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Industrial Restructuring and Enterprise Development: The State, Importance and Development Strategies for the Fisheries Sector of Vietnam

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ABSTRACT

This paper presents the importance, the state of affairs and the development strategies of the state-owned enterprises in the Fishery sector of Vietnam. The purpose is, firstly, to review state-owned enterprise reform literature of relevance to Vietnam. Secondly, the reform of state-owed enterprises in Vietnam particularly in the Fisheries Sector is reviewed to determine the important issues and problems as well as the its role in the renovation process of Vietnamese fisheries state-sector enterprises. Finally, the opportunities, conditions, and obstacles for the reform are identified in the sector economic development. The review of the state-owned enterprise reform in Vietnam suggests that the diversification of ownership is one of the most important factors affecting successes of the economic reform. There is a need for accelerating equitisation of state-owned enterprises to have more involvement of private sectors. In the Fisheries sector, inefficient operations of fisheries state-owned enterprises have imposed financial burden on the national budget. Data of financial performance of fisheries enterprises including state general corporations and equitised companies is employed to observe changes of their profitability, operating efficiency, and leverages. Nonetheless, restricted accessibility of records of state-owned enterprise financial performance caused some limitations of analysis of financial and economic performances. The empirical result shows that equitised companies have been operating much more efficiently than pre-equitisation. The state capitals are being invested with higher returns and more significantly, budgetary burden was removed. Some obstacles such as incomplete and irrelevant regulations and lack of broad-based consensus of equitisation have accounted for lags of the reform process. It is necessary to create a more effective policy and legal frameworks, more incentives for actors participating in the process and more stable macroeconomic environments.

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I. INTRODUCTION

This thesis is organised in eight sections. The thesis begins with the introduction section associated with the global problem of privatisation, the rationale and the purpose of this study. Section 2 is about methodology. Literature of state-owned enterprises and privatisation theory is reviewed in section 3. Next, section 4 reviews the state-owned enterprise reform in Vietnam since the economic renovation progress "*Doi Moi*". Section 5 is the review of state-owned enterprise reform in Fisheries sector, analysis of equitisation effects on state-owned enterprises, issues and possible solutions, and development strategies for the reform progress. Section 5 is followed by conclusion and recommendation section. Finally, the thesis ends up with references and appendices as section 7 and 8.

1. Problem of SOE reform in transitional economies

The reform of state-owned enterprises (SOEs) has been taking place all over the world, in developed, developing and transitional countries. It happened first in developed countries such as the United Kingdom, the United Stated or Japan known as privatisation for the reason of SOEs were inefficiently operating.

The collapse of centrally planned economies caused transitions to market economies of many countries such as Russia, Hungary, Bulgaria …in Eastern and Central Europe, China and Vietnam in Asia. The financial and operating performance of SOEs in these countries remained generally poor or actually worsened. The financial burden imposed on strained government by loss-making SOEs overwhelmed the national budget and banking system (Nellis, 2002). Privatisation of SOEs in many sectors of the national economy offered introductions of new management mechanism and new ownership structure to SOEs. It comes from the widespread consensus that the gain of more dynamic economic growth requires a greater role of private sector and market forces (UNCTAD, 1995).

Different countries have different expectations for privatisation taking place in each national economy but they have some common objectives. These objectives are to promote economic efficiency by promoting competition, to redefine the role of the state in the movement of the economy, to reduce the financial burden of loss-making SOEs, to release limited state resources for financing other demands, to mobilise foreign investment and domestic resources for development, and to spread share ownership (UNCTAD, 1995).

The design of privatisation comprising transforming properties rights, creating new corporate governance mechanism, building the institutions of a private market economy should take into account the interests of and distribution of power among stakeholders that are various from one to another countries (Gray, 1996).

There are some factors critical to the success of privatisation including ownership rights, macroeconomic conditions, administrative capacity, and the quality of the national private sectors (OECD, 1995 and Guislain, 1997).

2. The importance of the SOE reform

The current wave of privatisation follows a long period of nationalisation and growth of the size of state sector in the economy. The nationalisation happened practically in every economic area of economic activity and in many countries just like privatisation's taking place. In many countries, the development strategy has been largely based on state-owned enterprises until recent disappointing performance of SOEs (Guislain, 1997). SOEs contribute to eliminate the shortcomings of the private sector and lead the development of the national economy. SOEs often serve political objectives or purposes and hence suffer frequently intervention by government and bureaucrats. Although many SOEs function well but many others notoriously inefficiency. They managed to survival by tax protection against competing import, preferences in public procurement, exceptional rights, preferential access to credit, tax exemption, government guarantees, and state subsidies. Almost everywhere, the burden SOEs impose on state finances has become untenable.

Some empirical studies conclude that efficiency of an enterprise is determined not so much by its public or private characteristic but others find that private ownership leads to greater productivity. Some reforms designed to give SOEs more autonomy and expose them to free competition without changing to private ownership have produce encourage results. Nevertheless, many governments, today, consider privatisation as the crucial means to sustain this improvement. In addition, most government facing budget deficits and financial crises no longer have financial resources to compensate losses of SOEs and provide capital increases for development. By privatisation, the state can reduce public debts and fiscal burden of loss-making SOEs and free limited funds for financing other activities. Apart from this, privatisation attracts new investment particularly foreign investment, together with new technology and management skills, as well as new partners for enterprise growth. To solve the problem of limited state resources, privatisation can also mobilise more domestic resources for development.

In Vietnamese economy, the state sector, SOE in particular, has dominant role for production capacity and major state sources of revenue and employment. The reform of SOEs including partial or full equitation of non-essential SOEs, dissolution of non performing SOEs, introductions of new management system that is more responsive to market forces, and grant of greater autonomy to SOEs by redefining ownership structure and reducing state interference will contribute to the economic development.

3. The research problems

Since 1980s, Vietnam has been carrying out the economic renovation process transforming the national economy from centrally planning to market-oriented. The approaches are diversifying the ownership of SOEs, promoting competition to improve the efficiency and performance of SOE sector. The Fisheries sector was the pioneer in the SOE reform by its application of new economic management mechanism to overcome the problems of long time loss-making. Recently, fisheries SOEs have been restructured to improve the efficiency and operating performance. However, there are still many problems and difficulties hindering the reform progress. It is necessary to define measures and attempts to accelerate and make it successful.

Therefore, this study focuses the research questions as the following:

- *What is the current situation of the SOE reform in the Fisheries sector of Vietnam?*
- *How important is the SOE reform in the fishery economic renovation?*
- *To what extent could the SOE reform be a major motivation for development of state sector?*

4. Summary of theoretical issues and practical background

4.1. Theoretical issues and practical background

This study provides better understanding of the reform of state-owned enterprises in Vietnam and particularly in the Fisheries sector in recent years. There are a number of studies on the SOE reform in Vietnam with main focuses in some industries, for instance infrastructure or telecommunication but not in Fisheries sector. Therefore, this study will be the one of the reports about the reform of state sector economics of Fisheries and it may contribute to considerations for major issues and possible solutions to speed up the renovation progress. Because of poor performance SOEs annually cause financial deficits to the national budget and operate with low efficiency as well as weak competitiveness. Commercial principles and objectives have been introduced to SOEs in many manners such as restructuring, commercialisation, or divestitures. The transition of the national economy from long period of centrally planning to market-oriented development requires considerably changes in policy, institutional and legal frameworks.

The reform of SOE in the Fisheries sector has been carrying out for years but not yet achieved remarkable results. There are many SOEs still making losses or operating inefficiently. They are facing increasing competition from non-state sector enterprises. It is necessary to make private capital and private management culture involve in fisheries SOEs by transferring them to joint-stock and state-owned limited liability companies. This also promotes the ownership diversification and strengthens competitive capacity of these enterprises. Until 2002, the SOE reform was undertaken with only a small number of fisheries SOEs. However, the government has initially gained some certain successes in defining the role of the state sector and promoting investment of private capitals.

4.2. Usefulness of potential applications of the research's findings

As mentioned above, loss-making fisheries SOEs is a significant financial burden to the state. The only way to improve this state of affairs is to introduce more efficient management mechanism and to expose them to free competition. The government has had many attempts to remove political obstacles as well as institutional and legal deficiencies causing sluggishness of the SOE reform. By reviewing previously empirical studies and experiences in privatisation and analysis of current state of fisheries SOEs, this study is trying to search for major issues and potential solutions to accelerate the processes. Hence the research probably provides some findings to the contribution of the economic renovation in Fisheries sector as follows:

- *Major problems of and potential solutions to the SOE reform process*
- *Experiences for further equitisation of fisheries SOEs*
- *Possible measures to advance the SOE reform process*

5. Purposes of the research

The reform of SOE system in Vietnam toward the market forces has reduced the number of SOEs and strengthened every aspect of their performance. This is an essential stage of the transition to the market economy of the nation. Many economic development policies and measures have been introduced to improve the efficiency of the state economic sector. In the Fisheries sector, SOEs have been in loss-making and poor performance for long time causing deficits for the national budget and the loss of the state sector leading role. Throughout the restructuring of fisheries SOEs, the economic efficiency and competitiveness of SOEs were improved considerably. More state resources would be freed for other investment demands and the mobilisation of private capitals would actively involve in business. Therefore, the economic efficiency, welfare and growth of the whole Fisheries sector would also be enhanced. On the other hand, there have been some issues concerning legal and institutional frameworks, property rights, macroeconomic policies, and enforcement system.

The main objectives of the research are to:

- *Review literature of the SOE reform of relevance to Vietnam;*
- *Review of the SOE reform in Vietnam and in the Fisheries sector particularly;*
- *Analyse the importance of the SOE reform in the economic renovation*
- *Identify the opportunities, conditions and obstacles for the SOE reform in the sector economic development*

II. LITERATURE REVIEW

1. Problem of the SOE reform in global context

1.1. The collapse of centrally planned economies

Centrally planned socialist economy is characterised by chronic shortages, excess demand and repressed inflation, different motivation and social relationship between enterprises, the state and manager, the state and worker, and buyer and seller (Gehrke and Knell, 1992), and by political inspired decision making and direct control of investment (Rider, 1992). This resulted in sluggish growth, lack of incentive to innovate and wide spread product deterioration (Gehrke and Knell, 1992), as well as low standards of living and mediocre consumption (Lavigne, 1995).

It is commonly held belief that the crisis behind the collapse of centrally planned economies is the inherent in the institution of centrally planning and social ownership of the means of productions (Rider and Knell, 1992). The planning is mandatory and not indicative. The decision-maker is political authorities (Lavigne, 1995). The asset did not belong to the state nor the workers but they were the property of the nation as a whole (Bottomore, 1990). This concept of "social ownership" was never clearly specified (Lavigne, 1995).

There had been previous attempts to improve economic efficiency in 1950s and the reforms in 1980s have attracted more attention due to the problems of centrally planned economy still existed and called for new approach. There has also been a willingness of consideration for new ownership forms of productive resources (Rider, 1992). The reform is intended to overcome deficiencies by decentralisation of economic decision-making so that the managers and workers in individual enterprises have greater independence and responsibility, and also more incentives to produce more efficiently. The importance is not the question of ownership or promotion of competition but the decentralisation of economic decision-making (Bottomore, 1990).

The dissolution of COMECON and Warsaw Pact organisation in the middle of 1991 marked the collapse of centrally planning economies.

1.2. The global trends of privatisation

Latin America and Caribbean.

The Latin America and Caribbean region was the strongest privatiser among all regions in term of sale volume (Sader, 1995). About 58% of all privatisation revenues in the developing world were sold in this region during the period of 1988 – 1993. Sales reached at the peak in 1991 and then declined as a sign of the fact that several large Latin nations had already sold most of their state-owned assets (Sader, 1995).

Europe and Central Asia

The former centrally planned of Eastern Europe and former Central Asian republics of the Soviet Union have privatised massive proportions of state owned assets. Between 1989 (when Hungary first began the privatisation process) and 1993, these countries sold more than 1,000 enterprises, representing almost half of all privatisation transactions in the developing world (excluding voucher privatisations) (Sader, 1995; World Bank, 1995; and Ramamurti, 1999). Hungary turned out to be the most active privatiser in the region that focused on revenue generation rather than on mass privatisation through vouchers despite political difficulties. Following Hungary was the former Czechoslovakia and Poland (Sader, 1995).

East Asia and the Pacific

The most intensive privatisers in term of revenues from sales were Malaysia, the Philippines, and China (Sader, 1995; Ramamurti, 1999). The government of China does not officially use the word " privatisation”, but in practice has reduced state ownership by offering shares to domestic and foreign investors on the Shenzhen, Shanghai, and Hong Kong stock exchanges.

South Asia

The privatisation in South Asia has been declining since the early of 1990s. India was dominant in term of privatisation program. Pakistan and Sri Lanca have been declining the privatisation process since the earlier ignitions.

North Africa and the Middle East

Privatisation in North Africa and the Middle East was minor in terms of value and number of transactions but have been growing rapidly since 1993 (Sader, 1995; World Bank, 1995).

2. State-owned enterprise and privatisation

2.1. Concept of the state-owned enterprise

There are many possible definitions of what constitutes a state-owned enterprise. The "state-owned enterprise" has common meaning of a company being partly or fully owned by the government and legitimated to operate in any sectors of the economy, and providing public services or goods for the society. The term "state-owned enterprise" is also used interchangeably with the terms "public enterprise" and "state enterprise". Nevertheless, in many economists' points of view, the concept of the SOE is narrower than that of public enterprise. In some literature, the SOE is defined as one kind of public enterprise. For convenience, the term public enterprise in this research is considered as a synonym of the term state-owned enterprise.

Bös (1986) divides public enterprise into several legal or corporate forms but only public corporations and state companies are in questions of this research. He defines that "state companies are private law institutions, establish under the ordinary company law, which are controlled by the government by virtue of its ownership of the shares, whether wholly or in part." The minimum proportion of total shares considered as sufficient control for the enterprise is to be a state enterprise varies from one country to another and across international classifications. And then, "public corporations are institutions of public law with a separate legal personality, usually created by a specific law or decree which defines the corporation's powers and duties". Public corporations mode of financing is by loans or by capital allocations and not by issuing the shares or stocks.

Ramanadham (1991) defines the concept of public enterprise as "an organisation in which the majority ownership and/or control is non-private, and which is intended to be viable though the sales activity on the basis of price-cost relationship". The ownership criterion is the one of the most concerned aspect of the definition be cause it decides, in most cases, the public decision. In the case that government or public agencies together owns 100% or majority ownership (i.e. above 50%), the government will take full powers to public decision by influencing the board. Otherwise the government does not enjoy the significant decisional powers that is may be wrong in practice.

World Bank (1995) defines SOE as government owned or government controlled economic entities that generate the bulk of their revenues from selling goodies and services. The definition limits the enterprise to commercial activities in which the government controls management by virtue of its ownership stake. It encompasses enterprises directly operated by a government department or those in which the government holds a majority of the shares, if the distribution of the remaining shares leaves the government with effective control.

Guislain (1997) defines the public enterprise as an enterprise owned by the public sector, including the state, municipalities, other SOEs, or other public bodies. However, this term includes enterprises organised as governmental entities, public agencies, and companies so that it is broader than the term of state-owned enterprise.

The State-Owned Enterprise Law of Vietnam (1995) defines a state-owned enterprise as "an economic organisation which is capitalised, set up, organised and managed by the State and carries out business or public-utility operations, aimed at achieving the socio-economic objectives assigned by the State".

2.2. The role of the SOEs in the economy

There is a broad difference of the ways the SOEs came in to be in developed and developing countries. In developed countries, they were mainly the result of the nationalisation of industries or enterprises that existed, in the United Kingdom, France or Austria as examples (Ramanadham, 1991). Most of SOEs in developing countries have been products of governmental sponsoring or creation for the first time. Nationalisation became secondary significance.

SOEs have been playing important roles in the economic development of a nation. Ramanadham (1986) pointed out that the SOEs are operating to define the plan strategy and social gain. In some economies, the private sector did not come forward sufficiently so that the state sector has come in and expanded as necessary for the development. In many countries, SOEs were considered as the aid to private entrepreneurs. They are there with the aim to develop private enterprises by leading the way, providing investor confidence and sharing risks thought out joint-ventures. One of the most significant roles of SOEs is that they could enable the government to control over the economy. The SOE also has the roles of ownership de-concentration, anti-monopoly and probably social restructuring.

2.3. Concept of privatisation

A very broad term, but most simply, privatisation is the transfer of assets or service delivery from the government to the private sector. Privatisation runs a very broad range, sometimes leaving very little government involvement, and other times creating partnerships between government and private service providers where government is still the dominant player.

The term privatisation has generally been defined as any process aimed at shifting functions and responsibilities, in whole or in part, from the government to the private sector (definition set forth by the US General Accounting Office).

The Thai Office of State Enterprise and Government Securities (2000) defined the definition of the term privatisation in its Master Plan for Reform of SOE Sector: "Privatisation is here defined as all measures, which increase private sector participation in sectors where government enterprises presently operate. It includes divestiture of state-owned enterprises or assets (ownership transfer), concession arrangements, joint-ventures, management contracts, leasing, outsourcing, contracting of services, deregulation which increases competition, creation of needed regulatory bodies, and introduction of new competitors."

The term “equitisation” is used in Vietnam interchangeably with the term “privatisation” for some political reasons and there is no exact definition of equitisation. This term can be interpreted that it is the transformation process of a SOE into a joint-stock company by selling the whole or part of state assets to non-state parties. In these joint-stock companies, the state may or may not be the dominant shareholder controlling more than a half of total issued shares (Ngo Quang Minh et al, 2001).

