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## **State-Owned Enterprise Reform in Vietnam**

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**STATE-OWNED  
ENTERPRISE REFORM  
IN VIETNAM**

**Lessons from Asia**

Edited by

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## Preface

Vietnam became the newest member of the Association of Southeast Asian Nations (ASEAN) on 1 July 1995. Its membership marks the beginning of a new chapter in the rapidly developing Southeast Asian region. Barely three decades ago, in the 1960s, the region was classified as one of the most turbulent in the world, and ASEAN was established in 1967 in an attempt to help change that view. Today, Southeast Asia is regarded as one of the most economically dynamic regions in the world. Undoubtedly, the upheavals in the socialist bloc during the late 1980s, leading to the crumbling of many planned economies, have proven that the command system is not sustainable. These economies simply did not deliver the goods, material and immaterial, which had been anticipated. Consequently, there has been a recent trend of command economies changing towards market-oriented principles.

The performance of the market economies of the ASEAN member countries and Japan, amongst others, has undoubtedly impressed Vietnam, to the extent that it is now trying to learn from their experiences. An added motive is the relatively handicapped position of Vietnam's integration with the other ASEAN economies; a substantial number of its state-owned enterprises (SOEs) are just too inefficient to compete in the international market-place. However, should Vietnam have refrained from joining ASEAN, and side-stepped the economic transformation that is now taking place, the prospect of an ever-widening gap with the ASEAN economies and the risk of being left in the backwaters of development would have been real. Vietnam has little alternative but to change its economic system to a more market-driven one, and at the very centre of this change is the reform of its SOEs. But the successful transition from a command to a market-oriented economy is no easy task. The path is wrought with pitfalls and problems that can at times seem intractable. Whilst Vietnam has done much to reduce drastically the cumulative number of SOEs — undertaken by various means since 1986 — the arguably harder task of transforming their operating structures has still to be done.

In early 1994 the Institute of Southeast Asian Studies (ISEAS), an institution devoted to the generation, enhancement, and dissemination of research on the region and beyond, proposed a study on the reforms of SOEs in Vietnam, to help better facilitate the country's integration with the ASEAN economies. ISEAS holds the view that one of the critical bottle-necks in restructuring the Vietnamese economy — characterized by state allocation and production, through the pervasive public enterprise system — lies in subjecting SOEs to

market forces, as well as a programme for their divestment (where appropriate), and a larger role for the private sector. Consequently, ISEAS submitted a project proposal on the study of reforms of SOEs in Vietnam, which was accepted for funding by the Sasakawa Peace Foundation (SPF). In this regard, we are thankful for the generosity of SPF and for its assistance in the co-ordination of the project.

Undertaking this project was an educational experience in itself. How things are done in a transitional economy is clearly distinguishable from that of a market economy. For instance, this project required the approval of senior government; a clear indication that debate on key issues must be measured. In this regard, we are thankful to our counterpart, the Committee for the Reform of SOEs, which assisted not only in the selection of Vietnamese researchers — who gave us frank and honest views of the state of SOEs in Vietnam and the difficulties faced in their transformation — but also expedited this approval process.

The study — which stems from a series of papers presented at a workshop gathering in September 1995 — is divided into three sections. The first section comprises four chapters by Vietnamese experts, which together give a domestic perspective of the SOE reform process undertaken in Vietnam. Given that the topic of each chapter overlaps those of the other chapters, it is unavoidable to find a degree of repetition on the issues covered and arguments presented. The repetitions observed should not, however, be regarded negatively, but rather viewed as an indication of the uniformity of these perspectives. The second section comprises another four chapters, dealing with the experiences of reforms in SOEs in Indonesia and Japan, and two specific issues: on the legal and administrative aspects of SOE reform; and the role of government and private sector mix. These four chapters provide possible lessons for Vietnamese economic practitioners, in their attempt to reform SOEs in Vietnam. It was envisaged that this exercise would highlight some important issues, which could easily be neglected, or at the least clarify some doubts practitioners may have, including the avoidance of pitfalls experienced by some countries and the adoption of more successful policies implemented in others. Finally, section three, which draws on the previous two sections — and on comments made during the workshop — provides some concrete recommendations for consideration by Vietnam's economic reform planners.