

# State-Owned Enterprises: Missions, Functions and Developmental Orientations<sup>(\*)</sup>

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**Abstract:** *State-owned enterprises (SOEs) are a fundamental entity of the Vietnamese economy. After several reforms, SOEs remain irreplaceable holding a dominant position in the market of many sectors where private enterprises should have been empowered. A new context of international economic integration as well as science and technology in the coming period shall raise numerous issues. Hence, it is necessary to define the role of SOEs as well as SOEs reform. This article discusses the above-mentioned issues, providing a reference for the economic restructuring process in Vietnam.*

**Keywords:** State-Owned Enterprises, Developmental Orientation

## 1. State-owned enterprise reform in Vietnam

### 1. Awareness of the role and position of state-owned enterprises

Throughout various Party Congresses, the role of SOEs has been modified from being perceived as a tool of the State to

lead the economy to involving in areas where enterprises of other sectors do not invest in.

At the Sixth Party Congress (1986), the Communist Party of Vietnam considered that the leading role of state economy means that state-owned enterprises would “occupy a large share in both production and circulation”. The role of SOEs was further confirmed in the Resolution of the 3<sup>rd</sup> plenum of the 9<sup>th</sup> Party Central Committee (2001): “SOEs play a key role

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in the economy, an important material tool for the State to orient and regulate the macro-economy, the core force contributing to the leading role of state-run economy in the socialist-oriented market economy, and the primary driving force in international economic integration”.

The tenth Congress (2006) made certain adjustments to the position of SOEs, including “narrowing down the monopoly business areas, eliminating monopoly corporate” and “focusing primarily on some infrastructure, important production materials and services, and public sectors”.

In the 12<sup>th</sup> Party Central Committee (2016), the Party has taken a new step in viewing the role of SOEs: “SOEs focus on key and essential areas; areas with national defense and security significance; areas that businesses of other sectors do not invest in”.

Along with the change of view regarding SOEs’ role, the concept of “SOEs” has been further clarified by increasing the proportion of charter capital to reduce the number of SOEs, and/ or SOEs being entitled to incentives. The Law on State-owned Enterprises in 1995 marked a significant shift in establishing a legal framework governing SOEs, in which “An SOE means an economic entity which is established, invested in and managed by the State, operates in business or public services in order to achieve socio-economic targets set by the State” (Article 1). The Law on State-owned Enterprises in 2003 stated “SOEs are enterprises whose charter capital is wholly owned by the State, or whose

controlling shares are owned by the State under the form of SOE, shareholding company, or limited liability company” (Article 1). Provision 22, Article 4, Law on Enterprises in 2005 specified “SOEs are enterprises in which the State owns more than 50% of the charter capital”. According to the Law on Enterprises in 2014 (Provision 8, Article 4), “SOEs are enterprises in which the State owns 100% of the charter capital”.

## 2. Mechanism and state management reform of SOEs

- To continue economic reform, the Seventh Party’s Congress (1991) put forth the policy of reorganizing and reforming management of state economic unions to ensure efficient operation of the state economic sector; leasing, transferring ownership, or liquidating entities that experience long-term loss. In addition, the Resolution of the 4<sup>th</sup> plenum of the 8<sup>th</sup> Party Central Committee also specified “It is unnecessary to maintain State ownership in small enterprises suffering from long-term losses. Appropriate measures should be undertaken including merger, public tendering for leasing, contracting or assigning to the officials and workers with the conditions to ensure the employment and observation of law”. The implementation of the policy of assignment, sale and contracting, and leasing SOEs has a significant meaning in *separating right to ownership from right to use State assets at SOEs*, which enables SOEs to gradually shift to follow market mechanism.

Together with separating right to ownership from right to use State assets

at SOEs, the State also closed down, and declared bankruptcy SOEs which underwent long-term losses which cannot recover. Through closing down and merger of ineffective SOEs, the State could eliminate inefficient companies while reducing the burden on state budget to subsidize SOEs. This is a prerequisite for the reallocation of resources for SOEs and facilitating enterprises of other economic sectors to develop.