The International Finance Corporation – IFC, World Bank (1995) has been, in generous stance, defined that privatisation is any transfer of ownership or control from public to private sector. It also figured out more precisely that the definition of the term privatisation requires that the transfer be enough to give the private operators or owners substantive independent power. This will not always imply majority ownership. Transfer techniques can be trade sales to a strategic investor, public offer, closed subscription, joint-venture, liquidation, concessions, auctions, voucher or certificate based transfers, employee or management buyouts or most combinations of all of these.

Guislain (1997) pointed out that the term “privatisation” could have several different meanings at certain levels. At one level, this term implies the privatisation of state-owned enterprises through any techniques. Privatisation, in narrow sense, means permanent transfer of control from a public agency to one or more private parties not considering the results of the transfer of ownership right that the public sector shareholders have to give up. In a broader sense, the term “privatisation”, at enterprise level, consists of any measure that results in transfer of activities held by public agency to private sector.

At another level, sector privatisation, the term “privatisation” has introduced the entry of private sector, usually by get rid of public monopolies or any bans set up to entry. This often, but not obligatorily comprises privatisation at enterprise level and brings the introduction of real competition among market operators. At a third level, the term privatisation have even broader meaning not just only of enterprises or sectors but of an entire economy. However the degree of the privatisation of a given economy depends on the scope of the reform programme and the state ownership and control. Although, at these levels, the term privatisation has differences, there is no meaning that those are sealed off from each other but close interactions exist among them.

3. Property right issues

The transition from centrally planned to market-oriented economy requires many aspects of changing and introducing. Of these ownership changes, preferably to private ownership, in a large share of the economy is important. Once the market is liberalisation, the government cannot indefinitely control the large parts of a dynamic, changing economy. Decentralising ownership is the best way to increase competition and improve performance (World Bank, 1996). Property right is the back borne of a market economy and usually protected by country’s constitution or constitutional tradition. In case that the constitutions or legal systems do not recognise the rights of private ownership it is necessary to amend them to allow privatisation to take place (Guislain, 1997).

There have been some reasons for the state ownership. The state is responsible for co-ordinating all overall socio-economics objectives. The government is controlling high-income sectors or industries that consumers are willing to purchase products or services with any prices. The government also has responsible for ensuring the fairness between the nation’s citizens particularly who live in remote areas or with difficulties (Begg, Fischer and Dornbusch, 2000).

The private ownership rights encompass a certain number of legally recognised rights, particularly the rights to use and control the assets, to draw economic benefits from the ownership, to dispose of these assets and to transfer any of the above rights. These rights may be restricted by law but not to the point that they are meaningless (Naya, 1990;

Guislain, 1997). The private enterprise may be more entrepreneurial and it may be easier for manager of private firm to define what products or production processes will be successful while the SOE is more susceptible to pressure of interest groups (Gylfason et al, 2001). The owners of private enterprise have strong incentives to make sure that their resources are used in the most efficient manner to achieve maximum return on their investments (Alchian and Demsetz, 1972) or, in other words, solely focus on maximising profits (Gylfason et al, 2001).

To make privatisation successful, Guislain (1997) poses some key questions concerning the private ownership rights must be answered clearly. How ownership are defined in the country; How the private ownership is recognised and protected; what restrictions, if any, are placed on the transfers of those rights; how the titling, registration and cadastre mechanisms function; what enforcement mechanisms exist to protect the rights of individuals, particularly how effective the judicial system is; and what restrictions may be placed on foreigners with respect to the acquisition and exercise of ownership right for certain types of property.

4. Reform options

4.1. Non-divestiture option

4.1.1. Continuation of state-owned enterprises

Ramanadham (1991) considered that any SOEs that remain under government ownership should be under this head. These SOEs were classified as several categories. (i) SOEs are selected for divestiture but still waiting, for example, for a private sector model in which the manager shall be given autonomy to make input and output decisions. (ii) SOEs deserve to be transferred to the private sector but for any reasons they are not. The enterprises have little competitive advantage of staying in public sector but their transfer to private sector faces problems other than economic efficiency. (iii) SOEs whose monopoly and public-utility characteristics are making them private monopoly that is not the privatisation priority such as in electricity or water supplies. These enterprises require the necessary regulations in the case that they are monopolies regardless these enterprises are under state or private ownership. (iv) SOEs are decided not to be transferred to the private sector due to the national development strategies. (v) SOEs that shall remain in the public sector as a matter of national policy. Those enterprises in (iv) and (v) categories are in needs of reforms in financial investment, rules of operations, monitoring and evaluation…

4.1.1.1. Restructuring

Restructuring a SOE involves in making changes so that the SOE can operate more efficiently and become more attractive to potential investors before divestiture taking places (Guislain, 1997). It is clear that the purpose of restructuring is to enhance the value of a SOE (The UNCTAD, 1995).

There are three forms of restructuring a SOE that are: *organisational restructuring* relating to readjusting a SOE to more reasonable and/or smaller units and reducing its redundant labours; *financial restructuring* dealing with accumulated dept of a SOE in order to eliminate the excess debt from its balance sheets and enhance its sale value; and finally, *operational restructuring* involving in investment for its modernisation and improvement of technology (UNCTAD, 1995; Guislain, 1997; Bornstein, 2000).

4.1.1.2. Commercialisation and corporatisation

Commercialisation is the introduction of commercial principles and objectives into the management and operations of a SOE with the aim to make SOE more profit-oriented (UNCTAD, 1995; Guislain, 1997). Part of this procedure may involve in removal of government subsidies. A SOE is coping with market disciplines and hard budget constraint. The commercialisation can take place by contract plans or performance agreements that are negotiated agreements between government as the owner of a SOE and the SOE itself (UNCTAD, 1995).

Corporatisation have been applied to a medium or large-scale enterprises in strategic economic sectors. Corporatisation is the transformation of a SOE into a corporation or other form of business organisation that is established and operating under relevant law. The government still retains its equity ownership. When the corporation is operating profitably and has a stable market position the government may sell its equity shares (UNCTAD, 1995; Guislain, 1997).

4.1.2. Privatisation of Management

4.1.2.1. Management contract

A management contract is an agreement by which a public entity contracts with a private firm or individual for the operation of a SOE (UNCTAD, 1995; World Bank, 1995).

Management contracts are used mainly where the government wish to recover a SOE from loss-making situation by introducing private enterprise management methods in order to increase the net worth and the future sale value of the SOE (UNCTAD, 1995).

There are some problems concerning the management contract that are mainly relating to the duality of private management and the state ownership. The conflict between the state and the private contractor's interests. The private operator tend to reduce his commitment to performance due to he has no equity stake. This problem can be eliminated more or less by making a link between profit, outputs or sales and management fee. If the sale of the SOE is expected it should be specified in the contract that creates incentives for the private operator to improve the efficiency of the SOE. The private operator may try to achieve better financial result or increase productivity by resorting the excessive layoffs, wage cuts or over-investment especially when the state is bearing the political and financial cost of these decisions.

The management contract should clearly stipulate: scope and nature of services provided by the contractor, the criteria to evaluate the performances of contractor and procedures to monitor the contract, the amount of fees and the modality of payment, the private operator's power especially regarding the pricing and investment, and the rules concerning labour force employment (UNCTAD, 1995).

The management contract is similar to leases as different form of non-divestiture privatisation. The contractor has to pay the contract fee that may or may not link to profit. Moreover, the private operator does not have any authority to set or change the financial provisions regarding the cost and investment and the government still reserves this right.

4.1.2.2. Leases

A lease is contractual arrangement whereby the owner of an asset (the lessor) grants another party (the leasee) the right to use the asset and to profit from it for an agreed period of time in return for the payment of rent. Leasing can take some different forms, the most significant forms include *operating lease* that the lessor is required to maintain and service the leased assets and the lessee has the right to cancel the contract before its expiration; *financial and capital leases* that the risks and benefits from the ownership of the leased assets are transfer to the lessee and the lessor is not responsible for maintaining the leased assets; and *sale and lease back arrangement* that the enterprise that owned the assets sells them to another party and, at the same time, it leases back the sold assets from this buyer for a given period. In practice, leases often combine some features of different types of leases and so-called combination leases (UNCTAD, 1995).

Leasing offers certain advantages to the public authorities, for example, bringing new technology and management skills, the government's giving away the operation costs and investment risks, and also ceasing subsidies without scarifying the its ownership, improvement of efficiency and financial performance, increased tax income for the government, prospective lessee being easier to find out than a buyer.

A leasing contract should cover issues of the degree of autonomy to be entrusted to lessee comprising powers and rights, responsibilities and obligations, the nature of regulations regarding pricing, production, subsidies and taxation, the modalities and responsibility in term of financing redundancy and severance payment, the amount and modalities of payment, mechanisms to review the contract (UNCTAD, 1995).

4.1.2.3. Concession

In granting concession the government transfers operating and development rights to a private sector entity. Concession can be granted at municipal, national levels and sometimes at international level. The holder of concession will have to pay capital expenditures and investment. For this reason, many governments prefer concession to leases (UNCTAD, 1995; Guislain, 1997).

The concession usually requires large investment so that the concessionaires should be careful when taking decisions especially in the economic sectors that are known to be highly risky.

Concessions happen in three forms: an administrative act, a contract or a combination of both. Another typical type of concessions is build-operate-transfer (BOT) for private development of infrastructure.

4.1.3. Contracting out

Contracting out is the way that the authority contracts a private firm to perform some specific service in the place of public entity or in competition with it. Contracting out is the form of operating concession. Contracting out may be employed when the divestiture is not desirable or feasible for political or economic reasons. As other form of non-divestiture, contracting out could be considered as an interim stage before divestiture.

Contracting out will be successful under the conditions of: the contractor has equipment and know-how technology; sufficient financial resources and reputation for good performance; the contract specifies the penalties if the service or products is low quality 1or incomplete; a particular agency to monitor the contract; regular reports to the relevant authorities; and contract to be revoked if non-performance and significant breach of contract (UNCTAD, 1995).

4.1.4. Joint-ventures

In general understanding, a joint-venture can be defined as an association of two or more legal entities working together and sharing risks and benefits of the joint-venture. As an option of non-divestiture, the government could promote a joint-venture with private sector. The government may, first, retain the majority shareholding, and progressively reduce this proportion. Then it can become the minority shareholder or give away completely its equity shares (Naya, 1990). A joint-venture can also be formed by selling partially government shareholdings or by issuing new shares to a new partner. The formation of joint-ventures offers certain benefits to the government, for example, the introduction of private capital in reduces the risk of operating the SOE (Naya, 1990; Ramanadham, 1991; UNCTAD, 1995) and may contribute to the improvement of performance by allowing the private sector to monitor it (Ramanadham, 1991). Another benefit is that the government still retains its interests in the areas considered “strategic” for national, economic or security reasons, meanwhile, allows the private sector’s participation in the promoting these areas (Naya, 1990, UNCTAD, 1995).

There are several circumstances that the private capital might be introduced in a SOE to form a joint-venture company. In the first circumstance, the enterprise needs to expand but the government does not have funds enough to finance the expansions or it does not want to borrow due to the limits of public debt. On the other hand, the enterprise is in need of technological restructuring or the introduction of new technology, which the collaborator is only giving out under the conditions that he has the rights to share management and profit by equity share. Possibly, the government wants to bind with an equity stake that induces him to offer satisfactory technical assistance (Ramanadham, 1991).

The main issues usually included in a joint-venture agreement with the involvement of a SOE are: the scope and purpose of business activities; the legal status of a venture; the amount, ratio, and form of contribution by each party; rules regulating the final transfer of shares; rules regulating the Board of Directors, terms and consequences of venture termination; force majeure, dispute resolution, arbitration, and governing law (Ramanadham, 1991; UNCTAD, 1995).

The joint-ventures set the stage for total divestiture over time and subject to two constraints that are the high profitable level of the enterprise making the government feel unwilling to share its equity holding and the unwillingness to give away any privileges of patronage the enterprise vests in them of civil servants (Ramanadham 1991).

4.2. Divestiture options

4.2.1. Direct sale to general investors

Direct sale is that the state ownership shares of a SOE are sold directly to private buyers (UNCTAD, 1995; Gray, 1996). Other service forms of financial intermediaries such as brokers, underwriters or public share offering are not necessary to be taken. Direct sale can be carried out by two possible manners that are through competitive bidding (direct sale by tender) and to a predetermined selected buyer (UNCTAD, 1995).

The form of tendering allows the government to compare competing bidders and select the buyer offering the highest purchasing price and the greatest compliance of various government requirements and privatisation objectives. The tendering also offers the transparency compared to selected buyer predetermination. The only minor thing is that the public tendering is slow progress and administrative costly. The direct sale to selected buyer is lack of transparency and competition (UNCTAD, 1995; Gray, 1996). It is conveniently used only when there are a limited number of potential buyers having sufficient financial and managerial resources (UNCTAD, 1995).

Direct sale has been used in many developing countries since there is an undeveloped capital market or non-existence so that public share offering is not feasible. Another reason is that direct sale is relatively easy to be prepared and executed. It is consequently suitable to the divestiture of small and medium enterprises (UNCTAD, 1995).

4.2.2. Public share offerings on the stock markets

This option of divestiture is often used to raise the capital, transfer ownership shares of an enterprise, and promote the transparency and diversification of ownership through the allocation of a proportion of shares to small investors (UNCTAD, 1995; Guislain, 1997).

This method is typically applied to profitable and large enterprises (UNCTAD, 1995; Gray 1996). The shares are offered on the stock market, generally at fixed price. Transparency is higher than direct sale of a SOE because of the advertising and disclosure requirements associated with public share offer so that this is preferable when transparency is highly important consideration (UNCTAD, 1995).

Variations of this divestiture option are relating to some certain factors such as the fixing price of shares or targeted buyers. The success of public share offerings is depending partly on the level of capitalisation market relative to the size of share offer. Capital market imperfections, low capitalisation market, or other factor such as political risk can affect the realisation of asset values below the values which would be indicated by standard technique of valuation on the basis of expected future earnings (UNCTAD, 1995).

4.2.3. Private offering or placement with 'strategic' investors

In private placement, an enterprise or controlling stake is sold to a limited number of investors. Additionally, the government usually negotiates directly with investors so that the underwriting role of investment banks is abandon (Bornstein, 2000). Private placement is, generally, involving in much less government regulation compared to public offering and it costs less flotation costs comprising issuing and printing fees and is going with greater speed.

Private offering is suitable to some certain circumstances. First of all, when the SOE is not large enough to be offered to public since the flotation cost is higher than revenue expected private offering is desirable. It is also good for the case that the SOE is in poor financial performance and inadequate management and it needs transferring to an experienced private manager to turn the situation around. It is possible when a SOE is in need of improvement of new technology or access to foreign markets. Finally, when the weaknesses of capital market make public issue of share unsuccessful (UNCTAD, 1995).

On the other hand, private placement has some possible disadvantages. The first disadvantage is the concentration of ownership or controlling interest in a single strategic investor. The risk of under-pricing the SOE in question since the government cannot assess its true market value like the investors do is also a disadvantage. Political oppositions to private offering arise because of possible corruption and favouritism.

Private offering for the controlling proportion can be done by tendering and also be used in combination with public offering for the rest allocating to small investors.

4.2.4. Public auction

Public auctions are predominantly used for small and medium sized SOEs, which do not require technology transfer or other special inputs. Public auctions are usually regulated by law and provide for open competitive bidding so that it is highly transparent privatisation technique. It is maximising, simultaneously, the proceeds of privatisation provided that an adequate group of competing buyers can be gathered together. The process is comparatively fast and uncomplicated (UNCTAD, 1995).

Disadvantage of public auctions is the impossibility to impose condition for sale, auction sale prices varying due to some certain factors. It is necessary to be sure that the public auctions are sufficiently publicised and that potential competing buyers can be present on the day of auction. Public auction’s success needs regulations and experienced auctioneers.

4.2.5. Employee/management buy-outs and employee share ownership plans

The shares of the SOE (or its assets to form a new enterprise) were sold to employees in an employee buyout, to managers in a management buyout or to both groups in a management-employee buyout (UNCTAD, 1995; Gray, 1996; Bornstein, 2000). This privatisation technique is also known as “internal privatisation” since the managers/employees gain the ownership of the SOEs they work for. Most buy-outs have involved in small and mediums-sized and labour intensive SOE because the managers/employees are lack of available resources (United Nation, 1995).

The success of management/employee buy-outs is greatly depending on the competencies and experiences of key actors (UNCTAD, 1995; Gray, 1996). There may be an active role of donors to help management and staff to improve commercial competencies and hence increase the chance of success of this privatisation technique (UNCTAD, 1995). Management/employee buy-outs offer a number of advantages. This form of privatisation creates incentives for manager/employees to cut costs, improve productivity and due to personal equity ownership stake. They facilitate restructuring of concerned SOE by reducing social costs. They also promote the ownership diversification and popular participation in production (UNCTAD, 1995; Gray, 1996).

Another means for improvement of management/employee buy-out performance is using Employee Share Ownership Plans (ESOP) under which employee are allowed to buy shares on favourable terms. The company typically set up a trust fund to which it contributes of shares of its own. Employees can borrow money and purchase stock with the company making cash contribution to enable them to repay the loan. Some conditions should be attached to ESOP (UNCTAD, 1995; Gray, 1996)

4.2.6. Mass privatisation

Mass privatisation is bases on the population-wide distribution of vouchers and certificates free of charge or for a nominal fee. Usually, these vouchers are distributed to all adult citizens but in some certain circumstances, working experience is also taken into consideration. The main advantage of mass privatisation is rapid transfer of ownership from state to individual shareholders. Moreover, by creating vast class of shareholders, it encourages popular support for the whole privatisation process (UNCTAD, 1995; Gray, 1996).

