

# FROM CONTROL TO MARKET

## Time for Real SOE Reform in Vietnam?

State-owned Enterprise Roundtable

April 8, 2015

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**CIMA**

**Chartered Institute of  
Management Accountants**



Centre for Governance, Institutions & Organisations  
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# VIETNAM IN THE NEWS!

The Opinion Pages | OP-ED CONTRIBUTOR

## What Vietnam Must Now Do

By TUONG LAI | APRIL 6, 2015

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HO CHI MINH CITY — [Vietnam](#) must sign on to the Trans-Pacific Partnership, the United States-backed comprehensive trade plan. T agreement would allow Vietnam's economy to become fully integra with the rest of the industrialized world, and with that world come

## Samsung Set To Become Vietnam's Largest Foreign Employer

Posted by: Asia Briefing | April 8, 2015 | In B

South Korean manufacturing giant Samsung is set to become Vietnam's largest foreign employer by July this year, according to a report by the country's Ministry of Planning.

It is estimated that by July the app current workforce from 85,000 to 100,000. This will involve the recruitment of 15,000 new workers, according to the report.

THE WALL STREET JOURNAL. | WORLD

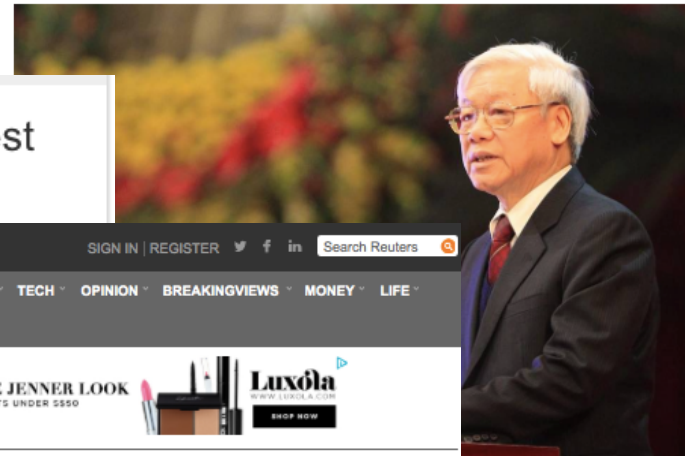
US\$8 FOR 8 WEEKS

244  
11

CHINA'S WORLD

## Vietnam's Impossible Bind: How to Stand Up to Beijing

Fence-mending visit underlines Hanoi's thousand-year-old balancing act



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Markets | Mon Apr 6, 2015 9:58pm EDT

Related: STOCKS, MARKETS, FINANCIALS | [Jury, is visiting Beijing this week.](#)

## VIETNAM PRESS-BIDV insurance arm to sell shares to foreigners - Vietnam News

1 COMMENT

The Bank for Investment and Development of Vietnam Insurance Co (BIC), the insurance arm of Hanoi-based BIDV, plans to sell up to 41 million new shares to foreign strategic investors, the Vietnam News reported, citing a company note to shareholders.

BIC has been in talks with partners from South Korea, the European Union and North America to find strategic investors, the report said. BIDV is Vietnam's second-biggest partly private lender in terms of assets.



's top Communist official  
h of the past millennium:



# OUR CONTEXT

Crossing the street and handling traffic in Vietnam as an analogy for the Vietnamese business environment

# LOTS OF GOOD NEWS

- Sustained rapid growth for over two decades of transition from central planning
- Major FDI destination, including huge investments by industry leaders Intel and Samsung
- World class exporter in labor-intensive and agricultural sectors, especially garments, shoes, rice, coffee, rubber...
- Export story only getting better...



