Governing Privatisation (Equitisation) in Vietnam: an Inquiry within an Institutionalist Perspective

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A thesis submitted in partial fulfilment of requirements for the award of the degree
Doctor of Social Sciences

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Declaration of Originality

I hereby certify that, to the best of my knowledge, the intellectual content of this thesis is the product of my own work and that all the assistance received in preparing this thesis and sources have been acknowledged. This thesis has not been submitted for any degree or other purposes.

Luu Minh Duc
Abstract

This dissertation presents the findings of an investigation into the governance of privatisation (equitisation) in Vietnam from an institutionalist perspective. It examines the political economy of privatisation policy, in terms of both theory and practice, to answer the following research question: What constitutes and influences the privatisation policy discourse and the implementation process, and in particular how is the governance of the latter to be understood? Privatisation developed under the influence of neoliberalism as a policy in developed economies, where its success has been uneven, conditional and contested. It was introduced into developing countries as a one-size-fits-all solution, regardless of the embryonic status of their institutional development. Practical experiences of transition economies in the CEE and the former CIS and the developmental states in East Asia reveal alternative approaches to privatisation, with contrasting outcomes. Because the transfer of assets from public to private ownership involves ideological arbitrariness and contestation between private interests, privatisation is a politically constructed project – a political construction. Broad economic and social objectives can only be achieved if the process is properly governed, and productive efficiency improvement will only be realised if it is based on the development of an institutional framework. In its approach to privatisation, the Vietnamese party-state has vacillated between neoliberalism and developmental states, with neither philosophy being pursued completely or successfully. This dissertation argues that, as Vietnam faces the challenge of sustaining economic growth, it should pursue the philosophy of the developmental state, and that a broad range of economic and social development stakeholder objectives – including the state’s need for capacity to coordinate investments and achieve social equity – should be taken into account in privatisation, rather than the sole objective of supporting narrowly-defined shareholder values.
Acknowledgements

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I would like to express my sincere thanks to Associate Professor Damien Cahill for generously agreeing to be my principal supervisor. In practice, Damien taught me the Core Concepts of Political Economy in his course of that name when I had just arrived and was unsure about political economy. In class, I was impressed by how much students enjoyed Damien’s lectures. I would also like to thank Dr. Joy Paton, who originally agreed to be my principal supervisor before she left the Department. Thanks also to Dr. Michael Beggs and Associate Professor Martijn Konings who have supported me in their roles as coordinators of postgraduate students. I would like to
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I dedicate this dissertation to my family, especially my mum, Linh and Van who I love the best and phoned every day.
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<td>Asian Development Bank</td>
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<td>Bilateral Trade Agreement</td>
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<td>Board of Directors</td>
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<td>Business groups</td>
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<td>Central Institute for Economic Management</td>
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<td>Chief Executive Officer</td>
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<td>Commonwealth of Independent States</td>
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<td>Concentration Ratio</td>
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<td>Domestic private enterprises</td>
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<td>GSO</td>
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<td>State Capital Investment Corporation</td>
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<td>Socio-economic Development Plan</td>
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<td>Total factor productivity</td>
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<td>Vietnam Communist Party</td>
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<td>World Bank</td>
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## List of Party-state’s Documents

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Sources: [http://www.chinhphu.vn](http://www.chinhphu.vn); [https://thuvienphapluat.vn](https://thuvienphapluat.vn)
Introduction

The reform of state-owned enterprises (SOEs) by means of privatisation (equitisation) has been one of the most significant policies of the Vietnamese economic renovation known as *Doi moi*. Before the enactment in 1990 of the Company Law that allowed for private corporations, these enterprises had represented most of the formal business sector, with the remainder consisting of household enterprises and collectives. Hence, the implementation of privatisation policies has profoundly affected the performance of the economy since that time and has prompted subsequent reform strategies. On the other hand, the political and philosophical dimensions of these policy changes hint at a close engagement on the part of the indigenous governing elites with neoliberalist ideals – which have essentially shaped the country’s transition from a centrally planned economy to a market economy.

At the micro-level, the transfer of state ownership of the SOEs to private owners helped transform the face of the society and the economic stake of each family, especially those in urban areas like mine in Hanoi. In the introduction to this dissertation, which is oriented more towards practice and policy than pure theory, I use the personal experiences of my typical middle-class family to illustrate the real impact of privatisation. Exactly two decades ago nearly all members of my extended family worked for the public sector and SOEs; at present, half of them still work there, while the rest work for the private sector. Yet, there are mixed sentiments in regard to privatisation. One of my aunts has always believed her SOE’s assets were siphoned off by the former managers before the enterprise was sold. My parents-in-law were initially happy when the new owners of the SOE in which they worked promised to raise salaries and improve lunches. However, these benefits were soon eclipsed by a large amount of unpaid overtime, and recently one of the couple took voluntary retirement. Interestingly, as older people rarely have the opportunity to speak out, the youth-dominated public media (ostensibly representing popular ideas) often characterise voluntary early retirement as a sign of ‘efficiency’!

Such stories are not unique. They have been illustrated in field surveys of SOE privatisation, such as those of Fforde (2004), Gainsborough (2008), and Cheshier...
(2010), and are frequently reflected in interviews with bureaucrats about their attitudes towards privatisation policy. Yet the philosophical and political economic underpinnings of these policies remain unclear. Hayton (2010) and many other observers of the ‘new Vietnam’ (Painter 2003; Evans & Bui 2005; Beresford 2008; Masina 2008; Thayer 2010; Beeson & Pham 2012; Schwenkel & Leshkowich 2012) have written with curiosity about the ‘cacophony’ of ‘amorphous’ adaptations to both neoliberalism and the developmental state philosophy – ‘a marriage of convenience’, according to Bui (2015, p. 82), between Westernised reforms and the insistence of socialist statism.

When I was an undergraduate student in the mid-1990s, we were told with pride a famous story about a foreign minister who – at a time when the economy was centrally planned – had used all his allowance to buy an important book at the international airport: the economics text-book written by Paul Samuelson. That episode might have represented the introduction of mainstream economics into our country! In the 1990s, however, I also observed on the library shelves a number of translated books introducing the ‘Asian miracles’. Both these literary sources have informed the policy discourse of Vietnam up to the present, but neither of the philosophies has been fully effective. One asserts the ‘axiomatic truths’ of neoclassical economics as to the importance of the market in the organisation of economic activities, while the other presents political economic theories of state involvement in this process. In the official policy discourse it is common to hear slogans such as ‘Let the markets work!’. Yet the legitimacy of the economic role of the state has been an important element in the political legitimacy of the party-state. No wonder understanding Vietnam has never been straightforward for international observers.

For indigenous governing elites and the academic establishment, it is no less complex. Throughout the 1990s, most economic reforms focused on trade liberalisation (support of the export-oriented strategy of agricultural and textile production through active engagement in global and regional free trade frameworks, which in turn have required opening up domestic markets for imports and foreign investment), introduction of market-based competition and development of market-conforming institutions. During this period, the SOEs remained nearly intact, with only limited equitisation on a pilot
Rhetorically, the initial party-state policies were all in accordance with the model of the developmental states in that they insisted on the importance of a coordinating role for the state. At the same time, however, the spirit of neoliberalism was clearly alive and well at the beginning of the reform process, as evidenced in the party-state’s slogan, ‘Rich people, strong nation’ – which constructed an individualised ‘commercial nationalism’ (Nguyen-Thu 2016).

The state and market should not be represented as opposites, although the tension between neoliberalism and developmental state seems to suggest that they are. That the state and the market are not mutually exclusive was evident as the party-state simultaneously pursued ambitious plans to consolidate large SOEs with a view to them becoming champions for national competitiveness and the ‘cornerstone’ of the economy, while smaller SOEs (independent enterprises or branches of these large SOEs) were rapidly privatised. As a result, the number of SOEs sharply declined. The outcomes of consolidation – the large business groups (BGs) and general corporations (GCs) – were, however, largely undermined by de facto (spontaneous) privatisation and over-investment into non-core businesses which led to corruption and bad debts. The credit crunch in domestic financial markets, combined with the global financial crisis (GFC), then slowed economic growth from an average annual GDP growth rate of 7.6% in 1991-2008 to nearly 6.0% in 2008-2016. The more obstacles the economy encounters, the more closely is the neoliberal agenda embraced and, consequently, the more a wholesale approach to privatisation is adopted. At present, however, despite far fewer SOEs, the economy has not performed better.

It will be argued here that both the policy makers and academic analysts – inspired by the neoliberal belief in the superiority of private ownership – have paid too much attention to the argument for efficiency improvement as evidenced by the financial performance of the firm and shareholder values. I will show that the enrichment of shareholders does not always harmonise with national enrichment or the protection of consumers’ interests. In fact, neoliberal beliefs have been endorsed in the face of abuses of privatisation and at the expense of examining how privatisation should be governed to maximise the attainment of broad national economic and social development goals. Truong and Ngo (2016, p. 22) have been among the few academics
to observe the lack of clarity around the specific conditions for successful privatisation and what impacts it might have on firms and the national economy. Yet, despite having raised the issue, these authors do not go on to address it; rather, they focus on the argument that privatisation can be expected to improve financially-evidenced efficiency, although even here they do not come to a definite conclusion.

**Research Questions and Central Arguments**

The following policy questions and challenges can be identified. What constructs the argument for privatisation and determines the outcomes of its implementation? What is the appropriate approach to privatisation policy? How should privatisation policy be governed to maximise its contribution to national economic and social development? Under what conditions does privatisation produce desirable effects on national economic and social development objectives, especially the industrialisation of the country?

Such questions are also the research questions that are addressed in this dissertation, which is developed on the central argument that privatisation needs to be governed and subject to policy by the state rather than presumed to be effectual on the grounds of claims for the superiority of market forces and private ownership. Essentially, the belief that businesses can be free from political interference is mythical; all economies are political economies in which the act of privatisation has to be designed and implemented. Furthermore, the focus on financially-evidenced efficiency and on shareholder values is too narrow to reflect the broad range of national social and economic development objectives – especially national industrial policy – to which privatisation should be directed. Finally, I argue that the developmental state philosophy is the most appropriate model for Vietnam to follow if it wants to achieve sustained economic growth, industrialisation and social equity.

**Organisation of the Thesis**

The thesis is organised around four chapters. Chapter 1 examines the definitions and configuration of privatisation, its generation as a policy in developed countries, its introduction to developing countries under the influence of the triumphant neoliberalism of the 1990s, its foundational rationale and associated theoretical debate.
Overall, this chapter provides a philosophical basis for understanding privatisation. Chapter 2 complements this account with detailed analysis of practical experiences in privatisation. This second chapter examines the privatisation process from the formation of policies to implementation in order to highlight the differences between wholesale privatisation, driven by a political ideological bias against the role of the state, and gradual privatisation under effective governance by the state. Two groups of countries have been selected for close analysis – the transition economies in Central and Eastern Europe (CEE) and the former CIS (Commonwealth of Independent States), and East Asian developmental states. These are relevant to the context of Vietnam, which has experienced both transition from state socialism and a certain amount of emulation of the developmental states.

Chapter 3 analyses privatisation in Vietnam not only in regard to specific policies of the party-state but also against the backdrop of economic reform within the political economy of the country as a whole. The governing elites appeared to acknowledge the bad record of privatisation in the CEE and former CIS transition economies and the good record of developmental states. Why then have Vietnam’s privatisation outcomes, though not as chaotic as in the former, been less effective than in the latter? This central chapter draws on various analytical accounts, especially those of Painter (2003) and Masina (2008) and bridges important gaps within and between these works. Although I do not examine in detail the privatisation of particular industries or specific aspects of the process, as other researchers often do, my analysis represents an original contribution to our knowledge of privatisation as an overall policy trajectory in Vietnam, which admittedly remains quite limited, especially from a political economy perspective.

In this chapter, I have chosen to use an array of newspaper articles (cited in footnotes) as sources of secondary data to show how the local policy discourse is shaped by the story-telling of the press. In today’s world, the primary working skill of all politicians may well be reading newspapers. As well, the Vietnamese media play a distinctive role in the implementation of such a process. When an institute or governmental agency wants to publicise its research or reports, it often organises workshops with the participation of the press, whose articles are thereafter ‘enriched’ by these data. The
resulting articles are like data-reports, although of course the stories are told in an entertaining fashion for the general public. The local academic journals, however, do not provide much more depth. Analysis seems to be expensive and rare. This is partly because the public media are controlled by the paternalistic party-state. Hence more data and information are available in newspapers than in the resources of the agencies and institutes themselves or in academic journals. Most of the Vietnamese references quoted in the main text are from the journal articles, books and research reports I collected in hard copy format.

Chapter 4 summarises these central arguments and proposes a governance framework for privatisation – based on the findings discussed in the previous chapters – which would contribute to the achievement of national economic and social development. It also addresses the research questions of the dissertation.

**Theoretical Framework**

This dissertation is based on qualitative research within the institutionalist, developmental states perspective. In and of themselves the traditions of political economy provide a useful theoretical framework. Institutions are defined as ‘working rules of … collective action’ governing individual economic activities (Commons 1931, p. 468) or, with reference to neoclassical individuals rather than collectivities, ‘humanly devised constraints [rules of the game] that structure political, economic and social interaction’ (North 1991, p. 97). Although the discussion here does not directly concern the debates between the traditions of ‘old’ and ‘new’ institutional economics (OIE and NIE) – characterised by emphasis on, respectively, the whole (holistic approach) or parts (individualist approach) in the interdependent governance of social relations – its advocacy of the developmental states in contrast with neoliberal prescriptions clearly supports the values of ‘old institutionalism’ (Langlois 1989; Rutherford 1989).

The choice of an institutionalist perspective is of significance and relevance in delving into how the privatisation in Vietnam has worked and should be approached and solved. Only such a perspective can explain in detail the way the policy of privatisation in a range of countries is shaped. Essentially, privatisation policy is about
the extent and nature of changes in the rules of the game (institutions) necessary to ensure the realisation of growth, development and the delivery of social welfare. While deference to market institutions underlies privatisation, Vietnam’s leadership has remained concerned, in line with the country’s socialist past, with the issue of state capacity through regulation, the provision of finance, and the forging of international agreements, and so on, to direct the path of national social and economic development and to maintain a path consistent with the legacies, culture and struggles of the nation of Vietnam.

Moreover, both the experiences of developmental states and of transitional economies with privatisation effectively challenge the methodological individualism of the approach of new institutionalists to the evolution of rules of the game. Undeniably, neither the choice of a gradual approach to privatisation in Northeast Asian economies and the rush for wholesale privatisation in the CEE and CIS were the sort of ‘institutional change arising out of [the ‘rational’ choices of individuals, or] the unintended consequences of the actions of individuals’ (Rutherford 1989, p. 300), as new institutional economists often postulate (Agassi 1975; Langlois 1989). In each case the direction (and process) of institutional development was the consequence of the choices made by political leadership. Private interests have come to bear in one degree or another on institutional development; but this has in no way reflected the methodological individualism widely propounded by neoliberally-inspired, new institutionalists who, despite certain departures from the neoclassicism (Engel 2010) in effect keep ‘many of the core assumptions of mainstream economics unscathed’ (Hodgson 1993, p. 3).

Before leaving these introductory remarks about the institutionalist, developmental states perspective it is fitting to set against the latter perspective that of neoliberalism, which became popular in advanced capitalist countries in the later twentieth century. Acknowledging the ‘significant discrepancy between neoliberal theory and practice with respect to the size and scope of the state’ (Cahill 2014, p. 14), it can be said that neoliberalism is a political philosophy which holds that human societies work best for themselves if individuals are left to pursue their individual interests with the help of exchanges within free markets, between sovereign individuals, of one product of
human activity for another or of one product for the medium of exchange. The state is restricted to issuing the medium of exchange and ensuring rights to property in the products of human activity (or those which can be held by some individuals to the exclusion of others). The version of neoliberalism introduced to transition economies such as Vietnam (as much as other transition economies in the CEE and former CIS) – where the social structures that are necessary to actualise neoliberal ideals had not been yet created – became a mere ‘elite ideology’ (Cahill 2014, p. 119), promoted only by those who could secure property rights and thereby the value of production. Neoliberalism is supported by the flagships of new institutional economics, such as property rights theory, agency theory and public choice theory, and by the dominant policies of liberalisation, deregulation and privatisation. As will be discussed in the case of Vietnam, the embedding of neoliberalism within the party-state has been limited by a grudging admiration for the developmental states created in East Asia and the concessions represented in the post-Washington Consensus, according to which non-market institutions (including formal state regulations) are to be accepted if not enthusiastically welcomed. It might be argued that, in practice, an institutionally adaptive form of neoliberalism has been introduced. However, while privatisation policy is a product of heavily promoted neoliberal ideals, it is also constrained by the Vietnamese party-state’s realisation that the private sector has to be guided by the state if national economic and social development is to be achieved.

Hence, it is to be inferred here that the Vietnamese state should emulate the strategies of the developmental states for collaboration between the public and private sectors in general and, in particular, their strategies for the privatisation of SOEs. Although it can also be argued that these economies are hard to emulate, the strong evidence of effective statism the developmental states have provided enables this dissertation to make the case for regarding the development states as the most credible mode of economic governance, including the governance of privatisation, to ensure catch-up industrialisation and sustained economic growth and development for the people as a whole.
Chapter 1

Privatisation: Definition, Diffusion and Theoretical Debate

Privatisation is commonly defined as the transfer of ownership of enterprises or assets from the public sector to the private sector and, in the case of a particular state-owned enterprise (SOE), may be partial or complete. The earliest impetus to privatisation occurred in the United Kingdom (UK) under the conservative government of Margaret Thatcher. From there it spread to capitalist countries of Western Europe and the Anglophone world. As discussed in Chapter 2, it was subsequently implemented in the transition economies of Central and Eastern Europe (CEE) and the former CIS (Commonwealth of Independent States) and in the developmental states of East Asia.

By the late 20th century, privatisation was being championed by the World Bank (WB) and the International Monetary Fund (IMF) as an appropriate strategy not only for the developmental states of East Asia but also for the two largest emerging market economies of China and India and for most states in Latin America, Asia and Africa. Whereas privatisation was initially practised in countries that had extensive formal institutional structures to complement and support the market, this was not the case beyond the developed world. Although there was ample evidence that supportive institutional structures were essential to the success of privatisation in improving the capacities of previously state-owned enterprises (SOEs), no reservations were expressed when international organisations made privatisation a condition for the receipt of official development assistance.

Various theories associated with neoclassical economics have been employed in the defence of privatisation in principle. The merit of such theories has been subject to a good deal of criticism, and some observers have concluded that there is another, political agenda behind the ostensible aim of improving the productive efficiency of the enterprises in question (for example, Butler 1989; Cahill & Beder 2005). Specifically, privatisation enables select private interests to access the profits generated by these enterprises. In cases where the SOE that is to be privatised enjoys a monopoly position, this outcome can be prevented by promoting competition, which
may require the provision of financial incentives for the establishment of rival private enterprises. Where the enterprise is a ‘natural monopoly’, it can be avoided through careful regulation of management decisions in the newly privatised enterprise. In either case, what is the point of privatisation?

This chapter briefly describes the definition and configuration of privatisation and the particularities of the use of the term in Vietnam. The reasons for the formation of SOEs are explained. This is followed by an account of how privatisation kicked off in the developed countries and was later introduced into developing countries. Finally, the theoretical debate between proponents and critics of privatisation is elaborated.

1.1 Definition

According to Wright (1993), privatisation is ‘an integral aspect of the attempt to decrease the size and accountability of the state to its citizens’ (p. 1). Specifically, it is directly involved in the downsizing of the role of the state in delivering goods and services by ‘shifting of public duties to private organisations’ (p. 3). This broad conceptualisation covers a huge range of activities, outputs and outcomes. Wright’s reference to a reduction in the size and accountability of the state can also be seen in the context of ‘the discipline of market forces’. From this perspective, privatisation is largely defined in terms of the traditional dichotomy between the state and the market, covering ‘a wide continuum of possibilities, between denationalisation at one end and market discipline at the other’ (Ramanadham 1989, p. 4).

The term privatisation, however, is not interchangeable with the term ‘marketisation’ – in principle, it need not involve subjecting enterprises to market rules and, conversely, SOEs may be subjected to market rules. According to Cook, Kirkpatrick and Nixson (1998, p. 4), ‘[t]he precise relationship between privatisation and private sector development is not intuitively obvious’. Starr (1988), for instance, emphasises the distinction between privatisation and liberalisation, or the introduction of competition. Several authors prefer to use a narrow definition of privatisation to distinguish it from alternative policy solutions that do not involve ownership change, such as corporate restructuring through the introduction of market-based incentives, competition and
monitoring schemes (Cook, Kirkpatrick & Nixson 1998; Marangos 2002; Adams & Mengistu 2008).

Ownership transfer is the focal point of narrow definitions of privatisation. Butler (1989, p. 1), for example, defines privatisation as ‘the transfer of the ownership of enterprises (or of the means by which the state currently supplies goods and services) from the public sector to the private sector’. Such a definition, in which contracting-out and deregulation are seen as ramifications of privatisation, has been widely accepted (Kay & Thompson 1986; Cook & Kirkpatrick 1988; Bienen & Waterbury 1989; Ramanadham 1989; Vickers & Yarrow 1991; Hodge 2004).

The concept of privatisation can, however, be narrowed even further by restricting it to assets transfer alone. In this approach, privatisation is seen as ‘a transfer of ownership and control from the public to the private sector, with particular reference to asset sales […] to curtail the state’s economic role’ (Van de Walle 1989, p. 601), or ‘the deliberate sale by a government of state-owned enterprises (SOEs) or assets to private economic agents’ (Megginson & Netter 2001, p. 321). When control rights are implicitly presumed to be the effect of ownership transfer and the target of privatisation, the question arises as to what threshold of ownership is needed to acquire control. According to Nellis and Kikeri (1989), SOEs or public enterprises (PEs) are those firms in which more than 50% of the ownership is held by the government. This implies an extremely narrow definition of privatisation, namely, when ‘divestiture’ brings state ownership in SOEs to below 50% (Major 1993). In practice, this is not always necessary. If the ownership structure is sufficiently dispersed, one investor can gain control even with less than 50% ownership.

1.2 Configuration

Privatisation can be configured differently in relation, for instance, to pace, breadth of coverage and methods. Differences in configuration depend on the industries involved and the broad objectives of privatisation. In terms of methods, privatisation can be carried out by means of direct sales, distribution of vouchers, management-employee

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1 Some authors’ definitions of privatisation include the requirement for a switch between the public and private sectors. In other words, ownership transfer within the state sector (cross-ownership) is not recognised as privatisation (Starr 1988; Major 1993).
buyout, or contracting-out. It may involve a wholesale approach leading to rapid mass privatisation or a gradualist strategy might be adopted. Privatisation differs according to the characteristics of the industrial sectors in which the SOEs are doing business, such as commodities markets, natural monopolies or by-fiat monopolies, or provision of public goods and services. Last but not least, privatisation can differ depending on the scope and scale of the targeted SOEs.

Direct sale of the SOE’s assets has been the most popular method of privatisation (Cook, Kirkpatrick & Nixson 1998), since it is the quickest and most straightforward way of transforming ownership. A government may sell the whole or part of its ownership of the targeted SOE to outsiders either through private sales (or trade sales) in the form of tender offers to strategic investors, or by initial public offering (IPO), also known as a public float, or by issuing new shares (share-issue privatisation, SIP) to expand the range of equity owners (Bortolotti & Milella 2008). While private sales are often preferred because they result in sustainable financial and managerial provision, public offerings have the benefits of enhancing transparency and encouraging ownership by small investors. A combination of these two measures is most desirable. If direct sales are to be conducted effectively, however, the establishment of a stock-exchange and the development of financial markets are indispensable prerequisite conditions. Depending on the extent of the transferred ownership, a change in corporate governance structure may be expected to entail a change in the management of the firm. It is often argued that full privatisation is necessary for management to be really shaken. Nevertheless, if a restructuring program\(^2\) is actively pursued prior to or contemporaneously with direct sales, a partial privatisation involving sales to private investors who remain as minority shareholders may have a substantial impact on managerial efficiency (Gupta 2005).