Mass privatisation takes place in some transition economies that ownership of the assets of the means of production was considered to belong to people as a whole and represented by the state. Additionally, almost the entire economy is in hand of the government so that rapid ownership transformation could not be possible by more standard forms of privatisation. There are some arguments against mass privatisation that is not resulting in economic efficiency improvement of SOEs due to wide dispersed ownership and not addressing to real problems such as undercapitalised, huge debts, stagnant equipment, low management skill facing by enterprises (UNCTAD, 1995).

4.2.7. Liquidation

In some certain circumstances, the government prefers liquidating a SOE and sell its assets instead of selling it as an ongoing enterprise. The process of liquidation will be a non-divestiture if the assets are leased after liquidation. Liquidation is taking place when the government found out that the sale values of individual assets are higher than that of ongoing enterprise concerned or simply when prospective investors do not want to buy the SOE as a whole. Moreover, it is possibly occurs when the assets are no longer serving the economic purposes they were created or potential for saving the enterprise financial performance is highly risky. This may be a result of that the deficit of the state budget is so high that it is necessary to liquidate the SOE or that the creditors file a petition initiating bankruptcy procedures (UNCTAD, 1995).

In liquidation followed by sales of assets it is important to achieve sale price as high as possible probably by tender or auction.

5. Sources of poor economic performance of state-owned enterprises

5.1. Laid-outs and moral hazard

Compared to a private enterprise, the SOE, being established by the state, enjoy considerably preferential conditions created by the state, for example, the possibility to access scare resources, financial subsidies, and particularly some monopolistic powers. Moreover, the managers of a SOE turn out to be not frightened by lost of their positions resulted from losses or bad performance of the SOE since the state is bearing losses of the SOE. These lead to lack of incentives for the SOE to be efficient.

The guarantee of the government for the losses of SOEs produces moral hazard problem. Moral hazard is defined as the risk that a party to a transaction has not entered into a contract in good faith, has provided misleading information about its assets, liabilities, or credit capacity, or has an incentive to take unusual risks in a desperate attempt to earn a profit before the contract settles (Begg, Fischer and Dornbusch, 2000). The SOE may possess some exclusive information that cannot be accurately observed by others and the government cannot observe or monitor this information. So, assignment of full responsibility to a party is not made and parties are risk averse. Taking advantages from exclusive information, the SOE has a chance to exploit state capital and spend this capital for personal purposes (World Bank, 1995). Many SOEs perform deficits but these enterprises blame affects of random events for these deficits and they have compensations from the government for their losses.

By the purchasing insurance from the state and exploiting exclusive information, SOEs are usually not afraid of their losses or bad performance, and they do not have any bear of bankruptcy because they often enjoy compensation scheme from the state for their failures through incomplete contracts. However, the state provides insurance for SOEs to maintain the state sector due to many reasons in terms of economic and social aspects. That why, the SOEs have to pursue extra-objectives.

5.2. Multiple objectives and rent seeking

5.2.1. Multiple objectives

Unlike private enterprises that pursue profit maximisation objectives and profit indicator becomes an important instrument to evaluate their performance, it is very complicated for assessing the SOE's performance. Even for SOEs only pursuing commercial objectives, profit could not be a reliable indicator, because the divergence of relevant accounting categories and price. The difficulty in assessment of the SOE is more exacerbated when SOE implements extra-enterprise objectives including commercial and non-commercial objectives. The state sector pursues extra-enterprise objectives and private sector pursues only profit maximising objective due to differences in motivations of managers. SOEs have to operate in some unprofitable industries (public goods) but they have positive effects on the society.

The extra-enterprise objectives could undermine the commercial performance of the enterprise as mentioned above. There are conflicts between extra-enterprise objectives, all objectives need to be weighted and summed to obtain an overall measure of performance.

5.2.2. Rent seeking

It is clear that some monopolies are created and protected by the government. The government created monopolies for SOEs and often provides many preferential conditions to protect these monopolistic SOEs from competition. A monopolistic position of SOEs could raise rent-seeking problem generating two significant consequences. First, social loss that comes from the fact that resources have been invested into unproductive activity since the government spent money on maintenance of monopolies. Second, it leads to the restriction of private sector development. For example, the price is determined by the government with the monopoly position as well as does not follow the cost-price relationship and some private enterprises producing similar products are facing deficits due to the lower price regulated by the government.

When lack of competition, SOEs do not have to take care about minimising costs of production, researching and developing market, maximising profit target, etc. With monopoly position, SOEs have right to control price themselves. In addition, the government lacks a punishment and reward system on performance. Both above reasons lead to SOE's inefficient operation but still existing in the economy.

5.2.3. Tenure and remuneration system

In SOEs, the designation of management is often under political pressure while remuneration does not link with the enterprise’s performance but is fixed according to level of position. That is understandable from the fact, SOE is an enterprise but it also is an organic of the government. The management in the SOE is often composed of government officers, so the management would enjoy the payment as administrative officers. In addition, because it is usually difficult to assess performance of a SOE due to the ambiguity of extra-enterprise objectives, the compensation system is often not relevant to the outcome. It is difficult for the government to fire jobs, due to the protection of civil administrative system from political pressure. The combination of the limitation on rewards for good performance and the absence of punishment for bad performance have distorted the incentives of management of SOEs, discouraging them to be in line with owners interests.

III. THE REFORM OF STATE-OWNED ENTERPRISES IN VIETNAM

1. A profile of Vietnam's state-owned enterprises

1.1. Pre-renovation stage (prior to 1986)

The formation of the state-owned enterprise system in Vietnam, after the end of French colonisation in the North in 1954 and the unification of the nation in 1975, was by nationalised private enterprises and mainly by new state's establishment. Since then, the state sector had been playing the most important role in the national economy.

As in other economies pursuing the centrally planning economic mechanism, Vietnamese SOEs were under the full control of the government in term of inputs, outputs and enterprise governance by mandatory planning and self-sufficient goods supplies. The government intervened in any stages of production, distribution, and consumption of goods. Managers were supposed to make decisions SOE operations but, in fact, they did not fully enjoy their rights. They were doing under pressures of the plans determined what to produce and even how to produce from higher planning levels so that the autonomy management did not exist actually.

On the other hand, the planning system was slowly reformed and not flexible enough to react with changes of the market. The principle of bottom-up planning was not properly implemented. The development strategies were not clearly determined particularly the objectives, implementations, problems arising and solutions. This issue itself caused many troubles for production and business activities and led to uncontrollable situations.

The governance institutions of SOEs were too heavy and rigid. There were so many intermediate institutions in the system creating serious red tape and heavy bureaucracy. As a result, the planning was of command characteristics only and impractical causing low economic efficiencies of SOEs (Vo Dai Luoc et al, 1997).

1.2. Renovation stage (since 1986)

SOEs officially entered the new era after the governmental Decision No. 217-HDBT of 24 November 1987 on comprehensive reform of SOEs. It enabled SOE's manager to enjoy autonomy management and abolished subsidies and the centrally planning system imposed to SOEs.

1.2.1. Socio-economic renovation

With the economic renovation also known as “Doi Moi” triggered by the Vietnamese government in 1986, SOEs turned to completely new development period. SOEs played the leading role and supported non-state enterprises that were not promoted by the former centrally planning based system. This new approach also deleted the discrimination between SOEs and non-state sector enterprises and created competitive environments for all enterprises.

SOEs are classified into two categories: profit-making and public-utility. Profit-making SOEs are operating in free competitive markets. The latter comprises all SOEs providing goods or services in accordance with the production, management, prices, and costs set forth by the government. The state ownership structure in SOEs has been restructured as followings. The state only remains its 100% ownership of SOE’s assets where necessary and feasible, and for the rest of SOEs the state may own more or less than 50% of enterprise’s assets depending on the business SOEs engage in. This is also called the ownership diversification aiming at promoting the participation of private capitals.

The reductions of the number of SOEs as well as the increase of state capital and scale of SOEs are the new development tendency in the economic renovation. Beside, the criteria for evaluating economic efficiency of SOEs have been considerably modified (Vo Dai Luoc et al, 1997). The direct intervention of governance institutions in SOE operations will be also abolished.

1.2.2. Economic performance and efficiency

1.2.2.1. Production, capital and labour

In the late of 1980s, the number of SOEs tremendously increased to 12,297 causing a strong financial pressure on the state budget for bearing losses and subsidies. This number reduced to 6,310 in 1995, 5,655 in 2001 and 5,175 in the end of 2002. The reduction of the number of SOEs in the early 1990s was the result of liquidation and dissolution of local affiliated loss-making SOEs, and in the late of 1990s, of equitisation as well. Together with the reduction of SOE number, the government has invested considerably capital in SOEs. Consequently, the average capitalisation of SOEs was going up and the proportions of SOEs having state capital less than 1 billion VND declined sharply (Table 1).

Most of SOEs were small in term of employees: 46.1% of SOEs having less than 100 employees, 43.2% of SOEs having between 100 – 500 employees, and just 0.7% of SOEs having more than 3,000 employees (Nguyen Ngoc Tuan et al, 1996). The ratio of labour to capital of SOEs has been increasing since 1991 and particularly that of the enterprises in the northern region has risen drastically (OECF, 1998).

Table 1: Some figures of the number and capital of SOEs from 1990

	1990	**1995**	**2001**
GDP share by SOEs (%)	32.5	38.3	39.5
Number of SOEs	12,297	6,310	5,655
Capital (billion VND)	27,817	77,656	126,030
Average state capital per SOE (billion VND)	1.4	7.1	22
SOEs with capital < 1 billion VND (%)	71.9	44	18.2

1.2.2.2. Cost, profit and liability structure

The ratio of production costs to sales decreased in a certain extent in the period from 1991 to 1995. The costs of raw materials and wages constitute about three fourths of all input costs (OECF, 1998). Many new costs have appeared. These are largely marketing costs and include costs for exhibitions, advertising, consultants (legal and technological), technical royalties, sales commissions, etc. and these have created additional costs for the enterprises.

SOEs across all the regions, all the industries and all affiliations increased their income and profits. Central affiliated SOEs had profit ratio was consistently higher than that of enterprises belonging to local government. The profit ratio also differed significantly depending on business categories (OECF, 1998).

Bank loans and inter-enterprise liabilities are the largest liability for the SOEs and constitute 90.6% of total liabilities. Unpaid taxes, wages and bonuses often constitute a large share of the total liability. The number of enterprises with such liabilities is not as large as those with bank loans and inter-enterprise liabilities (OECF, 1998).

1.2.3. Technology, investment and assets

80 – 90% of equipment used in Vietnam had been imported from former Soviet Union, China and Eastern European countries until 1987. Since then equipment has been

imported through mainly foreign direct investment from Asian newly developed countries such as Taiwan, Singapore. The technology in SOEs is outdated; the time of equipment exploitation is several dozens of years. Technological research, implementation and development capacities of SOEs are low particularly high-tech production technology requiring professional and skilful personnel.

Most of SOEs made active investment (OECF, 1998). SOEs are making a partial investment for equipment renewal or to expand production capacity. The investment funds are generated from budget allocation, retained profits, bank loans and other borrowings. In the early 1990s, investment expenditures from national budget allocation and retained profits were the main sources of investment funds. Since the late of 1990s, these main sources have changed to bank loans and retained profits due to the changes of investment policy of the government to reduce the subsidies from national budget and public investment.

The scales of fixed assets expanded in the SOEs across all the industries (OECF, 1998). The number of SOEs with a fixed asset scale less than 1 billion VND has been decreasing and the number of SOEs with a fixed asset scale more than 5 billion VND has been increasing by liquidation and re-registration of SOEs.

1.2.4. Competitive environment

It can be seen that the competition between SOEs themselves is most serious. Nonetheless, the nature of competitors is different depending on region, affiliation, and business category. For the enterprises in the North, the competition with small private enterprises is intense while in the South the competition with foreign enterprises and imports is fiercer than with small private enterprises (OECF, 1998).

The competitive environment in the Vietnamese economy will intensify due to an increase in the entry of foreign enterprises, as well as trade liberalisation in the AFTA (ASEAN Free Trade Area). Under this circumstance, it is necessary to boost the current competitive capacity that is slow as a result of preferential treatment in term of fund raising.

2. The reform of SOEs in Vietnam

2.1. Objectives of the SOE reform

The reform of SOEs in Vietnam has been carried out since 1986 as a part of the overall economic renovation in the country with the approach that SOEs are playing the leading role in the market-oriented economy. The government defined three developmental objectives for the SOE reform as follows (Le Dang Doanh, 1996):

Promote competition and hence improve the efficiency of SOEs

Create an environment of co-operation and promote joint-ventures between enterprises in different sectors of the economy (that are both state and non-state sector enterprises); also establish joint-ventures with foreign companies thereby improve economic efficiency, technology and managerial skills for SOEs

Attract resources for investment in the state sector financially in the form of shares, and promote equitisation as well as other elements of SOE reform

In the next ten-year period, the following objectives for the reform of SOEs in Vietnam have been determined (Nguyen Huu Dat and Nguyen Van Thao, 2002):

- Strengthen SOEs so that the state sector shall be the leading in the national market-oriented economy.

Restructure SOEs with reasonable organisation, high economic efficiency, high capacities of competition, and having large market shares in key sectors and industries of the economy in order that the government will be able to control entirely the national economy and macroeconomic stability.

Become the main motivating element to speed up the economic growth rate and the foundation of the production manufacturing, high technology and military industries creating strong basis for national industrialisation and modernisation.

Guarantee necessary goods as well as public services for the society and national securities.

2.2. The necessities of SOE reform

Beside historical reasons such as up and down political changes and long period of wars, the weakness of management system of the centrally planning economy and unreasonable structure of the national economy were the main reasons for the situation of low efficiency and growth of SOEs. SOEs were supposed to be independent in economic decision-making but, in fact, they were still under pressure of planning regime and the direct intervention of heavy and complicated governmental bureaucracies. Moreover, state investments outspread over all sectors without focusing and sometimes uncontrolled due to unclear defined macroeconomic strategies (Vo Dai Luoc et al, 1997). Annually, the national budget had to bear losses and subsidies for SOEs causing its serious financial deficits since SOEs were not to be responsible for their operations.

Before the economic renovation in 1986, the nationalisation of private enterprises resulted in the dominance of SOEs with sole state ownership and the low development of non-state sector enterprises. It was necessary to change this system in which SOEs play the leading role and support to the development of other sector enterprises. Free competitive environments would possibly improve the efficiency and competitiveness of SOEs.

Another problem was that SOEs were uncontrollably established at all levels such small scales that a large proportion of SOEs was in chronic loss-making, overdue-debt situation and without development potentials. There were many SOEs were not formally founded by the state but still having been allocated state capital for operation. These enterprises mainly established by governmental institutions, social organisations and associations whose activities were funded by the state budget. So that there is a need for categorising SOEs, liquidating loss-making SOEs, abolishing government direct intervention into SOEs operations aiming at reducing small-scale enterprises and freeing state capital for certain specified targets.

The government tends to diversify the ownership of SOEs involving more private capitals that allows the focus on some key economic sectors. The ownership diversification not only helps creating incentives for better productivity and financial performance of SOEs but also releases national budget from subsidies and mobilises state capital into preferential investment strategies. With achievements from the pilot implementation, the equitisation programme turned out to be very crucial to the SOE reform. It created incentives for the employees and managers of SOEs to perform better and simultaneously, the efficiency was also improved. The ownership diversification made employees more involved in the enterprises and brought better management schemes to SOEs. Furthermore, it is the effective measure to make SOEs more attractive to private capitals. However, this also requires sufficiently developed capital markets, especially the stock exchanges as well as banking and credit reform for full benefits from investment sources other than the state.

2.3. Legal framework and policies

2.3.1. Legal framework reforms

With the new approach of economic renovation in 1986 and to promote the SOEs' role in the market-oriented economy, the government came up with new policies reforming structure and governance of SOE system. Governmental Decision No. 217-HDBT of 14 November 1987 on the reform of the SOEs started a new era for the reform of SOEs in Vietnam. By this decision, the government introduced production and operational autonomy and self-supporting accounting principles for SOEs. The decision also abolished the mechanism of the existing subsidy system and achieved an initial encouraged result at the beginning of economic renovation process.

Following Decision No. 217-HDBT, on 22 March 1988, the government promulgated the Charter of the Industrial Enterprises by the Decision No. 50-HDBT replacing previous regulations and the Decision No. 98 on 2 July 1988 prescribing the participation of SOE employees in management. After their being in force, the government made substantial changes and supplements to the autonomy of the SOEs based on business experiences and practical situations. Dealing with joint-ventures, the Decree No. 28-HDBT on 22 March 1988 was providing regulations on formation and operation of joint-ventures and the rights for SOEs to mobilise capital for any higher efficient performances.

The government also promulgated series of regulations concerning SOE production, management scheme, and governance particularly important that were the Law on Bankruptcy (1993) and the State-Owned Enterprise Law (1995).

As an attempt to group SOEs in large state corporations for strengthening international competitiveness, the government decided to form General Corporations (Decision No 90/TTg in 1994 and Decision No 91/TTg in 1995). This was considered as an active step of the SOE reform process. The government also promulgated regulations on equitising (Decree No 44/ND-CP of 28 June 1998), securities and stock markets (Decree No 48/1998/ND-CP of 1 July 1998), contracting out, selling, leasing, and buying out SOEs (Decree No 103/ND-CP of 10 September 1999, Decision No. 55/2000/QD-TTg of 22 May 2000). Appendix I show important regulations relating to the reform of SOEs after the economic renovation in 1986.