- The formation of large-scale enterprise model to take advantage of economy of scale was applied since the early 1970s with the model of unions of SOEs as specified by Decree 302/CP issued by the Council of Minister (now the Government) on 20 December 1978. Under the central planning mechanism, unions of SOEs were both production entities and state management agencies. With the transition to a market economy, SOEs were reorganized into parent companies.

To improve competitiveness of SOEs in integration process, merger of SOEs into State-owned corporations and economic groups happened rapidly. Resolution of the Seventh Congress defines “the rearrangement of unions of SOEs and corporations is in line with the requirements of production and business in the market mechanism”. The Prime Minister issued Decision 90/TTg and Decision 91/TTg dated 7 March 1994 on rearrangement of SOEs by establishing medium and large scale economic groups, namely Corporation 90 and Corporation 91. The 3<sup>rd</sup> plenum of the 9<sup>th</sup> Party Central Committee (Ninth Congress)

in September 2001 issued Resolution on pilot establishment of state-owned economic groups (in some essential sectors and areas of the economy to create growth momentum for other sectors as well as the whole economy).

- One of the most noticeable features in SOEs reform is the separation of statement management function from business function of enterprises, and the separation of state ownership and state management. In 1995 (according to the Law on SOEs in 1995), the State abolished the power of administrative governing bodies (including ministry, sectors and local authorities) over SOEs, and changed to “parallel” model (relevant ministries, provincial people’s committees and Ministry of Finance undertook the ownership of SOEs). According to Law on SOEs in 2003 and Law on Enterprises in 2005, the ownership model of SOEs positively changed from “parallel” model to centralized model. The separation between state ownership and state management was thoroughly reformed in the 6<sup>th</sup> plenum of the 11<sup>th</sup> Party Central Committee (October 2012). Resolution of the 4<sup>th</sup> plenum of the 12<sup>th</sup> Party Central Committee requires “the abolishment of the ownership representative function of ministries and people’s committees in state capital and state assets of enterprises”, and Resolution No. 05-NQ/TW of the 4<sup>th</sup> plenum of the 12<sup>th</sup> Party Central Committee reaffirms the urgent establishment of a specialized entity to act as the representative of state capital owned in enterprises by 2018 at the latest. Ministries and local authorities

must transfer their respective right to represent ownership of state capital in groups and corporations to this entity so that they can concentrate on the state management function. Such reform gradually eliminated governing bodies to intervene into business operations of enterprises, thereby contributing to improve business environment, and creating fair competitiveness between SOEs and enterprises of other economic sectors.

### *3. State ownership reform*

In the transition from centrally planned, bureaucratic and subsidy economy to market economy, the Party understood that diversification of ownership forms is an indispensable requirement. In such process, SOEs were reformed via diversifying ownership, which means equitization of SOEs to attract capital, promote business autonomy, and improve efficiency and competitiveness of enterprises. The equitization of SOEs was undertaken to reform the economic institutions and facilitate the participation of private sector.

The reform of SOEs' ownership was stated in Resolution of the 2<sup>nd</sup> plenum of the 7<sup>th</sup> Party Central Committee (November 1991) with the starting point of piloting equitization, "Transferring some qualified SOEs into shareholding companies, and establishing some new shareholding state-run companies. Piloting under strict overseeing and drawing out experience before replicating the model onto larger scale must be undertaken". The pilot of equitization commenced in Directive No. 202/CT

issued by the Chairman of the Council Minister (now the Prime Minister) on 8 June 1992 specifying the pilot equitizing some SOEs into shareholding companies. The policy on equitization of SOEs was approved in writing by higher legal instrument which is Decree 28-CP dated 7 May 1996 on transferring some SOEs into shareholding companies. This is the official legal instrument on equitization of SOEs.

Regarding the assessment of equitization results, Resolution of the 3<sup>rd</sup> plenum of the 8<sup>th</sup> Party Central Committee, and Resolution of the 3<sup>rd</sup> plenum of the 9<sup>th</sup> Party Central Committee directed to *speed up the equitization of SOEs and expand the scope of SOEs to be equitized, including some general companies and large corporations*. On 21 April 1998, Prime Minister issued Directive No. 20/1998/CT-TTg on promoting SOEs reform, which broadened the scope and scale of equitization. After that, to accelerate the equitization of SOEs, the Government issued Decree 44/1998/ND-CP dated 29 June 1998 on transforming SOEs into shareholding companies. The equitization of SOEs was institutionalized and, and its legal status was lifted to a higher rank compared to other regulations stated in the Law on Enterprises in 2003. According to this policy, a number of SOEs do not need to hold 100% of shares after the equitization, thereby changed into multi-ownership corporations with or without state ownership.

