



CHAPTER 5

Reforming State-Owned Enterprises in a Global Economy: The Case of Vietnam

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INTRODUCTION

This chapter examines what the latest phase of state-owned enterprise (SOE) reforms in Vietnam starting around 2016 tells us about economic and institutional changes in Vietnam. In doing so we shed light on

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some challenges and contradictions between the socialist ideology and the market imperative, which the Vietnamese economy is subject to as a global player.

In Vietnam, the *doi moi* process for economic renewal and market orientation was launched in 1986 with SOE reforms being an important part of the agenda. The first equitization of SOEs took place in 1992. Equitization—or ‘privatization with Vietnamese characteristics’—means that enterprises are turned into joint stock companies in which the state, workers and private investors hold shares. Either the state or the private investors hold the majority shares, usually the state. In Vietnam, the concept of equitization has less negative ideological overtones than privatization because it marks a difference to capitalism (Hiep 2017). With considerable resistance from SOE managers and fear of job losses, the first phases of equitization went slowly.

Our interest in the new phase of SOE reforms is actualized by the real economy challenges Vietnam faces to become an upper middle-income economy by 2035. We do not claim that studies of SOE reforms are sufficient to understand the breadth of political-economic change and challenges in Vietnam. Having said this, SOE reforms are an interesting entry point to the topic as success and failure of SOEs have been used as an important criteria whether reforming paths of planned economies converge with or diverge from Western market capitalism (Hu 2005: 703–704). ‘Socialism’, although vaguely defined, is the development goal of Vietnam. SOEs have been designated the leading role in the socialist-oriented market economy, which is a strategy to attain socialism. This role may now be up for change:

As stated at the 9th Party Central Committee 2001:

....the state sector plays the decisive role in *holding fast the socialist orientation*’... and SOEs must be ‘*the core force*, main contributor for the state economic sector to perform the leading role in the *socialist-oriented market economy*, and the main force in international economic integration. (ref. in Vu-Thanh 2017: 89, our emphasis)

The resolution of the 12th Party Congress in 2016, represents a break with the above statement:

The socialist-oriented market economy of Viet Nam includes many forms of ownership, many economic sectors, *with the private sector as an important driving force of the economy*; the market plays the major role in mobilizing and effectively allocating resources for development, the state

plays the role in orientation, building and perfecting the economic institutions for fair, transparent and healthy competition. (World Bank 2017: 12, our emphasis; Communist Party of Vietnam 2016: 261)

In this chapter, we examine what characterizes the latest phase of SOE reforms, what is new about the context that the reforms are implemented in, how the Vietnamese government presents the reforms and how industry and international stakeholders relate to the reforms. More concretely, we examine how three enterprises in the category of SOEs where the Government aims at full divestment perceive and experience the reforms. These enterprises are the two breweries Saigon Beer - Alcohol - Beverage Corporation (Sabeco), Hanoi Beer - Alcohol - Beverage Corporation (Habeco) and the producer of dairy products, Vinamilk. Among the international stakeholders we address the World Bank, UNDP, OECD, the US, the EU through the EU-Vietnam Free Trade Agreement (EVFTA) (awaiting approval by the respective member countries as of August 2019)¹ and the Comprehensive and Progressive Agreement for Trans-Pacific Partnership (CPTPP).²

Our data are a combination of resolutions and public reports where the Government addresses the reforms, semi-structured interviews with enterprise managers, information from the web-sites of the enterprises, news reports on how the enterprises are affected by the SOE reforms, and publications and reports of the international stakeholders.

The conceptual framework provides a short review of changing conceptualizations of SOEs as presented in scholarly articles and by international organizations. Then follows a sub-chapter on the Vietnamese context, addressing how the Communist Party of Vietnam (CPV) has conceptualized the socialist market economy from 1986 through 2016. After a brief history of SOE reforms before 2016, we address the reasons, objectives and strategies of the new phase of reform. Then follow two sub-chapters on how the international stakeholders consider the SOE sector in Vietnam and how the selected enterprises have experienced equitization in general

¹ EVFTA, see the text at the end of the negotiation here: <http://trade.ec.europa.eu/doclib/press/index.cfm?id=1437> (accessed May 2019).

² CPTPP, see the legally verified text here: <https://www.mfat.govt.nz/en/trade/free-trade-agreements/free-trade-agreements-in-force/cptpp/comprehensive-and-progressive-agreement-for-trans-pacific-partnership-text-and-resources/> (accessed May 2019). CPTPP is the revised Trans-Pacific Partnership framework after the US withdrew from the negotiations.

and the new phase in particular. We wind up with what might be the implications of the new phase of reforms to the state-socialist market economy.

CONCEPTUALIZATIONS OF SOE

SOEs are legal entities over which the state exercises control ‘through full, majority, or minority ownership’ (Kim and Ali 2017: 1). Minority ownership control can be exercised through the shareholder agreement or golden shares with special rights to veto decisions. In addition to the government itself, development banks, pension funds and sovereign wealth funds can hold government minority shares (Musacchio and Lazzarini 2012).