2.3.2. Impacts of legal provisions

The reform of SOEs in the early stage aimed mainly at implementing regulations of the government as in forms of various decrees and resolutions. Since the early 1990s, the progress has, however, tended to be more involved with legislation; in other words, the reform of SOEs has been further legitimated.

Firstly, SOEs were granted autonomy with significant changes in planning and accounting regulations. SOEs were acting as fairly independent economic entities with reducing state subsidies and beginning competition with non-state sector enterprises. SOEs were permitted to determine the products to be manufactured only by registering the products at the provincial economic arbitration agencies of the local government; thereafter registration took place at the local planned investment agencies. The previous raw material supply subsidised by the state has been changed to a completely commercialised system. Distribution of goods based on centralised plans by the government was deleted and autonomy was given to SOEs. Consequently, SOEs were allowed to sale their products independently at market prices without government intervention. However, certain controls were still taken by the government according to the socio-political demands that were upper and lower limits of prices of electricity, petroleum, fertiliser, cement, steel, sugar, paper…(OECF, 1998)

The Bankruptcy Law allows SOEs making loss or unable to repay overdue debts could be bankrupted or liquidated in compliance with procedures and formalities defined by this Law. This brought an end to the state obligation of bearing losses of SOEs and the decline of SOE numbers. In 1995, all SOEs turned to operate under the State-Owned Enterprise Law. This Law formed the legal basis for all operations of SOEs and created the equality between SOEs and non-state sector enterprises. A SOE was defined as a limited liability entity or SOEs and their managers have to bear all responsibilities concerning SOEs' activities. SOEs are entrusted with state capital, organised and broadly administrated by the government for either profit-making or public-utility objective. Profit-making SOEs are granted autonomy and acting like non-state sector enterprises. Public-utility SOEs are operating under full government control from the inputs, outputs, costs and prices aiming at providing public services and national securities. For those SOEs, the government generally has special treatment.

SOEs also transformed into joint-stock companies, firstly by the pilot equitisation programme, with the goals of ownership diversification, efficiency improvement, and capital mobilisation. This pilot programme has been outspreading all over the country with large involvement of non-state sectors. However, SOE equitisation has been very slowly implemented due to some economic and political reasons but most significantly lack of institutional and legal frameworks.

With the reforms of taxation, banking and credit system, SOEs have been operating with less state subsidies and changes of the state budget payment manner and increasingly competition of non-state sector enterprise in capital market.

2.4. Restructuring SOE system

2.4.1. Establishing and developing General Corporations

Vietnamese General Corporations hereinafter referred to as corporations were established by governmental Decision 90/TTg (1994), Decision 91/TTg (1995) and Decree No 39/CP promulgated their Model Charter (1995) and operating under the State-Owned Enterprise Law for the purpose of improving efficiency and competitiveness and focusing on some certain key industries. There were 18 corporations established under direct control of the central government with legal capital not less than 1,000 billion VND and 78 other corporations under ministries and provincial governments authorised by the central government with legal capital not less than 500 billion VND. General Corporations have 1,650 member enterprises accounting for 28.4% of the total number of SOEs, 65% of total state capital and 61% of labours of all SOEs.

Since being established, corporations have been playing a leading role in the national economy speeding up economic growth, providing important materials, products and services for the nation: electricity: 98%, coal: 97%, steel: 52%, papers: 48% and banking: 70% of capital market share (Nguyen Huu Dat and Nguyen Van Thao, 2002). Corporations have been taking important part in macroeconomic stabilisation policies of the government particularly pricing system. Corporations have been preserving state capital and mobilising more investment for technology upgrade and productivity enhancement. For example, until 2000, 17 corporations mobilised 17,038 billion VND accounting for 22.5% of total capital and, generally, productivity of corporations has been increasing 30% to 80%. In 2000, though the national economy was facing many difficulties, corporations were still growing. Revenues increased 27.6%, state budget payment increased 39,9% compared to that of 1999. Corporations have been utilising competitive advantages, available resources to improve financial performance, production, marketing and employment. As a result, there were many other locally affiliated SOEs applied for corporation membership.

There have been still some problems concerning corporations' operations. Corporations are given preferential conditions from the government but still lack of capital, outdated technology, low efficiency and competitiveness. Average capital of a central affiliated corporation, in 2000, was 3,885 billion VND and that of a ministerial or provincial affiliated corporation was 284 billion VND far from the minimum limit of 500 billion VND. A number of corporations could not complete their duties in keeping macro-balance of providing necessary materials and goods for production and society. Some of them are still depending on governmental subsidies and monopolistic position in domestic markets so that they do not have any attempts to reduce costs, improve technology and management and be prepared for international integrations. Organisation and structure of corporations are not reasonable. Staff of corporation is still not competent enough. The appointments of Presidents and General Directors (Chief Executive Officers) of several corporations have been done with problems of competences and abilities.

Although corporations are operating under the State-Owned Enterprise Law, they have not yet been empowered with complete rights given. There are still state interventions in their operations and even member enterprises'. Corporations have not yet managed and coordinated the capital flows between member enterprises. Moreover, the structure and organisation of corporations have been adjusted for many times but still not reasonable. The Board of Management has not yet performed as the role of the state ownership representative. There have been overlaps between Board of Management's and General Director's duties and responsibilities. Relationships between corporation and member enterprises are still administrative and not yet based on demands for production, finance, duties and interests. Member enterprises are still lack of co-operations that create overall powers for the corporations.

2.4.2. Classifying, restructuring and developing public-utility SOEs

Public-utility SOE is the enterprise carrying out national security duties or producing products or providing public services in compliance with the policies, costs and prices specified by the government and operating not for profit-making purpose (Decree No. 56 ND-CP of 02 October 1996). Until 2001, there were 734 public-utility SOEs accounting for 13% of the total SOE number and 12% of total state capital (15,125 billion VND) operating in weapon manufacturing and repairing services, transportation (aviation, railway and maritime), agriculture (irrigation system, breeding)... In term of technology, except enterprises operating in aviation, maritime navigation and national securities, the majority of public-utility SOEs is low technology, outdated equipment originated from different supplying sources. Many enterprises operating in agriculture, fisheries, and forestry are still highly labour intensive.

Average state capital per public-utility SOEs is 20.6 billion VND as high as 93% of that of a profit-making SOE, however, 67.5% of public-utility SOEs has average state capital lower than 5 billion VND. Public-utility SOEs just mostly pay attention to the completion of assigned plans but not attempts to reduce production costs, and service prices particularly the quality. Regulations on criteria for categorisation of public-utility SOEs, authorities of and responsibilities for public-utility SOE foundation are not clear. There is also increasing tendency for the transformation of profit-making into public-utility SOEs to benefit from state subsidies. There is the need for the promotion of more active involvement of non-state sectors in public-utility provisions that, at some certain levels, the government can allow the private sector participation.

2.4.3. Transferring, contracting out, selling, and leasing loss-making SOEs

From the promulgation of the Decree No 103/1999/ND-CP in 1999 on transferring, selling, contracting out and leasing SOEs to November 2002, 46 SOEs were sold, 76 SOEs were transferred and another 6 SOEs were switched to operate under contracting out (Vietnam News, 16 December 2002).

Compared to the situation before the transfer, there were remarkable annual increases of business capital: 67.3%, revenues: 42.5%, payment to the national budget: 44.5%, employment: 12.8%, and average labour incomes: 38.7%. Several enterprises have developed plans for production expansion. The application of those reform measures helped preventing SOEs from bankruptcy or liquidation, unemployment of SOE workers, saving state capital and releasing the state from financial deficits (Nguyen Huu Dat and Nguyen Van Thao, 2002).

Nonetheless, the legal and institutional frameworks are still not completed creating many overlaps and difficulties in practice. For example, the regulations for solving debts and surplus labours have not been promulgated. Many ministries and provinces have not yet determined plans and strategies for the process.

2.4.4. Equitising SOEs

2.4.4.1. Perception of the concept "Equitisation"

Equitisation is understood as the process of an enterprise with single owner to be a joint-stock company with more than one shareholder and operate under the Company Law. Equitisation can take place with private enterprises, limited liability companies, joint-ventures and state-owned enterprises. Equitisation is the process of diversifying ownership of an enterprise (Ngo Quang Minh et al, 2001). Equitisation of SOE is the transfer of a SOE to a joint-stock company of which the government may or may not be a shareholder. It is not only the ownership transfer from state to private parties but also the measure to raise more funds is carried out by selling its shares.

In a broad sense, equitisation is a form of privatisation by diversifying SOE ownership and selling whole or part(s) of state assets in a SOE. However, equitisation is not considered as privatisation because, in a narrow sense, the privatisation is the transfer of ownership of entire state assets to private parties. Consideration of whether or not equitisation is privatisation depends on the levels of state assets being sold to private parties (Ngo Quang Minh et al, 2001). There are two opinions about equitisation. Some argue that equitisation does not follow the socialist direction due to the loss of governmental control of state assets. But some point out that the equitisation is necessary stage for the economic transition to the market-oriented economy.

2.4.4.2. Goals of equitisation

Equitisation of the SOEs in Vietnam was introduced with some objectives. It is mainly aiming at improving economic efficiency of state sector, reducing deficits of state budget due to subsidies and bearing SOE's losses, utilising any available capital resources in the economy and making employees be shareholders of the enterprises. Firstly, equitisation takes part in the economic renovation as a motivation for development of the national economy and improves the dynamic and competitiveness of the whole economy particularly SOE system.

Secondly, equitisation mobilises all of capital resources available for investment aiming at improving technologies, management, efficiency, and employment in the state sector. The reform of the SOE management and operational structure is the third goal of SOE equitisation. Additionally, equitisation ensures the state ownership of assets, preserves and develops assets and capitals of whole nation whose representative is the government. However the government does not equitise SOEs considered to be necessary under sole state ownership.

Finally, equitisation facilitates employee's exercise of being shareholders of the enterprises and strengthens the binding between employees and shareholders of the enterprise.

2.4.4.3. Initial achieved results

Before 1999, only a small number of 116 SOEs had been equitised. This number was 249 in 2000. Among them, 45 SOEs were loss-making and the rest was in unstable profitable situation and generally low profit. As of 31 May 2002, 631 SOEs including part(s) of SOEs were equitised accounting for 11% of the total SOE number with re-evaluated state asset values of 2,714 billion VND (not including the land-use right) increasing 13.7% compared to pre-equitised values and accounting for 1.97% of total state capital. As the end of 2002 the number of equitised SOEs was rising to 907 equivalent to about 16% of total SOEs. This was a remarkable attempt of the government to transfer SOEs to joint-stock companies.

Table 2: Proportions of equitised SOEs in 2000

By state capitalisation	**%**
< 1 billion VND	40.4
1-5 billion VND	34.8
5-10 billion VND	14.9
> 10 billion VND	9.9
By sector	**%**
Industry, Transportation and Construction	57
Trading and Services	38
Agriculture, Fisheries and Forestry	5

Source: Ministry of Finance, 2001

There were four modalities of equitisation having been implemented recently. First, the government held the original state asset value of the SOE and then issues more shares for raising equity (8.4%). Second, SOE's assets being partly sold and equity being raised afterward (49%) was the most preferable by employees and outside shareholders for the purpose of mobilising more capitals and creating incentives. Complete transfer of SOEs to joint-stock companies without any state ownership remaining (26.4%) was the way enabling employees to be the real owner of the enterprises. Finally, equitisation of separated part(s) of SOEs (16.2%) was usually applied to relatively independent parts of SOEs that have separate production lines and supporting role to the SOE main production. When being equitised, the government still holds dominant shares to fully control the equitised.

It was a remarkable result of equitisation that, after a period of operating post-equitisation, the state capital was not only preserved but also raised. According to reports from 202 enterprises after one-year post-equitisation operation state capital rose from 377.343 to 442.763 billion VND (17.3%). There were some other notable increasing figures of annual revenues: 1.4 times, total equity: 15%, profit: 2 times, payment to national budget: 1.2 times, employment: 5.1%, labour income: 1,4 – 5 times (Nguyen Huu Dat and Nguyen Van Thao, 2002). On the other hand, several equitised enterprises were loosing and gaining in some economic evaluation indicators but none of them was in loss-making or bankruptcy.

2.4.4.4. Listing in stock markets

The stock market was officially opened in July 2000 and has been operating in Vietnam since then with the Ho Chi Minh City Stock Exchange Centre (HSTC). There were 21 joint-stock companies and 10 bonds listed on HSTC. Of these, three fisheries processing companies were transformed from SOEs. Two of them were formerly central affiliated SOEs and the other one was local affiliated SOE.

It was very important for a joint-stock company to be listed in the stock market. It helps the company to improve its loyalty in the market confirming the position and promised business future of the company and to raise equity more easily from the capital markets. Moreover, the company, by the participation of foreign shareholders, may expand accesses to foreign markets.

2.5. Major issues of and possible solutions to the reform of SOEs

2.5.1. The role of state sector in the economy and SOE position among all enterprises

The appropriate selection will be necessary and determine the basic and consistent direction for the reform of SOEs. This direction should result in the policy ensuring the dominant role of state sector and also the leading role of SOEs. This policy should not be harmful to or prevent the development of non-state enterprises and their acquiring investment capitals from any sources other than the state's (Phan Van Tiem and Nguyen Van Thanh, 1996).

The market-oriented economic development has generated positive consequences as increase of investment, high growth rate and the expansion of non-state sectors for over fifteen years of economic renovation. No non-state sector can do the important role of SOEs in supplying essential public services especially national securities, the development of mountainous and remote areas, and key sectors that maintain the sustainable high growth. This is due to no or low profit, low rate of return on capital, large-scale investment, or high risk of investment recovery.

2.5.2. The need for rapid overcome the problem of limited state capital

The problem of limited state capital for investment has been recognised since the number of SOEs largely increased in the end of 1980s. Chronic loss-making of many SOEs and the piecemeal injection of small amount of capital into SOEs has caused low economic efficiency and low competitiveness of state sector.

In the attempt to overcome this problem, the government has reduced the number of SOEs and increased the state capitalisation by merging and dissolving loss-making SOEs. The maintenance of SOEs spreading out all locations and all sectors is really a problem for the government since the state budget cannot raise enough funds to support them. There are some measures proposed. Firstly, it is necessary to develop the capital market that enables SOEs, within their legality, to benefit maximally from the domestic and foreign capital markets by credit system and issuing shares, bonds and any other commercial papers. Secondly, diversification of the ownership of SOEs is one of significant measures. It is the transformation of a SOE into a joint-stock or a limited liability company mainly by equitisation. There is the need for completing legal framework within which the transfer of state ownership and partial/complete withdrawal of state capitals from SOEs can be smoothly and quickly done. Finally, it is necessary to liberalise the restrictive "management control by line ministry" regime and other regulations blocking the flow of state capital into SOEs and the decision making of SOE's managers.

2.5.3. Low level of capital performance throughout the state sector

Poor capital performance placed a large restriction on reinvestment in SOEs and limited the ability to develop the state sector particularly in the situation of increasing competition from non-state sectors. Some reasons for this are piecemeal and dispersed state capital allocation manners, stagnating technology compared to other nations in the region, and management regime not creating incentives for managers and employees.

There is an immediate need for clear distinction between profit-making and public-utilitySOEs. This indistinctness gives profit-making SOEs the same state subsidies in forms of low interest credits and low land rental payment that are only offered for public-utility SOEs. Consequently, profit-making SOEs appear profitable and payment to state budget revenues is affected as well. If the number of SOEs unnecessary to be 100% state ownership reduces, the government will free a considerably amount of capital for funding other necessary investment to modernise technology and improve efficiency of SOEs. The situation of low efficient performance of state capital is an unavoidable consequence of slow SOE restructuring process.

2.5.4. The need for exact determination of the main elements of restructuring SOEs and creation of planning and policy

This is an extremely significant issue leading the reform of SOEs to the right direction in order to achieve its ultimate objectives. The government should put all resources available, especially finance, to SOEs of key sectors of the economy and wholly owned by the government. It should also give first priority to the modernisation and technology improvement to develop infrastructures and public services essential for the development of the economy. Regarding the SOE management reform, incentives must be introduced to bring interests to managers and employees of the SOE. Managers of SOE should be granted with full authorities to make decision of the capital and assets capitalised by the state and they must be responsible for any of their decisions.

Institutional and legal frameworks should be reformed that the governmental institutions taking part in co-ordinating the movement of the state sector only performs administration and influence SOEs by policies but not directly intervenes into detail operations of SOEs and that all SOEs will be operating under the Company Law.

2.5.5. Distinction of management and ownership of SOEs

There is no clear distinction between the investment function or state ownership and the management function of the government. Because of a large number of SOEs at central and local levels, the local authorities and government institutions authorised to monitor state assets tend to intervene too much into operations of SOEs. SOE managers are in a very confused situation that they are granted with the right to make decisions on the allocated state capitals but it is not sufficiently legitimated or under pressure from governmental institutions. Consequently, there is a common perception that if the SOE is profitable it can benefit from this result and if the SOE is making loss the government as its owner has to bear this loss. This also resulted in that some SOEs are looking for and even relying on state subsidies hence the responsibility for economic efficiency of SOEs is not clearly defined. Profit-making SOEs are, therefore, in need of ownership transformation by equitisation or other forms of privatisation. In other words, profit-making SOEs unnecessarily 100% owned by state can benefit from private capitals when being transferred to joint-stock companies. Furthermore, transformations allow these enterprises to operate under the market forces, therefore, releasing the state from subsidies and creating competitive fairness between all enterprises acting in the economy. It is essential to legitimate autonomy of SOE managers and to re-organise governmental institutions influencing SOEs only by macroeconomic policy but not direct intervention.