Besides direct sales, the state may undertake a free distribution of equal shares, in the form of vouchers, to the population at large. This measure seems to guarantee the greatest equality of access to ownership of SOEs. In the 1990s, this was the second

\(^2\) Restructuring measures may include: organisational changes (e.g. merging, administrative rationalisation); leasing or liquidating some of the business units to focus on core businesses; writing off or swapping debts; enhancing the autonomy of management; and introducing new incentive rewards, sales targets, investment criteria, or pricing principles (Ramanadham 1989, pp. 5-10).
most popular policy adopted in many transitional economies in Eastern Europe and the former CIS, particularly those with small populations (Marangos 2002). Alternatively, the government can decide to sell the SOE’s shares to the current management and employees of that SOE. Management buy-outs make those contributing to the company feel rewarded, thus encouraging their commitment, while at the same time state property remains – in a vague sense – ‘public’ and there is less impact on social welfare. As Marangos (2002) points out, however, both voucher distribution and management-employee buyout have often led to the eventual accumulation of shares in the hands of a few private domestic or foreign investors, especially when indigenous financial and managerial capabilities were embryonic.

Other flexible forms of privatisation, such as contracting-out, outsourcing, the granting of concessions (sole rights to supply in certain areas and necessary infrastructure previously owned by SOEs), and public-private partnerships (PPPs), have been widely adopted by developed countries, especially in the English-speaking world. In contracting-out, outsourcing, and the granting of concessions, the government shifts the functions of direct production and delivery of a variety of public goods and services to private (or non-profit) vendors through competitive tendering procedures with the promise of cost effectiveness and service improvement. In this way, the public sector is downsized, as its traditional assets and jobs are relocated to the private sector while its main tasks are transformed to those of regulation and project management (Hodge 2004; Forrer et. al. 2010). According to Forrer et al. (2010), choices in regard to contracting out (to continue to make or to buy in), initially developed for firms operating on a profit-maximising basis (Williamson 2002), are integrated within the framework of the new public management (NPM) reforms which, inspired by neoliberalism, attempt to introduce ‘business thinking’ into the public sector’s activities.

Public-private partnerships – most often employed in infrastructure development – represent something of an exception due to the long-term collaboration between the state and the private sector that is involved, and the extent to which the latter is engaged throughout in the processes of decision-making, design, and production or delivery of public goods and services. According to Forrer et al. (2010), the role of the
state is extended rather than ruptured in PPPs, in contrast with privatisation, while Hodge (2004) argues that such engagement with private firms involves ‘far-reaching contracts’ that transform the role of the state in a fundamentally similar manner. Whatever form is adopted and whether or not there is proper fiscal control and risk minimisation, the state remains accountable for guarding the public interest, and this requires an advanced capacity for monitoring the necessarily detailed rules and constraints of the contracts (Hodge 2004; Forrer et al. 2010). This explains why these forms of privatisation are often rather successful in developed countries, where enabling institutions have already been established.

As previously mentioned, a privatisation program may be either ‘wholesale’ or ‘gradualist’. The wholesale (or shock-therapy) approach advocates selling the SOEs ‘as much as possible’ and ‘as fast as possible’, and was often endorsed by the transitional economies in Eastern Europe and the former CIS and by most countries in Latin America. The gradualist strategy has mainly been adopted by OECD governments, who were earnest proponents of privatisation but, interestingly, proceeded in their privatisations only with very careful planning, step-by-step implementation, and allowing for partial and flexible adjustments: ‘while the UK sold 20 firms in the space of 10 years, for example, Mexico sold 150 in the space of six’ (Medeiros 2009, pp. 109-110).

According to Vickers and Yarrow (1991), privatisers should carefully consider the settings or circumstances in which the SOEs exist and develop policy responses accordingly. There are several possibilities. First, some SOEs compete with private enterprises in the supply of commodified goods and services such as cars, airplanes, ship-building, banking and insurance that have little or nothing of the character of public goods and services. Second, some SOEs operate natural monopolies or by-fiat monopolies; for example, in water supply or electricity distribution (although power generation can be efficiently provided by several producers). Third, there are the providers of pure public goods and services. While the first type of SOE can be privatised with an eye mainly to economic concerns (for example, industrial policy), the privatisation of other types of SOEs needs careful planning to prevent adverse impacts on social welfare. Privatisation can also be examined with respect to the scope
and scale of the SOEs involved, especially within transition economies (Lipton & Sachs 1990b, Major 1993; Aslund 2007). Small-scale privatisations, normally of local-level SOEs such as chains of shops and kiosks, are often implemented more easily since the tricky problem of asset valuation can be avoided through public auctions. In contrast, privatisation of large-scale enterprises can be highly challenging and controversial: ‘[h]ere, all the political, economic, and technical problems of privatisation coalesced […] resulting in extensive and complex legislation’ (Aslund 2007, pp. 155-157).

1.3 Vietnamese Terminology around Privatisation

Privatisation has been understood in Vietnam in the narrowest sense, yet in a way that is consistent with the practice of Vietnam’s political economy. Even though Vietnam has moved towards a market economy, the straightforward usage of the term ‘privatisation’ (tu nhan hoa) still sounds too capitalist to be accepted in a socialist country. Importantly, corporate law was only enacted in 1990, and joint-stock companies did not exist before then. Thus, when the Governmental Decision 202/CT was issued in 1992 to transfer some SOEs to private ownership as a pilot scheme, privatisation was interpreted as ‘equitisation’ (co phan hoa), which meant the transformation of the SOE into a joint-stock company so that private investors could become owners.

In fact, a distinction is made between a one-member limited liability company, in which the state is the sole owner, and a joint-stock company, in which any proportion of ownership may be held by the private sector. Both procedures involve what Western countries know as ‘corporatisation’ (the creation of a corporate structure of organisation). The formation of a joint-stock company is called ‘equitisation’ and privatisation is understood as equitisation. The equitisation procedure not only suits the financial and managerial capabilities of the indigenous investors, but also accords with the gradual approach of the Vietnam party-state to the pursuit of privatisation.

While equitisation mainly targets SOEs in manufacturing industries, other forms of privatisation, such as contracting-out, outsourcing, concessions and PPPs, have been widely implemented in enterprises that provide more purely public goods and services.
Such procedures are notionally known as commercialisation and socialisation. For example, public education and health care facilities are allowed to deliver commercialised-service units (i.e. for fees above the normal officially regulated rates) while still being required to maintain traditional low-fee services for the population at large and to compete with new private providers. Thus, commercialisation in the public sector has been complemented by deregulation and liberalisation, allowing for the entry of competing private suppliers, supposedly in order to meet various consumer demands. Public transport and public media provide other examples of mixtures of neoliberal reforms.

Nevertheless, the boundaries of these terms are blurred – like ‘privatisations’, neither ‘deregulation’ nor ‘liberalisation’ has an official Vietnamese equivalent – and the processes are subsumed under the broader term ‘socialisation’ (xa hoi hoa). This term is widely used by local people to refer to the mobilisation of private resources for public sector activities (such as the construction of a park or the sponsorship of festival fireworks) and, especially, to private contributions of the local population to jointly-funded infrastructure development projects at district and village levels. Remarkably, while competitive bidding is now enforced by detailed regulations covering public procurements and outsourcing activities, this is not the case with contracting-out, concessions and PPPs in urban sewage collection, mining and transport infrastructure development, respectively. This reflects limitations on the state’s capacity to engage in contracting over an uncertain future.

Although Vietnamese terminology around privatisation is unique, Vietnam has experienced, in varying degrees, all forms of privatisation. Equitisation has been adopted in the local discourse as a variant of privatisation in the narrow sense and has been implemented within a distinct policy agenda whose main concern is for the economic aspects of privatisation, while commercialisation and socialisation have been approached loosely and broadly. In this dissertation, the term privatisation is used in a general sense to refer to the transferring of ownership of SOEs from the state to the

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3 After a period of enthusiasm for PPPs, local officials have recognised more obstacles and uneven outcomes in practice. See: Bao Anh, “Con duong PPPs: khong nhu ly thuyet [PPPs application is unlike what theories promise]”, 24 February 2017, viewed 31 March 2017, http://www.vneconomy.vn.
private sector; this may include, but is not necessarily confined to, the narrow definition.

1.4 State Intervention and the Formation of SOEs

Since SOEs are the objects of privatisation policy, it is worth briefly discussing their formation and philosophical foundations. Despite the diversity of national political economic contexts, economic development models in which state interventionism plays a dominant role have been widely pursued. Whether or not one can associate state interventionism and the formation of SOEs with grand political economic theories such as Keynesianism, the rise of the welfare state and Marxism, they were undeniably part of the rapid growth of the world economy, driven by the ‘pursuit of full employment’ and ‘accelerated pace of technical progress’ after World War II (Shonfield 1965, pp. 63-67).

According to Lavi-Faur (2005), the influence of classical laissez-faire economic policies declined within the capitalist world after the Great Depression of the 1930s. Thereafter, the Keynesian interventionist state gained a significant foothold in the worldwide policy arena, especially after World War II (WWII). As a result, the welfare state and ‘active government’ were widely adopted in developed countries in the West, thanks not only to Keynesianism but also to the expansion of the social democratic movement beyond the Scandinavian countries (Shonfield 1965). At the same time, command and central planning, or at least the creation of ‘mixed economies’, informed to various degrees by socialist doctrine, were no less popular choices of Eastern bloc and many other newly independent, least developed countries (LDCs), (Nellis & Kikeri 1989). As Van De Walle (1989, p. 602) explains:

First, it was widely thought that nationalisation and PEs [public enterprises] in general would provide governments access to much needed revenues […] with which they would be able to finance investment in priority sectors of the economy. Second, public production corresponded closely to an ideological climate in which the private sector was held in low esteem and a large public role in the economy was seen as necessary for rapid and sustained development.
In other regions, the visible hand of the state was enhanced. In Latin America, this took the form of protectionist and import-substitution policies (Manzetti 1999), while in Northeast Asian developmental states, the bureaucracy even played the role of chief architect for the implementation of national industrial policies, an idea that is discussed extensively by Woo-Cumings (ed. 1999).

Although the extent to which statism was responsible for post-war economic success is still debated, support for the state’s ‘steering and rowing’ roles in the economy led to nationalisation and the formation of new enterprises in various industries that were SOEs from the start. Developed economies normally had a relatively smaller share of SOEs than their developing counterparts, yet they were no less significant. In the UK, for example, they accounted for ‘exactly 10% of the GDP, [with] GBP 55 billion in turnover and 1.75 employees’ by 1979, compared with an average of 17% or even 40-60% of GDP in developing countries (Nellis & Kikeri 1989, p. 659).

Political factors, of course, were also active in the establishment of SOEs in many countries. In Latin America, for example, SOEs resulted from the ‘nationalisation of public utilities, telecommunications, oil and mineral production […] as a means of fostering industrialisation and promoting the national private sector in the face of foreign competition’ (Medeiros 2009, p. 112). Other developing countries in Africa and Asia saw state involvement in economic activity not just as a means of tackling massive market failures, but as symbolic of their independence from their colonial legacies, especially the foreign private sector. SOEs taken over from the old colonial powers were also viewed by the new governments as a vehicle for delivering patronage rewards (Nellis & Kikeri 1989; Van De Walle 1989). In summary, after WWII, the state played a dominant role in the economy, leading to the formation of a significant SOE sector in various countries which, nevertheless, differed greatly in terms of historical legacy, level of economic development and industrial strategy.

1.5 Privatisation in the Developed Countries

Just as SOEs were formed to solve ‘market failures’ (coordination failures of the market), the reverse policy – denationalisation or privatisation – was prompted by the
alleged need to solve ‘government failures’. This development reflected an underlying shift in political economic doctrine.

Initially, privatisation was introduced by Western European economies to address specific macro- and microeconomic issues, rather than as a universal policy. There seems to be a consensus in the literature that the wave of privatisation began with the conservative Thatcher government in the UK in 1979 (Ramanadham 1989; Van de Walle 1989; Hodge 2004; Megginson & Netter 2005; Ormerod 2014). Thatcher took power at the time of a record state budget deficit, and privatisation was seen as an attractive policy choice (Walker & Walker 2000; Parker 2009). Research during the previous decade purported to show that the SOE sector was inefficient and relied largely on state subsidies, which contributed significantly to the budget deficit. These studies were used to justify the privatisation of SOEs. According to several sources at the time (cited in Molyneux & Thompson 1987), SOEs in the UK were ‘third rate’ in their level of efficiency and they had no impact on ‘improving the allocation and effective use of resources’. Yet, as Parker (2009, pp. 17-18) points out, efficiency did not always improve as expected when SOEs were de-nationalised, and ‘not all of the nationalised industries were consistently poor performers’.

In fact, both Kay and Thompson (1986) and Vickers and Yarrows (1991) emphasise that there had actually been no empirical evidence showing the superiority of the private sector over the public in terms of productivity. Nevertheless, the UK instituted a massive divestiture of state assets and the privatisation movement spread across Western Europe. Italy, France, Germany, Spain and Portugal followed the UK’s lead and these six countries became the world’s leading privatisers, accounting for 29% of the total number of asset transactions and 48% of the revenues raised (Bortolotti & Milella 2008, pp. 33-36). In general, privatisations were first implemented in the manufacturing and finance sectors – although British Petroleum (BP) and Cable and Wireless were the first to be privatised in the UK – followed by energy, telecommunications, transport and utilities in the 1990s. Privatisation peaked during this period but slowed abruptly at the turn of the century. In other West European countries, new governments confronted the pressures of tighter fiscal regulations in an integrated European Union. While privatisation was preferable to increased taxes, the
share float was also used as a strategy to gain popularity, with the prospect of financially positive outlooks (Bortolotti & Milella 2008).

Overall, the privatisations that took place in Western Europe in general and the UK in particular have been assessed as rather successful (Vickers & Yarrow 1991; Bortolotti & Milella 2008; Ormerod 2014), albeit with many reservations. First, while the objectives of improving business performance and customer service appear to have been achieved, there was no robust reduction in the fiscal deficit, according to calculations by Bortolotti and Milella (2008, pp. 58-60). In fact, there was often a trade-off between fiscal and efficiency effects (Kay & Thompson 1986; Van De Walle 1989). For example, the privatisation of National Freight emphasised the improvement of management incentives, while that of BP and British emphasised revenues, and the privatisation strategies that were adopted differed accordingly (Vickers & Yarrow 1991, p. 122).

The implementation of each process of privatisation was accompanied by important policy changes, including the introduction of regulatory policies for competition. These latter included policies encouraging new market entries, the creation of ‘contestable markets’ where none had existed before, and the imposition of regulatory constraints on market power where monopolistic power remained. As Vickers and Yarrow (1988, p. 79) observe:

[I]n many circumstances, the competitive process provides an incentive system that impels private firms to behave in ways that are broadly consistent with efficient resources allocation. But such circumstances do not always hold […]. There is then a need for regulatory policy to influence private sector behaviour by establishing an appropriate incentive system to guide or constrain economic decisions.

Additionally, independent and effective state regulators need to be established to protect consumer interests, particularly with regard to price control (using methods such as rate-of-return or RPI-X and yardstick competition to set a ‘fair rate of return’

Second, privatisation was expected to fortify financial market development yet its success depended on the maturity of financial institutions and the stock market, not only in terms of absorption capacity (so the firm’s equities are not under-priced in a share-issue privatisation) but also of the institutional constraints the financial market imposes on private firms, such as transparency, management and employee incentive improvements through share options (Bortolotti & Milella 2008).

Third, the financial market importantly allows a right-wing government to fulfil one of the political aims of privatisation, that is, to create a ‘popular capitalism’ by widening equity ownership as much as possible - ‘numbered in millions’ - through SIP (Vickers & Yarrow 1991, p. 123). According to Bortolotti & Milella 2008, pp. 60-61), however, part of the bipartisan political motive was to compete with the redistributive policies of the Left and prevent any attempt at re-nationalisation. In fact, most of the shares were then accumulated by institutional shareholders.

Fourth, though privatisation was implemented on a large scale, corporate governance in privatised SOEs was not changed on a corresponding scale due to a propensity for partial privatisation and the popular use of ‘golden shares’4. With the exception of the UK, where the average percentage of capital sold reached nearly 90%, most countries in Western Europe engaged in partial privatisation of around 60.8% (34.5% via public offers and 75.5% via private sales); overall, during 1977-2003 the majority of state-ownership was sold in only 59% of the 1,133 deals. Golden shares have been widely used to protect privatised firms in industries relating to national security from foreign mergers and to grant the state some sort of special voting rights in privatised utilities (Bortolotti & Milella 2008, pp. 62-67).

4 According to Bortolotti and Milella (2008, p. 67), ‘golden shares can broadly be defined as the complex of special powers granted to the state and the statutory constraints in privatised companies’. Golden shares allow the state to have representatives on boards of directors, to consent to or to veto a variety of important issues, and to constrain the ownership structure or voting rights or the companies in regard to national interests. These capabilities can be exerted ‘even without owning the majority of stock in the company or a single share of capital’ (Bortolotti & Milella 2008, p. 67), and are observable most frequently in sectors of defence, telecommunications, oil and gas, utilities, and transportation.
Fifth, it must be remembered that privatisation did not proceed smoothly in the UK. When privatisation reached the railways sector, considerable controversy ensued (Ormerod, 2014), and the government had to renationalise the financially-troubled Railtrack.

In summary, privatisation in Western Europe – though of great scope and scale – was generally implemented gradually and deliberately, and there was clear recognition that some institutions had to be created along with or as prerequisites for privatisation to ensure a successful outcome. This has also been evident in the privatisation practices of other OECD countries beyond Western Europe, such as Australia and Japan (see Chapter 2). An exception is the United States, where contracting-out has been the major form of privatisation due to the minimal size of the SOE sector in the economy.

Privatisation experiences in Australia appear to have been no less vigorous than those in Britain. From the middle of the 19th century, Australia was characterised by what has been called a ‘colonial socialism’, establishing a ‘supportive partnership’ between the public and private sectors that continued well into the 20th century. On one hand, the Australian government profoundly influenced the economy either indirectly through ‘regulatory and allocative’ policies or directly by participating in the market through a large number of SOEs. On the other hand, private business interests were both advanced by and absorbed into public policies (Butlin, Barnard & Pincus 1982, pp. 4, 10-12).

For a long time Australia had a large SOE sector, ranging from ‘transport and communications, water and sewage, electricity and gas, [to] banking and finance’ (Butlin, Barnard & Pincus 1982, p. 236) which, by 1990, accounted for 7% and 9% of GDP and employment, respectively (Abbott & Cohen 2014). Although most SOEs enjoyed a monopolistic or quasi-monopolistic position, they were ‘run with much less attention to maximum overall profit [than were private firms]’ (Butlin, Barnard & Pincus 1982, p. 238). Given the significant level of autonomy granted by government, cross-subsidisation within a multidivisional industrial organisation, such as the Post Office (Butlin, Barnard & Pincus 1982), was sufficiently effective to create an image
for these enterprises of better performance compared to SOEs in many other countries (Hodge 2004). Nonetheless, according to Hodge (2004), privatisation proceeded in Australia during the 1990s at both the national and state levels on a scale that ranks it third in the OECD, with a total value of over A$95 billion (Walker & Walker 2000, p. 8). The largest privatisations included: Victorian electricity generators and distributors (from 1992-98, A$22.5 billion); gas distributors (A$6.3 billion); Commonwealth Bank (through four stages, from 1991-97, A$8.1 billion); Qantas (two stages, from 1993-96, A$2.1 billion); 49.9% of Telstra (two tranches, from 97-99, A$30.3 billion); and airports in major cities (from 1997-2007).

In Australia, the use of direct sales prevailed over public share floats, which were reserved for large privatisations, and there were only a few cases of staff-buyouts. The revenues were mainly used to help pay government debt (Walker & Walker 2000; Hodge 2004; Abbott & Cohen 2014). In general, privatisation in Australia has been assessed as having had mixed results. Improvements in productivity followed the privatisation of Qantas and major airports, although these may be attributed to corporatisation prior to the sales and, particularly, to the regulatory policies that helped introduce competition rather than to the privatisation itself (Abbott & Cohen 2014). Telstra, by contrast, is a notorious case of failed privatisation, due not only to under-pricing (Walker & Walker 2000) but also to a range of issues that typically arise in the transformation of a state monopoly into a private equivalent. Privatised Telstra went so far as to refuse to make network improvements if the government did not increase its funding or put in place other favourable policies (McLaren 2016).

Most significantly, privatisation remains an on-going process in Australia today, attracting a high degree of public concern and dispute. One notable recent example was the discussion about the sale of the electric ‘poles and wires’ in New South Wales (NSW) against the backdrop of a state election. Until recently, public ownership has characterised all four components of the electricity market (generation, transmission, distribution and retail) in Western Australia, Northern Territory, and Tasmania. The private sector similarly controls all of the electricity industry of Victoria and South Australia. The Australian Capital Territory has chosen a joint-venture approach, while NSW and Queensland have privatised the generation and retail parts of the industry.
but kept transmission and distribution in public hands. In other words, there exist flexible solutions for running the electricity value chain depending on the political economy of each state.

Essentially, there is no sign that any mode of ownership is superior if the price of the utility is used as a benchmark (RMIT ABC Fact Check 2016). In fact, power bills are dependent on a variety of factors, including not only the costs of each segment of the value chain and the particular environmental policies of the state government involved, but also the household consumption stereotype. Assessment must also take into account the business’s capacity for and commitment to technological improvements in the network and services, especially whether it allows innovation and use of new energy sources - for example, the ability of energy companies to buy-back the surplus energy from households’ solar generation. All of these matters were covered in the debates between the parties’ candidates in the NSW election of 2015, in which the Coalition parties proposed the sale of 50% of AusGrid & Endeavour Energy (distributor) and 100% of TransGrid (transmission), while retaining another distributor – Essential Energy – as wholly state-owned (Kozaki & Brown 2015). It was clearly indicated that the revenues of about A$20 billion expected from the sales were to be invested in the development of key state infrastructure projects that would otherwise be financed from taxes or public debt (Foschia 2015). The proponents of privatisation won the election, but the new government’s agenda was approved by the state parliament only after the government committed to putting all the above issues relating to the efficiency of the future network into the sales contracts, and to referring the bid to the Foreign Investment Review Board to ensure there was no conflict with national security. In the event, TransGrid was sold to a consortium of Canadian, Middle Eastern and local investors for over A$10.2 billion (Gerathy 2015).

In an election in Queensland at about the same time, however, the party proposing privatisation was defeated. Woods and Lewis (2015) cited an online survey showing that most of the Australian respondents were sceptical about the promise of efficiency and benefits of privatisation. Only 25% agreed with the idea that ‘Selling-off public utilities to private companies will help the economy’; 36% agreed that ‘Private companies can run public utilities more efficiently than the governments’; 72% agreed
with the proposition that ‘Water and electricity suppliers are too important to be sold off’; and 70% agreed that ‘Prices always increase more when the services are privatised’ (70%).