As producers, SOEs can generate profits, contribute to government revenue, keep control over sectors of importance to national security and vital natural resources, and secure public utilities in fields that are too risky or not sufficiently rewarding to the private sector. In countries such as Japan, Taiwan and South Korea, SOEs have been used to attain industrialization and start new industries. SOEs can also have social objectives such as securing reasonably priced consumer goods and employment (Amsden 1989; Wade 1990; Chang 2003; Knutsen and Nguyen 2004).

The main argument against SOEs is that they are not sufficiently efficient producers. Multiple economic and social objectives reduce the focus on profitability and productivity increases. The same applies to limited autonomy and a heavy bureaucracy. When control is dispersed between several state agencies, there is room for opportunistic behaviour. Additionally, SOEs rely on preferential treatment by the state, which may crowd out the private sector and challenge competitive neutrality in the host countries when SOEs go international (Capobianco and Christiansen 2011; IEG 2018). The state can rescue loss-making SOEs not to fail, for instance by soft credits, tax exemptions and subsidies (Kornai 1986).

The neoliberal approach to SOEs that gained a strong foothold in the 1980s and 1990s builds on the notion that privatization of SOEs will expose them to the market mechanism and competitive pressure and force them to develop new and better products. SOEs should thus be restricted to sectors that are important to control over national defence and vital natural resources, and public utilities that are not sufficiently remunerative for the private sector (see Knutsen and Nguyen 2004).

The wave of liberalization and privatization in the 1980s and 1990s stimulated ‘a new form of hybrid capitalism where the government influences the investment decisions of private companies largely through minority capital’ (Musacchio and Lazzarini 2012: 4). Moreover, the World Bank (2014) points to a continuation and expansion of SOEs in all types of economies in the twenty-first century and that they play a significant role in the world economy. SOEs have internationalized to bail out private enterprises in connection with the financial crises of 2008, to strengthen their presence in specific sectors such as finance, insurance and utilities and for geopolitical purposes (Musacchio et al. 2015; UNCTAD 2017). Actualized among other by the internationalization of Chinese SOEs, international organizations and partners of trade agreements want domestic enterprises to be protected from unfair competition from SOE-TNCs that are subsidized in their country of origin (Kawase and Ambashi 2018).

The fact that state majority ownership and different forms of minority ownership coexist all over the world, questions the conventional polarized view of state versus private ownership (Cuervo-Cazurra et al. 2014; Cuervo-Cazurra 2018). The European Commission (2016) found that with some exceptions there are no systematic difference in productivity and profitability between private enterprises and SOEs in the member states. Where differences occur, such as in the manufacturing sector, they are small. Having said this, negative effects on profitability are less likely in majority-owned and minority-owned SOEs than wholly-owned SOEs due to the checks and balances external investors represent. The same applies to restrained patronage by a technical bureaucracy (Musacchio et al. 2015), although the process of transferring ‘public monopolies into private hands may incentivize rent-seeking’ (European Commission 2016: 2). The salient point, however, is ‘[not to] assume that all SOEs will suffer from the liabilities of stateness (and consequently underperform private firms)’ (Musacchio et al. 2015: 124). The argument represents a break with the arch-type neoliberal notion of SOEs (above) and calls for more context-sensitive approaches in explaining the role and performance governance of the SOEs where they operate (Hu 2005; Musacchio and Lazzarini 2012; Musacchio et al. 2015; Cuervo-Cazurra et al. 2014).

In the following, we address SOE reforms in the institutional context of Vietnam’s socialist market economy. The Vietnamese definition of SOEs has changed over time. Before 2003, it referred to enterprises wholly-owned by the state. In the Enterprise Law of 2003, SOEs

comprised both 100% state-owned enterprises of limited liability and enterprises where the state owns 50% or more in form of share holding and capital contribution. In the updated Enterprise Law effective from 2015, SOEs are defined as 100% state-owned enterprises (Taussig et al. 2015). As the new phase of SOE reforms addresses equitization of wholly state-owned enterprises, further divestment in majority-owned SOEs and listing on the stock exchange, we apply the terminology wholly-owned, majority-owned and minority-owned SOEs.

The SOEs sort under different agencies of the state at the central, provincial and district levels. The nineteen largest state economic groups and corporations form the core of the economy, among them are Petro-vietnam, Vietnam Electricity, Vietnam Chemical Group, Vietnam Rubber Group, Vietnam Mobile Telecom Services, Vietnam Airlines and Vietnam National Shipping Lines (see Vietnam Investment Review 2018a).

In 2016, the state owned 50% or more in 2662 SOEs, down from 3281 in 2010. The number of workers declined by 0.7 million in the same period (GSO 2017a). The SOE sector accounted for 29% of GDP in 2016,³ and the share of SOE workers according to enterprise ownership was only 11% in 2015 compared to 62% in 2000 (GSO 2017b). Although the role of the private sector has increased in the economy, SOEs are an important target for economic reform, much due to low productivity and bad debts, and because revenue from divestments of SOEs are called for to finance Vietnam's economic and social development goals (below).