2.5.6. The need for training and retraining SOE managers and other qualified employees

The transition of the national economy from centrally planned to market-oriented economy has been carried out for over 15 years. The problem associating with training managers and employees of SOEs was addressed as low competencies, inappropriate business administration knowledge, especially when increasing competition between SOEs and non-state enterprises for high quality labours.

Proper training and management of labour resources is important for the reform of SOEs. The economic renovation has brought experiences with market mechanism for the majority of SOE managers yet there are still many SOE managers incapable of managing

SOEs leading to chronic loss-making. It helps reforms of salary system, productive incentives, insurance and social benefits for managers and employees of SOEs.

2.5.7. Continuation of macroeconomic renovation creating better economic and legal environment for SOE efficient performance

Since 1989, macroeconomic policy reforms of the government have been broadly successful bringing initial remarkable results in restructuring SOE system. This help to control the increasing inflation in the late of 1980s and to stabilise inflation rate in recent years supporting high economic growth rate. The price reform having been transferring price system from determined by the state to market regulated has been importantly influencing SOE reform by forcing SOEs to participate in competitive markets. Following is the tax reform that levied tax rates to all type of profit-making enterprises operating in the economy on the basis of equal responsibility to national budget. The reform of banking and credit system effectively reduced the state credit subsidies for SOEs and created more dynamic capital markets.

The continuation of reforms of price, tax, and banking and credit system is significant for the SOE restructuring. Restricted financial and credit policies are essential for macroeconomic stability and maintain low inflation rate but they should be changed on the basis of national economic development. Taxation system is also in need of further reform to create fair standard taxation to all enterprises.

IV. DATA AND ECONOMIC PERFORMANCE

1. Data collection

For fisheries general corporations and SOEs, only data on their general financial performance is available. The access to their individual income statements and balance sheets is prohibited. Detailed data on their performance is confidential and not allowed to be published. Data consolidated to generate balance sheets and income statements of SEAPRODEX Vietnam Corporation and fisheries SOE system is accessible in the Ministry of Finance.

Data on financial performance of equitised companies was colleted. It is expressed in income statements and balance sheets of these companies. Since most of fisheries SOEs have been equitised recently (Appendix IV) data on their performance is collected only for Ha Long CANFOCO, the first fisheries SOE being equitised and SEASPRIEXCO No.4 relatively newly equitised. Apart from this, the reason for taking these companies is the availability and sufficiency of data. Data on post-equitisation performance of Ha Long CANFOCO and both pre-equitisation and post-equitisation but not completely of SEAPRIEXCO No. 4 was taken into consideration. Data is obtained from the Ho Chi Minh City Stock Exchange. However, these companies are not the most successful ones among equitised fisheries companies.

In addition to poor financial data of SOEs, the differences between private and state sectors make the comparison of pre-equitisation and post-equitisation performance more difficult.

2. Financial analysis and measurement

The analysis conducted in this research is adopted from company analysis of Jones (1998) and financial analysis of Brealey and Mayers (2003). This financial analysis seeks to determine that whether the equitisation of fisheries SOEs is truly desirable and lives up to the expectation of the government on the performance of equitised enterprises.

On a company level, the study is trying to determine whether the equitised enterprises increase in profitability, operating efficiency and financial performance. Some ratios measuring profitability including the return on asset ratio (ROA) reflecting how effectively and efficiently the company’s assets are used, the return on equity ratio (ROE) used as a general indication of how much profit it is able to generate given the resources provided by its stockholders, payout ratio measuring the proportion of earnings that are paid out as dividend, net profit margin an indication of how effective a company is at cost control, and internal growth rate indicating the growth rate that a company can achieve without external funds are employed for assessing the performance of those equitised enterprises.

To examine the operating efficiency of a company, asset turnover ratio showing how hard the company's assets is being put in used, sales-to-net-working-capital determining whether a company is overtrading or conversely carrying more liquid assets than needed for its volume, days in inventory, inventory turnover and receivable turnover are used.

Financial efficiency is examined by leverage ratios and liquidity ratios. Debt ratio and debt-to-equity ratio determine how much the company relies on debt to finance assets. Others such as current ratio, quick ratio, and cash ratio are employed to evaluate the liquidity ability of a company.

The comparison of performance between pre-equitisation and post-equitisation is explaining the changes of profitability, operating efficiency and financial performance of these companies, in other words, the effects of privatisation on the company operation. The changes of macroeconomic and legal environments will be also taken into account.

On higher levels, the impacts of the SOE reform can be evaluated by some important indicators. They include the decline of state share or the increase of private share in the sector, the reduction of fiscal imbalance through the increasing revenue and decreasing national budget deficit, the change in level of employment.

3. Empirical result

From financial performance data expressed in balance sheets and income statements of Ha Long CANFOCO and SEAPRIEXCO No. 4 (Appendix III), financial analysis is carried out to calculate financial ratios showing their profitability, operating efficiency, leverage and liquidity. This analysis is aim to observe the changes of these ratios since enterprises were equitised. Detail financial ratios of these joint-stock companies are showed in Table 3. However, limited data prevents the comparison of these ratios between pre- and post-privatisation. Statistics tests could not be done for checking whether post-privatisation changes are significant or not. Comparison of companies' financial ratios to that of the fisheries industry was also impossible since there is no reference available.

Profitability: Since being equitised, profitability of equitised companies has significantly improved through the increases of return on equity, return on asset, earnings per share ratios. Both of them have achieved highly increasing internal growth rates. Dividends paid to shareholders keep going up. For Ha Long CANFOCO, in 2002 profitability slightly declined probably resulting from the recession of the world fisheries market.

Operating efficiency: has considerably increased by going up trends of asset turnover, sales-to-net-working-capital ratio, receivable turnover ratio, and increased sales…

Leverage and liquidity: There is no sign of over reliance on debts, stable leverage status and leverage decreased compared to pre-equitisation, stable buffer between the debts and the companies' ability to pay them.

Table 3 : **Financial ratios of Ha Long CANFOCO, 1999 – 2001 and SEAPRIEXCO No. 4, 2001 – 2002**

	Ha Long CANFOCO				SEAPRIEXCO No. 4	
	2002	**2001**	**2000**	**1999***	**2002**	**2001**
Book value of a share	12,616	11,221	12,277	11,498	12,563	11,557
Profitability ratios						
ROE	17.28%	21.67%	16.15%	11.62%	27.17%	13.47%
ROA	9.49%	12.82%	9.22%	6.32%	13.02%	9.23%
EPS	2,180	2,431	1,983	1,336	3,413	1,595
Payout ratio	0.73	0.70	0.61	0.90	0.41	0.75
Dividend	16%	17%	15%	12%	14%	12%
Net profit margin	6.85%	4.70%	6.22%	8.60%	6%	5%
Internal growth rate	7.07%	8.65%	5.76%	1.44%	21.40%	2.30%
Efficiency ratios						
Asset Turnover	1.38	2.73	1.48	0.74	2.15	1.69
Sales to networking capital	3.88	6.12	3.80	1.65	6.65	3.44
Days in inventory	7.26	40.20	177.30	68.19	207.61	237.86
Inventory turnover	3.75	9.08	2.06	5.35	1.76	1.53
Average collection period	86.09	47.58	177.70	90.75	15.34	14.74
Receivable turnover	4.24	7.67	2.05	4.02	2.97	2.50
Leverage ratios						
Debt ratio	20.66%	23.40%	28.70%	26.19%	50.85%	31.49%
Debt ratio (including short term debt)	44.90%	40.69%	45.49%	42.82%	50.85%	31.49%
Debt-equity ratio	26.04%	30.56%	40.26%	35.49%	-	-
Liquidity ratios						
Net working capital to total assets	0.36	0.45	0.40	0.44	0.32	0.49
Current ratio	2.17	2.96	2.68	2.93	1.65	2.56
Quick ratio	1.21	1.74	1.64	1.67	1.47	2.33
Cash ratio	0.13	0.18	0.06	0.12	0.01	0.19

** on data of three last quarters*

V. THE REFORM OF STATE-OWNED ENTERPRISES IN THE FISHERIES SECTOR

1. Establishment and restructuring of fisheries General Corporations

With the aim to strengthen competitiveness of SOEs and create large and powerful state-owned corporations, the government decided to establish corporations operating under the State-Owned Enterprise Law. Of these corporations, three operating in fisheries are under the control of the Ministry of Fisheries by the authorisation of the central government. These three corporations are Vietnam Seafood Product Export Corporation (SEAPRODEX Vietnam Corporation consisting of 30 member enterprises), Bien Dong Marine Product Corporation (Bien Dong Corporation consisting of 12 member enterprises) and Ha Long Fisheries Corporation (Ha Long Corporation consisting of 5 member enterprises) established in 1995.

1.1. The rationale of Vietnamese corporation

In common understandings, a corporation is a business organisation, recognised and created by law, which allows people to associate together for a business purpose under a common name. A corporation is known as a joint-stock company jointly owned by different persons who receive shares of stocks in exchange for an investment of money in the venture and are limited liabilities. Corporation is corporate ownership and owned through shares held by private individuals. Those share are traded in organised markets, for example, exchange market. A common corporation has several features. Stockholders can sell all of their shares to new investors without disruption of business operations. Corporation exists independently of its owners. Corporation is recognised as a legal person with the same rights that individuals have including the rights to buy and sale property and to enter into contracts (Brealey and Mayers, 2003).

The State-Owned Enterprise Law of Vietnam defines “a corporation is established and operating on the basis of the association of many member units having close relations of interests of business, technology, supplies, consumption, information, training and research, marketing, and operating in one or a number of main and special sectors, and with the aims to strengthen competitiveness of member units and implement the socio-economic development strategies in each period of time”.

A Vietnamese corporation differs in ownership, structural organisation and business concentration from a common corporation. The formation of corporation in Vietnam has been carried out mainly by the way of grouping SOEs, concentrating resources, and promoting cumulation. The formation of corporation has been considered to be an initial stage of corporatisation. Functioning characteristics of a Vietnamese corporation are managing member enterprises and improving SOE efficiency while a common corporation is seeking for profits. A Vietnamese corporation is characterised by its sole state ownership and without corporate ownership, a significant factor to identify a common corporation. The ambiguous ownership issue has affected the performance of the corporation as a whole and level of competitiveness. In term of finance, there are weak financial linkages between member enterprises themselves and with corporation while in a common corporation financial mechanism is dependent between members and corporation that is acting as a "parent company". Vietnamese corporations are operating under the State-Owned Enterprise Law dealing with SOEs only while common corporations are usually operating under the Company Law.

Vietnamese corporations were formed to reduce unlimited liability entities in the national economy and transferred them to fewer managed ones that limit partly the situation of unlimited responsibilities in term of financial deficits. The reduction of management costs through management form of corporations reflects the enforcement of SOE reform policy. Vietnamese corporation is also regarded as an instrument to collect revenues for the national budget but this is not always explicitly. Hence, it is more likely to be an administrative organisation designed to manage SOEs with pure state ownership than a common corporation with profit-seeking purpose and multi-owners.

1.2. General organisational structure of a fisheries corporation.

Board of Directors comprises chairman, two or three vice-chairman, and five to seven regular members. The Board of Directors is the representative of the government as the owner of the corporation. Board of Managing Directors comprises one Chief Executive Officer (also known as General Director) and three to five Deputy Chief Executive Officers. Board of Managing Directors is responsible for corporation's operations. Chairman and Chief Executive Officer are appointed by Minister of Fisheries under the authorisation of the Prime Minister.

Supervisory Board is responsible for supervising the Board of Managing Directors' activities complying with the Articles of the corporation and guidance from the Board of Directors. Supervisory Board is acting independently from Board of Managing Directors and under direct instructions of the Board of Directors. The Supervisory Board comprises several members and they can be regular members of the Board of Directors. Members of the Board of Directors, Supervisory Board are approved by the Ministry of Fisheries under the authorisation of central government.

Head office of the corporation is composed of a number of departments. *The Administration* is responsible for any administrative activities from clerical work, receptions, and secretaries to office equipment of the corporation, securities... *Department of Planning and Investment* is dealing with planning and investment activities of the corporation. It has Division of Planning and Division of Investment. *Department of Finance and Accounting* is responsible for financial and accounting activities of the corporation including financial performance and capital source management. The Department is divided into four divisions: Division of Internal Auditing, Division of Financial Investment and Management, Division of Project Capital Management and Division of Accounting. *Department of Personnel and Training* is taking care of personnel and training matters. The Department comprises Division of Personnel, Division of Training, and Division of Labour and Wage. *Department of Sales and Marketing* comprises some divisions of marketing, service after sales, external co-operation making contacts with governmental authorities, international organisations and customer relationships. *Department of Law and Regulations* involves in any matters concerning laws and regulations. It is divided into divisions: Division of Economic Contracts and Division of Consultation.

Factories are directly producing fisheries products. A factory can be organised in several ways but mainly including production and administration. There are several workshops depending on product categories such as fish, shrimp or squid, dried, fresh or frozen. Factories only produce fisheries products. Sales, technology, labour and management, losses and profits… will be taken care by the corporation head office. Factories are dependent of the corporation in term of accounting principles (see Appendix II for corporation organisation chart).

Under the control of the corporation there are member enterprises independent of corporation in term of accounting principles. The number of member enterprises in each corporation varies depending on the corporations and not less than the minimum number of five members.

1.3. Current state of performance and restructuring

Since being established, corporations have created new corporate governance and released considerably administration work concerning SOEs from the Ministry of Fisheries. Corporation reduced intermediate management agencies of the Ministry and diminished bureaucrats in SOE business activities as well. It also created a clearer responsible regime relating to SOE operations. Corporations become administratively economic entities managing member enterprises’ production and business activities, technology, labour and personnel, accounting and financial performance in accordance with current regulations. This management regime is for the purpose of state capital preservation and raising, expansion of production and business, increases of export earning and payment to national budget, creation of job opportunities, and improvement of worker’s living standards.

Corporations have been initially successful in drawing out annual and long-term development strategies as well as production and business plans. This is aiming at integrating member enterprises’ development into the overall movement of the corporation. Fisheries corporations have initially invested in technology to enhance productivity enabling the production of high quality and value-added products. They have been also arranging member enterprises’ production and business based on the overall economic development programmes of the Fisheries sector.

Despite some initial achievements, corporations still have problems of organisational structure, operations, and efficiency. Relationships between members and corporation are administratively combination. Corporations have been formed mainly by grouping up SOEs in order to fulfil the required minimum number of member enterprises, five in the case of fisheries corporations such as Ha Long Corporation, but not on the basis of demands for collusion or mutual technological and financial supports. The majority of member enterprises before joining together forming corporations were independent accounting and they still make decisions of their equities. For this reason, the corporation has not yet been a unified economic organisation and failed to integrate operations of member enterprises into real power of a corporation. The relationships between member enterprises were not based on the ownership, duties and interests of member enterprises. Furthermore, corporation management mechanism, especially finance and personnel, could not solve the problem of disjointedly operating situations of member enterprises. Recent operations of three fisheries corporations have showed that there was no capital concentration and competitiveness creation. These relationships are, therefore, only administrative combination and the link between corporation and member enterprises is weak.

The relationship between member enterprises has not had any remarkable improvements. Many years of independent operations of enterprises re-registering according to the Decree 338/HDBT and corporation's inability of wholly organising member enterprises as specified in the standard pattern cause overlaps in organisation and limited economic powers of a large business organisation. Several enterprises had been operating efficiently before entering the corporation. They now have to face some difficulties because of being bound within the boundary of the corporation. Furthermore, in a corporation there are some enterprises having different names and the same business activities but operating in the same markets so that competition between them is not avoidable especially in export.

Financial performance of fisheries corporations was relatively poor. Revenues and profits were decreasing. Many member enterprises were still making loss. SEAPRODEX Vietnam Corporation, one of the largest corporations of the Ministry of Fisheries, is chiefly operating in fisheries export and partly in shipbuilding, repairing services and fishery seed production (accounting for 10% of total revenues). In comparison to 1999, total gross revenues increased 29.5% in 2000 but decreased 13.4% in 2001. In the year 2000, 7 of 24 member enterprises (29% of total) had gross revenues less than that of 1999 and 11 of 24 member enterprises (46% of total) had export and trade earnings less than that of 1999 (see Appendix III for detail).

Regarding fisheries export, in 1999, the European Union decided to upgrade Vietnam into the List for export of fisheries products with 40 fisheries processing enterprises. Among those, there was no centrally affiliated fisheries SOE. In 2000, the whole Fisheries sector earned totally 1.4 billion USD from export but fisheries SOEs accounted for only small proportion of 16% and 1.76 billion USD and 10% in 2001 relatively. In 1999, a private Kim Anh Company alone in six months earned 60 million USD from export while in SEAPRODEX Vietnam Corporation only earned 160 million USD (90% of whole fisheries SOE's export earning). Compared to that of 1999, corporation's export and trade earnings increased 54% in 2000 but decreased 8% in 2001 while annual export earning of the whole fisheries sector kept going up sharply by 19%. This state of affairs revealed that technology of corporation member enterprises was much lower than that of private enterprises as export of fishery products usually requires expensive and modern production equipment. Fisheries SOEs were, therefore, loosing the leading role and probably state resources are no longer properly invested.

Of Bien Dong Marine Fisheries Corporation, the percentage of enterprises making loss among its members was 36% and that of profitable enterprises was 45% but total accumulated loss was 4.37 times higher than incomes at corporation level (1999). In 2000, the corporation paid to the national budget with 5% increase compared to that in 1999, but income tax payment reduced 20% and accounted only for 0.3% of total payment to national budget. Income tax payment is an important indicator reflecting the profitability and efficiency of an enterprise.