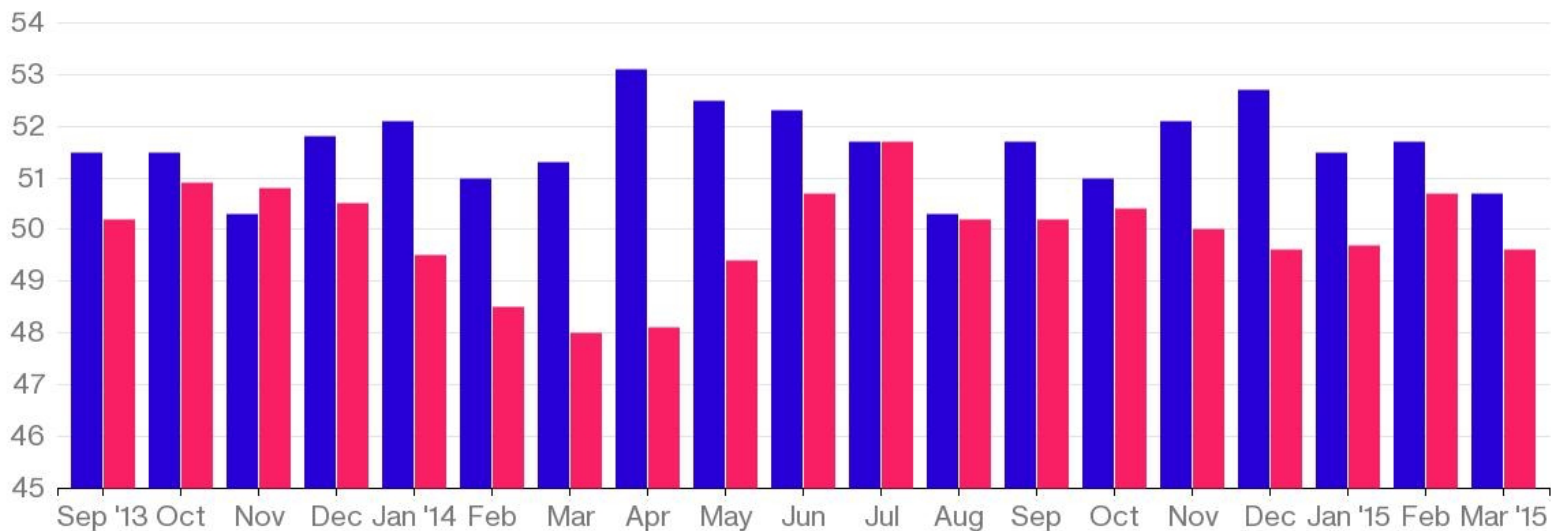
# RAPID GLOBALIZATION

- latest manufacturing export data from HSBC & Bloomberg...

## Manufacturing Power

Vietnam's manufacturing PMI has expanded for 19 months

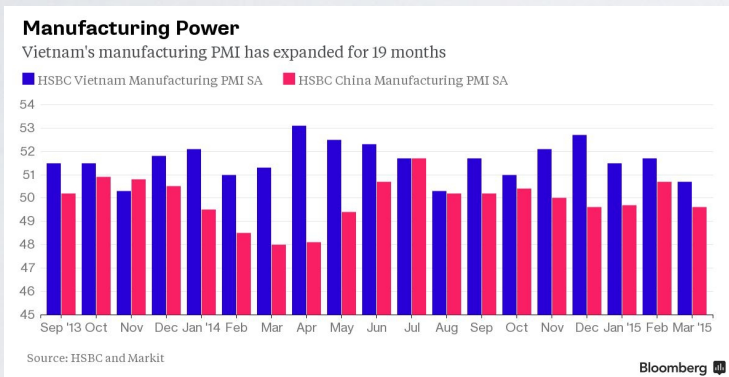
■ HSBC Vietnam Manufacturing PMI SA   ■ HSBC China Manufacturing PMI SA



Source: HSBC and Markit

# RAPID GLOBALIZATION

- Latest manufacturing export data from HSBC & Bloomberg...



- Building on BTA, WTO with prospect of substantial further market expansion through Trans Pacific Partnership

# ...BUT NOT ALL GOOD NEWS

- **Disappointing growth** in past few years
- Inefficiencies due to unclear policies, inconsistent enforcement, and corruption — i.e. **weak market institutions**
- **SOEs**: Highly inefficient, indebted, yet privileged and still ~30% of GDP
- **Substantial skepticism** from domestic and foreign investors due to many delays in follow through on reform promises