The new development in the Party's view on SOEs' equitization is reflected in the Resolution of the 3<sup>rd</sup> plenum of the 11<sup>th</sup>

Party Central Committee on restructuring SOEs, *which focuses on state-owned general companies*. This is one of the 3 urgent focal issues of restructuring Vietnam's economy, particularly the high political commitment on speeding up equitization of SOEs and divesting investment outside sector. Resolution 12-NQ/TW issued by the 5<sup>th</sup> plenum of the 12<sup>th</sup> Party Central Committee dated 3 June 2017 specifies 5 targets by 2020, including completion of divestment in enterprises where the State does not need to hold or contribute capital to.

From SOEs' ownership reform in Vietnam, it is obvious that the Party advocates a progressive approach. *Equitization must commence from small and medium sized enterprises*, subsidiaries, then expanded to corporations and parent companies in state-owned economic groups, and state-owned commercial banks.

In the initial stage of equitization, *SOEs in industries that the State did not need to hold ownership in* (industries that private sector can handle) were the subject of the process. After that, equitization was expanded to include SOEs operating in key sectors/industries of the economy (including large scale companies with high profitability).

*In the first 10 years, the primary objective of equitization is to reform management organization*; create favorable conditions and incentives for labor and improve enterprises' efficiency. Decree 64/2002/ND-CP was issued to harmonize the interests of the State, companies, investors, and labor. Decree 184/2004/ND-CP *eliminated 'closed' equitization,*

*promoted marketization and public listing.*

The Prime Minister issued Decision 1715/QD-TTg dated 26 October 2009 on reform of State management of SOEs in the direction of non-discrimination of ownership and management to improve SOEs' efficiency when implementing WTO commitments. As a result, equitization is the experience drawn from practice and continuous adjustment to fit the contemporary context better.

During the process of reforming SOEs' ownership, the Party and State have encouraged the participation of domestic and foreign investors via *loosening restriction on private investment in equitized SOEs*, particularly with weak SOEs and weak banks. Similarly, those who could take part in first purchase of shares were also expanded to include foreign investors. Resolution 12-NQ/TW issued in the 5<sup>th</sup> plenum of the 12<sup>th</sup> Party Central Committee and Decision 707/2017/QD-TTg issued by the Prime Minister approving the project on restructuring SOEs in 2016-2020 continue to reduce the proportion of state-owned shares to the floor threshold in compliance with law to encourage private investors.

The Party and State's perception on changing the role of SOEs has led to the need to change the structure of investment resources for SOEs. This means narrowing down industries and sectors where SOEs operate or reducing the number of SOEs that the State does not need to maintain its ownership, and divesting from industries or sectors that private companies can operate. Resolutions issued by the 3<sup>rd</sup>

plenum of the 9<sup>th</sup> Party Central Committee in 2001 and 5<sup>th</sup> plenum of the 12<sup>th</sup> Party Central Committee require further acceleration of *divestment and reducing investment in industries and sectors that could be undertaken by private sectors*. Over 15 years (2001-2016), the Prime Minister has issued 6 times the criteria for classifying SOEs to reduce the number of sectors and industries where wholly state-owned enterprises are required (from 60 industries and sectors in 2002 to 11 industries and sectors in 2016<sup>(\*)</sup>). The reduction in the number of SOEs with 100% state-owned charter capital is the withdrawal of the state sector to provide opportunities for the participation of private sector.

## II. Issues of SOEs<sup>(\*\*)</sup>

*1. The reform of SOEs has reduced the number of SOEs but has not significantly changed the resource allocation structure and economic growth model.*

The number of SOEs has remarkably reduced from 12,084 in the end of 1989 to 5,759 enterprises in 2000, and to 3,048 in 2015<sup>(\*\*\*)</sup>. The proportion of SOEs in the total number of enterprises also declined sharply from 13.62% to 0.76% between 2000 and 2014.