SOEs under corporations have been poorly performing and the current management mechanism of corporation probably made obstacles to the operating efficiency of some SOEs. There is a need for a more effective management scheme to keep SOEs viable. Restructuring measures will possibly make corporation more commercialised and transfer members to joint-stock or state-owned limited liability companies. This is a necessary intermediate step to the entire reform of fisheries SOEs.

SEPRODEX Vietnam Corporation had 31% of member enterprises being in loss-making and total accumulated losses were 3 times larger than total incomes as the end of 1999. This numbers were 25% and 5.2 times in 2000, 25% and 6.2 times in 2001 relatively. There were 36% of Bien Dong Corporation’s total members in loss-making situation and total accumulated losses were 1.75 times larger than total incomes (in 1999). Ha Long Corporation was the worst: 43% of total members in loss-making, accumulated losses 35.73 times larger than incomes (in 1999).

Liabilities are much larger than the receivables: SEAPRODEX Vietnam Corporation: 1.59 times (1999) and 1.7 times (2000 and 2001), Bien Dong Corporation: 1.75 times (1999), and Ha Long Corporation: 3.33 times (1999). These numbers revealed the fact that corporations were appropriating capitals of others (inter-enterprise liabilities) to do business and did not have their own financial potential.

Business capital was much lower than minimum required level of 500 billion VND: Bien Dong Corporation: 304 billion VND, SEAPRODEX Vietnam Corporation: 284 billion VND, and Ha Long Corporation: 25 billion VND (Table 4).

Table 4: Some financial performance indicators of fisheries corporations (in 1999)

	Bien Dong Corporation	SEAPRODEX Vietnam Corporation	Ha Long Corporation
Number of member enterprises	12	30	5
Business capital (billion VND)	304	284	25
Loss-making enterprises (%)	36	31	42.8
Profitable enterprises (%)	45	62	53
Accumulated loss/income (times)	4.37	3.0	35.73

Source: Pham Quang Huan, 2001

Another problem is overlapped authorities and responsibilities between the Board of Directors and Chief Executive Officer. The executive function of Chief Executive Officer and management function of the Board of Directors have not yet clarified and regulated. This caused many difficulties for both Chief Executive Officer and Board of Directors. Chairman and Chief Executive Officer are appointed by the same authority and simultaneously authorised to receive state capital allocation for the corporation so that it is difficult to define clearly the legal responsibilities and authorities of these titles. Moreover, Chairman has not yet specified responsibilities and authorities of Board of Directors members. Consequently, there was encroachment with Chief Executive Officer's authorities. Many decisions of the Board of Directors were not practical and timely causing losses of business opportunities of the corporation and further, of member enterprises (Pham Quang Huan, 2001).

Corporations do not have financial potentials. The total amount of capitals is the sum of all member enterprises' capitals. Corporations are incapable of integrating and co-ordinating capital flows within itself to improve technology, expand business activities and markets, to enhance productivity or to support member enterprises in difficult situations. Fisheries corporation's operations in recent years showed that their formation has not created capital accumulations, strong competitiveness and has been only simple administrative combination of member enterprises. Close finance, technology and market relationships among member enterprises have not yet created. Many member enterprises re-registered in accordance with the Decree No. 338/HDBT enacted before the formation of corporation have been still making their own decisions on enterprise's capitals and incomes except regulated amounts subtracted for depreciation and some general funds of the corporation. Meanwhile, the corporation could not support member enterprises due to lack of financial resources.

Nominally, the Chairman and the Chief Executive Officer are both on behalf of the corporation to receive the state capital allocation and re-distribute this capital to its member enterprises. This procedure is meaningless regarding state capital management in corporation since, in practice, capital allocation is exactly the amount of capitals that have been being owned and utilised by member enterprises before. The total capital of the corporation is simply the sum of capitals already owned by member enterprises.

Member enterprises can be dependent and independent of the corporation in term of accounting principles. The corporation can control over operations of those depending on corporation. With those independent of corporation, it is very difficult to intervene into their economic decision-making. In this context, the corporation is really facing difficulties to control of the capitals as regulated by the State-Owned Enterprise Law. Additionally, state capital allocated to the corporation comprises total assets still in business and “dead” capitals not yet liquidated due to lack of regulations. Consequently, total assets are very high but real values in business are not as high.

Corporation is only administratively carrying out the function of receiving annually supplementary capitals allocated by the Ministry of Finance to its member enterprises. It does not have full controls to co-ordinate these capital sources in order to create the financial powers and supports to member enterprises especially when difficulties arise. The corporation does not fully act as a common corporation with the pattern of parent company and financially dependent members. Therefore, corporation is only a centralisation process to eliminate the “exceed freedoms” of SOE autonomy and become an intermediate, on behalf of the state, to invest in member enterprises. This is administrative characteristics rather than economic activity.

Personnel of corporation are not sufficiently competent. The organisational structure is not reasonable and bureaucrats still exist. Hence, activities of co-ordinating operations of member enterprises aiming at expanding markets and applying modern technology are not efficiently carried out.

The objectives being set while establishing corporations, therefore, have not been obtained due to weak administration and inefficient economic performance of corporations in the Fisheries sector.

1.4. Restructuring of corporations

In recent years, SEAPRODEX Vietnam Corporation has been restructuring its member enterprises. Investment and Design Consult Company, a SOE operating in fisheries trading and services, was transferred to be under direct control of the Ministry of Fisheries. Its two member enterprises, Central Aquaculture Services Company and Fisheries Materials Factory (being renamed to Ha Long Fisheries Materials Company) were transferred to Ha Long Corporation. This corporation also received Bac Lieu Fisheries Processing and Export-Import Company belonging to Bac Lieu province (under SEAPRODEX Minh Hai) and Xuan Thuy Fisheries Export Processing Company (under SEAPRODEX Hanoi).

Two local affiliated SOEs were transferred to Ha Long Corporation: Xuan Thuy Lieu Fisheries Processing Export-Import Company (belonged to Nam Dinh province) and Ha Long Food Production and Export-Import Company (formerly Poultry Factory belonging to Hai Phong province).

2. Current state of fisheries SOEs

In marine fishing, among seven SOEs acting in marine capture only three still involve in fishing operation but having been making loss. These enterprises have to cover operating cost and loss by earnings from import, export and trading activities. The other four enterprises are mostly operating in import, export, trading and services so that the task of being fishing SOEs is not fulfilled. In three years from 1998 to 2000, those enterprises fished 1,470 tons while marine-fishing production of the whole sector was 5.8 million tons. In recent years, these SOEs have been granted subsidised credits to build new offshore fishing vessels and upgrade current fishing vessels for more profitable fisheries. Generally, fishing SOEs at central and local affiliated levels have very low production volume accounting for only small proportion of 5% of the whole sector, low revenues.

In aquaculture, three SOEs are operating but with extremely poor performance. For example, the main business generating profits of Material Supply and Export Aquaculture Shrimp Company is petroleum transportation and trading services completely different from main tasks assigned by the its administration. Thus, the purpose of these SOEs’s operations has not met. These SOEs have been seriously making loss for long time and could not contribute any supports to aquaculture.

In fishery processing, 20 SOEs are operating in processing and exporting fishery products and but only 9 of them have revenues mainly from fisheries processing. The rest are operating as fish reseller or collecting fishery products for export and domestic consumption. The fact that the fisheries SOEs have turned out to be low efficiency, lack of competitiveness and capital accumulation in the development of the market-oriented economy. For instance, a private Kim Anh Company in six months of 1999 earned 60 million USD from fisheries export while all fisheries SOEs earned 180 million USD in the whole year. Fisheries SOEs have no longer dominated the export of fisheries products. The loss of the leading role in export of state corporations partly caused loosens relationships between member enterprises.

2.1. Production performance

2.1.1. Production of enterprises

Most of fisheries SOEs have adapted to competitive mechanism of the market-oriented economy with clear development strategies. Fisheries SOEs have also made many attempts to stay in production and business creating employment and improvement of worker incomes. However, the production of fisheries SOEs was accounting for small proportions in terms of volume and value (Table 5). Although a majority of enterprises has solved the chronically loss-making and contributed to the national budget income the performance of these enterprises is still poor.

Table 5: The production of fisheries SOEs in 5 years (1996 - 2000)

	1996	**1997**	**1998**	**1999**	**2000**
Production volume (ton)	59,818	50,825	66,968	94,262	72,253
Proportion of whole sector (%)	3.51	2.92	3.75	4.69	3.36
Production value (fixed price in 1994, million VND)	361,714	362,915	424,559	554,740	500,986
Proportion of whole sector (%)	2.35	2.22	2.50	3.03	2.48

Source: Pham Quang Huan, 2001

Technology of fisheries SOEs is stagnating with outdated equipment particularly when compared to that of private sector enterprises even though they have financially invested for upgrading technology and equipment enabling the production of value added and higher quality products. It is obviously that there is a need for more investment to enhance the productivity and expand production of fisheries SOEs.

2.1.2. Equipment and technology

Since the beginning of the transition to market-oriented economy, fisheries SOEs have been restructuring their production for increasing the efficiency of utilising labour forces and production equipment. Shipbuilding enterprises have invested in workshops and repairing services. Fisheries Mechanics Company (under Bien Dong Corporation) imported high quality composite husk technology replacing wooden and steal one.

Fishing enterprises were allowed to access subsidised credits for building new offshore fishing vessels. Additionally, old fishing vessels have been upgraded with stronger engines and more efficient fishing technology. In fisheries processing, a number of enterprises have invested in building new processing factories, upgrading processing and storing equipment for higher value products.

2.1.3. Marketing

In domestic markets, fisheries SOEs are producing products meeting increasing preferences and demands and but facing strong competition of non-state sector enterprises. Shipbuilding and repairing service enterprises have strong position in the market by professional experiences, high quality products and services creating high competitiveness. Nevertheless, they have small market shares compared to high demand and large market for shipbuilding of the fisheries sector. In aquaculture, enterprises producing feed for fish and shrimp farming are initially making profits. Their rivals are private enterprises, joint-venture companies producing similar products with higher technology and lower cost, and some importers dominating a significant market share.

In international markets, fisheries processing SOEs are still carrying on their exports of high quality products to many countries having strict sanitary and quality requirements. The largest import market is Japan (37.5%). China and ASEAN countries are the second important market (27.5%). Followings are the United States (17.5%) and the European Union (8%). Fisheries SOEs are weak in term of competitiveness and small in term of export earning compared to private sector enterprises operating in the same business.

2.2. Financial performance

In 2000, gross revenues increased 32% compared to that of 1999 and slightly decreased in 2001. Of gross revenues, export earnings accounted for only 40%. Export earnings also decreased in 2001 probably because of some difficulties concerning sanitary standards that the whole Fisheries sector had to cope with and fisheries product price going down in world import markets. While export turnovers of whole Fisheries sector still keeps going up considerably, fisheries SOEs cannot make any forward movement in export earnings. At the same time, more state capital was annually invested in fisheries SOEs with 10% increase. On the other hand, fisheries SOEs made incomes following a declining trend. Income earned in 2000 was only 61% of that of 1999 and in 2001 income was 90% of that of 2000. Income was 27% of accumulated loss on average (income/accumulated loss: 39.7% in 1999, 27.1% in 2000 and 19.5% in 2001). Limited state capital allotment and high interest bank loans could contribute as one of reasons for low profitability of fisheries SOEs (see Appendix III for detail).

3. Restructuring and the reform of fisheries SOEs

3.1. Contracting out and selling SOEs

The Ministry of Fisheries issued decision to contract out Kien Giang Fisheries Services Company with employees of the company. The state capital in this SOE is 0.79 billion VND. At the time being corporate evaluation is still in progress. It was the first fisheries SOE being contracted out under the Decree 103/ND-CP defining detailed regulations on contracting out, selling, leasing and buying out SOE. Contracting out was regarded as the most suitable reform option for this small capitalisation SOE in term of cost, efficiency, and social benefits for employees. However, detailed provisions of the contract are still being negotiated between employees and the owner representative.

3.2. Merging, dissolving and liquidating SOEs

Fish Powder Company with state capital of 0.379 billion VND was merged with Mien Trung Seafood Processing and Trade Company increasing its state capitalisation to 33.539 billion VND. These enterprises are members of SEAPRODEX Vietnam Corporation and independent accounting. The aim of merging is to remove too small capitalisation SOEs.

3.3. Establishing, re-registering and renaming SOEs

Bien Dong Marine Fishing Factory was established as a new SOE with state capital of 7.88 billion VND and registered as a member of Bien Dong Corporation. The enterprise is public-utility SOE with the task of fishing and providing fishing related services. Production and Technology Services Company with state capital of 1.2 billion VND was also a new public-utility SOE established under the Research Institute of Aquaculture

No.2. This SOE is providing research and development activities, technical services for aquaculture in the Southern Vietnam.

Four SOEs were re-registered. Seafood Product Import Export Company No. 5 (SEAPRIEXCO No. 5) 8.59 billion VND capitalised was re-registered under SEAPRODEX Vietnam Corporation as an accounting independent member. Fisheries Mechanics Company (30.164 billion VND), Phu My Factory (2.375 billion VND) and Marine Equipment Company (3.4 billion VND), formerly dependent members, were re-registered to be independent accounting members of Bien Dong Corporation.

Bien Dong Marine Fishing Factory, formerly a public-utility SOE, was renamed to Bien Dong Marine Fishing Company and changed to profit-making SOE. This SOE is a member enterprise of Bien Dong Corporation. Central Fisheries Company, formerly an enterprise registered under ministerial control, was renamed to Fisheries and Services Company under SEAPRODEX Vietnam Corporation. Information and Advertisement Company was renamed to Information, Trading Services and Advertisement Company under SEAPRODEX Vietnam Corporation.

3.4. Equitisation of SOEs

As the end of 31 March 2002, 9 SOEs were equitised (Table 6). All of those SOEs were formerly member enterprises of SEAPRODEX Vietnam Corporation. Total state capital before being equitised was 111.949 billion VND. There were three SOEs less than 5 billion VND capitalised, five over 10 billion VND capitalised, and only one under 1 billion VND capitalised. Regarding accounting principles, among these enterprises there were seven SOEs independent of and the other two SOEs dependent on SEAPRODEX Vietnam Corporation. Total labour forces in these SOEs were 4,797 employees (Appendix IV).

After equitisation, the state equity shares were 47.311 billion VND accounting for 28% of total equities of those equitised companies. The state does not hold the majority of shares in equitised companies (20-25%) except Fisheries Construction Join-Stock Company (75%). Net, Packages and Fisheries Materials Company, a Bien Dong Corporation member, just finished corporate evaluation with the value of 4.322 billion VND and still pending for next steps of equitisation procedure. All shares issued are common shares as fisheries is not a "strategic" sector that the government will have to control over the management of equitised companies by holding majority of common shares, special or "golden" shares. SEAPRODEX Vietnam Corporation as representative of the owner of state capital in equitised companies, appointed its staff to the board of directors, attending shareholder annual meeting.

Table 6: Fisheries SOEs being equitised as the end of March 2002 (in billion VND)

Name of SOE	Pre-equitisation State capital	Labours (person)	Equity	State equity share
Ha Long Canned Food Stock Corporation	12.603	1,016	27.50	10.278
SEAFREECO	3.624	500	12.00	2.400
SEAPRODEX Construction Factory	0.994	350	3.131	0.783
Seafood Product Import Export Company No. 4	12319	444	15.00	3.750
Fresh Seafood Processing and Export – Import Company	1.085	100	3.00	0.600
Seafood Special Product Import - Export Company	53.806	1,371	68.00	17.00
SEAPRODEX Minh Hai	10.756	250	15.00	3.750
New Product Processing Factory	14.895	516	20.00	5.000
Mien Trung Construction and Services Company	1.867	250	5.00	3.750
Total	**111.949**	**4,797**	**168.631**	**47.311**

Source: Ministry of Finance, 2002

Of these equitised companies, Ha Long Canned Food Stock Corporation (Ha Long CANFOCO) and Seafood Product Import Export Company No. 4 (SEAPRIEXCO No.4) are listed on the stock exchange. The shares of these joint-stock companies are attractive to both domestic and foreign investors by dividends and potential business future.

Ha Long CANFOCO was the first fishery-processing factory of the North founded in 1957 with the assistance of former Soviet Union. Ha Long CANFOCO was equitised in April 1999 with equity of 27.5 billion VND of which the government owned 37%. After annual shareholder meeting in June 2001, the shareholder equity was raised to 35 billion VND, of which the state held 30.65%, Vietnamese shareholders held 43.78%, and foreign shareholders held 25.57%. The company was equitised by raising equity and selling state equity shares to employees, foreign and other Vietnamese investors. Employees were allowed to purchase company shares with subsidised prices. Employees were also given with 10% of the company equity share from the state but they are only able to benefit from dividends generated from this part of shares. The real owner of this 10% is still the state. Employees did not have the right to sale or enter these shares into contracts. Additionally, they could purchase on credits shares equivalent to 15% of total equity but they have to pay all within two years. Therefore, employees could hold 25% of total company equity shares and actually owned 15%. The involvement of foreign shareholders was regarded as a measure to absorb foreign direct investment into the national economy particularly in the Fisheries sector known as lowest foreign direct investment.

Since being equitised, company's profitability has been improved considerably. The annual gross revenues annually increased by 2 folds in the first 3 years, 3 quarters of 1999: 42.8 billion VND, 2000: 88.1 billion VND, 2001: 181.6 billion VND and decreased in 2002 to 111.5 billion VND but incomes keep increasing. Revenues from domestic market have accounted for large parts and but dropped down: 92% in 1999, 81% in 2000, and 42% in 2001. Ha Long CANFOCO ranks the third for revenues among canned food production companies but the first for production capacity and volume. Net incomes have been annually rising 31.3% on average. Consequently, financial ratios measuring company's profitability and efficiency have annually increased: return on equity: 18%, return on assets: 20%, earnings per share: 20%, internal growth rate: 110%, asset turnover: 45%, and dividend: 11%. Shareholder equity is annually going up by 10% on average. It is obviously that the state equity in this company is being efficiently invested (Appendix III).