CVPs NOTION OF A SOCIALIST MARKET ECONOMY AND THE ROLE OF SOEs

Doi moi and SOE reforms were initiated to cope with severe economic challenges in the late 1970s and early 1980s after the reunification of North and South Vietnam and move forwards to socialism. The CPV did not use the term ‘market economy’ in the beginning of *doi moi*. The rationale was that a ‘market economy’ is a product of capitalism and should be eliminated in a communist country. The term socialist-oriented market economy was first applied at the 9th Party Congress in April 2001. It refers to as a multisector economy with a state sector, private sector, foreign capital and different types of ownership. It is subject to the market

³See <https://www.gso.gov.vn/default.aspx?tabid=775> (accessed August 2019).

mechanism and at the same time led by the state based on a socialist orientation: Public ownership of the means of production is the target at ‘the end of the road’ to socialism. In the meantime, the socialist-oriented market economy will be led by the state by strategies, plans and policies that promote the advantages of the market mechanism. The state will protect the interests of the people from the negative impacts of the market economy and there will be a system of social security (Communist Party of Vietnam 2016). Hence, according to Nguyen (2016), the economic model of Vietnam has been a multisector economy led by the state.

The notion of ‘socialism’, however, is vague, other than referring to a civilized and equitable society in which the state represents the long-term interests of the nation (Beresford 2008; Malesky and London 2014). The same applies to the meaning of ‘socialist orientation’. Quantitative and qualitative criteria to distinguish between a socialist-oriented market economy and a market economy have not yet been set. Acknowledging the need for clarification, the Party has just started to discuss the topic at the high level in the political system, with reference to experience in other countries in the world (Communist Review 2018).

Another term that warrants more precision is ‘the leading role of the state’. There is an on-going debate over what a ‘leading role of the state’ actually entails which ‘is used by some to justify preserving a dominant state role in commercial business activity’ (World Bank 2017: 15; the Communist Party of Vietnam 2016). Whereas the state holds a leading role both in managing the economy by policies and plans and as a producer, it is the understanding of the role of the SOE sector that is considered ambiguous.

The intended role of the SOEs has been to take the lead in the accumulation of wealth and development of the material base for future socialism. It is, however, important to distinguish between the role that the SOEs play in political rhetoric and policies and the outcome of it in the real economy. Having analyzed data from 1991 to 2004, Beresford (2008) argues that although SOEs were designated the dominant role in the economy, they were not able to assume it. She attributes this to the lack of direct investment support from the state budget. Technology had been outdated since before *doi moi*, but the SOEs could only get low interest loans for working capital needs and trade protection against international competition. The state focused on institutional reforms, enterprise autonomy and investment in infrastructure, in line with the Washington

Consensus, rather than a coherent industrial policy of picking and disciplining winners that could have supported upgrading. The policy choice has to be understood in light of donor pressure and the strive for WTO accession and international integration at that time. In practice, it meant that the private sector, and especially the foreign-invested sector, was allowed to take the leading role in the economy.

Based on a review of research on the role of SOEs in the real economy, including the first years after the WTO accession in 2007, Malesky and London (2014: 413) conclude that SOEs are ‘remarkably unproductive relative to non-state competition’. They explain the poor performance of SOEs by their access to cheap land and capital, whereby managers can maximize individual revenue and invest in unrelated and low productive business activities.

In 2016, the Party Congress for the first time, after more than three decades of *doi moi*, acknowledged the contribution of the private sector to the economy: ‘the state sector plays the leading role while the private sector is an important driving force of the economy’ (Communist Party of Vietnam 2016: 103, our translation). The contribution relates to the growing share of the private sector in GDP and employment and the importance of foreign-invested firms for exports. The 5th Plenum of the Party Central Committee (tenure XII), organized in 2017 stated that the private sector shall be treated on par with other sectors of the economy. It is encouraged to hold shares in SOEs when the Government equitizes or divests them and to make joint ventures with SOEs to establish a production network or join a value chain (Communist Party of Vietnam 2017).

SOE REFORMS BETWEEN 1990 AND 2015

The number of wholly-owned SOEs declined from about 12000 in 1989 to about 6000 by the end of 1995 (Riedel and Turley 1999).⁴ Most of the decline is attributed to liquidation and merger of small SOEs under local control that suffered chronic deficits and had been tapping the state for resources (Ishizuka 2009).⁵

⁴The figures conform to other sources quoted by UNDP (2006).

⁵Local SOEs refer to SOEs under agencies such as Provincial People’s Committees, District People’s Committees and local branches of the Communist Party (Ishizuka 2009).

