In any real market economy, state-owned sector should not be large and private sector should be promoted.
- The inefficiency and inertia of SOE sector in Vietnam was so clear: dominant share of fixed capital and skilled labours, however, could only generate 30-37% of the total GDP in all 1980s.
- SOEs were a real burden for the state budget and restructuring this sector needed to be conducted.
- In contrast to general "economic innovation", SOE reform has been much slower.

The contextualisation …. : Drivers for SOE reform

- Drivers for SOE reform:
- i) Down-scaling SOE sector (reducing number of SOEs), equitisation: “shock therapy” vs. “gradualism” in SOE reform;
- ii) Conducting institutional reform in order to increase the efficiency of using state capital invested in the SOEs and improving their business operation
- iii) The government determination
- *SOE restructuring reform in Vietnam is a process not a moment.*

II. SOE restructuring policy making process

- The SOE restructuring is one of the key issues in economic reform in transitional economies: the most difficult reform.
- Key interest groups: a) Supporters/proponents
- + Reformists in the government who acknowledge the weaknesses of SOE and their burdens for the economy and state budget.
- + Those from efficient SOEs who have little subsidies from the government but still efficient due to good market, technical and human resources.
- + Private sector businesses, who want the reform to go fastest.

SOE restructuring policy making process

- Opponents

+ SOE managers who are benefiting from the existence of SOEs

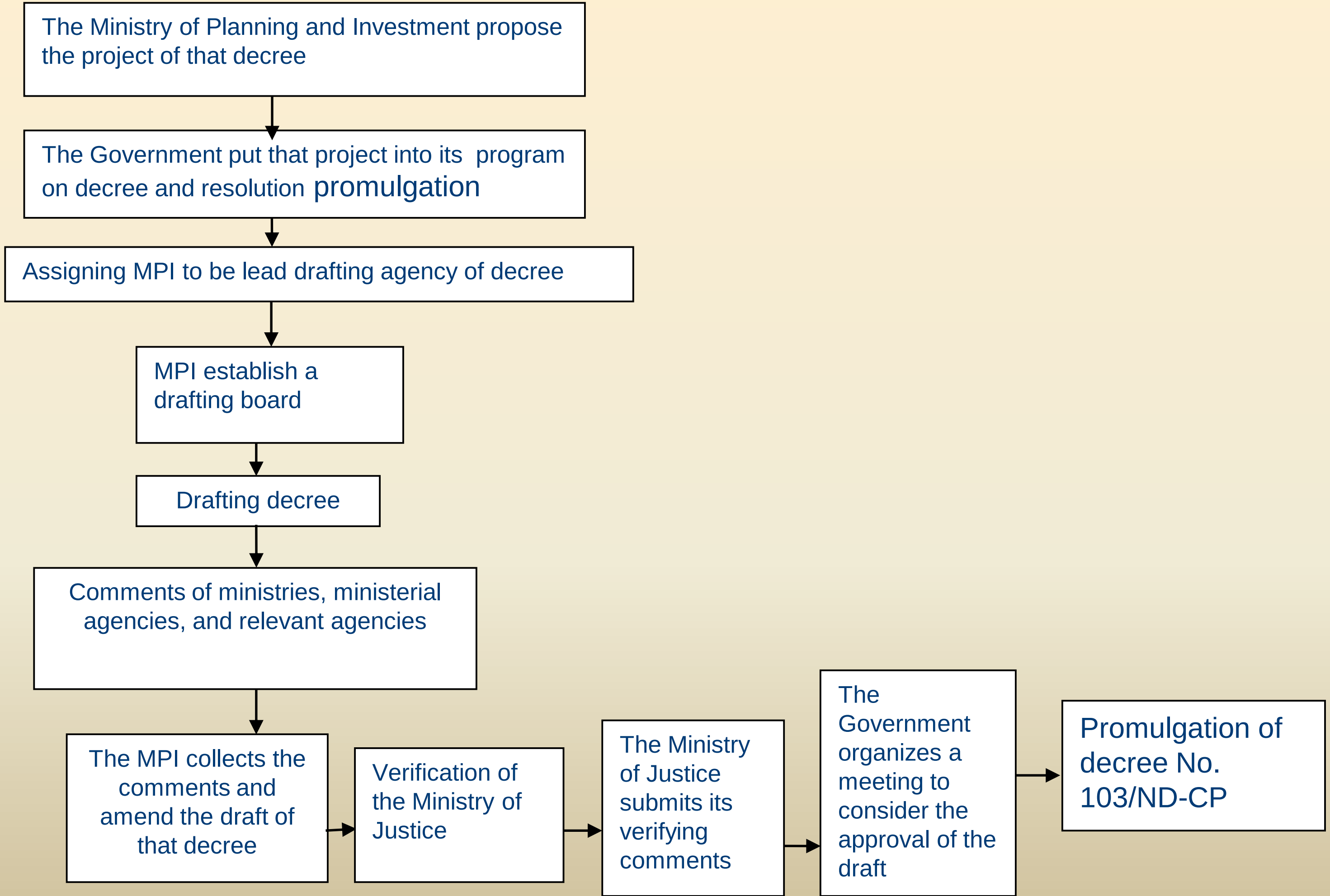
+ Those from inefficient SOEs including both their managers and employees.