SEAPRIEXCO No. 4, formerly Frozen Fisheries Factory No. 4 and in 1995, was renamed to Frozen Fisheries Processing and Import–Export Company under SEAPRODEX Vietnam Corporation. The main business of the company is processing and exporting fisheries products. On 11 January 2001, this company was equitised with equity of 15 billion VND, of which the state held 25%, employees owned 31.55%, other Vietnamese shareholders owned 21.1%, foreign shareholders owned 20% and treasury stock was 2.35%. This SOE was also equitised by raising equity and selling state equity shares to employees, Vietnamese and foreign investors in the same manner as what have been done with Ha Long CANFOCO. It was listed on the stock market in September 2002 as a result of efficient post-equitisation performance. Compared to pre-equitisation, revenues have decreased considerably but net profits have sharply increased. Net income of 2001 was 31% higher than that of 2000 and that of 2002 was 119% higher than that of 2001. As a consequence, profitability and operating efficiency of the company has been being improved greatly after being equitised (Appendix III).

Being equitised and listed on the stock market have strengthened the position of the company in the market with more involvement of private capitals known to be very high potential. The importance is that the state capitals investing in joint-stock companies have been generating higher returns in comparison to former SOE financial performances. At the same time, the national budget no longer has to bear losses and subsidies and the state can withdraw a large mount of capitals for other investments solving problems of limited capitals elsewhere.

4. SOE reform activities of state institutions

4.1. Board of Enterprise Renewal and Development of the Ministry of Fisheries

The Board of Enterprise Renewal and Development was founded as an enforcement of SOE reform policies at ministerial level. The Board comprises professional experts from certain department of the Ministry such as Department of Finance and Accounting, Department of Personnel and Labour Organisation, Department of Plan and Investment. Under the authorisation of the Minister, this Board is responsible for SOE reform activities under controls of the Ministry of Fisheries. These activities include planning, instructing SOEs to prepare reform modalities, making proposal for changes of regulations concerned if necessary.

4.2. Support to Industrial Restructuring and Enterprise Development

Support to Industrial Restructuring and Enterprise Development (SIRED) is a component of Fisheries Sector Programme Support funded by Danish International Development Agency (DANIDA). SIRED is aiming at supporting fisheries enterprises particularly SOEs through the Ministry of Fisheries of Vietnam. The main objective of SIRED is support to strengthening management capacity of the Ministry of Fisheries hence the Ministry shall be able to consult and support equitisation and restructuring of fisheries SOEs. It helps to improve the performance of fisheries SOEs in the market-oriented economy.

In recent years, SIRED has carried out many support activities to the Ministry and fisheries SOEs. In co-operation with Board of Enterprise Renewal and Development of the Ministry of Fisheries, SIRED organised conferences, workshops on equitisation and enterprise restructuring such as searching for more reasonable pattern of fisheries corporations or implementation of privatising management of SOEs. SIRED also supports many fisheries SOEs to accelerate the equitisation process, for example, An

Giang Fisheries Import and Export Joint-stock Company or Seafood Special Product Import - Export Company. Generally, SIRED is playing a significant support role in the reform of fisheries SOEs.

5. Review of the SOE reform in the Fisheries sector

In the early of 1980s, the Fisheries sector of Vietnam had made milestones to find new economic mechanism to overcome the difficult situation of long-time loss-making, stagnating, and low worker's incomes. The Fisheries sector was early granted autonomy with free usage of export earnings to import materials and reinvest in renewal of production factors. This resulted in the foundation of many processing factories, ship-repairing services, fishing vessels and fish landing sites. Fisheries SOEs led small-scale fisheries to the rapid development and successfully carried out their leading role in the initial stage of the transition to market-oriented economy. In the period of 1980 – 1986, total fisheries production and export earning increased though the state investment reduced to 41.5% and state financial allotment for fisheries SOEs was only 20% - 30% of the previous five-year plan. In 1980, total fisheries production was 558.6 thousand tons and export earning was 11.2 million USD. In 1985, these figures were raised to 808 thousand tons and 100 million USD relatively. These successes and experiences of the Fisheries sector had been considered as a crucial element of practical background on which the government decided to abandon the centrally planed economy and transfer to the market-oriented economy.

Since the renovation process of *Doi Moi* in 1986, business and production activities of fisheries SOEs had been changing very much. Fisheries SOEs were gradually loosing the leading role and poorly performing. The fisheries SOE role of "red middleman" previously playing a very active role in promoting small-scale fisheries has been transferred to the private sector operating widely and more efficiently. The "private middleman" became main distributing force between local areas for supplying fisheries materials to processing factories, aquaculture services and marine fishery (Pham Quang Huan, 2001).

In recent years, fisheries SOEs have been operating in loss-making and low efficiency. This situation called for a complete reform of fisheries SOE system to make them viable and release the government from the financial burden of bearing losses and subsidies. It also makes more private capitals involve in SOEs to solve problems of inefficient management and limited state capital. The government should only focus on SOEs acting in some activities that are important to the common development of the Fisheries sectors and that private sectors cannot or do not want to invest in. These include aquaculture developments (importing, researching, producing and promoting breeds of high value fish species; fish veterinary drugs; disease preventing, technical consults and services), marine fishing promotions (offshore fishing, landing site systems, and logistic services in the sea), and modern processing technology. For those not in need of pure state ownership, it is necessary to equitise them to transform them to joint-stock companies. Additionally, small-scale, chronic loss- making SOEs must be bankrupted or liquidated.

Equitisation transfers SOEs operating under the State-Owned Enterprise Law with state subsidies, preferential privileges and exceptional rights to joint-stock companies operating under the Company Law without subsidies and completely exposed to free competition. This, as well, brings new management scheme to these enterprises to make them more profit-oriented and hence improves their efficiency. Previously, directors of fisheries SOEs were appointed by the corporation or relevant authority. The appointment was not always based on managerial skills of these directors but political intervention at some certain levels. The fact that many fisheries SOE managers did not have qualification in business administration they usually came from technical areas such as fishing technology, aquaculture or fisheries mechanics. If managers' capacity is not appropriate to commercial management requirements, the SOE will not probably be profitable. After being transformed into joint-stock company, shareholders in the annual meeting elect a more responsible board of directors that their duties and interests are more involved in each other. This mechanism assures that profit maximisation is the most concerned purpose of company operations and that business and development of the company is economically decided by its real owners. Equitisation also released the national budget from bearing the burden of losses and subsidies resulted from increasing accumulated losses and decreasing profits of fisheries SOEs. Re-evaluation of state assets in fisheries SOEs showed that formerly state assets were under evaluated causing unexpectedly low re-investment in production expansion and development. In addition, the state collected a large amount of equity from selling shares and dividends, over 64 billion VND in case of equitising 9 fisheries SOEs, for other investment demands.

Employee's living standards have been rising considerably by increases in salaries and dividends from company shares. Employees have become real owners of the company creating strong incentives to enhance labour productivity, therefore, improving the efficiency of the company. Interestingly, more job opportunities were created instead of retrenched labours as an obvious consequence of privatisation process because of business expansions and more investment of post equitised companies.

Equities of equitised companies were also increasing by 50% on average compared to that of pre-equitisation fisheries SOEs. The market values of equitised company stocks increased as a result of their profitability and high potential business. It has also attracted more private capital involvement in fisheries joint-stock companies, especially foreign investments. Taking as an example, foreign shareholders own 25.57% of total Ha Long CANFOCO equity and 20% of SEAPRIEXCO No. 4 equity. With only 9 equitised companies, an amount of private capitals 10% higher than total pre-equitisation state capital in SOEs was invested accounting for 72% of total equity of these companies.

Nonetheless, the reform of fisheries SOEs is still facing some problems and issues. First of all, the reform progress was lagging behind the schedule. However, this problem happens not only in fisheries but all sectors of the national economy. There are some reasons for this relating to legal and institutional frameworks, perception of the equitisation of workers and managers of SOEs. In governmental institutions, civil servants are unwilling to give away any privileges of patronage enterprises. Some think that equitisation is out of socialist direction and the government is loosing controls of state assets. Incompetent managers of SOEs are afraid of equitisation. They are threatened by being removed from preferential privileges given by being SOE managers. Workers are also afraid of loosing their jobs particularly unskilful ones and redundant labours in the SOEs. The more important consequence of equitisation for employees is the loss of welfare benefits formerly provided by SOEs. In practice, it is difficult for them to find jobs that can give them similar level of incomes and social benefits. In addition, regulations on post-equitisation retrenched labour treatments and on preferential conditions for purchasing shares are still not clear and not sufficient to provide them more incentives to actively participate in the reform process. Hence it is necessary to complete legal framework and make concerned people take active parts in the SOE reform.

State asset evaluation before equitisation taking place is a remarkable problem. In many cases, the evaluation of state assets in SOEs has postponed the equitisation and even cancelled it in some special circumstances. Auditing work is costly but incapable of evaluating the corporate value in some circumstances. Hence it is essential to improve professional skills of auditors and related regulations.

6. Development strategies

There will be several SOEs essentially under full state ownership. These SOEs are acting in marine fishing including offshore fishing, provisions of logistics services in the sea and running fish landing sites (Cat Lo and Ha Long fish landing sites). These SOEs regardless profit-making or public-utility should be transferred to joint-stock companies owned by other SOEs or state-owned limited liability companies operating under the Company Law. Meanwhile, the government should invest more capitals in these SOEs to boost their business and production. These companies could also be allowed to issue bonds or special shares to raise equity for production expansion and technological enhancement.

Other profit-making SOEs operating in processing and exporting fisheries products, trading and services should be equitised. Since Fisheries is not a “strategic” economic sector the government does not need to remain such large state ownership share enabling state to control over these equitised companies. After equitisation the state equity shares should play the role of supporting the development of these companies rather than controlling them. When the businesses are stable and profitable it is possible to give away state equity shares by selling it to private parties.

Bankruptcy, liquidation, merging or other form of privatising management could be employed to fisheries SOEs that are small capitalisation (less than 1 billion VND), or long time loss-making such as Central Aquaculture Company, or for any reason they cannot be equitised. The aims are to delete small, loss-making SOEs in need of state subsidisation, to utilise state capital more efficiently, and to enhance values of SOEs. Some fisheries SOEs should be bankrupted because they are impossible to repay overdue debts but the legal provisions still not allow bankruptcies taking place. The Ministry of Fisheries should elaborate detailed action plans and support these SOEs particularly in corporate evaluation, deletion of debts from balance sheets, and retrenched labours. Defining guidelines and procedures for selecting SOEs to be restructured needs clarifying to get rid of any confusion and postponement. It is an immediate need to amend the Bankruptcy Law to enable SOE bankruptcy and regulation on retrenched labours and supports to employee’s purchase of joint-stock company shares.

Fisheries corporations are small capitalisation and operating with extremely low efficiency. It is necessary to commercialise these corporations. There is a need for applying the organisational pattern that current corporations become “parent companies” investing capitals in 100% state-owned limited liability or joint-stock companies. This pattern makes relationships between corporation and member enterprises clearer particularly corporation capital management and ensures autonomy of member enterprises. The introduction of commercial principles into corporation’s operation and management will help it to operate as other profit-making enterprises under Company Law. It promotes abandon of discrimination between SOEs and non-state sector enterprises as well. Ha Long Corporation and Bien Dong Corporation should be colluded due to their small capitalisation and the nature of business.

Debts in SOEs are one of the most difficult and complicated issues in making SOEs viable. Accumulated losses and debts consist of bank loans, inter-enterprise and national budget debts. With debts from national budget, the state should be necessarily responsible for covering the remaining after SOEs attempts to repay. SOEs should also elaborate plans for repaying bank loans by all means available. For bank loans, if SOE is incapable of repaying it may negotiate with creditors about interest, due date, or debt-equity swaps. Otherwise it must be bankrupted to avoid any unnecessary subsidies. However, the state should be responsible for deleting debts from SOE balance sheets to make them viable and possible to be further reformed.

The state should establish unemployment funds to finance retrenched labours. For those leaving voluntarily, compensations are crucial and unavoidable. For those not willing to quit, training for transferring them to other activities and unemployment allowance are very important. Another issue is the preferential right for employees to purchase shares of equitised companies. Because most employees are poor the government should consider that in addition to price subsidisation it is possible to give employees a certain percentage of state equity shares instead of only allowing them to benefit from dividends but not possessing these shares. It could bind them to a commitment not to sell these shares in a certain period of time.

VI. CONCLUSION

In the movement from centrally planned economy to market economy, each nation has selected different strategies for economic transition but the reform of SOEs becomes the most important. It has been undertaken to improve the performance and efficiency of SOEs, reduce public debts and fiscal burden of loss-making SOEs and free limited funds for financing other activities. It also solves the problem of limited state resources by mobilising more domestic resources for development.

For over 15 years, Vietnam has been carrying out the reform of SOE system in almost all sectors of the economy. There were remarkable results such as the large reduction of SOE numbers, improvement of SOE performance, and more involvement of non-state sectors. Nevertheless, there are still certain issues concerning institutional and legal frameworks, macro-economic policies, broad-based consensus of equitisation concept among actors, and social effects of the reform. This created many obstacles to the general development of the national economy. Therefore, there is an immediate need for speeding up the reform process and extensively spreading out diversification of ownership among state sector.

In the first period of the transition, the Fisheries sector gained initial successes in searching for new economic mechanism to overcome long time loss-making of SOEs. This created fast forward movement of the whole Fisheries sector. Fisheries SOEs lost their leading role when the country turned to the market-oriented economy development and turned out to be inefficient. In the attempts to improve the efficiency and competitiveness of SOEs, the Fisheries sector has been carrying out the reform of fisheries SOEs but not very intensively and extensively. However, the reform has had significant achievements in SOE productivity enhancement, technology upgrade, transformation of SOE to more commercialised forms. State corporations have been restructured but still have problems of organisational structure and in need of further adjustments particularly the introduction of corporatisation. Privatised companies were improved considerably in term of profitability, operating efficiency, outputs, and employment. In the cases of Ha Long CANFOCO and SEAPRIEXCO No. 4, financial analysis shows significant positive changes in their post-equitisation performance. This is also an evidence of the right direction movement of the reform process.

The reform of SOEs in the Fisheries sector needs implementing continuously and more intensively. This requires more active roles of the Ministry of Fisheries, SOE managers and employees, international donators in specifying detail plans, supporting the preparation of equitisation and equitised companies. In the next five years, SOEs should be transformed to operate under the Company Law. Public-utility SOEs should be invested with more state capital to support the development of the sector economics.

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VIII. APPENDICES

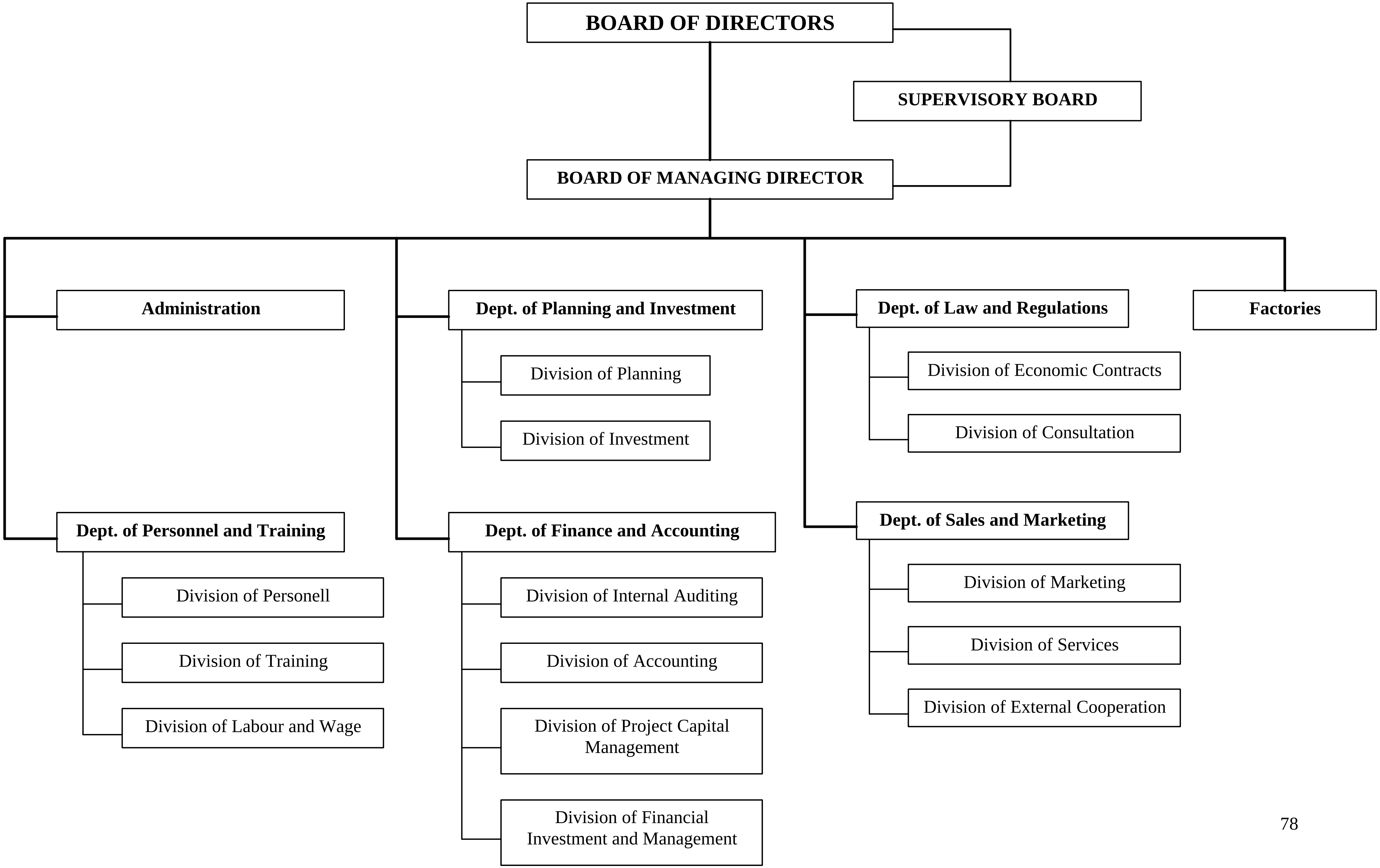
1. Appendix I: Important regulations relating to the reform of state-owned enterprises after economic renovation of Doi Moi in 1986

Regulations	Date	Contents
Cabinet order No. 217-HDBT	Nov 24, 1987	Decision on comprehensive reform of state-owned enterprises. Includes reform of planning system, granting of autonomy, abolition of subsidies and the central planning system.
Cabinet order No. 50- HDBT	Mar 22, 1988	Promulgation of regulations on state-owned industrial enterprises.
Cabinet order No. 161- HDBT	Oct 18, 1988	Promulgation of regulations on foreign currency control.
Cabinet order No. 27- HDBT	Mar 23, 1989	Promulgation of regulations on state-owned enterprise union (replacing the regulations in 1978).
Cabinet order No. 28- HDBT	Mar 22, 1989	Promulgation of regulations on economic organisations and economic integration
Decision No. 38-HDBT	Apr 10, 1989	Promotion of economic co-operation in production, distribution and services
Decision No. 176-HDBT	Oct 9,1989	Readjustment of state-owned enterprises employment.
Decision No. 218-CP	Aug 18, 1989	Transition from the foreign currency control system to a central management fund in foreign currency.
Cabinet order No. 64- HDBT	Jun 10, 1989	Provisions on import and export activities and mergers with foreign enterprises
Decision No. 03-HDBT		Depreciation system of state-owned enterprises.