Altogether, some 4000 SOEs equitized between mid-1998 and end-2010 (Hiep 2017). During this period, equitization peaked from mid-1998 to end-2000 resulting from Decree 44/1998/NĐ-CP. The Decree defined the types of SOE eligible for equitization, and the Government offered many preferences to equitized SOEs, such as tax deduction and credit on favourable terms (Nguyen et al. 2014). Equitization reached another peak 2003–2006 stimulated by the application for WTO membership and establishment of the first stock exchange (Hiep 2017). In terms of international aid, SOE reforms were important for poverty reduction credits from the World Bank resulting in financial support directly to the government budget (UNDP 2006).

Re-arrangement of SOEs into larger groups is another element of the reforms. In line with the Prime Minister's Decision no. 90 and Decision no. 91 in 1994, SOEs were merged into SGCs. The objective was to enhance the scale of operation and increase the influence of the Central Government (Beeson and Pham 2012). The decisions paved the way for the establishment of state economic groups (SEGs) around 2006 (Vu-Thanh 2017). SEGs are conglomerates of large SOEs where the state holds the controlling stake. The objective was to prepare for the global competition that the SOE sector would meet from multinational enterprises as part of the WTO agreement, and prevent erosion of the socialist orientation of the market economy that SOEs were to play a leading role in (above). Supported by the state with capital, land and natural resources, SEGs diversified horizontally and into non-core activities such as real estate, banks and insurance (Vu-Thanh 2017).

The poor performance of the Vietnamese stock exchanges and the long time it takes for large SOEs to prepare equitization and find strategic partners slowed equitization in the 2011–2015 period. Foreign investors lost confidence in the equitization process due to slow listing on the stock exchanges and the fact that the state retained the majority share in most SOEs (Ministry of Planning and Investment [MPI] 2016).

By 2015, some 4500 SOEs had been equitized and 600 remained wholly state-owned (Government of Vietnam 2017a; 2017b ref. in Hiep 2017), but only 8% of the state ownership had been transferred to the private sector (Vietnam Economic Times 2017). Moreover, poor management of the SEGs and negative impacts of the global financial crisis led to bankruptcies in SOEs and private enterprises alike (Viet Nam News 2017). Higher interest rates and high inflation caused difficulties to the economy as a whole.

Over time, equitized SOEs became a source of private accumulation, which gave rise to a new business elite with close ties to the party system. The business elite could be serving or formerly serving officials and children of the party elite (Dixon and Kilgour 2002; Beresford 2008; Gainsborough 2010; Malesky and London 2014). This form of commercialization of the state blur the boundaries between the public and the private sector. It results in weak state co-ordination of the sectoral businesses that could tip Vietnam into cronyism rather than successful state-led development (Beresford 2008). More recently, scholars address how the SOE sector drains the private sector of resources, especially in light of the mismanagement of the SEGs (Malesky and London 2014; Pincus 2015). According to figures from the World Bank and MPI (2016), SOEs accounts for 40% of total investment in Vietnam but only 30% of GDP growth. Labour productivity and productivity measured by land and capital assets have been low between 2001 and 2014, and labour productivity stagnated and even declined in some SOE sub-sectors. They also show ‘a steady erosion in the productivity growth of the domestic private sector’ and argue that ‘[this] leaves it just as inefficient as the state sector’ (World Bank and MPI 2016: xxii).

THE NEW PHASE OF SOE REFORMS

Legacies of the 2011–2015 period and earlier phases of reform are important to understand the context of the new phase of SOE reform from 2016: Vietnam faced a huge and persistent state budget deficit, sharply increasing public debts, difficulties in handling bad debts and difficulties in controlling inflation at the end of the period (MPI 2016). Restructuring of the SOEs was slow and there were no substantial improvements in productivity, quality and efficiency of industrial production and services. Especially the SEGs with many cross-ownerships and banks internal to the groups were running at a loss and contributed to the development of bad debts (MPI 2016). Equitization and divestment in the new phase are thus a way to mobilize resources from SOEs to finance the government’s budget deficit and finance investments in physical and social infrastructure to improve the labour productivity of the SOE sector. This reflects stronger necessity from within for changes in policy and implementation. In addition, further international integration calls for equal terms of competition for all enterprises and transparency in ownership, control and operation of the SOEs.

The plan for SOE reforms 2016–2020 is to accelerate equitization of the remaining SOEs that are not of strategic interests; sell more shares in already equitized SOEs; and list equitized SOEs on the stock exchange (Government of Vietnam 2017a). The aim is to equitize 137 SOEs and divest in 406 joint stock companies and limited liability companies with two or more members (Government of Vietnam 2017b; JonesDay 2017). In terms of ownership, the state is going to hold 100% of the charter capital in 103 enterprises (this includes 11 sectors that make up the most sensitive areas of the economy such as defence, public security, electricity, petroleum and railways); at least 65% in four enterprises (mineral extraction, oil exploration and extraction, finance and banking); more than 50% but less than 65% in 27 enterprises; and less than 50% in 106 enterprises. The actual enterprises have been identified to ensure transparency (Government of Vietnam 2016).