+ Selected policy makers who have direct benefits from SOEs: they are powerful as they have large influence in policy making process as well as policy implementation.

SOE restructuring policy making process

- Decree No. 103/ND-CP issued in September, 1999 on ‘Sale, Contracting out and Leasing’ of small SOEs.
- Objectives:
- + Create conditions to re-structure the state owned enterprises, enhancing the efficiency and competitiveness of economic state-owned sector;
- + Ensuring jobs for labour, changing the methods of enterprise management, creating motivation and business incentives for labours;
- + Use more efficiently the invested assets of the state, taking advantage of all economic sector to develop business and production; reducing cost and business management responsibilities of the state; ensuring the benefits of the state and the labour.

The procedure of promulgating Decree No. 103/ND-CP



SOE restructuring policy making process

- There is no standard time to complete a decree making process: However, it is often about a year on average or even shorter.
- In principle, the government is the one who guides it though: However, it often assigns for a ministry as a coordinator.
- The resource of making these policies comes from the state budget.

SOE restructuring policy implementation and its organisation

- *The policy implementation in the pilot period: 1990-1996*
- In the first pilot model, shares could just only be distributed to: i) the state; and ii) to the employees.
- \+ The state played the role of asset and capital owners,
- \+ The employees contributed to the enterprise with their labour power and technical expertise.
- -→ The implementation of this policy for establishing an equitised SOE was therefore limted (In 1990-1991, only 2 enterprises were equitised)

SOE restructuring policy implementation and its organisation

- Up to April 1996: only 3 SOEs under control of ministries and 2 under local authorities (provinces) were equitised. --→ Unsuccessful pilot (compared to requirements of Decision No. 202/CT), due to:
- + No real motivation from all stakeholders of equitisation.
- + SOEs managers are most hesitate to get rid of their interests ("no-one wants to cut legs of his/her own").
- + The assigned state management agencies eventually did not have enough management capacity in carrying out the tasks
- Anyway, the period (1990-1996) witnessed other successes:
- + A sharp cut down of number of SOEs, especially those under administration of provinces. After only 3 years (1991-1994): the number of SOEs went down from about 12,000 to 6,000; About 3,000 SOEs liquidated and 2,000 merged into other state firms. Most of these were small local SOEs with capital assets under 500 million VND.

