FROM CONTROL TO MARKET

Time for Real SOE Reform in Vietnam?

State-owned Enterprise Roundtable
April 8, 2015
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VIETNAM IN THE NEWS!

What Vietnam Must Now Do

By TUONG LAI  APRIL 6, 2015

HO CHI MINH CITY — Vietnam must sign on to the Trans-Pacific Partnership, the United States-backed comprehensive trade plan. I agreement would allow Vietnam’s economy to become fully integrated with the global economy. Vietnam must let all sectors of the country grow.

Samsung Set To Become Vietnam’s Largest Foreign Employer

South Korean manufacturing giant is expected to become the largest foreign employer by July this year. It is estimated that by July the company will have expanded its current workforce from 85,000 to over 100,000, which will involve the recruitment of thousands of additional workers.

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

The Bank for Investment and Development of Vietnam Insurance Co (BIDV), 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.

Vietnam’s Impossible Bind: How to Stand Up to Beijing

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

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
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 net 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?
H.E. DANG HUY DONG

Vice Minister, Ministry of Planning & Investment, responsible for SOE equitization
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