Again, the Australian experience in privatisation is consistent with that of other developed countries in having outcomes that were uneven and controversial. Essentially, the success of privatisation is not unconditional. Of course, ideology helped to drive the push for privatisation in developed economies, yet the process proceeded with rule-based, gradualist and deliberate planning, particularly in relation to the readiness of necessary enabling institutions. In developed countries, the process appears to be nearly corruption-free and no spontaneous privatisations\(^5\) have occurred. Public and private forms of ownership continue to coexist today, and remain interconnected in vast areas of the economy in most developed countries (Bortolotti & Millela 2008).

During the 1970s, as previously noted, the performance of SOEs in developed countries was generally under-rated by neoliberal economists and privatisation was acclaimed ‘as a policy strategy in the developed economies’ (Parker & Kirkpatrick 2005, p. 526). The implementation process in developed countries has, however, been lengthy and the outcomes have been uneven, conditional, politically shaped, and debatable. Hence the introduction of privatisation as a panacea for developing countries by international financial institutions during the 1990s must be seen as problematic.

1.6 Introducing Privatisation into Developing Countries

Regardless of the above-mentioned institutional differences and reservations, privatisation was introduced into developing countries by international financial institutions, most notably the WB and IMF, as a one-size-fits-all policy. This section

\(^5\) Spontaneous privatisation often occurs in transition economies, mostly due to the vaguely defined property rights that result from an inadequate institutional framework. As enhancement of managerial autonomy was part of the SOE restructuring programs before privatisation, many managers took this opportunity to appropriate the SOEs’ assets. As Boycko, Sleifer and Vishny (1995, p. 60) explain, ‘[i]n 1991-1992, it was common for a firm to sell so-called surplus assets, or even final output, at a discount to a company privately owned by the manager. Once this process is complete, managers effectively become full owners’.
examines how privatisation was introduced into groups of developing economies that differed greatly from each other in terms of history, political economy, and the performance of their SOEs.

Normally, the SOE sector has a greater share in developing economies than in developed ones. This may reflect the fact that market failures are more prevalent in the former than in the latter (Stiglitz 1989). It has been argued that there is no empirical evidence showing ‘that a large state sector tends to be associated with lower than expected economic growth’ (Jalilian & Weiss as cited in Cook & Kirkpatrick et al. 1997, p. 846). That is to say, developing countries are not poorer because of a large SOE sector. While the SOE sector in European developed countries accounted for ‘between 10% and 15% of GDP […] before the[ir] first privatisation[s]’ (Bortolotti & Millela 2008, pp. 41-42), the ratio for Latin American and East Asian developing economies ranged from 10-17%, and for African countries from 17-20% – with some exceptions as high as 40-60% in Egypt, Zambia, Algeria (Nellis & Kikeri 1989, p. 659). According to Cook and Kirkpatrick (1988, pp. 5-6):

Public enterprises are found in almost all types of economic activities in LDCs. They are traditionally concentrated in the public utilities and natural resources sectors, but are also prominent in manufacturing in a large number of countries [… especially, more than] the industrial countries.

In centrally-planned socialist economies at the point of ‘transitioning’ to capitalism, the SOE sector has been absolutely dominant. For example, in China and Vietnam, the SOEs – leaving aside the collective farms and traders – used to form the only officially-recognised business sector. Not being able legally to establish business entities, the private economic activities at household and individual levels were often associated with the black market. In Central and Eastern Europe (CEE) and the former CIS, the share of property held by the SOEs was almost the totality (85-90%) of the national assets (Major 1993, p. ix). In spite of the difficulty in putting together consistent data, Major (1993, p. 24) suggested that the number of SOEs available for privatisation ‘ranged between 2,400 in Hungary and 45,000 in the USSR’.
By the early 1990s, many of the transitional and developing countries faced huge economic difficulties. While the transitional economies had to cope with the break-up of the Soviet Union and COMECON, the economic challenges of other groups of developing countries derived from various causes – for example, the debt crisis, currency devaluation and capital flight in the case of Latin America and deficit state budgets and inflation in the cases of Asia and Africa. It should not be forgotten that almost the whole world, including developed countries, also faced economic downturn caused by the oil crisis from the mid-1970s. The possible exceptions were Japan and the four newly industrialised economies (NIEs) in East Asia, whose remarkable growth record generated envy among their developing friends and worried their developed partners. In such a context, the developing nations and transitional economies had to seek the help of international financial institutions, especially the WB and IMF. These institutions then insisted on structural adjustment, including the privatisation of SOEs as one of the key conditions for assistance (Cook & Kirkpatrick 1988; Bienen & Waterbury 1989).

According to research by the WB’s experts, SOEs in developing countries often operated at a low level of efficiency (World Bank 1994; 1995). Notwithstanding favourable state policies and vast provisions of state resources, most of them were not returning profits. Many that did post profits did so because of monopoly power or subsidies. It was argued that profits came at the expense of investment for the development of other sectors, especially those in the hands of private enterprises. In any case, the state budget deficit could not bear the ongoing cost of subsidies. It was also claimed that management of the SOEs was often compromised by political considerations (Van De Walle 1989), that managers therefore had to pursue many purposes other than focusing on profitability, and that managers lacked business managerial skills (Nellis & Kikeri 1989, pp. 663-664). These managers, who have been characterised as ‘bureaucrats in business’, had neither the autonomy to solve the SOEs’ problems nor the accountability for outcomes that their counterparts in the private sector had (World Bank 1995).

The institutions argued that the only way to respond to these problems was to reform the SOEs by means of privatisation, based on the finding that ‘successful SOEs
reformers divested more, especially where the initial size of the state enterprise sector was large’ (World Bank 1995, p. 5). Further, the WB conveyed the value of the wholesale approach and the superiority of the private sector in their advice to recipient economies – as if the benefits from privatisation should be taken for granted. The recipients were told to sell ‘big firms first’ to reap larger potential benefits, writing off SOE debt ‘to unload a company’ from financial burdens, and ‘firing SOE employees prior to privatisation’ to reduce labour disputes (World Bank 1995, pp. 20-21). Thus, privatisation, as an on-going practice in developed countries, was introduced by the WB into all developing countries, despite the great differences in the contexts and structures of their economies.

According to Cramer (1999), the term ‘privatisation’ was not initially used in the WB’s prescriptions. In the World Development Report 1983, the Bank only talked about SOE reform in general, involving prescriptions such as introducing competition, market pricing, and reducing state support, especially by way of subsidies. The prevailing mindset, it appeared, was that ‘competition is more important than ownership’ (Cramer 1999, p. 2). By the 1990s, however, the WB began to express impatience with the slow pace of SOE reform and placed the blame entirely on the failure to transform ownership. Since then, the Bank has described privatisation as a breakthrough measure to achieve the primary objective of efficiency enhancement. In other words, it has shifted attention away from acknowledged conditions for effective privatisation.

An example was the report on *Bangladesh privatisation and adjustment* (World Bank 1994, p. 13) in which the WB advocated privatisation for three inter-related classes of reasons: the positive effects on government’s fiscal situation; improvement in the efficiency of enterprises following privatisation; and signalling effects that will promote greater investment, and consequently higher growth in the medium-term.

More tellingly, these propositions were mainly supported by examples of large-scale privatisation in other countries (the UK, Chile and Argentina) which, the WB insisted, had been successful, regardless of the differences between these political economies.
and between them and the Bangladesh case. Although it might have been true that SOEs in that country were unprofitable, the WB’s main argument revealed its overwhelming bias against the public sector through its unjustifiable embellishment of the private sector:

In profit-making SOEs, the case for privatisation is no less compelling […] The principal argument in favour of privatisation is improvement of efficiency under private ownership […] State-owned enterprises have a multiplicity of goals […] maximising profits being a dismal fifth out of six objectives […] No enterprises can hope to compete with the private sector when profit maximisation is not their primary objective (World Bank 1994, pp. 13-16).

Indeed, the WB overlooked the basic distinction between these two types of ownership, rooted in the rationale for their establishment, which was not to make them appear as ‘alternatives to one another’ (Cook, Kirkpatrick & Nixson 1998, pp. 4-5). In its enthusiastic endorsement of the superiority of the private sector’s performance, the WB even promised that privatisation of SOEs in the financial, utilities and transportation sectors could benefit private firms by making ‘key inputs become available on a timely, market-priced basis’ (World Bank 1994, p. 19). This is unconvincing in that, in the absence of competition, efficiency improvements are as unlikely to show up in higher profits as they are in lower prices.

Similar views were repeated in the WB’s subsequent reports on Adjustment in Africa (1994), Bureaucrats in business (1995) and Privatisation in Africa (1998) which, according to Cramer (1999, p. 3), influenced most of the policy discussion of the 1990s in which privatisation was taken for granted as ‘unquestionably beneficial’ and ‘the irreversibility of [public sector] reforms’ was reinforced. Ever since the notion of the superiority of ownership transfer gained legitimacy, the discourse has only concerned the desirable scale and pace of privatisation rather than the extent of its suitability in each country or its effective implementation.

In summary, from being part of a package of reforms to meet the primary objectives of increased revenue and efficiency, initially in the UK, privatisation has been promoted
as an objective in its own right and presented to developing countries as some kind of panacea for their different economic issues (Cramer 1999). The philosophical underpinnings of this prescription, however, have been widely critiqued.

1.7 The Washington Consensus, Neoliberalism and Later Modifications

Why did the WB become so strongly engaged with privatisation? To find a satisfactory answer, it is necessary to understand the overall theoretical framework within which this approach was adopted and the politics of the self-proclaimed ‘autonomous’, ‘apolitical’ organisation (Wade 1996). It has been widely recognised that a consensus – the so-called Washington Consensus, about the desirability of a package of neoliberal policies prevailed in Washington – more specifically, within the WB, the IMF and the US government (Biersteker 1990). This is the broader framework of privatisation (Cramer 1999). The package prescribes ten policies, including privatisation of SOEs6, which represented a comprehensive approach in favour of the then fashionable wave of globalisation and market liberalisation at the end of the Cold War (Williamson 1990). It was a manifestation of orthodox economics and Western political triumphalism. In fact, these policies are to be found in most of the economic integration agendas and international assistance programs of the ensuing two decades.

Following its retreat in the 1930s and the three subsequent decades, neoclassical economics experienced a resurgence during the 1970s as part of the development of neoliberalism, and has dominated economic policy-making since the 1990s. In contrast with Keynesianism and other heterodox ideologies, the orthodoxy of the 1990s proposed an expansion of market rules and the private sector. In addition to claiming the ‘triumph of capitalism’ in the CEE and the former CIS, the orthodoxy argued that the success of economies in East Asia – Japan, South Korea, Taiwan, Hong Kong and Singapore – were also due to capitalism and neoclassical policy prescriptions, notwithstanding academic accounts such as that of Chalmers Johnson (1982) on the Japanese model of economic growth. In its report on The East Asian miracle, the WB

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6 The market-based and liberalised policies address the following ten areas: fiscal deficits, public expenditure priorities, tax reform, interest rates, exchange rates, trade policy, foreign direct investment, privatisation, deregulation, and security of property rights (Williamson 1990).
(1993) interpreted the success of these NIEs as reflecting best policy practices based on sound neoclassical principles, although it did admit that the evidence was not clear (Biersteker 1990; Wade 1996). The successes were attributed to pro-market policies which, according to Balassa (as cited in Kiely 1998, p. 64), included ‘limited government intervention in the economy, a low level of price distortion … [and] an outward-oriented strategy of export promotion’. Implicit in those policies is a belief in the superiority of the private sector over the state. Particularly, in regard to privatisation, it is said that as long as private enterprise is kept free of political interference, managers will concentrate on profit maximisation under the supervision of self-interested shareholders and within the constraints of the disciplined financial market. In other words, if the private sector can avoid public hindrances, it can improve productivity (Nellis & Kikeri, 1989).

By the mid-1990s, as the practical outcomes of these policies proved to be less fruitful than expected (Cramer 1999), the ‘pure’ neoliberal perspective of the Washington Consensus was slightly revised to acknowledge an acceptable economic role for the state in supporting the market – the state can be market-friendly and capable of ‘good governance’. In its report on The East Asian Miracle, the World Bank (1993, p. 10) stated:

[T]he appropriate role of government is to ensure adequate investments in people, provide a competitive climate for private enterprise, keep the economy open to international trade, and maintain a stable macro economy.

The WB advocated a market-friendly government that only intervened reluctantly in deference to the superior efficiency of the market and conformed to either international or domestic market disciplines. Otherwise, it proposed, the main roles of the state should be those of neutral arbitrator and transparency enhancer (Kiely 1998). Good governance means ‘not just less government but better government – government that concentrates its efforts less on direct interventions and more on enabling others to be productive’ (World Bank as cited in Kiely 1998, p. 68). Such a pro-market government represents good governance (Kiely 1998). The WB’s recommendations do reluctantly recognise the reality of state intervention (Gainsborough 2010). Thus, the adapted
version of the Washington Consensus calls for a regulatory supportive role of the
government to the markets (Braithwaite 2008) but ‘not a director of the private-sector
exchanges’ (Wade 1996, p. 5). Accordingly, for privatisation to work, the state was
urged to be ‘politically desirable, politically feasible and credible’ (World Bank 1995).
In fact, this may represent ‘a more invasive form’ (Gainsborough 2010, p. 477) or the
‘durability’ (Cahill 2014) of the neoliberal agenda rather than any supposition of its
retreat.

The Washington Consensus was seriously challenged by the Japanese government
(Wade 1996, p. 4). The adapted version of the policy recommendations did result from
the power contest between the US and Japan during 1990s as the latter with its statist
philosophy was rising as a ‘miracle’ model of economic growth. What is of greater
concern is the resultant ‘unchallenged consensus’, the set of commitments which
smaller developing countries had to make unconditionally as ‘a proxy or indicator of
national resolve or “political will” in order to obtain [the loans and] international
approval’ at the cost of social and economic consequences in the longer term of which
they were unaware (Biersteker 1990, p. 478). As against the claims that the
commitments were economically rational and politically neutral, the World Bank
demands of borrowers were the result of contestation within the organisation. In
general, however, the core neoliberal tenets remained unchanged. Theoretically, the
Washington Consensus was underpinned by a set of economic philosophies, including
the traditional presumptions within neoclassical economics – the neoliberal concepts of
individualism and a free market (or minimal state). Mainstream neoclassical
economics continues to valorise individualism, private enterprise and free markets.
This position was endorsed by several neoliberal thinkers during the 1970s. Frederik
Hayek – the well-known exponent of individualism – posited a sort of Darwinism
according to which a market economy comprising rugged individualists is ‘conducive
famously stated that corporate executives, provided they comply with the law, should
perform only the one task of making as much money as possible for their shareholders,
implicitly equating best business financial performance with socially optimal benefits.
This is the argument derived from classical economics – that, thanks to the invisible
hand of the market, the self-interested pursuit of individuals or companies will
generate social good. Within the voluminous literature written on privatisation, however, very few authors have confronted the extensive criticisms of the underlying presumptions.

1.8 Philosophical Underpinnings of Privatisation

Further support for privatisation came from the theory of the firm, the theory of property rights, agency theory, and public choice theory. These doctrines belong to new institutionalism, which served as the theoretical foundation for the resurgence of neoliberalism, with privatisation as one of its flagship instruments.

1.8.1 Theory of the Firm

A novel theory of the firm was developed by Ronald Coase around the issue of minimising transaction costs. According to Coase (1937), the private corporation is the structure that allows transaction costs to be minimised and, thus, the boundary of the firm is also the boundary of efficiency. Implicit in this view is the superiority of the private sector (Williamson 1981).

1.8.2 Theory of Property Rights

The theory of property rights argues that the more ownership is concentrated in private hands, the more incentives are created to exert residual rights to the asset, and vice versa (Alchian 1965; Demsetz 1967). According to Alchian (1965, p. 827), ‘the possibility of concentrating one’s wealth in certain areas permits greater correlation of personal interest and effort in line with wealth holdings’; hence only ‘private owners have strong incentives to use their property rights in the most valuable way’ (Alchian & Demsetz 1973, p. 22). On the other hand, due to the free rider problem, people tend to over-utilise assets in public ownership for their own benefit, at the expense of externalisation of costs to the society as a whole. Consequently, transaction costs are often raised within the public sector, inherently leading to inefficiency. These were not new ideas in classical economics. It was ‘Adam Smith [who] wrote in the Wealth of Nations that people are more prodigal with the wealth of others than with their own’ (Adams & Mengistu 2008, p. 80). So, according to property rights theorists, ownership does matter in relation to efficiency.
1.8.3 Agency Theory
Agency theory, with its concern that there are always problems in the relationship between principal and agent, is also invoked in the argument for privatisation. Principals and agents, the theory proposes, might pursue different goals and interests while, due to information asymmetry, it is hard for the principal to ensure that the agent acts in accordance with the principal’s strategy (Jensen & Meckling 1976; Fama & Jensen 1983b). Risk-sharing may occur as ‘the principal and agent have different attitudes toward risk’ (Eisenhardt 1989, p. 58). Greater risk aversion on the part of an agent, for example, might increase agency costs and thus reduce returns to residual claimants. While principal and agent are regulated by the financial market and the labour market, respectively, external monitoring mechanisms of the stock market and takeover market can exert ‘pressure to orient a corporation’s decision process toward the interests of residual claimants’ (Fama & Jensen 1983a, p. 313), thus lowering the agency costs for private firms. Such agency problems, it is argued, are endemic to SOEs since their real owners – the dispersed population – are often negligent in supervising the state bureaucratic managers. Explicitly, agency theory has entrenched a belief in the superiority of the market mechanism and corporate structure in terms of shareholder value maximisation, which is used to favour privatisation.

1.8.4 Public Choice Theory
Public choice theory resembles agency theory insofar as it views the citizens and the state as being in a principal–agent relationship. Does the current political-economic process permit citizens to supervise their alleged representatives? Stilwell (2002, p. 203) explains that public choice theory – a kind of bridge between neoclassical economics and political science – ‘represents politicians and bureaucrats as subspecies of Homo economicus, self-interested individuals whose actions are calculated responses to vote-maximising processes’. Thus, they appeal to private interests and only coincidentally act in accordance with genuine public interests. Instead, state power is appropriated by private interests. Government for the people, by the people and of the people is undermined. According to Buchanan (1979, p. 46), ‘government or political organisation is shown to “fail” in certain respects when tested for the satisfaction of idealised criteria for efficiency and equity’. Hence, while both the market and government have their own failures, the market mechanism is still a better
option because it is the place where all rational individuals can act freely in pursuit of their interests.

[S]ince there is little reason to believe that the private interests that have "captured" legislators will reflect the interests of the poorer members of society, public choice theorists have suggested that privatisation might even have a progressive effect by reducing such exploitative activity in the public sector (Wright 1993, p. 17).

As a result, ‘public choice theory has been the rationale most widely advanced for privatisation attempts’ (Wright 1993, p. 6). Interestingly, however, the pendulum seems to have swung from suspicion over self-interested politicians to optimistic belief in the impartiality of politics-free markets.

### 1.8.5 Application to Privatisation

These doctrines have provided different kinds of theoretical foundations for privatisation, but they refer to principles or normative propositions (what should happen) rather than to empirical evidence. For example, there is a common proposition that SOE managers often serve particular economic and political interests instead of the goals of productive efficiency (Adams & Mengistu 2008) and that the latter would be achieved were enterprises located in the private sector. WB experts – for example Nellis and Kireki (1989, p. 662) – express concerns about managerial competency: ‘Boards of Directors are, in the main, composed of civil servants who defend ministerial interests rather than promote the welfare of the firm’. It can be argued that this statement begs the questions of what shapes ministerial interests and what evidence exists to show that ownership transfer will improve the performance of SOEs. Nevertheless, they persist in claiming that privatisation would bring the following benefits: (i) ‘less political interference’; (ii) managerial incentives ‘linked to productivity and profitability norms’; (iii) the exposure of firms to ‘the discipline of commercial financial markets’; and (iv) supervision of firms by the ‘self-interested shareholders’ with ‘commercial profitability as the main objective’ (Nellis & Kireki 1989, p. 663). This is a typical example of how neoliberal thought has been integrated
into advocacy of privatisation⁷. Given such views, it is not hard to see why suggestions for privatisation have extended into numerous areas, including the provision of most public goods and utilities.

1.9 Critiques of Privatisation

Critics of neoliberal views on privatisation, who include former supporters of the Washington Consensus, have identified a range of concerns that challenge the theoretical foundation of privatisation arguments. These are discussed below.

1.9.1 Institutional Prerequisites for Privatisation

Joseph Stiglitz, a leading WB advisor at the time of privatisation’s ascendancy, called for modifications to the propositions of the Washington Consensus which came to be known as the Post-Washington Consensus. According to Cramer’s (1999) account, Stiglitz concluded that privatisation was still necessary to ‘reduce the temptation’ to rely on the state for ‘state subsidy and protection’ (p. 5), but argued that

‘...the advocates of privatisation may have overestimated the benefits and underestimated the costs.’ [Although] most people at the time would have preferred to have proper regulatory systems and competition in place before privatisation […] privatising without the appropriate prerequisites in place ‘seemed a reasonable gamble’ (pp. 3-4).

Stiglitz’s embrace of competition and regulation as necessary complementary policies to privatisation is indeed consistent with the conclusions of many earlier scholars (Kay & Thompson 1986; Vickers & Yarrow 1988, 1991; Beesley & Littlechild 1989; Van De Walle 1989). For example, Mansoor and Hemming had written that ‘allocative efficiency is a function of market structure rather than ownership’ (as cited in Van De Walle 1989, p. 605).

Similarly, Cook, Kirkpatrick and Nixson (1998, p. 4) proposed that

⁷ Another example was Privatising Russia, in which property rights theory and public choice theory were brought fully into play by advocates of the shock therapy approach to privatisation (see Boycko, Sleifer & Vishny 1995).
…the achievement of privatisation has been insufficient in itself to ensure private sector growth. [...] In one sense, of course, the transfer of public sector assets to the private sector, ceteris paribus, increases the number of private sector enterprises. But at another level, a smaller or weaker public sector may paradoxically dampen or constrain the dynamism and growth of the private sector.

It seems that developing countries have placed too much dependence on privatisation, often cluttered with multiple objectives that might even have been at odds with each other (Cramer 1999). Moreover, the fundamental problems with developing countries often seem to be with the implementation (due to technical and political constraints) rather than the design of policy (Cook & Kirkpatrick 1988; Bienen & Waterbury 1989; Van De Walle 1989). Accordingly, on one hand, the effectiveness of privatisation transactions is hampered by inadequate managerial capacity, the inability of fledgling capital markets to meet demands for technical advice and funding for large-scale investments, and a lack of administrative capacity for regulating firms after privatisation. On the other hand, privatisation is also challenged in regard to the distribution of its private benefits, especially insofar as that is influenced by patronage and by ethnic, religious and regional affiliations.

Stiglitz’s emphasis on the need for state-led improvements in the institutional framework for privatisation (rather than retreat by the state) indicates that the gradual approach towards privatisation is more suitable than shock therapy, since a lengthy process is required for the state to carry out all necessary ‘institutional change[s]’ – particularly, perhaps, in fostering competition, which is considered by some as being of the highest priority (Kolodko as cited in Cramer 1999, p. 5). In effect, Stiglitz’s argument is that the market and the state have opposite strengths and weaknesses, and that the two should complement rather than replace one another – that is, state governance of privatisation (Hodge 2002).