(\*) Decision 58/2002/QĐ-TTg: 60 industries and sectors; Decision 155/2005/QĐ-TTg: 30 industries and sectors; Decision 38/2007/QĐ-TTg and Decision 14/2011/QĐ-TTg: 19 industries and sectors; Decision 37/2014/QĐ-TTg: 16 industries and sectors; Decision 58/2016/QĐ-TTg: 11 industries and sectors.

(\*\*) Statistics are obtained from the General Statistics Office unless otherwise specified.

(\*\*\*) The number of SOEs whose 51% of shares is owned by the state.

Regarding enterprise scale, the reform has significantly impacted those of small and medium size (SMEs). The number of SMEs dropped from 8,656 to 504 enterprises in 1991 and 2014 respectively. The outcomes show that the reform of SOEs has been in compliance with the policies set by the Party and Government of Vietnam over 30 years. This is a process of perception and orientation change, beginning from the establishment and development of Corporation 90 and Corporation 91 to the establishment of state-owned economic groups.

In terms of type of enterprises, the number of SOEs (100% owned by the State) dropped dramatically from 1,723 enterprises in 2011 to 1,524 enterprises in 2014. The figure for SOEs whose controlling shares are owned by the state reduced marginally from 1,547 enterprises in 2011 to 1,524 enterprises in 2014. The number of SOEs under the form of state-owned shareholding or capital contribution also declined from 3,170 enterprises in 2011 to 2,426 enterprises in 2014. The ownership reform has contributed to significantly reduce the number of SOEs; however, the share of state ownership in enterprises (especially in those where the State does not hold controlling shares) remains large. Shareholding companies, formerly SOEs, are slow to be listed on stock market while the volume of listed shares remains smaller than the size of charter capital (CIEM, 2016). This fact implies that equitization has significantly changed neither the ownership structure nor the management structure of SOEs.

Although the number of SOEs has noticeably declined, the scale of SOEs has exceptionally expanded. In other words, the reducing number of SOEs does not mean the shrinkage in operating scope of SOEs. The size of SOEs has grown exponentially when looking at financial indicators alone. Total assets and total equity of SOEs (100% owned by the state) increased from VND 3,892.65 thousand billion and VND 851.01 thousand billion in 2011 to VND 4,264.57 thousand billion and VND 1,145.97 thousand billion in 2014 respectively. Total assets and total equity of SOEs where the state owns controlling shares also saw a rise from VND 1,245.04 thousand billion in 2011 to VND 2,336.31 thousand billion in the former, and from VND 303.32 thousand billion to VND 538.53 thousand billion in the latter. SOEs where the state does not own controlling shares witnessed a decline in total assets from VND 1,296.55 thousand billion in 2011 to VND 1,126.17 thousand billion in 2014;

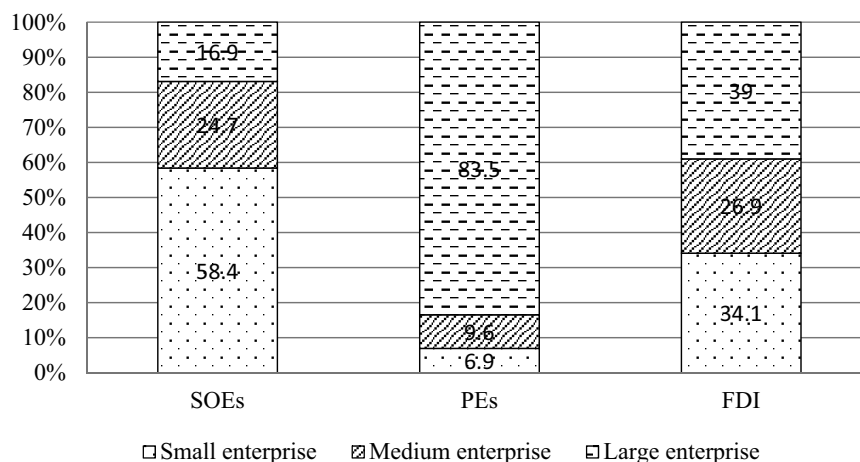
however, state-owned equity in this group of SOEs underwent a similar rising trend as in other groups, escalating from VND 268.47 thousand billion to VND 316.22 thousand billion.