SOE restructuring policy implementation and its organisation

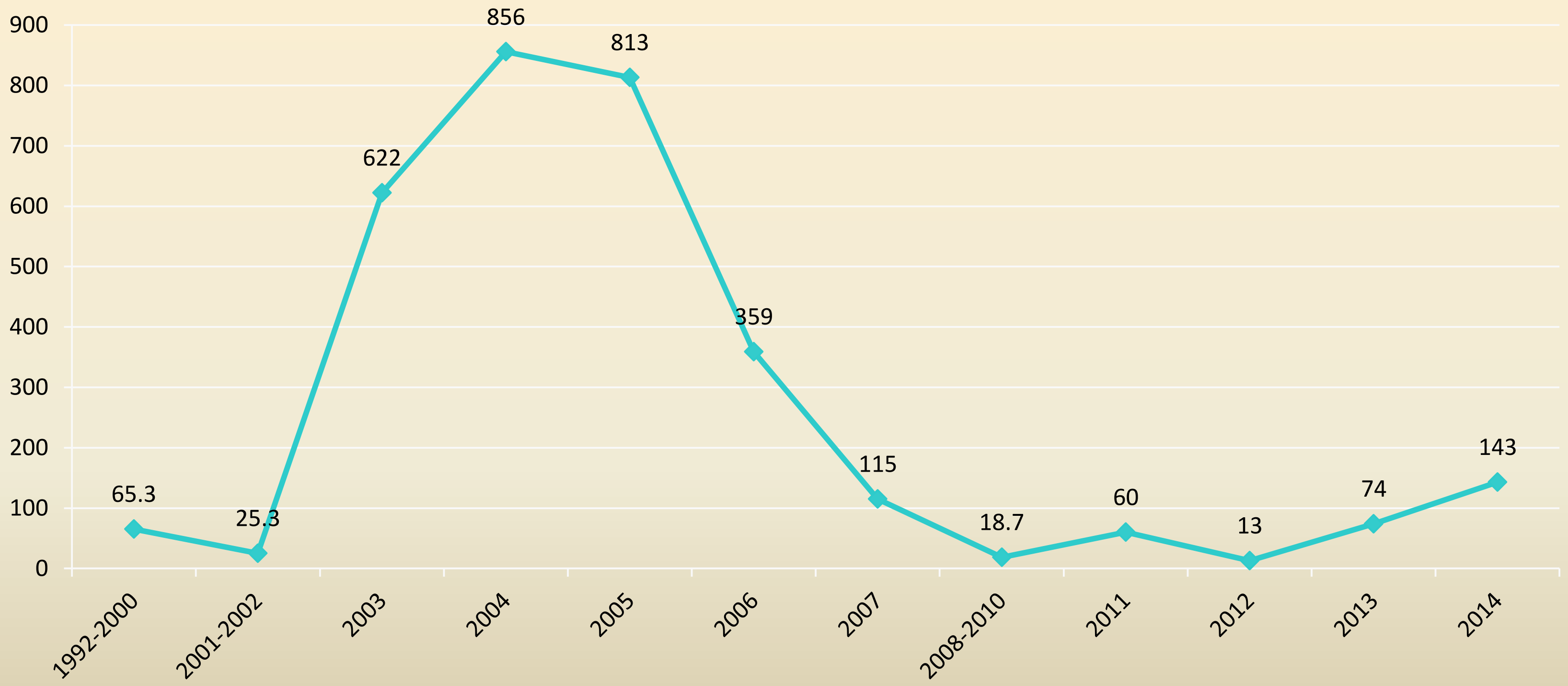
- *The policy implementation in the expansion period: 1996 up to present*

- Decree No. 28-CP (1996) implementation: i) The subject SOEs: belong to the category that the state does not need to own 100% of their investment capital; ii) The implementation of this Decree: backed-up by the Law on SOEs; iii) Challenges: Mentioning just main principles of identifying enterprise values and SOEs must have an "efficient business plan"; All large SOEs excluded

- Ministers and PPCs chairpersons required to make a list of SOEs to be equitised by 1997 implying that they should identify those SOEs whose capital should not be owned 100% by the state.