1.9.2 The Broad Theoretical Case against Privatisation

Stiglitz (2008a, p. xi) criticises the neoliberal belief that private ownership intrinsically outperforms the public sector as ‘simpleminded’. Similarly, King and Pitchford (1998,
p. 314) assert that the rationale for privatisation is only ‘superficially attractive … [but] lacking intellectual rigour’. The topic of how broad and differently-shaped privatisation programs should be is hardly ever addressed by neoliberals. This may be explained by the fact that the neoliberal argument, contrary to its proponents’ claims, has ‘less to do with efficiency’ than with ideological prejudices (Stiglitz 2008a) and the conflict of political interests (Butler 1989; Cahill & Beder 2005). It is argued that differences of efficiency between the public and private sectors are not easy to discern but can only be learnt from ‘historical experience’ (Rowthorn & Chang 1992; King & Pitchford 1998; Quiggin 1999, p. 42). A priori claims are essentially constructed from ‘myths of the Left and Right rather than on any objective assessment of costs and benefits’ between the two options (Quiggin 1999, p. 44).

Several authors have attacked the frequent argument of productive efficiency improvements as measured by financial indicators of privatised firms. For example:

Many private firms are monopolies […] To the extent that customers are captive, profit figures, and hence share prices, may no longer provide a good indication of enterprise efficiency (Rowthorn & Chang 1992, p. 4).

Shareholder maximisation in particular did not result in (Pareto) efficiency. […] The fact that, on average, private firms seem more profitable than public firms does not necessarily mean that private firms are more efficient (Stiglitz 2008a, pp. xii-xiv).

This is because public and private firms differ in many respects, such as distributional objectives (Stiglitz 2008a) or constraints imposed on public firms relating to direct linkages between activities and the realisation of national economic and social development (Butler 1989). As King and Pitchford (1998, pp. 315-316) explain:

[A] profit-maximising private firm may not result in a higher sum of private and social surplus than an equivalent government-owned firm. [Hence,] if public sector managers are provided with different incentives and objectives to
their private sector counterparts, then measuring public sector performance by private sector benchmarks will provide little useful information.

Furthermore, the simplistic neoliberal linkage between ownership structure and efficiency undermines their own argument (King & Pitchford 1998; Stiglitz 2008a). First, they do not take into account the potential impact of market failures and market distortions on market efficiency. Second, very few mainstream economists have detailed the channels through which the effects (if any) of private ownership on efficiency improvement actually flow. The question of how differences in ownership can influence performance has only rarely been effectively addressed (see Brouthers et al. 2007). Third, because there is often a lack of such analysis, neoliberals find it difficult to verify the impact of such changes (Cuervo & Villalonga 2000). As a result, the theoretical foundations of privatisation are merely normative presumptions or beliefs which are, in fact, influenced by political factors and not just economic considerations (Hodge 2002).

It is also worth noting that the assumptions of property rights theory have not often been empirically supported (Whinston as cited in Williamson 2002, p. 189). Agency problems are present in various settings, including both the private and public sectors (Jensen & Meckling 1976; Fama & Jensen 1983b). In practice, the introduction of remuneration packages, including share-options that link individual managers’ remuneration to firm performance (Jensen & Meckling 1976), only fortifies a shareholder-values orientation of the business strategy rather than ensuring a commitment to the long-term productive efficiency of privatised firms. On the other hand, it would be naïve to suppose that the private sector is exempt from bureaucratisation and corruption (Chang & Singh as cited in Bayliss & Fine 1998). So, instead of fearing the politicisation of self-interested SOE managers, as public choice theory would have it, it may be better to guard the privatisation process from being ‘corrupted by the same factors’ (Wright 1993, p. 6).

Criticism of privatisation is particularly trenchant among self-styled heterodox economists, who arguably bring their own prejudices to bear. Some authors targeted
specific reports by the WB or its underpinning philosophies. Bayliss and Fine (1998, p. 845), for instance, criticised the *Bureaucrats in business* report as

…an ideologically favourable stance towards the market, thereby overlooking or reinterpreting evidence that favours state economic intervention … [T]he use of evidence is selective, biased and tied to much stronger conclusions than are warranted … [and there is] a very narrow view of what constitutes industrial policy.

Similarly, Kiely (1998) documented the inconsistency in the WB’s neoliberal propositions about market-friendly intervention and good governance in explaining the ‘Asian miracle’. He cites Kwon’s castigation of the WB: ‘having been so quick to blame government for economic failures in the past, …[they] are now reluctant to admit a positive role for government in a successful economy’ (p. 72). Kiely goes on to argue that:

[i]n focusing on *governance*, the Bank has reduced the *politics* of development to a purely technocratic issue. Wider social and political interests are largely ignored, and so the need for better governance linked to a “free enterprise” economy is reduced to rhetoric (Kiely 1998, p. 74).

Jomo (2008) points out that there are still public sectors running efficiently in many countries, with high levels of accountability and transparency. Meanwhile, as ‘privatisation would give priority to profit maximisation at the expense of social welfare and public interests, except on the rare occasions when the two coincide’, poorer consumers will be adversely affected by privatisation (pp. 203-204). Essentially, Jomo (2008, p. 208) argues:

[P]rivatisation is certainly not a universal panacea for the [admittedly] myriad problems of the public sector, as is often touted. Privatisation may be no more of a solution to the problems of public enterprises than public enterprises have been a solution to the problems they were ostensibly set up to overcome.
Other political economists, such as Rowthorn and Chang (1992), refute all the theoretical foundations of privatisation. For example, they point out that in practice the financial market does not effectively monitor and impose competitive pressures on firms as it is said to. This is not only because ‘individual investors in large joint stock companies do not have incentives to devote time and resources to monitoring the managers’ (p. 3), but also because size, rather than efficiency or profitability, governs ‘selection for survival in the stock market’ (p. 4). Furthermore, as Singh argued, firms seek to avoid being taken over by merging with ‘smaller but more profitable firms’, thus leading to greater monopoly power and reduced efficiency, rather than vice versa (as cited in Rowthorn & Chang 1992, p. 4). According to these authors, state decision-making on the extent of its public sector is basically a ‘portfolio choice’, similar to a private company’s choice of ‘what it can most effectively manage’, which also sets the boundary between the public and private sector (p. 9). If this is so, then privatisation is pragmatic (Rowthorn & Chang, pp. 13-14).

1.9.3 Political Agendas in Privatisation
The inadequacy of neoliberal arguments on privatisation has invited political economists to question the neutrality of neoliberals (Bienen & Waterbury 1989; Butler 1989; Marangos 2002; Cahill & Beder 2005; Medeiros 2009). According to Butler (1989, pp. 16-17):

> There may actually be a ‘hidden agenda’ among many of the proponents of privatisation. That is that privatisation reduces the mechanisms available to the state for the pursuit of several “social” objectives. These include the redistribution of income between classes or at least between parts of the community.

In fact, the political purpose of privatisation in the UK was clearly stated as being to achieve a ‘popular capitalism’ (Kay & Thompson 1986) via the ‘institution of private property and freedom of exchange based on widely disseminated market information and a multiplicity of small buyers and sellers’ (Butler 1989, p. 10). This is what the CEE and former CIS transitional economies claimed they were striving for when they embarked on privatisation through voucher distribution, which they referred to as
‘people’s capitalism’ (Marangos 2002, p. 581). Similarly, Bienen and Waterbury (1989, p. 621) described privatisation as part of a process in which

…a political leadership sets out to fundamentally reorganise social and political, as well as, economic agreements. The aim is to change a pattern of political and social power in a country directly.

From another perspective, Cahill and Beder (2005, p. 7) locate privatisation within the context of ‘a mobilisation by particular fractions of capital in an attempt to shape state policy making in their own interests’. Against the backdrop of electricity privatisation in Australia, Cahill and Beder (2005, pp. 13-14) argue that privatisation is by nature ‘a class-based project through and through – driven by business interests and state elites’ to serve private opportunism by ‘transforming publicly owned monopolies into private oligopolies’. This is in line with observations in other contexts. Marangos (2002, p. 581) agrees that, in transition economies, ‘the gains [of privatisation] have been captured by the managerial class, who have successfully won the rents from the state’, while Medeiros (2009) argues that privatisation in Latin America was often used by newly elected administrations to consolidate their political alliances.

All in all, the point on which most political economists might agree is that the essential role of the state in the economy should not be thrown out with the privatisation of SOEs. In other words, privatisation should not be allowed to ‘hollow out’ the state (Hodge 2002). As Butler (1989, p. 18) puts it, ‘[t]he fundamental reason for the state’s not conceding control is that it is expected to be the organiser of capitalism’. Indeed, the ubiquitous and essential role the state accounts for is not being thrown out in practice, as opposed to being redirected: there is a considerable discrepancy between what neoliberals claim to adhere to and what they actually practise (Cahill 2014). Apart from anything else, the political economist insists that any examination of the privatisation of SOEs should be aware of and take into account the historical and political economic context of the country concerned.

1.10 Summary and Conclusions

There are different ways of defining privatisation – from the broadest (reducing the role of the state in the economy and society) to the narrowest (transfer of part or all
ownership of the state at SOEs to the private sector). Based on pace, breadth of coverage and methods, privatisation can be accomplished (configured) in different ways. Vietnam has practised privatisation in a narrow sense. In Vietnam, it is referred to as ‘equitisation’, part of what is known in the West as corporatisation; this leads to privatisation in the narrow sense of sales of shares of ownership to the private sector. In Vietnam, besides equitisation, other forms of privatisation are also undertaken in the name of ‘socialisation’, but these operate within a quite different policy framework to that of equitisation.

Proponents of privatisation should consider why SOEs were created in the first place. The ideology of state interventionism mandated the formation of SOEs as strategic tools to coordinate investment and stimulate growth in a variety of economies in both the East and West and in both developed and developing countries. Undeniably, these SOEs contributed to the rapid economic reconstruction of the world in the period after WWII.

Privatisation first became popular in Thatcher’s Britain, where it was pursued on the poorly established grounds that SOEs were generally inefficient in and of themselves (sui generis). The practice of privatisation spread to other countries in Europe and to the Anglophone world; it did not deliver well on its promises and had to be accompanied by state regulation; it was commonly partial and incorporated golden shares. Overall, privatisation has been of limited success – success with many reservations. In Australia, privatisation is ongoing and controversial. The population continues to be concerned about how privatisation will influence service accessibility and prices, technical improvement, environmental protection and the creation of private monopolies.

Privatisation was introduced into developing countries by the WB and IMF on a one-size-fits-all basis, despite the lack of clear evidence of success in Europe, and despite the much larger initial presence of SOEs in developing countries. Essentially, privatisation was part of the WB-initiated neoliberal reform known as the Washington Consensus. In this push, the reasons for the existence of SOEs in the first place were ignored, and the merits of privatisation came to be taken for granted.
Why was the WB so committed? The ideology of neoliberalism saw the WB repudiate the achievements of developmental state policies in favour of the position that liberalisation and private enterprises were responsible for the growth of Japan and other East Asian countries.

The philosophies that underpinned the views of the proponents of privatisation were firmly aligned with neoclassical economics, and these have been equally firmly criticised. The critics of privatisation came to include even Joseph Stiglitz (an earlier proponent of privatisation), who warned of the need for an accompanying formal institutional structure and pointed out that the efficiency claim for privatisation was poorly founded. Other critics, such as Bob Rowthorn, Ha-Joon Chang and K.S. Jomo, are well regarded in East Asia. These critics have shown how much the case for privatisation has reflected political contests. Political economists have warned that the essential roles of the state should not be sacrificed by greed for access to apparent opportunities for private profits on the part of organised private interests working behind misleading claims.
Chapter 2
Practical Experiences of Privatisation in Transition
Economies and Developmental States

The theoretical foundations of privatisation policy are not indisputable, nor has its practical implementation been straightforward. According to North (as cited in Rodrik 2005, p. 1007), ‘economies that adopt the formal rules of another economy will have very different performance characteristics than the first economy because of different informal norms and enforcement’. When the neoliberal philosophies underpinning privatisation were diffused worldwide, these exogenous forces would have interacted with indigenous factors in each country to shape the particular implementation process (Lavi-Faur 2005). This explains how and why privatisation has taken such contrasting forms in economies on different development levels and in different socio-political contexts. In order to complement the theoretical debate with practical experiences of privatisation, I selected three general privatisation settings for detailed analysis: transition economies, developmental states, and a mix of both that is similar to what is found in the Vietnamese economy.

Transition economies (or economies in transition) include the former socialist countries whose central command economies were transformed into market economies after the collapse of the Soviet bloc in 1989-1991. In this thesis, however, the term ‘transition economies’ is used to refer only to those economies in Central and Eastern Europe (CEE) and the former Commonwealth of Independent States (CIS) – that is, Russia and those surrounding nations which had formed part of the USSR (Soviet Union); this usage follows Hanousek, Kocenda and Svejnar (2008). China and Vietnam are not included here although they are also in transition. This is because, unlike the aforementioned countries, the reforms took place only in the economic domain and not in the political sphere as well. These two countries also differ from other transition economies in that they have been influenced by the developmental state model that came to be recognised in the 1990s. Simply defined, the developmental state or entrepreneurial state refers to an essentially capitalist economy in which the state’s actively interventionist role has been one of the main contributors
to successful economic growth. Recent examples include the East Asian states of Japan, South Korea, Taiwan and Singapore during the period between the end of WWII and the Asian financial crunch of 1997. Although both China and Vietnam had the same structural conditions as those in transition economies in Eastern Europe, their policy makers tended to adopt neighbouring developmental states as models of best practice, rather than looking to learn from the CEE and former CIS, where the transition process – which has been described as disorganised, if not a ‘nightmare’ (Major 1993, p. 1) – provided a less attractive scenario. The process of privatisation – one of the key aspects of transition – appears to have emulated East Asian policy.

This chapter begins by examining the wholesale privatisations in transition economies that were influenced by ideological bias and political construction. This is followed by an account of the privatisation experiences, lauded as the ‘Asian road’ (Medeiros 2009, p. 117), which characterised the gradual and partial approach adopted by the developmental states.

### 2.1 Ideology-led Privatisation in Transition Economies

Privatisation erases ‘the fundamental dividing line between a socialist and a capitalist society. No obvious precedent exists for such a profound transformation’ (Aslund 2007, p. 143). As such, for many governments in the CEE and former CIS, it was part of an (over)ambitious political agenda during the 1990s. In these transition economies, it took the form of mass privatisations that have been characterised as shock therapy (Meideros 2009, p. 117). In fact, in each case, privatisation involved a complex process with its own evolutionary dynamic between intentions and practice, one that reflected different ideological impulses, political calculations, conflicts of interest and historical political economies. Up to the present day, the results of privatisation have been assessed as successful or not according to the assessor’s ideological position.

#### 2.1.1 SOEs, Soft-budget Constraints and Nomenklatura Ownership

State-owned enterprises (SOEs), with their monopolist status in national markets and national production systems, represented one of the fundamental and iconic aspects of economic governance under state socialism. In the former central-command economies, the formal business sector consisted only of SOEs, collective farms and
cooperatives. Among these, the SOEs completely dominated economic activity in terms of both national asset ownership and contribution to GDP. The picture presented by inconsistently collected data (for which transition economies have traditionally been well-known) is that the relative size of the SOE sector to output/GDP was around 96-97% in the Soviet Union, East Germany and Czechoslovakia (1985-1986); the smallest ratios were found in Hungary and Poland (65.2% and 81.2%, respectively) (Lipton & Sachs 1990b, p. 300). By contrast, the formally unrecognised private business sector was ‘nearly non-existent’ (Aslund 2007, p. 143), ranging from 5-10% in most of these economies in 1990 (Estrin et al. 2009, p. 2). In scope and scale, the SOEs not only commanded key industries in the CEE and former CIS economies, but were also represented among retail shops and kiosks. Their number varied from 2,500 in a medium-sized country like Hungary to over 8,400 in Poland, and 45,000 in the former CIS (Major 1993, p. 24; Rondinelli & Yurkiewicz 1996, p. 145).

By and large, SOEs in the CEE and former CIS were blamed for inefficiency, especially in the triumphalist days of neoliberalism. According to Aslund (2007, pp. 143-144), for example, ‘state factories were badly managed, obsolete, and overstaffed; [...] In the East, popular disillusion with public enterprises was extraordinary’. Although various authors emphasise different features of the SOE system in their discussions of privatising SOEs, two key themes consistently emerge: the institutional, especially budgetary constraints in SOE governance, and the property rights structure of these enterprises.

In his pioneering scholarly analysis, Janos Kornai identified one of the profound weaknesses in SOE governance as the so-called ‘soft budget constraint’. According to Kornai (1986, pp. 4-5):

The “softening” of the budget constraint appears when the strict relationship between expenditure and earnings has been relaxed, because excess expenditure over earnings will be paid by some other institution, typically by the State […] The higher the subjective probability that excess expenditure will be covered by external assistance, the softer the budget constraint.
Softness in the budget constraint arises in four main areas: subsidisation, taxation, credit and administrative pricing. Problems occur when these relationships are routinely ‘negotiable, subject to bargaining, [and] lobbying’; gradually the violation of financial discipline becomes tolerable (Kornai 1986, pp. 5-6). Although Kornai acknowledges the existence of ‘soft budget constraint’ in various types of economies (socialist and mixed economies) and firms (SOEs, private banks, and non-profit organisations), it was assumed to explain inherent inefficiency in the SOEs in former socialist countries but to be less prevalent ‘for the majority of private firms’ (Kornai 1986, p. 22). The ‘soft budget constraint’ is said to allow SOE managers to avoid market discipline in seeking funding. It cannot, however, be claimed that market discipline would have been more effective, since market institutions were underdeveloped due to the underdevelopment of the former central-planning economies. Nonetheless, neoliberalists proclaimed that ‘soft budget constraint’ was not only the antithesis of the free market’s price signals but also rendered those signals impotent, thus removing the one incentive they recognised as being capable of forcing SOE managers to improve the efficiency of the firm and, eventually, of the allocation of resources.

This perceived failure of SOEs was described as ‘government failure’ and the political undermining of markets. This characterisation is in keeping with the traditional assumptions of property rights theory, agency theory and public choice theory. It was widely proclaimed that accountability in the ownership structure of SOEs was vaguely defined, and that this was the main source of inefficiency. According to Lipton and Sachs (1990b, p. 298):

[W]hile the state enterprises are presumably owned by the state, the various components of ownership […] are in fact jointly held, in a shifting and imprecise way, among managers, workers, and the state.

Major (1993, p. 11) argued that the de facto property rights over SOEs were determined by ‘the distribution of power and bargaining position of different power groups rather than a transparent legal framework’. There were, in fact, conspicuous gaps in the framework of accountabilities in SOE governance in the CEE and former
CIS countries. Boycko, Shleifer and Vishny (1995, p. 21) contend that ‘poorly defined property rights are endemic when politicians control economic activity’. According to these authors, the ideal situation is one in which the ownership of cash flow rights (who is subject to economic benefits/harms) should converge with control rights (who has influence on the firm’s performance) to avoid divergence between objectives and incentives (see also Roland 2008). This position leads to the familiar accusation among proponents of privatisation that SOEs are intrinsically inefficient because politicians and politically-driven purposes can defeat the interest of individual citizens as shareholders in maximising profitability (Aslund 2007).

In attempts to turn the SOEs around before the wave of privatisation, some governments in the CEE and former CIS undertook a series of reforms to decentralise state control over various aspects of SOE management, including production, investment, pricing and wage setting. These reforms were largely unsuccessful, however, ‘mainly because they failed to lead to the creation of real markets with real competition’ (Lipton & Sachs 1990a, pp. 106-109). Furthermore, while the expected outcome of hardening budget constraints was unachievable, the greater autonomy granted to SOE managers led to another challenge: spontaneous privatisation. In Poland, for example, once SOE managers had been given the ability to set wages freely, they were pressured by powerful workers’ councils to raise wages, resulting in ‘an enormous real wage explosion and a wage-price spiral’ (Lipton & Sachs 1990b, p. 306). Meanwhile, Russian managers were able to engage in a ‘massive theft of public assets’ by signing discounted transactions, redirecting the assets and profits of their SOEs to private firms they themselves had established (Boycko, Shleifer & Vishny 1995, p. 60) or to foreign joint-ventures (Lipton & Sachs 1990b, p. 306).

The concepts of politically-driven SOE decisions and of the state as the beneficiary owner of SOEs need to be unpacked. According to Major (1993), state ownership is generally a ‘peculiar form of “collective ownership”, known as “nomenklatura ownership”, which is a complex system of interrelated interests of influential political and economic agents. Members of the nomenklatura did not belong to that group as persons
..., but as representatives of powerful interests. They did not even need to be members of the communist party, though they had to be accepted [and tolerated] by the party leadership [...] as far as those goals could be reconciled with the endeavours of the party leadership (Major 1993, pp. 14-15).

More tellingly, in response to such a ‘bruising fights over property rights’ (Lipton & Sachs 1990b, p. 298) of the SOEs at the beginning of 1990s, the efficient model of ‘public-spirited bureaucrats’ serving as SOEs’ owners in Northeast Asian developmental states was recognised by the reform advisors; nonetheless, they stated that such a model was ‘rare’ throughout the world and impossible to apply in Russia at that time (Boycko, Shleifer & Vishny 1995, p. 57). So, how were the privatisation agendas driven and planned by reformers in the CEE and former CIS in the transition period?

2.1.2 Political Agendas in Planning for Privatisation

The underperformance of SOEs had been a fact in the CEE and former CIS, yet privatisation – notionally vindicated as a means of improving the efficiency of SOEs – was represented as having a much wider remit. Although privatisation had been a prohibited topic before the transition wave that began in 1989, it was now viewed as a pervasive disruption of the former political economy system (Major 1993; Aslund 2007). As a result, in addition to those rationales that had motivated privatisation in the West, reformers in transition economies added a host of other rationales to their arguments for transformation.

First, the overwhelming aim of privatisation, as presented by the reformers, had to do with laying the foundation for ‘a well-functioning market economy’ (Aslund 2007, p. 146). According to Major (1993, p. ix), privatisation emerged as ‘an immediate necessity in countries that aimed for an economic transformation from the command economy into a Western-type market economy with dominant private ownership’. Indeed, along with ‘macroeconomic stabilisation, [and] liberalisation of economic activity’, privatisation was at the forefront of the reform agenda (Lipton & Sachs 1990b, p. 293). The role of privatisation was even more significant in view of the perception that the former socialist economy was an ‘irrational’ mode of economic
governance (Aslund 2007). In this view, any reform that could disentangle the old system would contribute to the creation of its antithesis – the market economy – which, it was presumed, could only be invigorated by the private sector. Such belief in the superiority of market forces and private ownership was preeminent during the early phase of transition. Consequently, according to the Czech Minister of Privatisation, Tomas Ježek (cited in Aslund 2007, p. 146), the main task of privatisation was ‘not to increase the efficiency of particular companies, but to create market structures to encourage private business’. It is noteworthy that the reformers expected that privatisation would help facilitate the creation of ‘the basic institutions of a market financial system’ (Lipton & Sachs 1990b, p. 294) rather than vice versa. This is in contrast to the conclusion reached by Parker and Kirkpatrick (2005), that the existence of effective financial markets enhances the effects of privatisation.

Second, the economic agenda seemed to be outweighed by a political trajectory that could be discerned behind the advocacy. Inspired by Hayek’s liberal ideal, privatisation was geared towards the broader goal of ‘mak[ing] private ownership the foundation of freedom and democracy’ (Aslund 2007, p. 145). Through the ‘the reallocation of property rights’ (Major 1993, p. 2) via privatisation, another ‘liberal political objective was to build a new middle class of educated and property-owning people’ (Aslund 2007, p. 146). As was true of the political agenda of ‘popular capitalism’ pursued in Western Europe, privatisation was also seen as crucial for future ‘capitalism with small entrepreneurs’ or ‘people’s capitalism’ in the CEE and former CIS (Major 1993, p. 56; Schutte 2000, p. 60). Reformers, however, ignored an important difference. While the former countries had been developed with fully-fledged capital markets and institutions to protect property rights, these institutional prerequisites were yet to be created in the latter ones. If corruption and violation of minority investors’ rights became pervasive, the illegitimate wealth creation would only encourage asset stripping activities which, of course, diminish any society (Stiglitz 2008a, p. xvi).