In terms of capital size, in 2015, the total equity of 10 largest private enterprises (PEs) comprised of approximately VND 15,300 billion, a relatively insignificant amount when compared with VND 95,200 billion of 10 largest SOEs. Similarly, the revenues of the 10 private enterprises was about VND 33,300 billion, significantly less than the amount of VND 135,400 billion of SOEs' revenues.

In terms of enterprise structure by types of ownership, figure 1 shows the huge difference between private enterprises and SOEs. The majority of SOEs (constituting 54%) has large scale while most of private enterprises (accounting for 83%) have small size.

On the other hand, only 16.9% of SOEs have small size, while large private enterprises occupy an insignificant 6.9%.

**Figure 1. Capital size by types of enterprise in 2014 in percentage (%)**



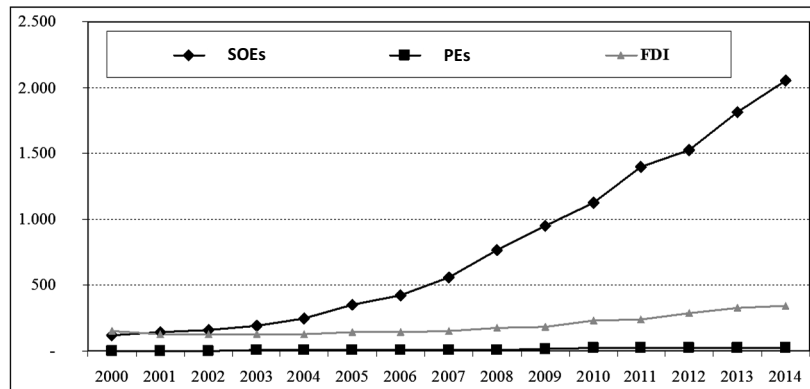
Source: Authors' calculations based on GSO data.

With respect to FDI enterprises, the size structure also varies.

Moreover, the equity gap between SOEs and PEs has been gradually expanded. This is obviously evident in larger enterprises (Figure 2).

In other words, restructuring SOEs in general, and equitization and divestment in SOEs in particular have not changed the allocation of economic resources. The fact that SOEs' controlling numerous resources affects business environment surrounding

**Figure 2. Average capital size by types of enterprise in VND billion**



Source: Authors' calculations based on GSO data.

The increasing size of SOEs means the resource competition with enterprises of other economic sectors. Regardless of representing an insignificant number (4.04% of total enterprises on average between 2000 and 2014, and 1% of total enterprises from 2008 till now), SOEs are currently holding a huge amount of assets, capital and resources of the whole economy. Total fixed assets and long-term financial investment of SOEs rose from VND 229.9 thousand billion (equivalent to 52.0% of GDP of the same period) in 2000 to VND 3,358.6 thousand billion (equivalent to 85.3% of GDP of the same period) in 2014.

The above statistical comparison implies that *equitization of hundreds of SOEs has not affect the resource structure of SOEs.*

domestic private enterprises which suffer from unequal access to not only productive resources (including capital, labor and technology), but also business opportunities as compared with SOEs.

### 2. Production structure and market power of SOEs

A number of official documents issued by the Party and the Government affirm that "The State shall only take part in key industries that the private sectors are not capable of handling". In fact, the state capital and assets are still spread across almost all industries and sectors of the economy. SOEs are operating in industries and businesses that the private sector can assume. SOEs are playing dominant role in a variety of industries and business in the economy namely necessity consumption,

mining or services. In these industries, despite the small number of enterprises, SOEs represent a large proportion of revenues. In necessity consumption, SOEs only constituted an insignificant fraction of 1.1%, their revenues accounted for 62.6% of the total sector revenues (2014). A similar pattern is also seen in mining, post and communications, and several manufacturing industries. The

market power of SOEs in some industries including water supply, banking and finance, and most of manufacturing industries have fallen remarkably within the period 2001-2014. Nevertheless, the monopoly power of SOEs still remains in some industries such as chemical industry (Table 1).