- The lists of SOEs selected for equitisation must then be sent to the Central Steering Committee for Equitisation (CSCE), MOF and Ministry of Planning and Investment (MPI) for monitoring and evaluation.

Yearly average number of SOEs equitised in Vietnam



SOE restructuring policy implementation….

- The most critical institutional issue facing SOE management at present: an overlap in the mandates of SOE management bodies namely ministries at central level and provincial authorities playing both roles of ownership representative and state management to SOEs.
- To control the efficiency of SOE operation: Decree No. 61/2013/ND-CP on Regulations for financial surveillance, performance assessment and transparency of financial information for SOEs and businesses with state capital.
- However: The Decree focuses only on financial aspects of businesses while financial inefficiency/deterioration of capital sources were not really attributed to individual responsibilities. Two issues:
- + The losses of SOEs are often explained by their public service provision mission or for the purpose of macroeconomic stability.
- + Non-core business activities

VINASHIN case study implementation analysis

- ***Historical formation and development of VINASHIN***
- Vinashin Business Group (VINASHIN) was a state-owned Vietnamese corporation group specialising in shipbuilding.
- The Group was established in 2006.
- Vinashin was a multi-ownership corporation whose dominant share belongs to the state.
- Vinashin was one of 17 largest giant corporations in Vietnam and had an astonishing growth over 10-12 years since 1996: 35-40% annually for 1996-2008 period
- Not long after the Group establishment, its extremely bad financial performance was exposed since 2008

VINASHIN case study implementation analysis

- Up to the first half of 2010, the corporation group was revealed with a huge debt of over VND 80,000 (equivalent to over US$ 4 billion) out of its VND 90,000 billions of total assets
- To save Vinashin from bankruptcy, the PM approved the project "Vinashin restructuring" on November 18, 2010.
- To prepare for this step, the PM issued Decision 926/QD-TTg dated June 18 on restructuring Vinashin Group. VINASHINwas divided into 3 parts: i) One transferred to Petro Vietnam (PVN); ii) one to Vietnam National Shipping Lines (Vinalines); iii) The corporation just keeps 3 member companies whose business areas are in core shipbuilding industries including shipbuilding and repair, supporting industries for shipbuilding and repair and on-job training for shipping industry workers
- The Shipbuilding Industry Corporation (SBIC) was then "re-established" by the Ministry

VINASHIN case study implementation analysis

- **Business crisis and causes**
- 2008: down-turning point: really difficult for the Group to have enough capital for completing signed contracts.
- In 2009: a loss of VND 5000 billions (around US$ 264 million)
- Main loss-making projects: i) Project of buying "Lotus" (Hoa Sen) ship incurring a loss of VND 469.5 billion; ii) Investment Project for building "Red River" thermo-power plant (in Nam Dinh province) with a loss of over VND 316.5 billion; iii) Investment Project for building Diesel Cai Lan thermo-power plant incurring a loss of VND 66.5 billion; iv) Investment project for Binh Dinh Star ship with a loss of VND 30.4 billion and the sale of Bach Dang ship cover with a loss of over VND 27.3 billions.

Assets volatility of Vinashin in the most difficult time
(Rounded in billion dong)

	2007	2008		2009	
A. Liabilities	70,700	88,521	25.2%	96,635	9.2%
I. Short-term	27,000	43,940	62.7%	48,290	9.9%
II. Long-term	43,700	44,572	2%	48,345	8.6%
B. Owner's Equity	6,613	3,552	-46.3%	4,698	32.3%

Source: Ngo Viet Anh (2011) (From KPMG information)

VINASHIN: Causes for failures

- Failures in investment: too many projects and in too many fields

- Management weaknesses: both management skills, especially financial management and accountability were weak; fraudulent and dishonest reports; intentionally violated many Vietnamese laws on economic management.