Third, there was the efficiency rationale, but this was overwhelmed by politics and ideology. Whereas the development of clearly specified channels for the change of ownership could have led to a corresponding improvement in productive efficiency –
for example, by hardening budget constraints or establishing better corporate governance under new management – there were merely expressions of faith in relation to depoliticising SOEs. From the cookbook of public choice theory, Boycko, Shleifer and Vishny (1995, p. 9) embraced the ideal of ‘economic man’ (*homo economicus*):

Russia did not need a third way of organising its economic activity […] Russians would rationally respond to economic incentives pointed to markets as the best way to organise economic activity in Russia, just as they are elsewhere in the world.

Further:

[P]olitical influence over economic life was the fundamental cause of economic inefficiency, and […] the principal objective of reform was, therefore, to depoliticise economic life […] Privatisation fosters depoliticisation because it robs politicians of control over firms (Boycko, Shleifer & Vishny 1995, pp. 10-11).

Privatisation was thus the means of constraining ‘hegemonic state power’ (Aslund 2007, p. 145). This was commonly represented as an intermediate way of improving performance of the activities of (privatised) SOEs (Lipton & Sachs 1990b). The problem, however, was that, from being a secondary policy instrument, privatisation became a ‘primary objective’ of the reform in its own right – it was assumed that the more completely and swiftly the ownership of SOEs was transferred from the state to the private sector, the greater the efficiency would be. Other ‘less important’ aspects of reform were easily traded off (Boycko, Shleifer & Vishny 1995, p. 11). As discussed in Chapter 1, it had been acknowledged in the West that competition and regulation were two complementary elements that were necessary for privatisation to improve efficiency and not adversely affect public interest (Vickers & Yarrow 1988).

Fourth, ‘justice’ was a unique imperative advanced for privatisation in the CEE and former CIS transition economies. This represented a response to calls for restitution to the previous owners of assets that had been confiscated by the communist states, and
for the equitable distribution of state assets to the wider population or to workers in the respective enterprises, collective farms, and cooperatives (Lipton & Sachs 1990b; Major 1993; Boycko, Shleifer & Vishny 1995; Aslund 2007). Although this kind of rationale was more applicable to real estate, housing and agricultural land than to SOEs, the ideology influenced the adoption of the distinctive voucher approach to privatisation in these countries. From the critique of a system of vaguely defined property rights, the reformers argued that the assets of SOEs should belong to the entire population. In practice, this reflected their need not only for rapid and easily-implemented privatisation programs, but also for a means of securing popular support for the legislation associated with the reforms. To achieve the latter aim, vouchers were distributed as a ‘government gift to the public’ (Boycko, Shleifer & Vishny 1995, p. 86). These political imperatives behind privatisation in the CEE and former CIS deflected and undermined reformers’ plans for ‘rapid, equitable, and fiscally sound’ privatisation (Lipton & Sachs 1990b, p. 293).

### 2.1.3 Rapid Privatisation, but neither Equitable nor Fiscally Sound?

Even though the contours of privatisation in the CEE and former CIS economies have often been described as massive or wholesale privatisation with a ‘shock-therapy, big-bang or radical’ approach (Wolf 1999), not every supporter of privatisation endorsed the strategy. Some reformers argued for a gradual approach. According to one prominent advocate of gradualism, Kornai, ‘[t]he point now is not to hand out the property, but rather to place it in the hands of a really better owner’ (Lipton & Sachs 1990b, p. 297). Interestingly, the Western investment banks consulted by the indigenous privatisers also ‘advocated case-by-case privatisation through cash sales’ (Boycko, Shleifer & Vishny 1995, p. 70). While it can be inferred that these financial institutions would have gained more benefit by providing consulting services on each of many separate transactions, their endorsement of a gradual approach was clearly grounded in their own orthodoxy that ‘in the absence of [both markets and market-supporting] institutions […], the neoclassical prescription is held to be inappropriate’. In particular

the imposition of hard budget constraints on enterprises in the absence of functioning credit may force even sound firms into insolvency. Liberalisation
in the absence of supporting institutions can, in consequence, deepen the “transformational recession” unnecessarily (Wolf 1999, p. 4).

Stronger non-economic influences, however, caused the privatisers to ignore these and other warnings. It was suggested, for instance, that vouchers might become concentrated in the hands of a few investors while direct sales or public offerings should be preferred on the grounds of transparency, careful valuation and, most importantly, the need to ‘allocate companies to the most efficient owners’ (Boycko, Shleifer & Vishny 1995, p. 70). However, the exaggerated significance attached to the role of privatisation in the overall economic transition strategy of the CEE and former CIS countries induced the reformers to prioritise the speed and scope of the process (Major 1993). Accordingly, the reformers insisted that

[t]he potential costs of overly rapid privatisation must be traded off with the high cost of maintaining the present system […]. It would be preferable, in our view, for all enterprises regardless of their financial position to be corporatised and quickly put into private hands (Lipton & Sachs 1990b, pp. 297,327).

Voucher distribution thus suited the aim of privatisers not only in terms of pace but also in terms of cost minimisation. In fact, if privatisation was to be pursued ‘as fast and as much as possible’, the most feasible option was free distribution of vouchers to the population at large. Other economically superior schemes required the establishment of financial markets, including stock exchanges, intermediary institutions and, much more importantly, the disposable savings of the population. Voucher distribution was also preferred to prevent assets being taken up by foreigners. Yet, while other schemes would have taken longer (Lipton & Sachs 1990b), they would certainly not have taken as long as the reformers’ overstated claims suggested (Boycko, Shleifer & Vishny 1995).

The main factor behind mass privatisation was the recognition by both policy makers and economists of a ‘window of opportunity’ (Aslund 2007, p. 153) within which to implement irreversible changes to property rights before the transition process became unpopular. In fact, the political instability of many countries in the CEE and former
CIS forced the pro-reformers to employ ‘the re-allocation of property rights in order to strengthen their own power base’ (Major 1993, p. 73). This is evident in Balcerowicz’s proposition (cited in Wolf 1999, p. 4):

[Radical economic reform] rapidly introduces a number of economic and political institutional changes that act as policy constraints on any new government taking over, whatever their basic ideology or value system.

One source of legitimacy that reformers tried to claim for their privatisation agenda was the argument that it would forestall popular resentment of the ‘managerial theft’ that accompanied spontaneous privatisation. By the early 1990s, this had become so widespread that it generated the common saying, “what is not privatised will be stolen” (Aslund 2007, p. 152). Undoubtedly, in such a politically-charged environment, the option of voucher privatisation was a potential source of political capital. As Boycko, Shleifer and Vishny (1995, p. 72) observe, ‘[t]he way to make the public an ally in privatisation is [instead] to distribute free shares to all citizens’. In sum, while the general rationale behind privatisation was depoliticisation of the SOEs, the privatisation process in the CEE and former CIS was politicised by the very same proponents of reform, deliberately or otherwise.

Although the experiences of the various countries differed greatly, the outcomes of privatisation in the CEE and former CIS were, by and large, neither as equitable nor as fiscally sound as expected. All major methods of privatisation - direct sales, vouchers and management-employee buyouts (MBOs) - were pursued by most of the countries, but to a different extent in each (Marangos 2002, p. 578). It is possible to group countries according to the privatisation methods they adopted as most workable. These methods often imply the pace and extent of their radicalism in privatisation, yet they are not necessarily associated with the overall manner of reform. As noted earlier, workability deserves attention because there was a great range of political interests involved, causing actual deviations from privatisation plans due to political-economic conditions and competing groups of stakeholders.
Distribution of vouchers to the wider population was the principal method of privatisation pursued in the Czech Republic, Russia, and half of the other countries in the former CIS (Marangos 2002). It was initially considered to be the best strategy on the grounds of equity, lower costs, and lack of impact on savings available for further investment. The dispersed ownership of privatised companies that resulted, however, often led to poor corporate governance, and voucher privatisation came to be regarded as a failure in terms of economic efficiency at firm level. Designed to be transferable, ‘the voucher became the first liquid security in modern Russia’ (Boycko, Shleifer & Vishny 1995, p. 100). Vouchers were owned and traded by inexperienced Russians on a fledging financial market. Indeed, of 144 million vouchers issued, nearly one third were used by people to acquire equity in their companies or others. Most of the vouchers were quickly sold to speculators at prices fluctuating between US$4 and US$20, or were eventually accumulated in the 600 newly established voucher investment funds (Boycko, Shleifer & Vishny 1995). Significantly, voucher auctions were highly decentralised in Russia, which created opportunities for managers and local politicians to change the auction rules to limit the competitive and transparent participation of outsider investors. As a result, several of the largest industrial firms in the country were bought cheaply. For example, Lada - the largest car producer and exporter, accounting for half a million workers and 7% of GDP - was sold for US$45 million, despite being valued at US$2 billion, and the winning bid for the gas monopoly was under US$228 million (Boycko, Shleifer & Vishny 1995, pp. 108-109).

Voucher privatisation was also implemented in the Czech Republic as a vehicle for speedy transition. Here, however, the governance of privatisation was much more centralised and carefully designed than in Russia. Privatisation schemes were proposed on a competitive basis by any group of stakeholders (the winners were mainly SOE managers and those ministries that had founded the SOEs) to upper levels of the government (Ministry of Privatisation) and were approved by the government. These plans were then put forward by the National Property Fund (NPF) as an intermediary state holding company (Schutte 2000, pp. 68-69). Another favourable factor in Czech privatisation was the country’s healthy macroeconomic situation, including respectable economic growth, full employment (Zijlstra 1997), and negligible level of public debt (Schutte 2000). Nevertheless, Czech voucher privatisation was hindered by the fact
that shares eventually accumulated in investment privatisation funds (IPFs). Many of these funds were controlled by several dominant state-owned banks, thus leaving the corporate governance of privatised firms effectively unchanged and contributing little to remedying the institutional weaknesses of the stock market in terms of transparency and protection of shareholder rights (Zijlstra 1997).

Although Poland was one of the leading countries in the transformation to a market economy, its privatisation implementation in the early 1990s lagged ‘seriously behind other economic changes’ (Rondinelli & Yurkiewicz 1996, p. 145). In practice, the Polish government’s initial commitment to the shock-therapy approach to privatisation was blocked by the resistance of ‘powerful entrenched interests dedicated to the status quo within state-owned enterprises’ (Zijlstra 1997, p. 10) such as the trade unions. Traditionally, Polish trade unions had considerable bargaining power with the state and firm managers. Due to fear that privatisation would lead to unemployment, reforms were usually delayed after the corporatisation of large SOEs. The privatisation program was only reactivated in the second half of the 1990s. In the event, employees of a SOE were granted 15% of the shares ‘for free’; another 25% were retained by the state, and the remaining shares were jointly bought by 15 National Investment Funds (NIFs). These funds enjoyed greater autonomy than their Czech counterparts and were run by professional managers (Zijlstra 1997). Privatisation in Poland was a mix of direct sales and management-employee buyouts (MBOs). Thanks to strict rules applied to the stock market (Zijlstra 1997) and the effectiveness of policies designed to develop small- and medium-sized enterprises (SMEs), Poland outperformed its neighbours in the creation of a vibrant private sector (Rondinelli & Yurkiewicz 1996).

Interestingly, although neoliberalists view Hungary as a successful country in the forefront of economic transformation, it pursued gradualism in privatisation and ignored the voucher option (Zijlstra 1997). To deal with spontaneous privatisation, the State Property Agency (SPA) was established as early as 1990 and, in little over a year, most of the SOEs were corporatised. Direct sales through auctions with extensive foreign participation were the first option adopted by the SPA which, however, retained its control over key industries (Zijlstra 1997). Direct sales were also widely applied in Bulgaria, East Germany, the Slovak Republic, Estonia, Latvia, and two
countries in the former CIS. Despite their many advantages in respect of transparency, valuation, equitability and relative resistance to corruption, initial public offerings (IPOs) were little used in the CEE and former CIS (Aslund 2007). This was due not only to the reformers’ rush to privatise in the face of the exaggerated need for quick reform, but also to the absence of the conditions necessary for such open sales, including legal rules, state administrative institutions and, especially, effective financial markets.

2.1.4 Outcomes: Private Sector Development or New Nomenklatura Ownership?
 Assessments of privatisation in transition economies have varied depending on the philosophical orientation of the assessor. Neoliberals insist that the changes that privatisation engendered in ‘the whole economy and society’ should be more deeply appreciated, rather than focussing on the restructuring effects it imposed on the SOE sector. An extraordinary increase in the share of the private sector in the economy, credited as the most important achievement of privatisation, was said to be reflected in positive correlations with democracy, liberalisation and transparency (Aslund 2007, pp. 168-169). Rapid development of the private sector became the finishing line that transition economies competed with each other to cross, regardless of the fact that there was no clear evidence that the ‘prize’ – in the form of improved economic performance – was a realistic expectation. The proportion of the private sector’s contribution to an economy was used as a benchmark against which to judge whether or not the transformation in general, and privatisation in particular, were successful. Schutte (2000, p. 64), for example, compared the private sector share of GDP to conclude that Czech privatisation outperformed its counterpart processes in Poland and Hungary because the country’s private sector share rose from 3% in 1986 to 75% in 1996. Similarly, Wolf (1999) used the liberalisation index 1989-1995 to categorise the economies of the CEE and former CIS as radical, gradual or lagging reformers. This criterion placed Russia in the third group, despite the fact that Russian reformers were the most radical during this period. Since the liberalisation index did not include privatisation policies, it could imply that the reforms in these lagging economies were not radical enough. In practice, the facilitation of privatisation alone does not necessarily lead to private sector development (Cook, Kirkpatrick & Nixson 1998). As Rondinelli and Yurkiewicz (1996, p. 156) observed, ‘[t]he transformation of Poland's
economy thus far owes much more to the development of small- and medium-sized enterprises than to the privatisation of large state enterprises’. In their review of empirical accounts, Hanousek, Kocenda and Svejnar (2008) also report mixed results for the impact of privatisation on a series of firm performance indicators. According to these authors, ‘privatisation of state-owned firms to domestic owners in CEE and the CIS […] did not have the strongly positive effect on economic performance that was expected’ (Hanousek, Kocenda & Svejnar 2008, p. 96).

Even though the impact of privatisation on broad economic and social development criteria can only be assessed if it is isolated from other variables, the fact that the CEE and former CIS countries experienced economic recession and a rise in inequality during the 1990s implies a hollowing-out of state capacity to which poorly-governed privatisation clearly contributed. By 1998, the average level of GDP in the region was equal to only 72% of what it had been before the transition (Wolf 1999, p. 1). However, the picture varied among these countries. While the CEE economies recovered to their pre-transition level in 1998, the former CIS economies were reduced to 63% of their previous level. While the GDP of Poland – where privatisation was delayed – rose 40% during the 1990s, that of Russia – where voucher privatisation was eagerly implemented – declined by 40%. Moreover, the poverty rate in the region experienced a five-fold increase in just a decade. According to the World Bank at the time, ‘[i]nequality... has increased so much in the CIS countries such as Armenia, the Kyrgyz, and Russia that they have come to rival the most unequal countries in the world’ (World Bank 2002, p. xiii). The Bank had to admit that part of the cause of the economic and social deterioration was the ‘diminished state capacity to provide public goods needed for the market economy as a result of corruption, [and] weak public sector management’ (World Bank 2002, p. xiii).

Most economists criticised the way in which privatisation was handled in the CEE and former CIS economies. According to Marangos (2002, p. 573), privatisation entailed ‘a large reduction in output, high unemployment and inflation and a breakdown of institutional norms resulting in corruption and illegal activities’. Russia – where mass privatisation saw the loosely-regulated selling-off of huge state assets ‘to enrich a few’ – is often seen as the worst example.
In a few years, Russia became a country marked by great inequality, with a Gini coefficient as bad as many in Latin America. By some estimates, $1.5 trillion in assets were stolen (Stiglitz 2008a, p. ix-x).

In fact, privatisation failed to accomplish the restructuring of SOEs in transition economies. According to Major (1993), the shock-therapy approach did not allow sufficient time for the creation of the legal rules and institutions that were necessary for privatisation to succeed.

Obsessed by the grand mission of an overall transformation of the transition economy, reformers hurried to overload privatisation with multiple objectives, despite the absence of enabling market institutions. Ideological commitment to the superiority of private ownership led to privatisation being presented as a panacea for a variety of economic problems. When the economic rationale was overwhelmed by political agendas, privatisation was carelessly implemented. The use of voucher privatisation or MBOs meant that, post-privatisation, the old management at SOEs remained nearly intact. This rendered unattainable the most important objective to which privatisation should have been directed – reform of the corporate governance of the SOEs. At the same time, the mantra of mainstream economics – ‘let the market decide’ – was inappropriate since ‘there was not yet a market and where, in fact, the explicit motive for the sales was to create a market’ (Stark as cited in Marangos 2002, p. 579).

Since the population could not afford to buy the assets of large SOEs, ‘[t]he only people who could purchase firms were those who had benefited under the previous regimes through the black-market and illegal activities’ (Marangos, pp. 578-579). As a result, the exaggerated expectations of a ‘people’s privatisation’ or ‘people’s capitalism’ through voucher privatisation did not materialise. Rather, capital came to be concentrated either directly into the hands of a few oligarchs, or indirectly in foreign firms (Marangos 2002, p. 581). In other words, the enterprises’ assets were transferred to a new nomenklatura ownership (Major 1993, p. 53).
In summary, the privatisation process in transition economies was largely conditioned by ideological imperatives, political calculations and power struggles among all stakeholders. Consequently, the outcomes of the privatisation policies often deviated substantially from those predicted by neo-liberal proponents.

2.2 Rule-based Privatisation in the East Asian Developmental States

While the results of transition economies’ attempt to apply the Western capitalist economic model have been uneven and remain controversial, there has been widespread praise for those developmental states in East Asia that have achieved success by rejecting belief in ‘the invisible hand... [and] all received principles of capitalist rationality’ (Ronald Dore as cited in Johnson 1999, pp. 32-33). Over four decades, from the 1950s to the 1990s, first Japan, then South Korea, Taiwan and Singapore, made amazing leaps in economic development – a phenomenon that challenged the academic establishment to provide an explanation. This came in the form of a school of developmental statist thought led by Chalmers Johnson in his book *MITI and the Japanese Miracle* (1982) and followed in by his supporters’ contributions to Meredith Woo-Cumings’ edited book *The Developmental State* (1999). The following discussion analyses the developmental state concepts and shows how economic ideals influenced the way privatisation was implemented in Japan, Korea, Taiwan and Singapore.

2.2.1 The East Asian Developmental States

Various authors have represented the developmental state (also known as the entrepreneurial state) as:

a Weberian ideal type of an interventionist state that was neither socialist [...] nor free-market [...] but something different: the plan-rational capitalist

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8 The privatisation experiences of other Southeast Asia nations are of less interest in the present context. Economies such as those of Malaysia and Indonesia emulated the developmental state less successfully (Woo-Cumings 1999, p. 19). It is also more difficult to analyse the privatisation process in these Southeast Asia countries where the public business sector is often leveraged as ‘a counterweight’ to the economic power of the ethnic Chinese population (Yuen & Woon, 1992, p. 50).

9 It is worth noting that developmental state is not exclusive for the economies in Northeast Asia only, but the ‘state-led corporatist industrialisation’ and ‘entrepreneurial states’ have also been observed in Northern European countries (Vartiainen 1999; Tiberghien 2007) and the UK and US (Chang 2003). In fact, it can be said that the state universally has been the mid-wife of industrial take-off.
developmental state, conjoining private ownership with state guidance (Woo-Cumings 1999, pp. 1-2).

Despite certain distinctions (Pempel 1999), the three Northeast Asian countries (Japan, South Korea and Taiwan) clearly shared a broad spectrum of policies.

First, according to Johnson (1999, p. 38), the most prominent feature of the developmental state model was the central role of a ‘small, inexpensive, but elite state bureaucracy’ which effectively functioned to ‘choose the industries to be developed’, select the best means to implement that strategy, and ensure the competitiveness of the strategic sector. Industrial policy was directed by a powerful ministerial agency, such as the then Ministry of International Trade and Industry (MITI) in Japan. Clearly, the developmental state must be centralised and strong. Although market-conforming methods were still utilised, the approach was mainly top-down and interventionist. The developmental state is more effective than the neo-liberal state in relation to four functions: (i) centrally coordinating for change; (ii) providing vision at the national level and reflecting national interests; (iii) building necessary institutions to realise the vision in practice; and (iv) managing social and economic conflict (Chang 1999, pp. 192-198). In effect, the establishment of the developmental state has posed a significant challenge to the orthodox economics that the West has proclaimed since the 1990s as the only worthy model. While public choice theory insists that the market mechanism should be kept independent of political influence, the experiences of developmental states suggest quite the opposite – that the political and business spheres can harmoniously interact to boost national economic capacity.

Second, the role of the state in the economy and the way in which the state handled its relationship with the business sector were quite distinctive in the developmental states. Business entities, regardless of ownership, have been seen as instruments for the successful implementation of industrial policy, under the coordination of the state bureaucracy. It is evident that deference to market principles was much less important than the goal of ‘improving the international competitiveness of their domestic economies’ (Pempel 1999, p. 139). Such a paternalistic approach – which fitted comfortably with the regional culture – does not, however, mean that the market was
set aside. On the contrary, state intervention was all ‘market-conforming’ (Johnson 1999, p. 39). The state deliberately engaged in ‘alter[ing] market incentives, reducing risks, offering entrepreneurial visions and managing conflicts’ to create a conducive environment within which the business sector could operate effectively (Johnson 1999, p. 48). Meanwhile, firms were not expected merely to respond to these ‘catalytic’ incentives and disincentives created by the state, but actively to participate in the policy-making process through multiple cooperative channels – a scenario described by Weiss (1995) as ‘governed interdependence’. Indeed, it was a ‘mutually beneficial relationship to achieve developmental goals and business viability’ (Johnson 1999, p. 60), in which ‘[n]either could exist without the other’ (Robert Reich as cited in Johnson 1999, p. 48).

Third, the popular understanding of ‘social mobilisation and economic nationalism’ in developmental states has worked well in a number of important respects (Johnson as cited in Woo-Cumings 1999, p. 3, 8). These invisible linkages have allowed the Korean chaebol (business conglomerate) to serve as a ‘private agency of public purpose’ and its postwar Japanese counterpart, the keiretsu, to ‘work much more for the [country’s] market share rather than solely for their own profit’ (Woo-Cumings 1999, pp. 17-18). Indeed, there is no definite boundary between the public and the private in developmental states (Rodan 1989; Woo-Cumings 1999). More specifically, these large conglomerates, which traditionally played a pivotal role in developmental state economies, have been both ‘immense private domains’ and ‘quasi-state organisations’ (Woo-Cumings 1999, p. 17). This may explain the pragmatic way in which the developmental state viewed the issue of ownership in businesses – it was simply not a big deal. The problem highlighted in theories of agency and public choice is unlikely to be an issue in the developmental state. When the bureaucrats were trusted (even in doing business), the task of privatising the SOEs was not perceived as urgently as it was in the CEE and former CIS transition economies.