SOEs, have invested outside their core businesses while they still lack resources

**Table 1. Number of SOEs and their revenue by industry in percentage in 2001 and 2014**

Sector/industry	Number of SOEs (in total number of enterprises)		SOEs revenue (in total revenue)	
	2001	2014	2001	2014
<b>Consumer essentials</b>	<b>73.6%</b>	<b>1.1%</b>	<b>88.1%</b>	<b>62.6%</b>
Power and gas	73.5%	11.3%	88.1%	94.6%
Clean water	75.0%	0.7%	97.6%	18.5%
<b>Mining</b>	<b>91.0%</b>	<b>1.3%</b>	<b>24.8%</b>	<b>33.2%</b>
Coal	97.5%	2.6%	97.0%	39.8%
Rude oil	50.0%	30.0%	8.0%	79.3%
Metal ores	50.0%	8.7%	82.7%	61.0%
Others	67.4%	0.8%	70.4%	5.3%
<b>Manufacturing</b>	<b>52.4%</b>	<b>1.3%</b>	<b>49.8%</b>	<b>12.4%</b>
Textile	46.0%	0.9%	48.0%	4.5%
Footwear	39.4%	0.7%	44.4%	5.8%
Publishing	50.4%	1.1%	85.5%	29.1%
Chemicals	27.6%	2.5%	24.7%	41.4%
Nonmetal minerals	68.6%	1.7%	54.4%	14.1%
Metal production	55.3%	1.9%	53.5%	10.4%
Power equipment	30.7%	0.8%	28.8%	2.3%
<b>Services</b>	<b>46.7%</b>	<b>0.8%</b>	<b>68.5%</b>	<b>27.4%</b>
Telecommunication	59.0%	1.3%	62.7%	81.6%
Finance	91.7%	1.3%	90.4%	7.8%
Insurance	36.4%	10.0%	65.9%	33.7%

Source: Authors' calculations based on GSO data.

to improve the quality of products and services in their core business. In 2006, economic groups and state-owned corporations invested only VND 6,114 billion in non-core businesses; however, this figure jumped to VND 21,814 billion in 2010, marking an increase of 3.6 times. In the period 2011-2015, in implementation of the Project on restructuring SOEs (in accordance with Decision 929/2012/QD-TTg), the scale of investment in non-core businesses did not reduce but increased (from VND 23,325 billion to VND 24,521 billion and to VND 25,219 billion in 2011, 2012 and 2013 respectively) (MOF, 2016). A number of studies and articles have pointed out the challenges and obstacles in divestment from non-core businesses due to poor business performance and not meeting requirements of equity preservation. SOEs restructuring has merely stopped at reducing the number of SOEs while the divestment of state capital from SOEs has not been successfully executed within the period 2011-2015.

### 3. Weaknesses of SOEs

SOEs have used a significant amount of national resources, operated in various key industries and sectors, and enjoyed large incentives. However, their performance is neither commensurate with the resources being prioritized nor reflecting their core role.

- Despite holding considerable production resources and enjoying many incentives, *SOEs' performance remained low, and tended to decrease compared with other types of enterprises*. This means either SOEs have become worse than they used to be or they are worse than other forms of enterprises. A large number of SOEs suffered from prolonged losses. Their contribution to job creation and tax revenues has not been commensurate with the investment capital they received (Table 2).

- The role of SOEs is shown in quality, not quantity. Nevertheless, production technology of SOEs is slow to innovate compared with the level of investment in fixed asset per capita. The proportion of SOEs investing in research and

**Table 2. Asset value, employment and state budget contribution in percentage by type of ownership**

	SOEs			PEs			FDI		
	2006	2010	2015	2006	2010	2015	2006	2010	2015
Asset value	55.9	37.8	39.7	20.5	45.7	40.9	23.7	16.5	19.4
Employment	28.93	17.21	12.67	49.06	60.86	58.91	22.02	21.93	28.42
State budget contribution	31.9	29.7	30.7	15.2	18.6	17.5	17.8	17.2	19.1

Source: Authors' calculations based on GSO data.

development (R&D), and investment in innovation compared with total revenues remains insignificant.