- “too loose” and ineffective controls from state management bodies.

- The impact of world financial crisis and economic downturn in 2008-2009.

VINASHIN Group restructuring and lessons learnt

- The first step of restructuring Vinashin: Decision No. 926/QD-TTg dated June 18, 2010: get rid of 2/3 of its business fields including supporting mechanical engineering and marine transportation (5 projects and 12 subsidiary members of Vinashin transferred to PVN and Vinalines immediately in 2010).

- The remaining member businesses were restructured (including equitisation, enterprise selling, debt selling, transferring debts into capital contributions, transferring contributed capital, dissolving, going for bankruptcy) by Decision No. 2108/QĐ-TTg on November 18, 2010 aiming at 4 major objectives: i) Maintain and develop shipbuilding industry and ship repair; ii) Utilise efficiently infrastructure and facilities which have been invested; iii) Do not affect the operation of credit institutions; and iv) Stabilise living standards for employees.

- The time frame for this restructuring is from 2011-2013. However, the actual implementation did not bring about desirable results after the two years.

VINASHIN Group restructuring and lessons learnt

- Up to October 2013, the government admitted that the pace of Vinashin restructuring according to Decision No. 2108/QĐ-TTg has been slow compared to the set target and that Vinashin was still making huge losses.
- This situation led to a radical decision of the government to write off the model of Vinashin Group under direct administration of the government in October 2013. The Group was transferred to a general corporation model named by Shipbuilding Industry Corporation (SBIC) which is under the administration of Ministry of Transportation
- Vinashin Group just: i) keeps 8 businesses in shipbuilding and ship repair accounting for about 70% of total shipbuilding capacity of Vietnam; ii) 234 businesses of the former Vinashin Group were no longer part of SBIC including 69 businesses equitised, sold, capital transferred or merged into other enterprises and 165 other businesses sold, dissolved or going for bankruptcy.

Lessons learnt from VINASHIN restructuring

- There has been a "huge hole" in state management for giant economic groups. Specifically:
- **+ Weak accountability:** of the Group management leaders --→ still lack of prevention mechanism for their law violations, fraudulence and corruption from their initial actions.
- + Too **many privileges** for giant SOE economic groups (or any SOE)
- + **Eventually to transfer problems** to other relatively more healthier economic groups (PVN and Vinalines), but not to change the problem natures. (1st restructuring)
- + **The second restructuring** seems to **be more rational** as the former Group was downsized and its subsidiaries were treated differently according to their status. Anyway, for the parent corporation itself, the "mechanical" merge or fragmentation just changes the forms of outstanding problems. **More importantly:information** transparency, increase monitoring and surveillance for the general corporation especially external surveillance.
- Equitisation: would be one of the solutions for improving their efficiency, avoiding losses for state budget and corruption. Of course, that is **not a "one size fit all"** solution.

VIETTEL case study

- ***Historical formation and development***

- The Military Telecom Corporation (Viettel Group) is a 100% state wholly-owned enterprise and its ownership represented by Ministry of Defense: Officially established in 2009, but originated from early 1989. State-chartered capital of VND 50,000 billions (around US$ 2.5 billion).

- 1989: called Electronic and Communication Devices Corporation

- 1995: Renamed to Military Telecommunication Corporation (Viettel) and officially recognized as the second full-licensed telecommunication provider in Vietnam.