2.2.2 The Role of SOEs in the Initial Phase of the Developmental State
The role of SOEs (often known in these countries as public enterprises, PEs) differed among the developmental state economies. In Japan, since the economy was largely based on the private sector, PEs only accounted for 5% of both GDP and employment.
Three PEs were established in the post-war period: Japan Tobacco and Salt Public Corporation (JTSPC), Japanese National Railways (JNR), and Nippon Telegraph and Telephone Public Corporation (NTTPC). In addition, five government departments that acted like businesses were maintained as the monopolies they had been before WWII; these were the post office, forestry, printing, the mint, and alcohol production. There were also three PEs in the financial sector (Toyama 1998, p. 388). Despite the limited scope of the PE sector as a whole, all these companies were large-scale and played various important roles in the economy, such as in technological development, crowding in private investment, providing favourable credits, holding key industries and monopolies, or - at least – offering job opportunities for retired officials (as was traditional in many private firms).

In Korea and Taiwan, PEs played a greater role, especially in the initial phase of development, when they compensated for the ‘absence of well-developed markets and the lack of indigenous private entrepreneurship’ (Pao, Wu & Pan 2008, p. 324). Whether they ‘have been used as the chosen instrument for a big push’ (Wade 1990, p. 110) or for ‘controlling and rationing investment and credit’ (OECD 1998), PEs were effectively linked with the growth of the private sector thereafter:

In both Korea and Taiwan, public enterprises played an important role in enhancing the profitability of private investment by ensuring that key inputs were available for private producers. Public enterprises accounted for a large share of manufacturing output and investment in both economies (UNDP 2003, p. 39).

Korean PEs originated from the nationalisation of Japanese colonial industries. The number of PEs grew quickly, from seven in the 1950s to 35 in the 1960s, in the key areas of transportation and aviation, energy, mining, heavy and chemical industries, construction, money and banking (Kim, Kim & Boyer 1994, pp. 158-159). More tellingly, these PEs ‘had a reputation of profitability and fiscal soundness’ (OECD 1999, p. 74). In fact, although one usually associates large conglomerates in Korea with the chaebols, public enterprises outnumbered private in the list of the biggest
firms, and the state-owned iron and steel maker (POSCO) was one of the cornerstones of the country’s industrial expansion (Amsden 1989).

Taiwanese PEs followed the pattern of their Korean counterparts in dominating strategic sectors and venturing into new industries. According to Pao, Wu and Pan (2008, p. 326), the share of Taiwan’s PE sector gradually increased, peaking at 9.4-12.1% of GDP in the 1970s, while individually they were among the largest firms in size, accounting for seven out of the ten largest and 19 out of the 50 largest (Wade 1990, p. 178). As in Korea, PEs in Taiwan also pioneered industries where private investment was discouraged due to entry costs, such as heavy machinery, heavy electrical machinery, trucks, petroleum and petrochemicals, steel and other basic metals, shipbuilding, and nuclear power. Furthermore, the control of PEs in upstream sectors, which gave the government ‘indirect influence over the downstream sectors’, enabled it to protect indigenous private business from adverse external impacts by ‘suppressing the prices charged by public corporations in basic industries’ (Wade 1990, p. 179).

Singapore is another example of a successful developmental state in which the market mechanism has also been ‘tamed’ and ‘harnessed’ by the government for ‘developmental purposes’ (Wade as cited in Asher 1989, p. 59). According to Rodan (1989, p. xiv),

the Singapore state’s role in the industrialisation process is indeed depicted as a pervasive one. In the economic sphere the state has not only engaged in selective but [also] significant direct investment […]

In Singapore, the PEs comprised 39 statutory boards directly involved in commercial operations and four holding equity funds (Yuen & Woon 1992, p. 52). These statutory funds held majority shares in nearly 500 companies, hierarchically arranged in a six-tier pyramid (Thynne 1989, p. 30). The public sector accounted for a considerable portion of the Singaporean economy, given that the share of wholly foreign-owned firms was more than half of gross output, value added, employment, and manufacturing exports in 1985 (Asher 1989, p. 72). Under a strong state interventionist
philosophy, statutory boards were present not only in ‘such traditional areas as public utilities, ports, broadcasting, and mass transit, but also cover[ed] international trade, tourism development, housing, and financial services’; the seven statutory boards alone had revenue equal to 17.7% of GDP in 1986 (Asher, 1989, p. 61). The public enterprises formed a distinctive, inter-locking network of cross ownership and cross management – officials can serve on various boards – under the ‘coordination and control’ of the Prime Minister and Cabinet, within a perfect web of talented and effective civil servants who have business skills and profit-oriented minds (Thynne 1989, p. 31).

2.2.3 Gradual and Partial Privatisation without Discrimination against State Ownership

As discussed in Chapter 1, privatisation was introduced into developmental states contemporaneously with the other early emulators of the policy. Whereas Boycko, Shleifer and Vishny (1995, p. 9) did not adopt ‘the third way’ as an appropriate strategy in Russian privatisation, the developmental states effectively maintained their ‘third way’ ideal as it had worked to generate economic growth. Neither policy-makers nor the public were antagonistic to state ownership. Privatisation, accordingly, was not prioritised in developmental states, even when some PEs underperformed. Despite the PEs’ role in economic growth, however, the familiar neoliberal rationale for privatisation – inefficiency due to lack of market discipline, excessive political interference, and profits relying on privilege – could be heard in the developmental state economies (Kim, Kim & Boyer 1994, pp. 157-158; Toyama 1998, pp. 389-390).

Japanese National Railways (JNR) had indeed underperformed and faced huge challenges by the end of 1986 – considerable financial debt (US$286 billion), low productivity and a large number of redundant workers (JNR had more than 400,000 employees), and a drastic reduction of market share due to private competitive operators and alternative transport means (Fukui 1992, p. xi). The Japanese government, however, did not rush to sell off the company to the private sector. It had spent six years restructuring the PE before deciding on privatisation; only when these efforts were deemed to have failed to achieve a turnaround was the privatisation plan implemented in 1987.
The Japanese non-discriminatory attitude towards state ownership seems to have produced a gradual approach to privatisation, which in turn led to a flexible, partial approach. The main initiatives implemented by government were corporatisation (NTTPC and JTSPC in 1985, JNR in 1987) and the introduction of market-based competition (such as market deregulation to allow new private entries, and trade liberalisation to allow for imported tobacco). Ownership transfer to the private sector appears to have lagged behind schedule, although it is not clear whether this was intentional or not. For example, the state only divested itself of a third of NTTPC and JTSPC, while tobacco and salt production continued to be controlled by state monopolies (Toyama 1998). Similarly, amidst the economic slowdown, the government was willing to postpone listing companies of JNR on the bourse; thus, a majority of shares in JNR’s passenger carriers were still owned by the state. In fact, the mix of public-private ownership did not adversely affect these companies’ performance, as the three urban carriers achieved a profit of around 10% of total revenue throughout the 1990s (Kasai 2003, pp. 160-161).

Similarly, the Korean government undertook a series of restructuring policies to improve PEs and the markets in which they did business, including corporatisation, changing the balance between sources of credit (with the assistance of the state-owned banks and the participation of private chaebols), financial liberalisation (greater autonomy for the banks to adjust interest rates), and market deregulation for development of SMEs. Privatisation was seen as the next in a sequence of restructuring programs (Kim, Kim & Boyer 1994). The approach to privatisation, however, was gradual and partial:

In most cases, the government has sold less than half the assets of public enterprises to private investors, thus assuring government majority ownership and control – albeit less regulation – of public enterprises (Kim, Kim & Boyer 1994, p. 161).

According to the government’s plan in 1988, PEs of particular importance to the economy were only divested gradually and partially; these included the National
Citizens Bank, Small and Medium Industry Bank, Korea Electric Company, Korea Telecommunication Company, and Pohang Iron and Steel Company (POSCO). Even more important PEs that provided key utilities, products and services merely underwent ‘functional readjustment’; these included the Industrial Sites and Water Resources Development Corporation, Korean Development Bank, Korea Housing Bank, and Korea General Chemical Industry Corporation (Kim, Kim & Boyer 1994, p. 163). Indeed, privatisation in Korea was only facilitated after the Asian Financial Crisis in 1998 (for which the chaebols, rather than these PEs, were blamed), and then under pressure from international financial institutions. By 1998, the proportions of state ownership in key PEs were as follows: Korea Tobacco and Ginseng Corporation (42.5%), Korea Telecom Corporation (71.2%), Korea Electrical Power Corporation (62.4%), Daehan Oil Pipeline Corporation (51.7%), Korea Gas Corporation (85.7%), POSCO (26.7%), and Korea Heavy Industries and Construction Company Ltd (84.3%) (OECD 1999, p. 75).

In Taiwan, privatisation policy was contemplated by ‘social elites’ from 1984. Despite two bankruptcies of PEs, privatisation only began – on the grounds of adapting to the ‘global trend’ – in 1989. Although Taiwan was an emerging developed economy, ‘the policy generally was carried out by trial and error because of inexperience in execution and immature institutional settings’ (Pao, Wu & Pan 2008, p. 325). Around 40 PEs were privatised in Taiwan, although majority state ownership was maintained in 21 of these. By 2005, these 21 PEs continued to be as profitable as they had been prior to privatisation (Pao, Wu & Pan 2008), indicating that the ownership transfer had not had a significantly adverse impact on their performance (Wu & Parker 2007).

The rationale for privatisation took a distinctive form in Singapore – public enterprises had been ‘too profitable’. The state budget was in such good shape that, unlike in all other countries, the reason for privatisation in Singapore was neither concern about inefficiency nor state fiscal considerations. The three main official drivers of privatisation, as stated by the Divestment Committee (as cited in Asher 1989, p. 68), were:
(1) To withdraw from commercial activities which no longer needed to be undertaken by the public sector; in other words, when the government’s establishment role had been accomplished. In the words of Lee Kuan Yew, “we hand them over once they became routine business” (as cited in Asher 1989, p. 71);

(2) To add breadth and depth to the Singaporean stock market by floating Government-Linked Companies (GLCs); and

(3) To avoid or reduce competition with the private sector.

Unlike the practices in other economies, privatisation in Singapore was not aimed at introducing competition into the public sector but to mitigate the crowding-out effects the PEs were said to impose on the private sector. Instead of facing the competitive pressures within domestic markets, the privatised businesses then had to look internationally for new investment opportunities.

Singapore’s commitment to the developmental state might have been a factor in keeping the scope of divestment of PEs at a modest level (Thynne 1989, p. 51). According to Thynne (1989, p. 30) and Asher (1989, p. 63), the Divestment Committee targeted only seven of 39 statutory boards and 99 GLCs, including all 91 first-tier companies, but only eight of over 200 second-tier companies. In most cases, shares in the companies were sold gradually, in stages; many were acquired by other public companies and funds, and were even subsequently repurchased (Asher 1989, pp. 62-63, 70-71). Essentially, the reduction of public ownership was matched by corresponding enhancement of regulation (Asher 1989). In the privatisation of important firms, such as Singapore Airlines, ‘golden’ shares were effectively utilised to retain the state’s capacity to influence the company’s managerial appointments and its ‘veto powers over the amendment of key provisions in the company’s memorandum and articles of association’ (Thynne 1989, p. 37).

2.2.4 Rule-based Privatisation

This section discusses the key elements of rule-based privatisation in the developmental states: stakeholder approach, management focus, introduction of competition, and institutional building for business viability.
Stakeholder approach

Developmental states traditionally appreciate the stakeholders involved in privatisation. Such an approach played a central role in the successful privatisation of JNR, which has been hailed worldwide as an exemplar of successful privatisation (Fukui 1992). According to Fukui (1992), favourable political and economic conditions are ‘imperative’. The process must gain public support and be placed on the political agenda of the government, and the privatisation strategy must be carefully planned. Since it is difficult to address all issues at the same time, short- and long-term problems should be targeted separately in different phases. For example, to facilitate the break-up of JNR, considerable effort went into difficult negotiations and discussions (Kasai, 2003). Mr. Kasai – the former CEO and President of one of the privatised JR companies – noted that the privatisation decision was inevitably permeated by politics, and that a national consensus was formed based on compromises among different stakeholders and political forces. That is to say, the success of privatisation was not simply a question of introducing market discipline to the sector. In fact, the government had cleared a huge debt (US$233.3 billion) for the JNR by arranging for

all related parties, such as the tax-payers, railway passengers and JNR workers, […] to share the burden; [which] was possible only because there was an understanding that public services […] could not be left entirely to market forces (Kasai 2003, p. 162).

As a result of this stakeholder approach, the private sector responded favourably to the government’s call to voluntarily employ most of JNR’s redundant workers by 1990 (Fukui 1992).

Management focus

In the process of privatising JNR, the soundness of the management team responsible for privatising and restructuring public enterprises proved to be of crucial importance. It was argued that restructuring and privatisation should aim to attack ‘problems and institutions, not people’ (Fukui 1992, pp. 126-129). To achieve a ‘solid managerial
basis’ in the new companies, their management was staffed by a mix of old JNR managers and the new faces of business leaders in the local communities (Fukui 1992, pp. xiii-xiv). The public-private approach to managerial renewal seemed to work in other developmental states as well. In Taiwan, even when state ownership was reduced to minority status in 19 privatised companies, ‘the state-controlled seats on boards of directors remain[ed] at approximately 60% on average’ (Pao, Wu & Pan 2008, p. 333). Further, the choice of private sales and public offers for privatisation meant that both the procedures and the managerial changes were transparently and effectively handled.

**Introduction of Market-based Competition and Institutional Building for Business Viability**

The introduction of market-based competition was viewed as even more important than privatisation in improving efficiency, as discussed in Chapter 1. In many cases, privatisation was pursued to dethrone state monopolists and create competitive markets. However, institutions must be developed to regulate new business entities and ensure these businesses become commercially viable. Both of these objectives were achieved by Japanese and Singaporean privatisers.

First, the unwieldy JNR was divided into six JR passenger companies operating in separate regions and one for freight transportation. It was important that the size of each market segment be carefully measured to secure a certain level of profitability, allowing the respective carrier to focus on improving customer satisfaction. The former JNR was reincorporated as JNR Settlement Corporation to operate as a financial holding company. This initially held the shares in the seven passenger and freight carrier companies. Large parts of JNR’s old debt were assumed by the profitable urban-area companies and the corporation running the new bullet train, Shinkansen. A Management Stabilising Fund was established to compensate for the unprofitability of the rural-area companies. This meant that JR firms which were underperforming because of unfavourable demand conditions did not have to raise fares or reduce services to remain in the market. Since developmental states accepted a balance between profit-maximisation and public interest, the privatisers were not opposed to cross-subsidisation policies. In fact, the three island-based JR companies (with smaller customer bases because of their remote location) still rely on the
Management Stabilisation Fund to remain financially viable and attractive to investors, who would likely withdraw from those unprofitable segments if the firms had to respond to market discipline (Kaisai 2003, p. 164). On the other hand, thanks to the centralisation of privatisation governance, such an approach did not seem to penalise and, thus disincentivise, the profitable JR carriers in urban areas.

After five years, the first stage of restructuring JNR prior to privatisation recorded important achievements. Since that stage, most of the JR companies have become profitable and paid a total of US$1.2 billion in corporate tax; the workforce was reduced to 191,000, while the passengers and cargo increased by 5% and 10% per annum, respectively. Significantly, the population also benefited in that passenger service was improved ‘without fare increases’ (Fukui 1992, p. xv). By 2003, except for the freight company, all passenger JRs have improved on their previous performance (Kasai 2003, p. 160).

In Singapore, the Mass Rapid Transit Corporation (MRTC), a statutory board under the umbrella of the Ministry of Communications and Information, constructed the metro system then leased all of its infrastructure and equipment and granted the operating licence to Singapore Mass Rapid Transit Ltd (SMRT). The MRTC held a golden share in SMRT which gave it veto rights over changes to the company’s charter and the right to appoint two of six directors, even though 100% of SMRT’s shares were owned by the Temasek Holdings fund. This government-owned hedging fund planned to privatise SMRT after it ‘established a track record’ of profitability (Asher 1989, p. 50). In terms of regulation, the Ministry was still responsible for safety standards, while the fares were determined by the Public Transport Council, which was comprised of representatives from the transport industry and consumer groups (Thynne, 1989, p. 33). In this way, Singaporean industrialists and privatisers have developed a network of formal institutions that effectively perform their respective functions while integrating stakeholder interests.

In summary, privatisation was implemented in developmental states on the basis of pragmatic considerations. Because the privatisers were not biased against the public or private sectors, privatisation plans were pursued flexibly and directed towards
developmental goals and public interests. The government always acted as an ‘entrepreneurial state’ or a ‘venture capital corporation’. As Lee Hsien Loong observed in 1987:

“privatisation does not mean that the Government will stay out of business altogether”, for “where the private sector does not have the means to take up opportunities… the Government will not hesitate to do so”; nor will it “rule out investing its reserves in good, local companies through minority shareholdings” (as cited in Thynne 1989, pp. 42-43).

A wholesale approach to privatisation certainly never figured in the developmental state philosophies of Japan, Korea, Taiwan and Singapore. The question then arises, what would have happened if the transition economies had taken the same gradual approach? Though the situations are not really comparable, some kind of answer might emerge from analysis of Chinese privatisation.

2.3 State-backed Privatisation in China\(^\text{10}\)

Even before the economic transition in the Socialist bloc of the CEE and former CIS, China had introduced economic reform policies, including policies about SOEs, as early as 1978 (Geng, Yang & Janus 2009). Unlike the command economies in Europe, however, China consistently took a ‘gradual approach’ (Gan 2009, p. 582) in its transformation towards a market economy, and was greatly influenced by the developmental state model being pursued by its prosperous neighbours (Heilmann & Shih 2013). The reform of SOEs – which were considered to be the major organic ‘affiliates’ or ‘fundamental production units’ in the previous centrally planned economy – into ‘independent commercial entities’ (Zhang & Freestone 2013, pp. 78-79) apparently played a significant role in the policy agenda. Nevertheless, just as the overall reform strategy was usually described as ‘cautious’, so too was the privatisation process, which was mainly limited to small- and medium- scale SOEs at the local level (provincial SOEs, and Township and Village Enterprises or TVEs), while large-scale SOEs were only involved in restructuring rather than ownership transfer (Mohan 2004, p. 4904). As a result, the state is still a major owner, exerting

\(^{10}\) The title of this section is drawn from the book by Zeng (2013).
considerable influence over various facets of the country’s industrial capacity. It is worth noting that, until recently, China had achieved a level of economic growth that is envied throughout the world.

2.3.1 SOE Restructuring and Township and Village Enterprises (TVEs)

Prior to the reform, the SOE system in China was seen to be operating unprofitably and inefficiently. This was despite a range of favourable conditions and preferential treatment by the state, such as soft budget constraints, subsidies, cheap credits and land, monopoly status, and protection from competition, all of which created substantial debt and market distortion (Mohan 2004; Gan 2009). Despite the size of the task, the SOE reform measures were carefully designed by Chinese policy makers to achieve the dual objectives of improving economic efficiency and ensuring the country’s political and social stability. The ‘incremental’ approach and ‘trial-and-error’ strategy were operationalised in two main stages of reform spanning over three decades (Zhang & Freestone 2013, pp. 78-80).

The first phase (1978-1993) mainly involved administrative reform, initially to enhance managerial autonomy by delegating commercial decision-making and day-to-day operations to the SOEs’ managers (Mohan 2004; Geng, Yang & Janus 2009; Gen 2009). One of the main forms of ‘experimentation’ was so-called ‘dual-track’ pricing, which permitted SOE managers to sell surplus (i.e. beyond plan) outputs to the market so that they became acquainted with the working of markets (Malesky & London 2014, p. 408). At the same time, the control of most SOEs was also decentralised to different local levels. This was accompanied by administrative streamlining efforts to separate the social and business functions of the SOEs by transferring most of the social responsibilities, such as housing, education and healthcare for workers, to local authorities (Mohan 2004).

The evolution of township and village enterprises (TVEs) was one of the distinctive features of Chinese economic growth during this period. TVEs originated from the 1.4 million commune and brigade enterprises that had been established under China’s program of collectivisation. If individual and household enterprises are included, China had a total of 6.1 million TVEs by 1984. With the complete decentralisation of
their governance, these semi-private, local level ‘joint stock’ companies could be reorganised into an effective institutional and incentive structure. First, like the SMEs, they still benefited from the state’s favourable policies in relation to loans, tax reduction, and technical assistance. Second, TVEs represented themselves as opportunities for rural communities to ‘realise value from locally controlled resources’. This helped TVEs to attract capital that the population had built up during the early phase of economic reform. Third, TVEs continued to engage local authorities, while their governance was not captured by specific residents or employees. Local officials had to celebrate TVEs since their careers depended on the performance of these enterprises. Meanwhile, TVE managers were constrained by harder budget constraints and merit-based promotion (Harvie 1999, pp. 2-4). The development of TVEs as a ‘middle way’ for privatisation appears to have been a wise strategy. Unlike the situation in most other transition economies, the size of the Chinese product market was not an impediment to TVEs enjoying economies of scale; on the contrary, TVEs could exploit their dynamism as SMEs and forge links with urban industrial firms or foreign investors. As a result, by the mid-1990s, TVEs were ‘the single largest source of employment for industrial workers … [and contributed] over 30% of the GDP’ (Harvie 1999, p. 2).

2.3.2 Retain the Large, Release the Small

Officially, the term ‘privatisation’ did not appear in China until the second phase of privatisation, from 1993 to the present. At first, SOEs were urged to transform themselves into ‘modern corporations’ (Gan 2009; Geng, Yang & Janus 2009). A milestone development in the mid-1990s was the advice by Chinese leaders that ‘the state sector did not need to be involved in every sector of the economy’ (Zhang & Freestone 2013 p. 82). Leaders also acknowledged the need to widen financial investment opportunities, which required the ‘new institutional arrangement of a joint-stock system’ (Chen 2005, p. 39). In 1995, the central government produced two policy slogans: ‘Retain the large, release the small [SOEs]’ (Geng, Yang & Janus 2009; Gan 2009); and ‘Advancing (in some areas) while retreating (in other areas)’ (Zhang & Freestone 2013, p. 82). In the meantime, the non-state sector was encouraged to expand, and financial markets were encouraged to develop with the participation of foreign investors. Even in this period, however, privatisation played
only a modest part in overall SOE reform of large-scale SOEs. Clearly, at this level, the state pursued privatisation reluctantly. As Zhang and Freestone (2013, p. 81) observed, ‘China’s SOE reforms have been a mixed experiment of quasi-privatisation, corporate governance reform, and greater exposure to competition’. Consequently, until today the scope and scale of privatisation have remained partial.

The Chinese government’s privatisation strategy was, in fact, deliberately crafted in accordance with its philosophy of economic growth in which the state plays a back-up role for business in various ways but eventually retains overwhelming control over economic activities. This growth model has been described as ‘state-led development’ (Malesky & London 2014) and the accompanying privatisation strategy, ipso facto, as ‘state-led privatisation’ (Zeng 2013). As in neighbouring developmental states, privatisers in China selectively targeted SOEs to secure state capacity for the implementation of industrial policy. Specifically, according to Geng, Yang and Janus (2009), only SOEs that were unprofitable in competitive markets were likely to be privatised, while those that were profitable but which were located in strategic markets and state monopolies were to remain under state control.