The 2016–2020 five-year plan states that the Government will use the market mechanism to improve the efficiency of the SOEs, both in terms of a level playing field between the economic sectors and a strengthening of state management and owner's management in the SOEs (Socialist Republic of Vietnam 2016). Gradually, political and administrative bodies such as the ministries are not going to manage SOEs (Dang 2016). This is to avoid that a policy-making institution is also a beneficiary of the policy. Registration of the equitized enterprises on the stock exchange is a means to enhance transparency, meet international standards of corporate governance and make the SOEs operate more efficiently.

Despite the number of changes in policy and regulations, the Government lags well behind its goals for the accelerated SOE reforms. The target was to divest 135 SOEs in 2017 and 181 SOEs in 2018. The respective results were 13 and 52. The delay is attributed to the need of careful valuation of the SOEs to avoid losses to the state budget and poor interests of potential investors. Valuation of land-use rights has taken time because the government requires SOEs to complete their land-use plans and get them approved before equitization (Tapchitaichinh 2019; Vitnamplus 2019).

As stated by Pham Duc Trung, Director of the Department of Enterprises' Reform and Development (under Central Institute of Economic Management): 'crony and interest relationship is officially recognized to be a reason for the delay of reform of State-owned enterprises' (Tien 2017, our translation). By maintaining the status of SOEs, the enterprises can also continue to enjoy privileges such as easy access to land or capital

with the support of local administrations (*ibid.*). From this angle, the difficulties of some SOE managers and local administrations in giving up SOEs due to vested personal interests are a root cause of the delay. This is not to obscure that there is also a fear at the provincial and local level of what a demise of SOEs will mean to local revenue and budget allocations.

INTERNATIONAL STAKEHOLDERS

International organizations emphasize underperformance of SOEs, preferential treatment of SOEs cum lack of a level playing field, the burden of heavily indebted SOEs, the challenge of multiple principals and rent seeking and corruption in their reports on SOEs in Vietnam (Vietnam Development Report 2012; World Bank 2014, 2018; UNDP 2016; OECD 2018). More specifically, OECD (2018: 10) calls for a policy agency to guide further equitization to prevent ‘anti-competitive legacy issues’... ‘in markets where SOEs held significant market power’.

Key trade partners such as the US and the EU do not yet consider Vietnam as a market economy, although Vietnam should be recognized as such after 12 years of WTO-membership. The argument is that ‘[a]lthough most prices have been deregulated, the Vietnamese government still retains some formal and informal mechanisms to direct and manage the economy’ (Congressional Research Service 2018: 11; Vietnam Manufacturing Federation 2018). The ‘historic lack of progress in reforming the SOE sector’ is of key concern (US Department of State 2017: 13): There has not been much change in the SOEs’ capital structure, they still enjoy preferential access to resources and their boards lack political independence. Regarding transparency, the SOEs also have small incentives to disclose the information that they are obliged to disclose.

In January 2019, Vietnam became a member of CPTPP. The agreement contains a separate chapter on SOEs, referred to as ‘the first comprehensive and detailed disciplines of SOEs’ (Kawase and Ambashi 2018: 1). The chapter bans anti-competitive practices in trade and services and prescribes a level playing field for SOEs, domestic private firms and foreign firms. There are rules for home country subsidies to overseas investments and requirements on transparency concerning ownership, special voting rights, operational data and business results of the SOEs. However, it only applies to enterprises where the Government owns more than 50% of the shares and voting rights, it exempts small SOEs with annual revenue from commercial activities of less than Special Drawing

Rights (SDR)⁶ 200 million, and it will not apply to sub-central SOEs (Kawase and Ambashi 2018; WTO Center—VCCI 2019). Moreover, the transparency rules will not fully apply to Vietnam until 5 years after the entry to the agreement (Kawase and Ambashi 2018).

The EVFTA contains a separate chapter on SOEs too. It addresses non-discrimination and transparency, much in line with the provisions and exemptions of the CPTPP. The EU is concerned about weak implementation of labour laws in Vietnam and thereby a cheap manufacturing base for tariff-free exports of goods into the EU. A similar concern was raised by the US when it was part of the TPP-negotiations (Kawase and Abashi 2018; WTO Center—VCCI 2019).

In sum, the international stakeholders hold that successful reform requires more than reduction in the number of SOEs and divestments according to the international organizations and stakeholders. They call for substantial changes to separate the various roles that the Government holds in relation to the SOEs and to improved transparency in the sector. There is nonetheless some slack in the CPTPP.

According to the World Bank and MPI (2016), Vietnam faces several challenges, such as stagnating productivity, inefficient public investment, and uncoordinated and often incoherent investment decisions of a fragmented state structure. They argue that the institutional foundation for an advanced market economy is insufficiently developed, that this undermines private-property rights and competition in product markets and that an unclear mix of allocation by market and fiat governs the factor market. Institutional change allowing for more market is a standard call by the World Bank both concerning SOEs and transition economies more generally (World Bank 2014).