- 1999: completed North - South fiber backbone with capacity 2.5Mbps high technology in Vietnam with the application of successful revenue initiatives - development of a fiber optic and in 2000, the company was the first enterprise in Vietnam providing voice services using IP technology (VoIP) across the country

VIETTEL case study

(Historical formation and development)

- 2001: fast development providing VoIP services internationally in 2001 and Internet access services; 2002: fixed phone services (PSTN)
- 2003: setting-up International Satellite gateway
- 2004: mobile services and international fiber port.
- + At this time, Viettel was the only company to provide fixed telephone services to almost all remote areas of Vietnam with increasing quality.
- + Identified mobile telephone as basic telecommunication service, mobilized resources for building-up the network and launched mobile phone service in October 2004

VIETTEL case study
(Historical formation and development)

- 2006 milestone: investing abroad with the first move in Laos and Cambodia.
- 2007: Viettel Telecom which is part of Viettel Military Telecommunication Corporation was established expand to multi-services in telecommunication basing on the merge of Internet Viettel, Viettel Fixed Telephone and Viettel mobile Telephone.
- 2008: Recognised as a top 100 major telecom brands in the world (according to Intangible Business and Informa Telecoms 2008).

VIETTEL case study

(Historical formation and development)

Year	*Market power*	*Awards*
2008	- Revenue reached US$ 2 billions. - No. 1 in telecommunication infrastructure in Cambodia.	- Top 100 most prestigious brands in the world
2009	- Became an economic group, has the largest 3G network in Vietnam	- Best service Distributor of the year (Frost & Sullivan Asia Pacific ICT Award 2009)
2010	- Invest/expand market to Haiti and Mozambique - No. 1 in Cambodia in terms of revenue, number of subscribers and infrastructure	- Metfone Viettel's brand in Cambodia received the award: The best service providers in emerging markets (Frost & Sullivan Asia Pacific ICT Award 2010)

VIETTEL case study
(Historical formation and development)

Year	*Market power*	*Awards*
2011	- No. 1 in Laos in revenue, number of subscribers and infrastructure.	- Metfone Viettel’s brand in Cambodia received the award: The best providers in developing markets (The World Communication Award 2011)
2012	- Revenue reached US$ 7 billion.	- Unitel Viettel’s brand in Laos received the award: The best service providers in emerging markets (The World Communication Award 2012) - Movitel Viettel’s brand in Mozambique received award: Businesses with the best solution to help improve telecommunications in rural Africa.

Source: Own summary from Viettel (2014).

Business Strategies

- As a "follower" in domestic market, Viettel needed to compete well with VNPT (Vietnam Posts and Telecommunications Group) and MobiFone in Vietnam
- The first business philosophy of Viettel is to do things differently taking its comparative advantages over existing competitors in the market.
- Invest deeply in technology and technical development in telecommunication (IT application matched well with telecommunication)
- Good strategy orienting its telecom services to rural areas making clear difference to other competitors.