Regulations	Date	Contents
Instructions No. 315/CP	Sep 1, 1990	Trial transfer to state-owned enterprises of the right to use capital
Decision No. 195-HDBT	Dec 2, 1989	Transfer to state-owned enterprises of the right to use state-owned enterprise assets and to conduct asset evaluation
Instructions No. 138- CT	Apr 25, 1991	Transfer to enterprises of the rights to maintain and increase state-owned enterprise assets
Decision No. 332- HDBT	Oct 23, 1991	Detailed provisions on the rights to maintain and increase state-owned enterprise assets.
Decision No. 388- HDBT	Oct 20, 1991	Regulations on establishment and dissolution of state-owned enterprises.
Decision No. 378- HDBT	Nov 16, 1991	Provisions on the working funds of state-owned enterprises.
Instructions No. 202-CT	Oct 6, 1992	Pilot incorporation program
Bankruptcy Law	Dec 1993	
Decision No. 90-TTg	Mar 7, 1994	Continuation of the readjustment of state-owned enterprises and the establishment of General Corporations
Decision No. 91-TTg	Mar 7, 1994	Establishment of the General Corporation
State-Owned Enterprise Law	Apr 20, 1995	
Cabinet order No. 39-CP	Jul 27, 1995	Promulgation of the Model Charter of General Corporations
Cabinet order No. 28- CP	May 3, 1996	Incorporation policy
Cabinet order No. 59- CP	Oct 3, 1996	Financial management and operating cost accounting principle or state-owned enterprises

Regulations	Date	Contents
Instruction No.20/1998/CT-TTg	Apr 21, 1998	Speeding up restructuring and reforming state-owned enterprises
Domestic Investment Law	May 20, 1998	
Decree No.44/1998/ND-CP	Jun 29, 1998	Transformation of state-owned enterprises into joint-stock companies
Decree No 48/1998/ND-CP	Jul 11, 1998	Securities and stock markets
Company Law	Jun 12, 1999	
Decision No. 145/1999/QD-TTg	Jun 28, 1999	Regulation on selling shares to foreign investors
Decree No 50/1999/ND-CP	Jul 08, 1999	Regulating the organisation and operation of the Supporting Development Fund
Decision No 177/1999/QD-TTg	Aug 30, 1999	Regulating organisation and operation of the Fund for supporting state-owned enterprise restructuring and equitisation
Decree No 103/1999/ND-CP	Sep 10,1999	Regulating contracting out, selling, leasing and buying out state-owned enterprises
Decree No 02/2000/ND-CP	Feb 03, 2000	Regulating business registration
Decree No 03/2000/ND-CP	Feb 03, 2000	Instruction of implementation some certain articles of Enterprise Law
Decision No. 55/2000/QD-TTg	May 22, 2000	Authorities of selling, contracting out and leasing state-owned enterprises with state capital between 1-5 billion VND
Decree No 73/2000/ND-CP	Dec 06, 2000	Promulgation of Regulation on management of state capital in other enterprises

2. APPENDIX II: Organisational Chart of a Fisheries Corporation



3. Appendix III: Balance sheets and income statements

3.1. Financial summary report of SEAPRODEX Vietnam Corporation, 1999-2001

December, 31	**1999**	**2000**	**2001**
1. Total number of member enterprises	**29**	**24**	**23**
Benefit utility			
Profitable (*)	18	16	16
Cost recovery	2	2	1
Loss-making	9	6	6
2. State capital (million VND)			
National budget allocation	140,649	125,825	12,616
Other sources	258,952	255,574	29,594
3. Labour (person)	**8,095**	**8,498**	**8,571**
4. Business (million VND)			
Gross Revenue	4,064,039	5,262,119	4,555,283
Export earning (million USD)	113	174	160
Pre-tax income	33,506	20,869	17,786
Loss (accumulated)	100,001	107,594	109,482
5. Payment to national budget (million VND)	**512,708**	**472,908**	**400,049**
VAT	355, 501	321,727	301,332
Income tax	9,273	9,883	7,659
Export and import taxes	13,696	13,299	84,848
Special tax	518	285	423
Expenses of state capital use	3,725	2,042	1,982
6. Liabilities (million VND)	**1,002,668**	**1,289,667**	**1,311,396**
Debts from national budget	68,667	93,563	30,781
Debts from commercial banks	503,053	661,586	773,035
7. Receivable (million VND)	**62,931**	**740,537**	**761,957**

** member enterprises are able to generate profits but accumulated loss was not taken into account*

Source: Ministry of Finance, 2002

3.2. Financial summary report of fisheries SOEs, 1999 – 2001

December 31,	1999	2000	2001
1. Total number of SOEs (*)	**53**	**51**	**56**
Benefit utility	0	1	1
Profitable (**)	38	40	44
Cost recovery	2	2	1
Loss-making	13	9	11
2. State capital (million VND)	**497,488**	**544,232**	**619,589**
National budget	220,079	263,358	334,165
Other sources	277,409	280,874	285,424
3. Labours (person)	**11,996**	**12,432**	**13,013**
Still idle	300	250	150
4. Business (million VND)			
Gross Revenue	5,228,389	6,910,739	6,734,312
Export earning (USD)	135,312,000	196,921,000	180,191,000
Pre-tax income	37,703	23,091	20,750
Loss (accumulated)	94,995	106,481	106,461
5. Payment to national budget (million VND)	**762,207**	**766,885**	**746,598**
VAT	474,148	422,174	399,181
Income tax	9,746	11,659	8,345
Export and import taxes	265,911	306,126	261,413
Special tax	966	645	-169
Expenses of state capital use	4,185	2,961	2,305
6. Liabilities (million VND)	**1,400,973**	**1,867,820**	**2,089,548**
Debt from national budget	90,914	129,214	65,834
Debt from commercial banks	646,167	856,121	1,010,963
7. Receivable (million VND)	**796,472**	**994,815**	**1,193,057**

(*) Including enterprises' accounting depending on Corporations

(**) SOEs are able to generate profits but accumulated loss was not taken into account

Source: Ministry of Finance, 2002

3.3. *Balance sheet of Ha Long CANFOCO, 1999 - 2002*

December, 31	**2002**	**2001**	**2000**	**1999***
(In Vietnamese Dong – VND)				
Assets				
Current				
Cash	**3,256,708,055**	2,679,600,057	1,560,748,987	775,587,659
Receivable	**26,262,846,060**	23,598,612,417	20,791,175,466	21,803,429,699
Inventories	**23,563,894,046**	18,091,623,679	16,648,632,803	13,990,646,204
Other liquid assets		297,843,994	224,782,029	253,210,053
Total Current Assets	**53,217,741,898**	44,667,680,147	39,225,375,285	36,822,873,615
Investment and Other Assets				
Fix assets	**22,807,084,082**	21,157,145,863	19,408,113,474	20,726,778,447
Long-term financial investment		498,064,923	498,064,923	498,064,923
Other assets	**4,408,359,356**	36,629,233	11,677,000	48,247,406
Total Fix Assets	**27,215,443,438**	21,691,840,019	19,917,855,397	21,273,090,776
	80,433,185,336	66,359,520,166	59,143,230,682	58,095,964,391
Liabilities and Shareowners' Equity				
Liability				
Short term debt	**24,488,142,302**	14,949,325,146	13,306,222,954	13,655,313,666
Others		134,286,910	93,778,412	91,446,176
Long term debt	**11,500,003,840**	12,000,989,025	11,981,390,652	12,730,104,498
Liability	**36,276,542,420**	27,084,601,081	25,381,392,018	26,476,864,340
Total shareholders' equity	**44,156,642,916**	39,274,919,085	33,761,838,664	31,619,100,051
	80,433,185,336	66,359,520,166	59,143,230,682	58,095,964,391

**data of three last quarters*

Source: Ho Chi Minh City Stock Exchange, 2003

3.4. Income Statements of Ha Long CANFOCO, 1999 – 2002

December, 31	2002	2001	2000	1999*
Gross Revenue	**111,428,759,094**	**181,635,528,116**	**88,182,583,191**	**42,846,119,389**
Sales Return and Allowances	78,196,190	588,564,594	488,432,601	139,402,698
Operating Revenue	**111,350,562,904**	**181,046,963,522**	**87,694,150,590**	**42,706,716,691**
Cost of Good Sold	88,433,364,998	164,259,323,707	74,892,481,439	34,273,058,777
Gross Profits	**22,917,197,906**	**16,787,639,815**	**12,801,669,151**	**8,433,657,914**
Selling Expense	9,021,733,932	6,741,601,020	4,575,147,706	2,940,124,447
Administrative and General Expenses	4,973,364,313	3,702,230,452	3,675,508,276	2,434,054,886
Operating Income	**8,922,099,661**	**6,343,808,343**	**4,551,013,169**	**3,059,478,581**
Interest Income	318,708,498	2,944,955,021	812,026,521	671,550,000
Interest Expense	1,773,504,761	513,194,916	22,680,971	61,112,314
Other Incomes	162,615,416	1,699,579,445	226,098,388	8,981,900
Other Expenses	162,615,416	1,538,717,325	113,211,052	5,880,835
EBIT	**7,629,919,325**	**8,936,430,568**	**5,453,246,055**	**3,673,017,332**
Interests	-	-	-	-
EBT	**7,629,919,325**	**8,936,430,568**	**5,453,246,055**	**3,673,017,332**
Income Tax	-	426,723,277	-	-
Net Income	**7,629,919,325**	**8,509,707,291**	**5,453,246,055**	**3,673,017,332**
Net Income per Share	**2,180**	**2,431**	**1,983**	**1,336**

**data of three last quarters*

Source: Ho Chi Minh City Stock Exchange, 2003

3.5. *Balance sheet of SEAPRIEXCO No. 4, 2001 - 2002*

December, 31	**2002**	**2001**
(In Vietnamese Dong – VND)		
Assets		
Current		
Cash	144,434,825	997,243,786
Short term securities	97,701,530	493,500,000
Receivable	28,416,047,146	17,104,490,738
Inventories	3,551,867,137	1,724,934,942
Other liquid assets	0	63,345,900
Total Current Assets	**32,210,050,638**	**20,383,515,366**
Investment and Other Assets	**7,127,858,980**	**4,920,083,132**
Fix assets	5,959,295,327	3,920,083,132
Other assets	1,168,563,653	1,000,000,000
Long-term financial investment	0	0
Total Fix Assets	**39,337,909,618**	**25,303,598,498**

Liabilities and Shareowners' Equity		
Current		
Short term debt	19,497,017,985	7,615,197,511
Others	0	352,376,691
Total current liabilities	**19,497,017,985**	**7,967,574,202**
Long term debt	0	0
Liability	**19,497,017,985**	**7,967,574,202**
Total shareholders' equity	**18,843,844,357**	**17,336,042,296**
	38,340,862,342	**25,303,616,498**

Source: Ho Chi Minh City Stock Exchange, 2003

3.6. *Income Statements of SEAPRIEXCO No. 4, 1998 - 2002*

December, 31	**2002**	**2001**	**2000**	**1999**	**1998**
Gross revenues	**85,288,199,315**	**43,183,724,468**	**123,144,766,924**	**84,834,211,924**	**69,304,512, 962**
Sales Return and Allowances	793,082,184	467,385,275			
Operating Revenues	**84,495,117,131**	**42,716,339,193**	**123,144,766,847**	**84,834,211,924**	**69,008,971,891**
Cost of goods sold	71,664,216,992	36,884,635,705	115,565,546,835	78,156,107,670	63,432,476,173
Gross Profits	**12,830,900,139**	**5,831,703,488**	7,579,220,012	6,678,104,254	5,576,495,718
Selling expenses	6,244,434,324	2,646,986,058	4,094,870,937	3,724,836,683	3,157,210,364
Administrative and General Expenses	1,532,608,702	959,844,120	1,186,025,039	1,229,170,381	1,415,161,354
Operating Income	**5,053,857,113**	**2,224,873,310**	**2,298,324,036**	**1,724,097,190**	**1,004,124,000**
Interest Income	348,354,393	5,565,200	50,278,606	750,481,163	517,834,267
Interest Expense	269,212,019	-			
Other Income	1,357,758,999	105,585,737			
Other Expense	1,370,793,901	-			
EBIT	**5,119,964,585**	**2,336,024,296**	**2,629,472,392**	**2,532,010,736**	**4,754,681,455**
Interest					
EBT	**5,119,964,585**	**2,336,024,296**	**2,629,472,392**	**2,532,010,736**	**4,754,681,455**
Income Tax			841,431,166	785,905,836	
Net Income	**5,119,964,585**	**2,336,024,296**	**1,788,041,226**	**1,746,104,900**	**4,754,681,455**
Net Income per Share	**3,413**	**1,595**			

Source: Ho Chi Minh City Stock Exchange, 2003

4. APPENDIX IV: List of SOEs being equitised in period of 1999-2002

Name of SOEs	Contact Address	Pre-equitisation state capital (billion VND)	Labour (person)	Name of equitised companies	Equity (billion VND)	Date of equitation	Date of business registration	State equity share (billion VND)
Ha Long Canned Food Company	43 Lª Lai, Ng« QuyÒn district, H¶i Phßng Tel: 84(31) 836612-826044	12.603	1,016	Ha Long Canned Food Stock Corporation	27.500	31/12/1998	5/3/1999	10.728
SEAFREECO	135B TrÇn B×nh Träng street, District 5, HCMC Tel: 84(8) 8380634-8380634	3.624	500	SEAFREECO	12.000	09/4/1999	18/9/1999	2.400
SEAPRODEX Construction Factory	299/23-25 Lý Th-êng KiÖt street, Ward 15, Dist.11, HCMC Tel: 84(8) 8660246-8643900	0.994	350	SEAPRODEX Construction, Tourist and Trading Joint-stock Company	3.131	01/02/2000	5/4/2000	0.783
Seafood Product Import Export Company No. 4	331 BÕn V©n §ån, Ward 1, District 4,HCMC Tel: 84(8) 9400173-8264038	12.319	444	Seafood Joint-stock Company No. 4	15.000	11/01/2001	31/5/2001	3.750
Fresh Seafood Processing and Export – Import Company	1004B ¢u C¬, Ward 19, T©n B×nh district, HCMC Tel: 84(8) 8643493-8653999	1.085	100	Seafood Joint-stock Company No. 9	3.000	01/6/2001	20/8/2001	0.600
Seafood Special Product Import - Export Company	213 Hoµ B×nh, Ward 19, T©n B×nh district, HCMC Tel: 84(8) 9731581 - 8606085 8652280	53.806	1,371	Seafood Special Product Import - Export Joint-stock Company	68.000	11/01/2002	15/4/2002	17.000
SEAPRODEX Minh	16 Phan §×nh Phïng			Minh Hai Fisheries Joint-				

Hai	street, Cµ Mau city, Ca Mau province Tel: 84(780) 832090 - 831527	10.756	570	stock Company	15.000	14/01/2002	28/3/2002	3.750
New Product Processing Factory	1004A ¢u C¬, Ward 19, T©n B×nh district, HCMC Tel: 84(8) 8650996 - 9741135	14.895	516	Seafood Joint-stock Company No. 1	20.000	31/1/2000	10/7/2000	5.000
Mien Trung Construction and Services Company	63-65 Hoµng V¨n Thô, Ph-íc Ninh, H¶i Ch©u,§µ N½ng city Tel: 84(511) 641022	1.867	250	Vietnam Fisheries Construction Joint-stock Company	5.000	22/11/2001	8/01/2002	3.750