The Party, on its part, recognizes that the socialist-oriented market economy has not lived up to its expectations and that it needs to be completed. Among the shortcomings are lack of conformity between political and economic reforms, conflicts between legal documents, unequal access to resources by economic actors, insufficient attention to the ease of doing business and that the gap between the rich and the poor is increasing. Completion of the socialist market economy is thus decisive to the industrialization and modernization of the country (Communist Party of Vietnam 2017). One of the measures taken is

⁶<https://www.imf.org/en/About/Factsheets/Sheets/2016/08/01/14/51/Special-Drawing-Right-SDR> (accessed May 2019).

the establishment of the Commission for the Management of Capital in Enterprises (CMCE) in 2018 to separate ownership from the operations of the 19 largest SOEs (Vietnam Investment Review 2018a). It is inspired by Temasek⁷ in Singapore and is the type of institution that the OECD (2018) calls for.

INDUSTRY EXPERIENCES

To supplement data collected from mass media, we have conducted semi-structured interviews in three SOEs with different experiences from both earlier and the current phase of SOE reforms. The main reason for examining equitization and divestment in Saigon Beer - Alcohol - Beverage Corporation (Sabeco), Hanoi Beer - Alcohol - Beverage Corporation and Vinamilk, is that the Government has signalled that it aims at full divestment in beverage and dairy production (Customsnews 2017).

Both breweries originate from breweries founded by French nationals in Vietnam in 1875 and 1890, respectively (interview Habeco and Sabeco 2017). Habeco is based in the North of Vietnam and its main product is Bia Hanoi. Its predecessor became a SOE already in the late 1950s (<http://www.habeco.com.vn>). The main product of Sabeco with head-quarter in the South of Vietnam is Bia Saigon. Its predecessor became a SOE in 1977 (<http://www.sabeco.com.vn/en-US/home>). Sabeco has been subject to a more business-exposed environment than Habeco and is currently tapping into the beer market in the North of Vietnam. Sabeco is the market leader, catering to 40% of the market for beer in Vietnam, followed by Heineken with 24% of the market, Habeco with 16% and Carlsberg with 10% (Zing 2018).

Vinamilk emerged from a SOE established in the South of Vietnam in 1976, based on three dairy factories of the old regime (<https://www.vinamilk.com.vn/en/>). Unlike Sabeco and Habeco that equitized in 2008, Vinamilk equitized already in 2003 (interviews, Sabeco, Habeco, Vinamilk 2017).

⁷ Temasek, see <https://www.temasek.com.sg/en/index.html>.

Sabeco

In terms of government revenue, Sabeco stands out as a highly successful example of divestment. In December 2017, 53.59% of the enterprise was sold to Thai Beverage for USD 4.84 billion or USD 14.1 per share, ‘about 36 times core earnings’, [and] more than double the trading multiples for global peers’ (Reuters 2017: unnumbered). Despite a 49% foreign ownership cap on state-owned listed companies, Thai Beverage could secure the Sabeco deal through another local beverage company that it holds stocks in, Vietnam Beverage, and further increase its share to 63.35% in December 2018 (Reuters 2017; Nikkei 2018; Vietnam Investment Review 2019a).

The willingness to pay such a high price to secure the deal has to do with Thai Beverage’s vision to become a regional player in the beer market (Bloomberg 2017). Vietnam is highly attractive in this respect. In 2016, it ranked the ninth largest beer consuming market of the world and the third largest in Asia after China and Japan. The high and growing consumption of beer has been attributed to a high share of the population in the working age, rising incomes, a growing middle class and a culture where drinking alcohols ‘builds and maintains social networking and business relationships’ (Ho Chi Minh University of Education in Vietnam Briefing February 2018: 3; Vietnamnet 2018).

The multibillionaire Chaoren Sirivadhanabhakdi who is a big investor in Thai Beverage also holds investments in grocery retail, Metro Cash and Carry, in Vietnam through TCC Holding and 20% in Vinamilk through Fraser and Neave (Bloomberg 2017). Hence, investments in Sabeco can be a means to strengthen his overall positioning in Vietnam, a market that is attractive for its growing middle class consumption. Sabeco is attractive because it holds the largest market share of the breweries in Vietnam. It has a famous name in Vietnam and sells at ‘affordable prices’, but does not export much. Despite increasing sales, Sabeco’s share of the Vietnamese market does not increase due to competition from imported brands (interview 2017). Hence, from the angle of Sabeco, Thai Beverage’s acquisition is promising because it can boost investments in Vietnam. Thai Beverage has also expressed interests in exploring export opportunities for Sabeco. However, both may take time as the profits of Sabeco have declined in the aftermath of the deal (Retail Asia 2018). There is also a question of where the values of further production and expansion are created, enhanced and captured when companies are included in a regional value chain. Before

the divestment, Sabeco was the second and third largest contributor to the provincial budgets where their factories are located (interview Sabeco 2018).