Business Strategies

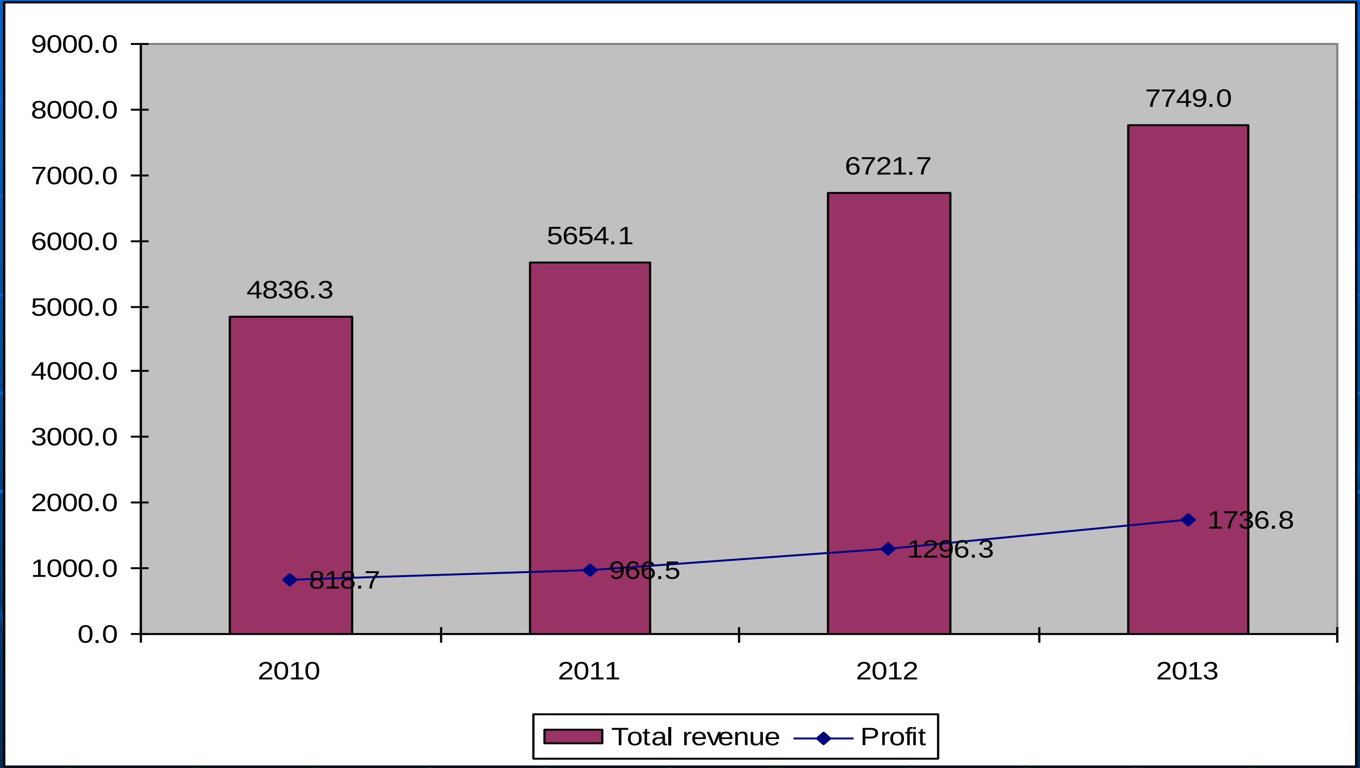
- Investment abroad: focuses on the markets of low income countries where telecommunication infrastructure has not yet developed.
- Viettel's strategy with "do-it-yourself" philosophy cutting costs to minimum levels and thus can compete well in the new and low income markets.
- Strategy to create a large enough market from the beginning: often the "first mover" in difficult but potential markets

Business results

- 1999: capital of VND 2.3 billion and 100 employees; Viettel has become a very large Vietnamese economic Group with a revenue of US$ 7.74 billion and more than 25,000 staffs in 2013 after 25 years.
-
- Only from 2009 to 2013: the number of subscribers increased by 62% (42.5 millions subscribers vs. 69 millions in 2013 including 54.25 million subscribers in domestic markets and 14.75 millions of subscribers abroad)

- Distribution in the overseas market: Cambodia: 6.19 million subscribers; Laos: 2.84 million; Haiti: 1.87 million; Mozambique: 3.61 million; East Timor: 239.3 thousand. Total subscribers in 2013 increased by almost 3.09 millions.

Total revenue and profits of Viettel Group, 2010-2013 *(Unit: millions US$)*



Source: Own demonstration based on Statistics of Viettel Corporation

Factors leading to successes of Viettel

- Viettel has a good and **appropriate strategic vision and philosophy**.
- **Good policy on human resource development**: cares really well on its trainings especially those for young staff.
- **Strategy to make differences**: in slogan, in services, qualities and images, and in pricing policies.
- Take opportunities to **invest in modern technologies** which can serve well for high-quality services and create good telecommunication infrastructure.
- Good **leadership skills and Viettel culture**: Army culture in this case is very effective though democracy can also be applied extensively

Lessons learnt from VIETTEL case

- A follower business like Viettel can completely be successful if it can take its comparative advantages and find out a **“niche market”.**

- Viettel Group can **change the way of thinking** in Vietnam that there are different ways of improving efficiency of SOE sector: improving its operation, especially the improvements in business strategy, corporate governance, investment decision and incentive systems. Equitisation is not the only way of conducting SOE reform in Viet Nam.