The least regulated aspect of privatisation in China involved those underperforming SOEs at the provincial level (i.e. between large-scale SOEs and TVEs). Reportedly, this process was associated with as many ‘workers’ protests [due to retrenchment] and managerial corruption’ as had occurred in the CEE and former CIS transition economies, and also caused large-scale social disparity in China. Just as in these other economies, to secure support for privatisation and avoid unrest, the Chinese government had to offer concessions by selling these SOEs at discounted prices and with (other) generous incentives to the managers and workers. This is exactly what is meant by spontaneous privatisation. Where the Chinese privatisers outperformed those in the CEE and former CIS economies was in the effective use of propaganda and resources to appease the affected parties during privatisation. Indeed, in addition to its cash compensations, the government created a large number of re-establishment centres to help laid-off employees re-train so they could find new jobs in the private sector (which had been very active) (Zeng 2013, pp. 70-97 passim).
According to Gan (2009), share-issue-privatisation (SIP) - which leads to explicit
(public) changes in ownership - only accounted for 1%; this was an appropriate
amount given the limited extent to which the government committed to financial
market liberalisation. This was in contrast to other privatisation schemes without
ownership transfer to outsiders. Management buy-outs (insider privatisation), for
instance, was the most popular (47%) due to the ongoing privatisation among
provincial-level SOEs and TVEs. For the TVEs, the subsequent privatisation was not
of concern since these enterprises were traditionally based on collectivised ownership.
Selling to outsiders (domestic and foreign firms and individuals), in which the process
was not disclosed, accounted for 22%; other schemes, including joint ventures, leasing
and issuing shares to employees, accounted for 2%, 8% and 10%, respectively.

As previously observed, in practice most of the privatisation took place with small and
medium SOEs at provincial and county level while large SOEs often underwent
restructuring. This was either by way of corporatisation, which involved setting up
boards of directors and internal supervisory structures to ensure that management
would pursue profit and be accountable for business decisions (Zhang & Freestone
2013), or via reinvigoration through technical renovation, interest payment
exemptions, debt restructuring, and redundancy payouts for workers (Mohan 2004). In
an effort to modernise their corporate governance, many large SOEs have been
publicly listed on Chinese mainland and overseas stock markets. Yet, financial markets
have been liberalised only slowly in relation to SOEs’ assets, which largely remain
under state control. For those listed SOEs, ownership could be diversified in theory. In
practice, however, the company’s shares were classified into five types, most of which
are either not tradable or are exclusively for Chinese individuals and institutions
(Mohan 2004). As a result, only a small fraction of shares have been accessed by and
transferred to the private sector, and control of the 500-1000 largest firms remains in
state hands (Mohan 2004, p. 4905). In 2008, SOEs accounted for just 3% of the total
number of enterprises in China, but they held 30% of total assets in non-agricultural
sectors. On the stock market, private companies outnumber SOEs, but the market
capitalisation is dominated by the latter (Wildau 2014).
It is fair to say that privatisation was utilised as a sectoral restructuring strategy within an industrial policy rather than as an ownership transfer strategy. As SOEs were withdrawn from ‘labour-intensive industries such as textiles and footwear’, they were concentrated in ‘strategic and pillar’ capital-intensive sectors such as natural resources, materials, energy, utilities and infrastructure. According to Zhang and Freestone (2013, pp. 8-10), ‘in 2010, on average, a SOE had five times more workers, produced nearly eight times more output value, and used 15 times more assets than a firm in the non-state sector’. Clearly, the state is neither retreating nor consolidating, but is willing to invest in promising ventures, such as ICT, environment-friendly technologies, new energy and biology.

2.3.3 State-backed Business

Aside from the ‘modern state controlled companies’ – which are few in number but enormous in scope and scale, often holding monopoly positions in utilities and banking – various arrangements have been created through which the state can back enterprises of any type of ownership. These include: (i) joint-ventures, often involving foreign partners in an exchange of technology and market access; (ii) private companies with state influence in terms of favourable policies and protection from foreign competition; and (iii) companies backed by publicly owned investment funds, for both foreign venture-capital funds and enterprises of local authorities. Each of these arrangements has produced successful, internationally competitive firms such as China National Petroleum Corp, Shanghai Volkswagen, Goldwind, Huawei, and China WLCSP (The Economist, 2011). The active inter-penetration between the state and private sectors in China has created a web of indirect, ‘subtle’ business relationships which prove, just as do the models of keiretsu and chaebol, that ownership does not matter so much. None of these companies is ‘truly private’: the developmental state is ‘never far away’ (The Economist 2011).

In fact, there can be too much or too little government holding: too much interference or too little political support. There may be an ‘optimal relationship between government ownership and performance’ (Mohan 2004, p. 4906). Using Chinese privatisation as a model for India, Mohan (2004, p. 4907) argued that ‘industrial reforms in China met with considerable success in terms of inducing behavioural
changes at the firm level...[and] enterprise restructuring can improve enterprise performance even without formal privatisation’. Indeed, the SOEs’ return on equity did increase significantly from ‘below 2% in 1998 to above 15% in 2007’ (Zhang & Freestone 2013, p. 10). The development of Chinese businesses is widely recognised. From small SOEs producing light industrial products in Shunde, Midea and Galanz are now among ‘the world’s largest application manufacturers’ (The Economist 2011).

Twenty years ago, the revenue of a leading company in the US could be greater than that of China’s top 500 SOEs combined; in 2012, 54 Chinese SOEs were represented in the Fortune 500, with the largest in 5th place (Zhang & Freestone 2013, p. 9). Thus, while neo-liberal supporters are still sceptical that a full-scale privatisation might have brought even better results, political economists, like Mohan (2004), believe that the reform of SOEs and their improved performance have contributed significantly to China’s remarkable annual GDP growth rate of nearly 10% on average over the past three decades. Moreover, the ‘cautious’ pace of privatisation adopted by China’s policy makers was justifiable given its underdeveloped financial market and threatened reduction in tax revenues and increased unemployment at the time (Mohan 2004; Zhang & Freestone 2013). As a result, privatisation in China not only avoided the disruption of social and economic institutions and welfare that occurred in the CEE and former CIS countries, particularly Russia, but also helped to achieve broad national economic and social developmental objectives.

2.4 Summary and Conclusions

The implementation of privatisation policy varied between transition economies in the CEE and former CIS on one hand and developmental states in East Asia on the other. The approach and outcomes of privatisation not only reflected the contexts of the political economies of the countries concerned but also the ideologies of the privatisers.

SOEs once played a dominant role in the economies of the CEE and former CIS countries. During the transition period from central planning to a market economy, however, the SOEs were accused of inefficiency and poor performance, which neoliberal reformers ascribed to soft budget constraints and vaguely defined property rights. These claims turned out to be exaggerated because the production capacity of
these economies was substantially reduced following privatisation and took a decade to return to the previous level. In other words, privatisation might not have been the efficiency improvement device the reformers promised it would be.

During the transition period, the reformers encountered a cluster of complex political and economic challenges. In such a context, privatisation policy was overloaded with multiple objectives: laying the foundation of a ‘well-functioning market economy’; reallocating of property rights to foster ‘capitalism with small entrepreneurs’ or ‘people’s capitalism’; realising the assumed efficiency of politics-free markets; and distributing public assets equitably to the whole population. As politics overwhelmed careful planning, the implementation of privatisation was rushed by a wholesale approach that made the transformation irreversible. Voucher privatisation, which was pursued in Russia and many countries of the former CIS with careless disregard for the fledgling nature of the institutions, resulted in negative outcomes for the economy and society – corruption, appropriation of huge assets at cheap prices by oligarchs, unchanged corporate governance, a production slump, and greater inequality. In other countries, different approaches to privatisation were less harmful. On the other hand, though voucher distribution was discarded in Poland, privatisation there was delayed and captured by powerful workers’ councils, which led to spontaneous privatisation without performance improvement. Nonetheless, the Polish economy outperformed others thanks to its favourable policies for developing SMEs, which disproved the presumed association between privatisation and private sector development.

When privatisation was introduced in developmental states in East Asia, it also reflected neoliberal beliefs. The developmental state, however, ‘underscores the ways in which political power, if wielded astutely, can contribute positively and effectively to a nation’s economic wellbeing’ (Pempel 1999, p. 140). The philosophy helping these economies achieve spectacular economic growth has induced the governments of Japan, Korea, Taiwan and Singapore to implement privatisation policy using a gradual and partial approach. Thanks to their non-discriminatory attitude towards private versus state ownership, they were able to retain state capacities and, more importantly, to ensure through careful planning that stakeholder interests were included,
management was renovated, and institutions were developed to guarantee both business viability and effective regulation.

China was an example of how a transition economy successfully emulated the developmental state. Privatisation was implemented in China gradually and selectively. In the initial phase, SOEs were merely restructured, while the governance of numerous township and village enterprises (TVEs) was decentralised to local authorities. Unlike the devolution of privatisation in Russia – where the auction system was replaced by a process that granted the responsibility for sales to local officers and managers, who took the opportunity to plunder the SOEs’ assets - the governance of TVEs was decentralised within a business-conducive institutional framework that managed and incentivised various stakeholders to create businesses and earn income using local resources. This is an effective transition towards privatisation. For large-scale SOEs, the progress of privatisation has been limited because the state has persisted in backing businesses, regardless of ownership status, to implement their industrial policy.

Essentially, the differences between transition economies and developmental states in the implementation of privatisation reflected their political economic philosophies. The reformers of transition economies were overwhelmed by the politics of conflicting private interests while retaining a belief in the superiority of private ownership; hence economic and social objectives were secondary to ownership transfer which, as discussed in Chapter 1, is not unconditionally associated with efficiency. When the appropriate enabling institutions were not developed, a careless approach to privatisation had adverse effects. In contrast, developmental states identified broad national economic and social development as their principal objective, with industrial policy as a fundamental means. Hence businesses of all types were equal under the coordination of the state, and privatisation was viewed as part of an aggregate of policies judiciously designed by the state to achieve sectoral restructuring and support businesses.
Chapter 3
Privatisation (Equitisation) in Vietnam

The privatisation experiences of both transition economies and developmental states have been reflected in Vietnam’s privatisation process. In 1986, the Doi moi economic renovation was launched by the 6th Congress of the Vietnamese Communist Party (VCP). It was designed to accomplish a profound transformation from a centrally-planned economy to a socialist-oriented market economy. As discussed in previous chapters, this move took place at a time when the socialist bloc in the CEE and the former CIS were also undertaking reform and the world was observing a rising tide of neoliberalism, in which privatisation was an exemplar. Privatisation, known in Vietnam as ‘equitisation’ (hereafter used interchangeably with privatisation) has since played a key role in the Vietnamese economic policy discourse. This explains why, in so far as economic transition concerns the nature and extent of state intervention in the economy, research on Vietnamese economic development in this period cannot ignore the policy of privatisation. Conversely, any enquiry into privatisation cannot fail to contextualise it within the broad picture of economic transformation of the political economy as a whole.

The transition process apparently adopted classical liberal economic tenets: opening markets and trade liberalisation, establishing market-conforming and supporting institutions, and promoting private enterprise. In such a context, repositioning the SOEs – which had been the predominant business sector in the command economy – became a challenging task for the indigenous governing elites in the new economy. Reform of the SOEs ostensibly had two objectives: reorganisation to improve their performance within a market economy; and reducing and consolidating the SOEs in key industries while privatising those SOEs in less important areas as part of the development of non-state businesses in these markets. Accordingly, the equitisation process took place in three phases, only becoming intensive after 2003. Yet, while privatisation in Vietnam was also influenced by the philosophy of the developmental state, as articulated officially in the party-state’s documents, the extent of state capacity that was retained for coordination of industrialisation was far less than what
the rhetoric suggested. I will argue that the gap in implementation of the developmental state institutions derived from the vacillation of the party-state between the developmental state model, exemplified in East Asia, and the neoliberalism advocated by international donors, as well as deviations resulting from strategic groups’ attempts to realise the rents created in the equitisation process. Acknowledging these political economic realities is of significance in order to improve future equitisation planning.

This chapter begins by outlining Vietnam’s economic reform agenda. It then describes and assesses the privatisation project over the last two decades as an integral component of the economic growth strategy. Next, the philosophical underpinnings of the project are analysed, including the distinctive institutional features of the country’s political economy that are embedded within it, the rules applied in the equitisation process, the contests among strategic groups, and their social implications.

3.1 The Doi moi Economic Renovation

A number of excellent reviews of the ‘Doi moi’ economic renovation have outlined the country’s post-war reconstruction period prior to the reform, including the immense difficulties that led to a series of ‘fence-breaking’ endeavours and generated the seminal policy-making process behind the transition agenda (see Evans & Bui 2005; Fforde 2007; Gainsborough 2010; Thayer 2010; Malesky & London 2014). Accordingly, this section only examines those aspects of the economic renovation that are key to understanding the significant changes that occurred in the SOEs, equitisation policy and related contextual features, especially those that have taken place since the 9th VCP Congress in 2001. Essentially, the reform was characterised by three main transformations in the Vietnamese party-state’s ideological orthodoxy: (i) from a closed to an open economy; (ii) the establishment of market-conforming institutions; and (iii) the development of non-state business sectors.

3.1.1 From a Closed to an Open Economy

Though rarely mentioned by foreign scholars, the opening up of the Vietnamese economy and its integration into the world economy had a significant impact on the country. After achieving its independence in 1945, Vietnam experienced three
devastating wars in the period up to 1986. Due to the diversion of resources to various war efforts, its economy – despite state attempts to emulate Soviet-type industrialisation – was in fact largely agrarian and dependent on the socialist bloc for most of its aid (Thayer 2010). The isolation imposed by the US embargo (which was only lifted in 1994) also contributed to the country’s ranking as the poorest in the world (Evans & Bui 2005). Threats of a looming economic crisis, with goods shortages, inflation and famine in some provinces, forced the party-state’s governing elites – who had witnessed the promising outcomes from experimental policies, such as the limited-scope ‘fence-breaking’ initiatives in agriculture – to initiate reform in 1986. Thereafter, the achievement of impressive rice and crude oil exports (the result of an oil exploration joint venture with Russia) amidst the collapse of the socialist bloc in Eastern Europe intensified the reform agenda at the 7th VCP Congress in 1991.

During the 1990s, a series of breakthroughs in foreign affairs and regional and world trade integration made the country more open than ever. In this context, ‘openness’ and ‘integration’ need to be considered as a two-way street. On one hand, external players (such as international and bilateral donors, foreign investors and traders) became an important source of influence on Vietnam’s political economy discourse from the early 1990s. On the other hand, Vietnamese leaders and people themselves were enthusiastic about globalisation for the sake of ‘industrialisation and modernisation’. It is worth noting that the internet is much more accessible in Vietnam than in China and, in terms of foreign trade/GDP ratio, Vietnam currently ranks among the most open economies in the world. Last but not least, the openness to the world also explains the penetration of neoliberal economics into Vietnam via young bureaucrats who were often sent to study in Western educational institutions during this period. In summary, economic openness and trade liberalisation entailed a two-way interaction between external and indigenous political economic forces, which

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11 ‘Fence-breaking’ refers to explorative policies implemented at below-provincial level which were illegal because they exceeded the official regulations of the state. Before the Doi Moi, only collectives were officially recognised in agricultural production. To increase incentives for farmers, an experimental system of contracting outputs to each household was introduced in Vinh Phu province in 1966-1969. Even though production improved, the leader of the ‘fence-breaking’ initiative was lightly disciplined.

12 During three decades of Doi moi, Vietnam’s foreign trade/GDP increased from 23% to 179% (the world average is 57.9%), according to the World Bank. (Source: http://data.worldbank.org/indicator/NE.TRD.GNFS.ZS; accessed on August 12, 2016.)
would not only shape the overall policy framework of economic reform in general but also the contemporaneous equitisation process in particular.

3.1.2 Establishment of Market-conforming Institutions

The second most important aspect of the transition was the exposure of economic activities to market forces and competition, a process that began with the establishment of market-conforming institutions. The term ‘mixed economy’, which was widely used in the initial phase of *Doi moi*, meant that the state had to share its power and legitimacy with market mechanisms in determining the allocation of resources; in other words, allocation was no longer solely an outcome of central-planning. This helps to explain the meaning of the popular slogan ‘socialist market economy under state guidance’, which was coined by governing elites at the 7th VCP Congress in 1991\(^{13}\). There had been a long-running debate within the party-state before the decision was made to adopt economic renovation, which was prompted in part by the afore-mentioned ‘fence-breaking’ endeavours in agricultural production (Vo & Le 2014, pp. 9-10). What is important to note here is the way the success of this event would shape the subsequent mindset of the governing elites. Since most of the party-state leaders had risen to prominence from revolutionary backgrounds, practical experience was more highly valued than dogmatism. Hence, to the extent that the renovation process proved successful, it is traditionally attributed to similar breakthroughs achieved by the ‘fence-breaking’ policies which, local leaders theorised, would ‘unleash the relations of production for matching with the growth of forces of production’\(^{14}\) (9th VCP Congress 2001). As a result, the governing elites strengthened their belief in the ‘intermediate’ role of the market mechanism between feudalism and socialism (Nguyen-Thanh 2016). Thus, the more leaders favoured the market mechanism, the more they were perceived to be pro-reform and progressive, and vice versa. This approach, which came to be institutionalised throughout *Doi moi*, was seen elsewhere, for instance in the CEE and former CIS. Of more concern is the fact that, in Vietnam when economic difficulties are encountered, the policy discourse has

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\(^{13}\) See List of Party-state’s Documents.

\(^{14}\) The fundamental criteria for assessing the efficiency with which the socialist-oriented relations of production are being constructed are unleashing the production forces, improving living standards and achieving social equality (9th VCP Congress 2001).
consistently favoured furthering market-based reforms rather than reviewing their effectiveness.

Indeed, Vietnamese market institutions have undergone a long development period. One of the priorities identified by the 7th VCP Congress in 1991 was the need to establish markets for all production factors, including land, capital, labour, and services. To achieve that goal, a priority task was to build market-conforming institutions. It is worth noting that the SOEs in Vietnam had previously operated in a mostly monopolistic and bureaucratic environment. This differs from the situation in institutionalised market economies, where the SOEs are at least familiar with such rudimentary business values as customer service. In a sense, then, the SOE reform should be characterised as a process of familiarisation with market-rules, i.e. ‘marketisation’ (Painter 2003).

The two decades after Doi moi witnessed a regulatory boom in Vietnam, including the promulgation of important laws and the establishment of administrative agencies for different areas of the economy. The supremacy of the SOEs could only be curtailed, however, if trading and market-entry barriers in many industries were removed and exporting rights were no longer reserved solely for the SOEs. As private property rights were recognised and non-state business sectors were encouraged, there were calls for the removal of burdensome administrative requirements and red-tape in order to improve the business environment, especially under pressure from international financial institutions and donors, foreign investors and the local business community. These processes are not inconsistent with the logic of the party-state’s new ideology of ‘unleashing the forces of production’.

Yet the path dependence of deregulation might also render the Vietnamese policy discourse less effective than that of developmental states in East Asia. While the policy agenda of the latter was dominated by the question of how bureaucrats could play a

15 For example: the Law on Foreign Direct Investment (1987, 1996, 2000); Company Law (1990); Law on State-owned Enterprises (1995, 2003); Enterprise Law (1999), which abolished the requirement for minimal capital in business start-ups; Enterprise Law and Investment Law (2005, 2014), which created equal legal treatment for all businesses. Laws on commerce, competition, tax, accounting, finance and banking were also made during this period. The State Securities Committee was formed in 1996, and the Stock market has operated since 2000.
coordinating role in the implementation of industrial policy, state involvement in the former has often been viewed rather as harassment and corruption. In fact, although the economic role of the state was usually celebrated in official documents, there was little discussion of how it could be carried out and improved within the policy discourse. The absence of an industrial policy that involved more than rhetoric led to what Masina (2012, p. 204) has described as ‘liberalisation without neoliberalism, development without developmental state’.

3.1.3 Development of Non-state Business Sectors

Development of non-state business sectors, the third pillar of the reform, also arose from the desire to mobilise productive resources for development (7th VCP Congress 1991). If the market was seen as an instrument for generating incentives and efficiency, it was hoped that the private and foreign-investment sectors would become sources of financial capital, technology, technical and managerial skills, and entrepreneurship, all of which had been limited in the SOE sector. It should be remembered that, before Doi moi, only the state and collective ownership – which were formed through the processes of nationalisation and collectivisation – were officially recognised, while most private businesses were illegal. Historically, the SOEs in the North were established to ‘support the war effort, to build infrastructure or to produce goods for the local economy’, while those in the South were nationalised from the previously domestic or foreign facilities ‘with few structural changes’ (Cheshier & Penrose 2007, p. 8). As a result of the war, the trade embargo and rigid management of the command economy, however, most SOEs were neither innovative nor productive (Fforde 2007; Beresford 2008).

Structural transformation has always been an important topic in the policy discourse and remains a key concern of state governance in the context of reform. Every five years, in tandem with the VCP Congress, the party-state launches a Socio-Economic Development Plan (SEDP) for national multifaceted development over the period which integrates the VCP’s vision and broad instructions with the results of consultations with international organisations (such as the UN and UNDP) and financial donors (WB, IMF, ADB). Based on the SEDP, the National Assembly holds hearings and approves the government’s annual plan, which sets specific goals for the
performance of each economic and social group in the following year. In this kind of state-led development, with its vision of ‘industrialisation and modernisation’, the governing elites have sought to answer questions about the appropriate proportion of GDP that should be contributed by the various sectors (industry, service, agriculture), how much large SOEs, private enterprise and foreign direct investment (FDI) should contribute to GDP, and how all this is to be achieved\textsuperscript{16}. Just as agriculture’s dominant contribution to GDP and employment was negatively assessed at the launch of the reform, so too were the SOEs viewed as symbolic remnants of the former economy. This partly explains the biased attitude among both the governing elites and the population towards the SOEs, especially when they underperform.

Overall, despite the effort to retain some sort of balance in the policy discourse, the further reform proceeded the more it has been inspired by neoliberalism, since the rhetoric of the developmental state has not been realised in practice. Very early in the reform process, in 1989, the policy on development of non-state sectors was established by the 6\textsuperscript{th} Plenum of the 6\textsuperscript{th} VCP Congress. It has since been maintained as a strategic direction, along with other decisions about international integration and ‘marketisation’. By 1991, the party-state seemed to realise its vision for economic reform when the slogan ‘socialist market economy under state guidance’ was introduced (Nguyen-Thanh 2016). By 2001 (at the 9\textsuperscript{th} VCP Congress), the new theme ‘socialist-oriented market economy’, without its ever being clarified, has since been interpreted as meaning the state would intervene more indirectly in the economy – an idea that may seem to resonate with the Post-Washington consensus agenda. At the same time, however, it was counterbalanced by the conferring on SOEs of the title of ‘mainstay’ of the economy. Yet it posed a challenge for economic governance. On one hand, the SOEs could only fulfil the new mandate if they were assisted by an effective industrial policy, which clearly requires a prominent role for state intervention. On the other hand, this seemed to conflict with the extent to which neoliberalism was already

\textsuperscript{16} The state-led ‘sectoral transformation’ has often been used in VCP Congress documents. For example, the 9\textsuperscript{th} VCP Congress assessed the previous sectoral transformation as successful when ‘agriculture reduced from 38.7-24.3%, industry increased from 22.7-36.6%, service increased from 38.8-39.1% of GDP’, and set the structural targets for the next period as ‘agriculture reduces to 16-17%, industry increases to 40-41%, service to 42-43%, and employment in agriculture reduces to 50%’. The VCP Congress does not set any clear targets for the SOEs, but a similar rationale of sectoral transformation is widely deployed in government’s annual plans, as shown in Hoang-Thi (2012), who also suggests a more even balance between the contributions of the state and private sectors.
present in Vietnam on the threshold of the new century, when the country had just signed its bilateral trade agreement (BTA) with the US and was preparing to join the World Trade Organisation (WTO). Lifting barriers to imports and foreign investment was then of less concern than fears about the perceived crowding-out effects that SOEs might have on the local private sector. This is somewhat understandable, since the benefits (though limited) from foreign trade and investment have been greater than those expected from the SOEs, given the large gap between policy and implementation. These issues of political economy will be analysed in the following sections.

3.2 The Party-state’s Policies on SOEs and Privatisation

Against the backdrop of the overall process of economic reforms described above, the design and implementation of important policies to renovate the SOEs, especially through privatisation, can be divided into three main phases. Each of these is examined in detail below.