At the time of divestment the stake of the Government was reduced from 90 to 36% (The Leader 2017). The Sabeco case illustrates that it can be challenging for SOE managers to let go of control after divestment to new large owners. Although Thai Beverage had become the largest owner, it had to complain to the Ministry of Industry and Trade to be included in the management board (Viet Nam News 2018).

When Sabeco equitized in 2008, Heineken, which has become Sabeco's largest competitor in Vietnam, bought 5% of the enterprise. Equitization did not result in any significant changes in how the enterprise was operated because the Government still held 90% of the enterprise. Contrastingly, the Vietnamese management expects many changes with the large Thai investment. However, the only aspect they could concretize was that it would require workers to become more professional: 'Now workers come and go a little as they want, they can come to work a little late and leave a little early and have a long lunch' (interview Sabeco 2017).

Habeco

The state, through the Ministry of Industry and Trade, owns 81.79% of Habeco followed by Carlsberg with 17.51%. Carlsberg went into a strategic partnership with Habeco just before Habeco equitized in 2008.

Habeco concentrates on the domestic market for 'affordable beer' in the North of Vietnam and exports very little of its total production. In the North of Vietnam, Habeco has lost market shares to Sabeco, which focuses more on marketing of its beers. Habeco also faces competitive challenges from other breweries in the Northern provinces (interview Habeco 2017).

Carlsberg entered Vietnam already in 1993 through a joint venture with another Hanoi-based brewery and expanded its operations to more joint ventures in the mid and the South of Vietnam, even a joint venture with Habeco in the South. Carlsberg is now the only owner and both produces and distributes its own brands of beer in Vietnam (Journal.Beer October 31, 2016). A higher share in Habeco would be important to a company that ranks number four in the same market as Sabeco/Thai Beverage, Heineken and Habeco.

Divestment in Habeco has been on the agenda since 2016, but takes time. In 2017, Carlsberg flagged that it wanted to increase its share to 61.79% and argued that it holds priority purchase rights for 60% ownership as a strategic partner (Reuters December 13, 2017). Habeco, on the contrary, refers to the 49% cap on foreign investment in SOEs. This happens in a context where the Government claims that it wants to divest its entire share in the brewery sector. It also plans to remove the cap on foreign investment in SOEs by end 2019 (Nikkei October 10, 2018). Currently, Carlsberg expects to buy all of the stakes owned by the Ministry of Industry and Trade, equivalent to 81.79% of the charter capital, when the state divests (Tri 2019).

The Habeco case illustrates the challenges that the valuation of shares entails (above). It cannot sell for a lower price than the Government's floor price. Carlsberg finds Habeco's share price too high compared with Carlsberg's own valuation but has 'promised to offer a competitive price' (Vietnam Investment Review 2018b). The results of the negotiations between Habeco and Carlsberg were submitted to the Ministry of Industry and Trade to be considered for approval in late April 2019 (Hanoi Times May 9, 2019). Since 2017, Habeco's market share and profits have declined (Vietnam Investment Review 2019b), which may increase the leverage of Carlsberg regarding the price of the shares. Moreover, becoming a member of the Carlsberg group, which requires that Carlsberg owns at least 30% of the enterprise, might ease upgrading of Habeco in areas important to the competition with Sabeco/Thai Beverage.

Vinamilk

Vinamilk is in a different position than Sabeco and Habeco. When it equitized in 2003 the state kept 80% ownership, but since then the enterprise has been subject to gradual divestments down to 36% state ownership through the State Capital and Investment Corporation (SCIC) by 2017. In 2006, it was listed on the stock exchange. Foreign investors hold 59% of the stocks, the largest among them are the Singapore-based food and beverage and publishing conglomerate Fraser and de Neave (where Thai Beverage holds shares) and the Singapore listed investment holding company Jardine Cycle & Carriage.

Vinamilk is the biggest dairy company in Vietnam, with 50% market share based on net sales.⁸ It bases its production on 70% imported milk powder and 30% fresh milk from Vietnamese farmers that it works with directly. The business strategy is to provide consumers with high quality products at an affordable price by constantly working to bring the costs down. Sales and marketing are important to the strategy, but the focus on cost cutting does not prevent pioneering into new products. Vinamilk presents itself as a successful enterprise. It has taken market shares in Vietnam from the foreign brand, Dutch Lady, and it has expanded production abroad to joint ventures and wholly-owned companies in New Zealand, the US, Cambodia and Poland (interview Vinamilk 2017, <https://www.vinamilk.com.vn/en/>).

'Vinamilk is not a SOE anymore', the manager we interviewed insisted, because the management only reports to the shareholder meeting and external auditors. However, Vinamilk gets the decisions to sell down by letter from the Government. Equitization and divestment were referred to as highly positive to the enterprise. Before equitization all business decisions had to be approved by the Government, a slow process that resulted in lost opportunities. Moreover, equitization helps to develop the stock market and reduce corruption. Listing on the stock exchange had resulted in transparency and good governance by inputs from the foreign partners. Hence, equitization (and the listing on the stock exchange) 'made it possible to perform much, much better' (interview Vinamilk). Similarly, in the interview at Habeco experiences with equitization were expressed this way: 'performance is better because we have some independence in how we run business and salaries have increased'.