The investment in terms of fixed assets per employee in manufacturing SOEs remains modest and increases slowly from VND 530 million per laborer in 2010. Statistics obtained from the enterprise survey conducted in 2014 (General Statistics Office) shows that only 0.2% of 3,048 SOEs conducted R&D activities. SOEs were those with the lowest investment in innovation, accounting for 4.3% of revenues, or approximately VND 655 million per annum invested in technology, machinery and equipment.

With such an investment size, it is difficult to upgrade technology, particularly modern and environmentally friendly technology.

- The goal of “developing economic groups as the “steel fists” of the economy to compete with world corporations and major world industries” was set.

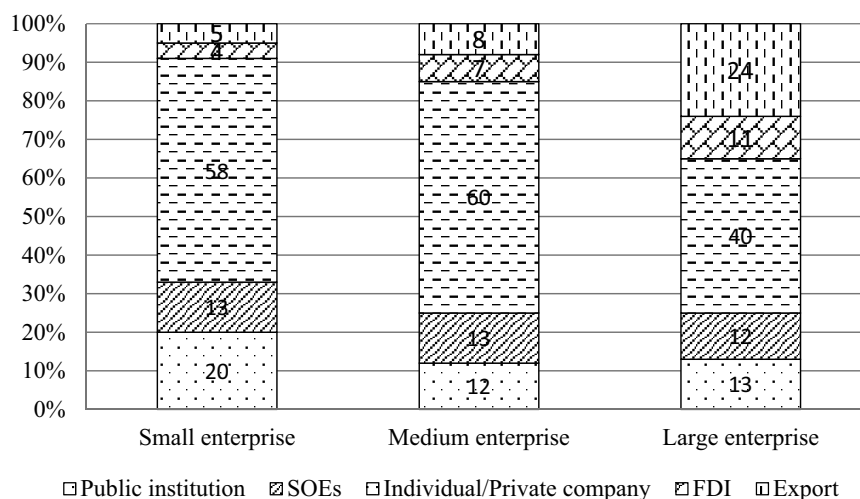
However, *the ability to integrate and competitiveness of SOEs remains low.*

This is clearly shown in the limited participation of Vietnamese enterprises in global supply chain network. According to Vietnam Chamber of Commerce and Industry (VCCI), only 36% of Vietnamese enterprises participated in the global supply chain network, including both direct and indirect exports. This situation also implies that SOEs - particularly those of large size (including economic groups and state-owned corporations) are weak in joining the global supply chain.

- SOEs, particularly those entitled to large investment and absolute preference (monopoly), but their key role is left an open issue.

One of the criteria for assessing the role of SOEs is market guiding role, providing input support for domestic private enterprises. However, this role is unclear. Statistics in Figure 3 reveals that

**Figure 3. Customer structure of PEs in 2015 (%)**



Source: VCCI, 2015.

SOEs consumed about 13% of output of domestic private enterprises; this figure is much smaller than that of private enterprises.

- While the market leading role of SOEs has not been clear, the growth of SOEs (in terms of capital and operating scope) competes for resources with private sectors, i.e., *impeding the development of private sector*. SOEs' borrowing on domestic financial market causes certain difficulties for private enterprises to access to capital. According to Tran Minh Dao (2014), between 2005 and 2011, the number of SOEs almost halved (from over 4,000 to almost 2,000). An increase of more than 10 times in domestic investment in private sector was seen over the same period. This showcases the transfer of resources from SOEs to private sector. By applying quantitative model, Nguyen Trong Hoai and Huynh Thanh Dien (2011) shows that increasing investment in SOEs would reduce the possibility to increase investment capital for the economy.

### **III. Background, views and orientations for development of SOEs**

#### *1. New background*

i) SOEs are under pressure to play by the global rules.

Vietnam has increasingly integrated into higher standards (particularly new generation FTAs, TPP, etc.), which makes SOEs operate in compliance with international rules. As a result, preferences entitled to SOEs will eventually disappear and be replaced by fair competition and transparency between SOEs and private sector.