- The focuses of the Group in the coming years are not equitisation but continue to **enhance quality of services, expand the markets and strengthen corporate governance.**

Policy evaluation

- Reform results:
- 2011-2013: total profits of SOE sector has constantly been increasing although profit growth is in a decreasing trend: increased by 22.4%, 12.6% and 13% in 2011-2013 respectively.
- Eventually, total asset value of state economic groups and corporation is still very large accounting for around 81% of GDP in 2012.
- Although the number of SOEs has been decreasing overtime, their asset value and ownership capital kept increasing.
- The equitisation process: i) Well implemented in the 2002-2005; ii) The number of equitised SOEs decreased sharply from 2006-2013 especially during 2010-2013 this figure was coming down to 2-digit number; iii) Improved in 2014 with 143 SOEs equitised.
- Many post-equitisation businesses have difficulties in their operation: no clear business governance and monitoring regulations to make clear border between the state ownership rights and the business operation management.

Policy evaluation

- The outcomes of SOE restructuring policy:
- + Helped to improve state budget substantially during the whole reform process.
- + The efficiency improvement of enterprises both the SOEs and the equitised firms; The efficiency of post-equitisation businesses improved substantially (NSCERD)
- + Reform impact on investment: For the last 25 years of SOE restructuring in Vietnam, private investment and FDI increased significantly accounting for 27.5% and 27.8% respectively in total investment of the economy in 2006-2010 (compared to 26.4% and 17% respectively in 2001-2005).
- + Helps to change the way of thinking about the role of SOE sector.

Policy evaluation

- Achievements vs. set objectives
- + There have been many objectives set out in the policies; however, the actual achievements often do not meet well with them in SOE restructuring.
- + Decision No. 202/HDBT (1992) 5 SOEs were equitised in the whole country while the objective set for each ministry or province to choose 1-2 SOEs going for equitisation
- + 2001-2005: the objectives were somehow achieved.
- + The objectives set in the Law of Enterprises: for the time span of 4 years all SOEs must transform into joint-stock companies or liability limited companies. This initial objective was not completed by July 2010 as planned.
- At present and with the project "Restructuring SOEs focus on general corporations, corporation Groups period 2011-2015": the SOE reform in general and SOE restructuring in particular did not stick fully to an original plan. This is a “learning by doing” process rather than a clear reform plan made from the beginning.

Policy evaluation

- Satisfation of stakeholders participating in the SOE restructuring process:
- + The government did not satisfy with the pace of SOE restructuring reform.
- + Research community in general also did not satisfy with the inertia of SOE reform and always called for radical restructuring measures.
- + However, the SOE managers seem to be reluctant in the reform and tried to slowing down the process.
- + Employees in SOEs have two different attitudes to the reform depending on the prospects they anticipate the future restructured enterprises.

Lessons learnt

- The policy-making process for SOE restructuring should be improved: more time and forum to gather comments and opinions from different stakeholders especially those who are affected by the designed policy during its making process.

- The current SOEs still receive many privileges compared to their counterparts in private sector: SOEs and FDI firms have more advantages and priorities.

- The vested interest groups such as SOE managers or even selected policy makers would be opponents for SOE restructuring reform.

- Some SOEs are “too big to fall” in Vietnam at present such as VINASHIN.

Lessons learnt

- On the one hand, the equitisation process should be speeded up, however, on the other hand, this process should be properly conducted avoiding losses for the state especially those in SOE asset valuations.
- Equitisation is not necessary the only way in SOE restructuring, improve SOE efficiency is another: VIETTEL case
- At present, there are too many state management bodies for SOEs now in Vietnam: Institutional reforms needed
- Stronger determination in separate pure business operation of SOEs with their political or public tasks.

Thank you very much
for your attention !