SCIC, the largest owner of Vinamilk, was established in 2005 to enhance the efficiency of state capital utilization and contribute to the 'strengthening of the dominant role of the state sector while respecting the market rules'.⁹ To what extent and how the good performance of Vinamilk can be attributed to SCIC as an institution or the actual composition of the board and characteristics of its members require further research. The fact that both of the main foreign investors have attempted to raise their stakes in Vinamilk a few times in 2018 and 2019 reflects the attractiveness of the enterprise and the fast growing market for dairy

⁸ See <https://biinform.com/Reports/2909-vietnam-dairy-market-2018-3530.html>.

⁹ See <http://www.scic.vn/english/>.

products in Vietnam. The reason why they did not succeed in their bids suggests that the state, as in the Habeco case, wants to get more out of the sales than the buyers are ready to offer.

SUMMARY AND CONCLUDING DISCUSSION

What distinguishes the new phase of reform from the former is the strong push from within. It comes from the internal difficulties of bad debts, corruption and the need of assuring sufficient capital and technology to upgrade the Vietnamese economy if it is to reach an upper middle-income status by 2035. As access to capital and technology requires international integration this strengthening of internal pressure adds to the external calls for reform.

To the international stakeholders, the contradiction of the socialist market economy is mainly that there is still ‘too much state’ and no level playing field, as implied by the US and EU (above) that do not recognize Vietnam as a market economy. This also applies to SOE divestment. Having said this, the SOE-specific regulations of the CPTPP contains a number of blanket exceptions and country-specific exceptions, suggesting that several partners have an interest in protecting their SOEs. This situation to some extent eases the pressure on Vietnam for fast changes and may reflect international interests in access to the Vietnamese market.

The new phase of SOE reform is characterized by its many achievements in market-oriented policy change. The Government has made a number of decisions in the form of resolutions and decrees that are in line with external advice and requirements and conform to the World Bank’s thinking on SOE reform. Among the most important, are Decision 707QD-TTg/2017 that in detail specifies what SOEs to retain and divest, the requirement of listing on the stock exchange and the establishment of the Commission for the Management of Capital in Enterprises to improve the transparency of the SOEs ownership structure and operations. The Commission for the Management of Capital in Enterprises model is inspired by Temasek in Singapore and is a type of institution that the OECD (2018) calls for. The SOEs that are going to remain wholly-owned operate in sectors such as national defence and vital natural resources and types of public utilities that are generally internationally accepted.

Implementation of the policy changes, especially in terms of equitization and further divestment of SOEs however, is still lagging behind

targets. One reason for this is that potential investors think that the Government overvalues the SOEs and that the valuation framework for assets is unreliable (The Economist Intelligence Unit 2018: unnumbered), as indicated by the Habeco case above. The Government on its part wants to raise as much revenue as possible for necessary infrastructure to spur economic and social development and pave the way for socialism.

At another level, the problems in meeting the targets can be explained by the large number of regulations that have to be changed and have to match for an economic transformation to take place. The challenges to implementation are also deeply embedded in the social structure and power constellations that arose with the new politically linked business elite that emerged with the introduction of *doi moi* and their vested interests (Dixon and Kilgour 2002; Beresford 2008; Gainsborough 2010; Malesky and London 2014; Pincus 2015).

Institutional change such as a shift towards greater reliance on the market forces takes time because it requires changes in norms and values. This is also, why we find *the internal push* towards ‘more market’ in the new phase of SOE reform and clear policy change in this direction of particular interest. In 2016, the Government recognized the role of the private sector as an important driving force of the economy. This recognition together with the programme for equitization and further divestment means that the intended role of SOEs in the economy is changing, but the exact role remains to be defined. A way of seeing it is that the Government has given up the socialist economic model of management inspired by the Soviet Union. The policy of the Government has been to use the SOEs to accumulate wealth for socialism and thereby skip capitalism on the way to socialism. The trade liberalization and policies of the new phase of SOE reform however, suggest that a capitalist economy under the communist regime is about to become an accepted policy for the transition to socialism.

Beresford (2008) regretted that SOE reform was all about institutional reform and enterprise autonomy at the detriment of a coherent industrial policy. The new phase of SOE reform and acceptance of the private sector as a driver of development entail even more such institutional reform. Although equitization may enhance autonomy and enterprise efficiency, as in the case of Vinamilk, it is not given that Vietnam will benefit much from value enhancement and value capture that may arise from large-scale equitization. State-involvement for a coherent industrial policy, however, may increase the odds. Local and national value capture are essential to

attain short-term development goals and the future development goal of socialism, but what a coherent industrial policy should consist of and what would be the exact role of the state in it, are outside the scope of this chapter.

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