Integration at higher standards places Vietnam in front of an increasing number of more challenging non-tariff barriers, and technical barriers. Competition is forecast to be fiercer in both domestic and international markets. Meanwhile, cheap labor advantage has begun to decline, the continuous participation of Vietnamese enterprises in general and SOEs in particular in the low added-value chain of global value chain will be the new growth challenge.

#### ii) Industrial revolution 4.0

The industrial revolution 4.0 has been changing the economic structure. Some new industries have emerged while some industries gradually decline, and eventually change the role of some industries. This may lead to changes in the role and status of SOEs in some industries and sectors. Industrial revolution 4.0 also requires SOEs to change their production methods and improve competitiveness to compete with domestic and international MNCs.

#### iii) Domestic context

The government of Vietnam committed to drastically reform the business environment with the motto of developing an 'initiative' governance model for enterprises to grow. The government has been speeding up equitization of SOEs, listing SOEs on stock exchange to accelerate state divestment.

#### *2. Proposing views and developmental orientation for SOEs*

##### i) The role of SOEs

Under the new context and requirements, to improve the benefits for the economy and Vietnamese enterprises, the development of SOEs is not just for only SOEs, but more

importantly the facilitation the overall economic growth, thereby promoting the development of other economic sectors. The role of SOEs is implemented through the function of *developmental investment*, replacing the *business investment* function. The developmental investment function implies that SOEs shall play a constructive role for private enterprises to grow based on participating in risky investment requiring large resources that private sector cannot satisfy or mobilize. SOEs will be paving the way and supporting other economic sectors to develop. With such approach, *the State shall provide functional support rather than support by economic sector*. The functions include preferential and non-preferential stages; for example, by technology or by integration.

For industries and sectors which the government holds controlling shares, the reform of SOEs *not only focuses on ownership reform, but also functional reform* based on value chain approach to meet integration requirements. Sectors where state stake is required, it is necessary to concentrate on supportive stages so that firms can participate in the global value chain; for example, supporting industry development, innovative technology and foreign market penetration.

#### ii) Operating mechanism of SOEs

SOEs' reform not only ensures performance improvement, but also aims at creating spill-over for development of domestic private enterprises, particularly SMEs. It is required to change policies on SOEs reform not only to improve efficiency of SOEs, but also to aim at

improving competitiveness of Vietnamese enterprises (SOEs reform for the whole economy).

SOEs reform enhances production factors, and goods and services market operating in market mechanism. SOEs reform means 'restructuring' these forces to complement some industries, lead the market, and provide better 'goods and public services' for modernization and sustainable development. The application of market rules on state-owned economic groups, and corporations has created competitive environment in sectors where these entities are dominating or monopolizing.

#### iii) Restructuring corporate governance in SOEs

Implementation mechanism must be issued to ensure efficiency of state capital contribution in enterprises (the efficiency does not necessarily mean pure economic efficiency but depends on the target of state capital contributed to such industries).

The 'public investment, private management' models should be promoted, such as private hiring, especially hiring foreign managers to run SOEs. Experience from Indonesia and South Korea reveals that this is an effective channel to reform SOEs (Nguyen Quang Thuan, 2014).

OECD standard corporate governance principles should be practiced. These principles set out the requirements including internal audits and independent audits on an annual basis in compliance with international standards; publicizing operations and performance reports; ownership structure and voting

mechanism to protect retail investors; responsibilities of executive board (OECD, 2015). Therefore, SOEs reform concentrates on not only withdrawing state investment from enterprises, but also corporate governance in accordance with international practices and standards. Both foreign and domestic investors are involved in SOEs reform, especially in inefficient SOEs by loosening the limits on the share of state ownership, including private participation in monitoring business operations of SOEs.

### Conclusion

The reform of SOEs in recent years has mainly focused on improving this sector's efficiency, with less attention to making SOEs the leading force for Vietnamese enterprises' development. Globalization with higher level playing rules coupling with the impact of industrial revolution 4.0 requires the redefinition of the mission, roles and functions of SOEs. That is a shift to *developmental investment* function to replace the *business investment* function, initiating the development of enterprises of other economic sectors □

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