# FDI & DOMESTIC PRIVATE SECTORS: VIETNAM'S ENGINES OF GROWTH





SOES: THE PRIMARY BREAK ON  
VIETNAMESE GROWTH

# STATE SECTOR CHALLENGES

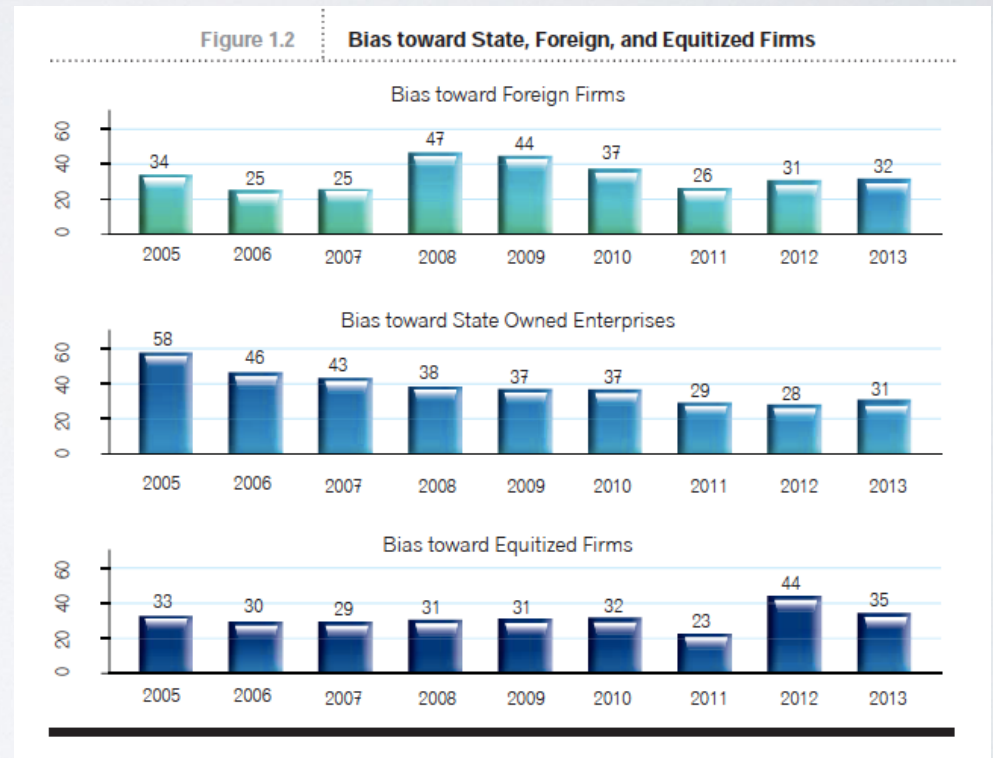
- Inefficient users of scarce resources, including capital, credit, and human resources

✓ Confused mandate: **social responsibilities?**

✓ **Weak incentives** for management and employees

✓ Overly focused on capital-intensive industries (given comparative advantage)

- Opportunistic diversification into unrelated industries like real estate and finance
- Insufficiently transparent — **even vis-a-vis the state itself!**



Source: PCI, 2014



MAKE IN INDIA

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HALL NO. 6, HANNOVER MESSE

Bonds | Wed Apr 1, 2015 4:58am EDT

Related: M&A, BONDS, MARKETS, FINANCIALS

# Vietnam PM says need for speed in sluggish privatisation drive

HANOI, APRIL 1 | BY HO BINH MINH



(Reuters) - Vietnam needs to quicken the privatisation of state-owned enterprises (SOEs) as well as divestment from non-core businesses to raise capital and boost performance, the country's prime minister said on Wednesday.

Nguyen Tan Dung made the call after just 29 SOEs completed privatisation in the first quarter among the 289 targeted to undergo the process in 2015, dealing another setback to the government's reform plans for the \$184 billion economy.

"Privatising SOEs is not only to get funds for investment in other important areas, but the



“Privatizing SOEs is not only to get funds for investment in other important areas, but ***the ultimate purpose is to let companies operate more efficiently.***”

–Vietnamese Prime Minister Nguyen Tan Dung  
April 1, 2015



# WHY STILL ON HOLD?

- Incumbent interest groups
- Sensitive politics of wealth transfer
- More substantively, SOEs **do** partially substitute for weak institutions
  - ✓ greater **regulatory compliance** in context of weak enforcement
  - ✓ greater propensity to **pay taxes**
- Privatization will not immediately result in stronger government capacity — but **may** immediately result in lower government revenues



“While MobiFone accounts for 50-60 percent of VNPT’s earnings, according to state media, the privatization is part of Hanoi’s efforts to encourage VNPT to develop other existing businesses, like multimedia services and information technology, to cement its role as a leading force in the telecom sector.”  
- Reuters, June 12, 2014



CORE FOCUS: **BECOMING A GREAT MARKET REFEREE** OR IMPROVING AS A MARKET PLAYER?

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Vice Minister, Ministry of  
Planning & Investment,  
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