3.2.1 Phase 1 (1991 – 2000): Reshaping the SOEs through ‘Administrative’ Commercialisation

Throughout Doi moi, the SOEs have consistently been affirmed as the cornerstone of the economy. The 7th VCP Congress (1991) explained that the state economy was to be consolidated and developed in key areas that contained important businesses, and would take over those activities that other sectors were not able or willing to manage. The state sector would be reorganised, with improved technology and management, to operate efficiently, link to and assist other sectors, and play the leading role as an instrument for macro fine-tuning of the state.

In the 1990s, reform of SOEs was confined to restructuring by administrative measures. Only a small number of SOEs were equitised on a pilot basis. While the state was to retain 100% ownership of most SOEs, autonomy was enhanced, financial independence was encouraged, and the state funded only selected projects, thus narrowing the scope of subsidisation. Pilot projects were conducted in small SOEs in unimportant industries to diversify their ownership structure, which involved allowing local private investment or the formation of joint ventures (JVs) with foreign firms.
Administrative decisions were frequently used to reshape the SOEs\textsuperscript{17}, mainly by merging unprofitable enterprises with profitable ones. As a result of merging 3,100 SOEs and dissolving 3,350 others, the number of SOEs was halved from 12,231 to 5,571 (Pham-Minh & Vuong 2009, p. 157)\textsuperscript{18}. A substantial number of SOEs were merged to form 17 large SOEs known as ‘General Corporation (GC) 91’ and over 70 SOEs known as ‘GC 90’ (the numbers refer to the decree that created the particular type of large SOE)\textsuperscript{19}. Their purpose was to control important areas of the economy and to compete internationally. Although autonomy was enhanced in relation to business decisions such as pricing, marketing and production, various aspects of SOE management were still regulated by the respective ministries. SOE employees, for example, were still viewed as civil servants.

The first wave of SOE equitisation began in 1992 with Decision 202/CT of the Prime Minister to pilot the transfer of SOEs into joint stock companies with options to sell to the employees, domestic institutions, or individuals. Five medium-sized SOEs with good financial prospects that did not operate in areas requiring 100% state ownership were ‘equitised’. When only minimal progress was achieved, Decree 28-CP was issued in 1996. This provided more regulatory details, offered more favourable employment prospects for the equitised SOEs and allowed ministerial and local authorities to approve the equitisation of smaller SOEs with capital of under 3 billion dong. Some 30 SOEs joined the plan. The aims of equitisation for the country’s economic development were clearly outlined in Decree 44/1998/ND-CP, namely: to attract capital from the whole society; renovate technology and management; create more jobs; enhance competitiveness; and allow employees to become owners with incentives for improved efficiency.

\textsuperscript{18} Due to the dispersal of governance, data on the SOEs are often based on their reports to the Government or National Assembly. Not all of the SOEs fully comply with these reporting requirements, and there have been numerous changes in SOE policy; as a result, there are significant inconsistencies in different sources (Pham-Minh & Vuong 2009, p. 158).
\textsuperscript{19} Decrees 90-TTg and 91-TTg (1994) regulated the creation of two types of large corporations: GC 90 had at least 5 strategic business units (SBUs) and over 500 billion dong of capital, and were governed by ministries or large provinces; GC 91 had more than 7 SBUs, 1,000 billion dong of capital, and were governed by the Prime Minister.
This decree, promulgated in 1998, allowed foreign investors to buy shares in equitised SOEs. Previously, they had engaged in mergers and acquisitions (M&A) targeting some private firms (such as the famous Da Lan brand), or indirectly acquired shares in JVs with SOEs (such as the JV arrangement with CocaCola). The decree also classified SOEs according to whether or not the state needed to retain control by limiting the number of shares that could be purchased by institutions and individuals (10-20% and 5-10%, respectively). After paying the organisational cost of equitisation to line ministries, local authorities or general corporations, most of the revenue would be retained for the firm’s employment remuneration fund or capital consolidation. From 1998-1999, 340 SOEs were equitised under this scheme (Do 2008).

Ostensibly, these policies reflected an accommodation with pressures to create a neoclassical market economy. During this period, however, the party-state continued to express scepticism about private ownership which, despite encouragement for investment in ‘socially beneficial areas’ and ‘without limits of scope’, was viewed far less favourably than were the SOEs. It seems that the party-state’s ambivalence towards the private sector was responsible for the key differences between successive SOE reforms, rather than its attitude towards the SOEs themselves. Private ownership obviously posed a political challenge to the ideological orthodoxy during this whole period of cautious experimentation with reform. It explains why equitisation was viewed differently from joint-venture activities, which were allowed very early in Doi moi.

In summary, the 1990s are often assessed as a decade in which SOE reform was achieved mainly by administrative solutions with limited SOE equitisation (Sakata 2013). Besides reflecting the ideological orthodoxy of the time, the apparent preference for non-market arrangements might also have reflected the desire to avoid lay-offs and preserve the perks of SOE managers. Other factors, however, might also help to explain the failure to prioritise privatisation during this phase. These included: the inexperience of state bureaucrats, SOE managers and local investors in dealing with the complex procedures of corporate acquisition; the absence of necessary tools and conditions such as asset evaluation, property rights and a stock market; the cautiousness of foreign investors in a newly emerging market; and the limited financial
capacity of the local population to take up any divestitures. In fact, despite the disappointment commonly expressed by neoliberals, it is reasonable to suggest that the gradual approach taken during the 1990s was an appropriate strategy and significantly paved the way for privatisation in the following decade.

3.2.2 Phase 2 (2001 – 2010): Ambitious Business Groups and Rapid Privatisation

By 2001, Vietnam was seeking to regain momentum in annual GDP growth after it had plunged from 9.34% to 4.77% (1996-1999) under the impact of the Asian Financial Crisis in 1997 (see Appendix 1). It had signed a bilateral trade agreement (BTA) with the US in the previous year and was negotiating to join the WTO. The Enterprise Law 1999 established a modern framework of corporate governance and initiated a vibrant business environment, while the stock market was newly established. If equitisation in the previous phase of the fledgeling market economy merely involved ‘corporatisation’ of the SOEs, it much more closely resembled privatisation during this period.

As the governing elites at the helm of the reform became more experienced, their policies had greater substance and contained more detail. The SOEs continued to be perceived as the ‘pillar’ of the economy and as the instrument through which the state could intervene, but were given a new mandate of holding the economy together, leading technological application to productivity and quality, enhancing socio-economic efficiency and ensuring compliance with the law. According to the 9th VCP Congress (2001), the existing SOEs in these important areas were to be consolidated, reorganised and improved, while new ones might be created or invested with controlling shares in important areas. Strong business groups (BGs) were to be developed from the GCs, with the participation of other sectors. The equitisation of those SOEs where 100% state ownership was not necessary would be facilitated, small SOEs would be contracted, sold or leased, and inefficient SOEs would be merged or dissolved.

The important industries were clarified, and a five-year time frame for accomplishment of these SOE reforms was set. The party-state’s determination to facilitate equitisation was particularly evident in its use of the 3rd Plenum of the 9th VCP Congress (2001) to realise the SOE equitisation agenda, which can be summarised as follows:
• The return on equity (ROI) was to be used as the main assessment criterion for commercial SOEs, while social policy outcomes would serve this purpose for public utility-provision SOEs;

• State governance was to be reformed to give the SOEs greater autonomy, self-responsibility, and the ability to cooperate and compete equally with businesses in other sectors according to law. Conditional protection would be provided in key industries, and state monopoly would be maintained in crucial areas. The state would cease funding but would maintain investment and appropriate support for prioritised industries. State regulatory functions were to be separated from the corporate management and the governance of the state ownership at the SOEs would be improved.

• Two new strategies were pursued: (i) consolidating the GCs and establishing strong BGs with diversification around the core business, capital intensity, domestic and international competitiveness, advanced technology, management and linkage between R&D and production; and (ii) facilitating equitisation which, it was emphasised, was not the equivalent of privatisation.20

From 2005-2010, 12 BGs were established by upgrading or merging major GCs; these held a monopolist or oligopolistic position (Beeson & Pham 2012) in coal and minerals, telecommunications, rubber, shipping, petroleum, textiles, electricity, insurance, chemicals, housing and construction (Hoang-Thi 2012, p. 12). The creation of these large conglomerates to compete internationally, like the keiretsu and chaebol, however, seemed to be in contradiction with another policy of the party-state – to displace monopoly market structures. This was because the introduction of competition was not easily achieved in practice, given the opposition from SOE managers and bureaucrats who preferred the status quo. On the other hand, these companies’ overwhelming market powers reflected the wide differences in financial capital, technical capacity and experience between the public and private sectors. The

20 Within the state apparatuses, the party-state’s assessment of the reform has been officially used as the single mode of assessment.
best solution might have been a combination of regulatory reform for competition and enhancement of linkages between the monopolist SOEs and private suppliers. Yet, neither of these strategies was pursued to any great extent.

Although the ambitious attempt to emulate the large conglomerates in Japan and Korea might have been a good strategy for consolidating and enhancing the competitiveness of SOEs as a leading sector, more attention should have been paid to improving governance, by, for instance, hardening budget constraints. In fact, the attraction of a speculative stock market combined with the loose regulations on business diversification enabled the SOE managers to engage in rent-seeking from fashionable industries, such as real estate or finance and banking, which led to uncontrolled expansion of BGs regardless of efficiency. Newly established strategic business units (SBUs) within some BGs, for instance, rapidly numbered in the hundreds; these included PVN and Vinashin (Pham-Thanh 2013; Malesky & London 2014). The same principle was applied to the GCs which were transformed into holding companies while their SBUs multiplied into a complex system of secondary and tertiary layers with ‘interlocking directorships, and finance companies’ (Ishida 2013, p. 25). Some of these SBUs were created solely to use the funds of a trade union for investment21; others came about through the establishment of a new JV with private investors, who might have been cronies of the SOE managers and whose investment in the JV could take various forms such as cash, lending the SOE brand name, or business deals. Because some BGs or GCs carried a well-known brand name, which promised favourable access to credit, land, licenses and connections, their stock prices soared during the property boom of 2007.

Such an environment, which was highly conducive to financial leverage and speculation (Ishida 2013), nonetheless spurred the reorganisation of 4,757 SOEs (through mergers, splits, liquidation and closures), of which 3,388 involved equitisation. Using the criterion of more than 50% state-ownership, the number of SOEs declined to 1,309, including 452 SOEs in security, defence and public utilities, and 857 commercial SOEs (Tran-Minh 2013, p. 7). The strategy of consolidation into

21 E.g. PetroVietnam Financial Investment (PVFI), Petrolimex Union Investment JSC, and Union Investment companies of BIDV and Vietinbank.
large SOEs was reflected in the fact that up to 85% of the assets and 90.4% of equity capital of the SOE sector were under the control of the BGs and GCs (Nguyen-Duc 2015, p. 74).

Despite the consolidation efforts, SOEs were often seen as inefficient over the period, for three main reasons: they absorbed a larger share of production inputs than their contribution to output warranted\(^2\); they were outperformed by (local) private and FDI sectors in terms of financial efficacy\(^3\); and they incurred high levels of loss and bad debt\(^4\). The Vinashin and Vinalines scandals were two influential milestones in the SOE reform process.

When regional industrial reallocation seemed to favour moving ship-building technology and production from Korea to Vietnam (which offered advantages in the form of sea ports, steel production, and cheap labour), Vinashin was upgraded from a GC to a BG with the expectation that it would become the flagship of the ship-building industry. However, it invested in more than 445 subsidiaries, ranging from manufacturing JVs with foreign and domestic partners to training schools, magazines and non-core businesses (Malesky & London 2014, p. 413). Initially, the Vietnamese

\(^2\) The SOEs accounted for 70% of total investment, 50% of public investment, 60% of banking credit, and 70% of ODA, but only contributed 28-35% to GDP (because this is an aggregated figure for the whole state sector including health care, education, and the military, for the SOEs alone it should be reduced by 28%), 39.5% of industrial outputs, 50% of exports, and 28.5% of tax revenues (Pham-Thanh 2013, p.37-38; Tran-Minh 2013, p. 7; Nguyen-Minh 2015). (It should be noted that these figures were not credible but were frequently used in the press).

\(^3\) The SOEs took over 44.7% of the investment but produced 27.8% of GDP, while the corresponding private sector figures were 27.5% and 46.1% respectively during the second half of the period (Vu 2013, p. 3). Although the labour productivity of the SOEs (78.01 million dong/labour/year) was higher than that of the private sector (10.1 million dong/labour/year in 2005 because of the labour-intensive nature of the private sector), the productivity growth rate was slower in the former than in the latter (3.98% - 4.6% in 2001-2005) (Tran-Minh 2013, p. 7-8). To generate 1 dong in revenue, the SOEs needed 2.8 dong of capital, compared to the private sector figures of 1.2 and FDI 1.3 dong, which helped the ICOR (investment efficiency) of Vietnam rise above that of the regional economies in the same period. Compared to foreign competitors, the SOEs lagged even further behind. Vinacomin, for example, had 140,000 employees, more than those of BHP Billiton and Rio Tinto combined, but only achieved revenue equal to 3% (USD4/123 billion) of the revenue of these companies (Pham-Thanh 2013, p. 39).

\(^4\) By 2012, the BGs and GCs had accumulated a loss of 26,110 billion dong - on average, 12 times more than a firm in other sectors. The debt of 12 BGs was 218,738 billion dong, equal to 8.76% of the debts of the entire banking system, and 52.66% of the SOEs’ credit; 30 of the 85 BGs and GCs had a debt/equity capital ratio of 3 times and for some CGs, 10 times in infrastructure (Hoang-Thi 2012, p. 13; Tran-Minh 2013, p. 9). According to Hoang-Thi (2012, p. 14), 80% of the profit of BGs and GCs in fact came from 4 BGs in petroleum, military, telecommunications and rubber, which benefited from their natural monopolies. The SOEs were also blamed for half of the USD61 billion of the country’s external debt (Pham-Thanh 2013, p. 38).
government seemed to be doing well with its favourable issue of bonds to the international market that raised USD 750 million for Vinashin. It subsequently sponsored a further 3 trillion dong of commercial bonds that were sold domestically (Ishida 2013, pp. 44-48). When the global financial crisis (GFC) hit in 2008, most of Vinashin’s orders were cancelled and the ships and technologies that had been the objects of many its deals were simply scrapped. By 2010, four years after its establishment, its CEO had been arrested and the company defaulted on USD 4 billion of loans, four times greater than the stimulus package of the country in 2009 (Hoang Lan 2010). Vinashin was restructured by transferring parts of its asset portfolio (including debts) to PVN and Vinalines; much of its debt was converted into bonds, and it reverted to being a GC in 2013.

The damage from Vinashin spread to other parts of the economy. Habubank, a private bank, went into bankruptcy in 2012. This was followed by the scandal of Vinalines, a GC90 with nearly 30 SBUs in ship forwarding and port services. In 2012, its bosses were charged with receiving USD 442,000 from the purchase of an old, unusable floating dock for USD 22 million. By 2014, Vinalines was heading the list of unprofitable BGs and GCs with a negative bottom line of over 19 trillion dong (equivalent to USD 860 million). These examples of mismanagement and corruption – the largest ever - ineluctably undermined society’s confidence in the SOEs’ ability to act as the economic mainstay at the forefront of efficiency and legal compliance as set out in the policy agenda.

As well as discrediting the sector in policy discourse, the poor performance of the SOEs – especially that of the sprawling and unwieldy BGs and GCs – also contributed to the rapid increases in external debt that seriously impacted on the country’s macroeconomic stability and prospective growth. According to An Ngoc (2016), the

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26 Not just Vinalines, other unprofitable SOEs included GCs in food exporting, engineering, construction and trade. (See: Nguyen Le 2014 ‘Vinalines nhat bang lo cua tong cong ty nha nuoc [Vinalines leads the unprofitable SOEs], 29 November, viewed 29 August 2016, http://www.vneconomy.vn).

27 See: Chi Hieu 2014, ‘1,5 trieu ty dong no nan cua cac tap doan, tong cong ty nha nuoc [An indebtedness of 1,500 trillion dong of the state-owned BGs and GCs]’, 1 December, viewed 29 August 2016, www.vnexpress.net; Tu Hoang 2015, ‘Dang lo ngai tinh trang no nan cua cac doanh nghiep nha
accumulated public debt of Vietnam reached US$117 billion in 2015 (equal to 62.2% of GDP), more than double the level in 2010. The external debt accounted for 43% of the total public debt, of which 80.8% was borrowed by the Government (mostly through ODA), 17.8% by government–sponsored projects and 1.4% by local authorities. Notably, most of the loans were to fund projects carried out by SOEs. Thus, alongside the fiscal and monetary malpractice and wasteful public investment of the government, SOEs were often to blame for the problems in the first place. Although the Vietnamese economy recovered well after the East Asian financial crisis, and achieved an impressive annual growth rate of 8.46% in 2007 (see Appendix 1), the impact of the global financial crisis (GFC) in 2008 was more extensive. Yet even before the GFC, the economy was confronting the problem of high inflation, which reached 19.4%/year-on-year in 2008 and was associated with a range of fiscal and monetary instabilities (Pincus & Vu 2008). Combined with the impact of the GFC, the asset bubble – fuelled by the investment-based growth model28 and cheap credits channelled into real estate and financial speculation – quickly affected the growth of the economy in 2008 and 2009, with growth rates plummeting to 6.31% and 5.32% respectively, and depressed per capita growth virtually to the point of stagnation. A demand-stimulating package was released in 2009, with the result that growth temporarily increased to 6.78% in 2010 but was accompanied by the return of inflation to 18.6%/yoy in 2011. Consequently, when the government had to tighten monetary policy, the growth rate declined again to 5.89%-5.03% in 2011-2012 (see Appendix 1).

28 Traditionally, the total investment rate has always been at a high level in Vietnam, rising from 39%/GDP in 2001-2005 to 42.9%/GDP in the next five years and only declining by 32% in the most recent period (An Ngoc 2016).
3.2.3 Phase 3 (2011 – present): Withdrawal, Restructuring Agenda and New Debate

The policy discourse in this period was largely concerned with the macroeconomic instabilities that occurred in 2008-2013. Since 2008, the terms ‘economic sustainability’, ‘group interests’, ‘rent-seeking’, ‘limits of resource-based development’, and ‘looking for the new growth engine’ have been widely used in local policy discourse. By the 11th VCP Congress, the governing elites seem to have agreed on two main themes: first, restructuring the economy by focusing on three prioritised areas (withdrawning inefficient business units owned by the SOEs, eliminating the squandering of public investment, and handling the bad debts of commercial banks and financial institutions); second, transforming the growth model from factor-based to productivity-based. Restructuring the SOEs accounted for one-third of the overall economic restructuring project. Accordingly, the 6th Plenum of the 11th VCP Congress (2012) mapped out a new agenda for SOE reform.

This identified the SOEs as the cornerstone of the state economy and the instrument that supported the state’s ability to intervene in the economy. The tasks ahead involved: restructuring the SOEs; applying new technologies; strengthening the socialist-orientation of the economy; focusing on the key segments of security, defence, natural monopolies, provision of essential public goods and services, and some foundational industries that used modern technologies and had large spill-over effects. A short-term goal was to stop diffusive investment into non-core businesses.

29 The Harvard Vietnam Program (2008) Choosing success report became well-known after it issued the first warning about the growth stagnancy that the Vietnamese economy might face if it followed the path of Southeast Asian countries rather than the best practice of Northeast Asian ones. In 2010, the Central Institute of Economic Management (CIEM), Ministry of Planning and Investment submitted to the Government two proposals: (i) Continuing the reform, facilitating the economic sectoral transformation towards improving the economy’s productivity, efficiency and competitiveness; and (ii) Policy solutions for enhancing the growth quality, efficiency and competitiveness of the economy. These were subsequently combined to form the Overall Project of Economic restructuring with growth-model transformation towards improving the efficiency, productivity and competitiveness during 2013-2020', which was formalised by the Prime Minister’s Decision 339/QD-TTg in 2013 (CIEM 2010a; 2010b).

30 There have been frequent complaints about wasteful and low-quality public investment and public concern has been expressed that large-scale projects (such as the national freeway) have played a major role in cost-push inflation. At the same time, due to macro instabilities, the banking and financial system (in which the ‘big four’ are state-owned) has been burdened by a large amount of bad debt since the property bubble burst. This was reflected in the government’s establishment in 2013 of a new Vietnam Asset Management Company owned by the State Bank, as well as the Debt and Asset Trading Corporation (DATC – 2003) of the Ministry of Finance.
and to complete the disinvestment of state capital in SOEs with less than 50% state ownership. It was also recommended that the establishment of a united agency in charge of ownership representation in the SOEs should be investigated.

‘Continuity and change’ (Gainsborough 2010) were clearly evident here: on one hand, the party-state reaffirmed the centrality of the SOEs as a symbol of the country’s socialist orientation; on the other hand, it was toning down its appraisal of the reliability of the sector. According to CIEM (2014), if the focus of SOE reform had previously been on quantity, the ongoing agenda would seek an improvement in the quality of the sector. The overhaul has been implemented via a ‘top-down’ hierarchical approach: (i) the framework plan described in the Prime Minister’s Decision 929/QD-TTg (2012) specified goals and solutions at the national level; (ii) sectoral plans for SOEs in each industry or locality were prepared by ministries and provincial authorities and submitted to the Prime Minister for approval; (iii) based on these plans, each of the SOEs, BGs and GCs developed its own specific plan, which was submitted to line management (CIEM 2014, p. 2). The overarching mandate in these plans was for SOEs to withdraw or disinvest from all but core businesses that are important for the state’s presence in the economy and where the SOEs have a competitive edge.

By August 2013, all sectoral plans were approved by the Prime Minister (CIEM 2014, p. 2). By October 2014, 90 of a total of 108 BGs and GCs had their plans approved (20 by the PM, 70 at ministerial and provincial levels); 18 had not yet been approved (Nguyen-Duc 2015, p. 73). By 2016, the BGs and CGs had achieved disinvestment from non-core businesses of the BGs and GCs to a total value of 4,956.3 billion dong. According to the Department of Enterprise Reform, Office of Government (2016), this was broken down as follows: real estate (3,177.3); insurance (21.1); securities (22.5); finance (1,675.2); banking (60.2); and divestiture of BGs’ SBUs (10,048). This amount was still less than what the BGs and GCs had invested31 (Nguyen-Duc 2015, p. 75). Progress in the equitisation process was also stalling; from a planned total of 514 deals

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31 According to the Ministry of Finance, the amount that BGs and GCs invested in non-core businesses by 2014 was about 22,000 billion dong [see: Cafef 2014 ‘Tien do thoai von ngoai nganh van cham [Progress of disinvestment from non-core businesses is slow]’, 22 July, viewed 5 September 2016, http://www.cafef.vn].
over the five–year period 2011-2015, only 16 were concluded in 2011, 13 in 2012, 66 in 2013, 143 in 2014, and 222 expected in 2015 (Department of Enterprise Reform 2016).32 However much the current policy agenda endorses equitisation as a strategic tool for reform of the SOEs, in practice the process of financial retreat and divestment by the state was inevitably conditioned by the stock market, which had been on a downward trend. The VN-Index reached a record 1,000+ points in early 2007, then plunged to 244 (February 2009), before recovering slowly to around 400 (by February 2012), and to 600 since March 2014.33

As well as withdrawal of non-core business investment, changes in the classification of SOEs according to the proportion of state ownership have reflected the state’s attitude towards SOEs and, in practice, will provide benchmarking rules and guidance for the new phase of equitisation.

Until 2014, the SOEs had been defined as firms with more than 50% of state ownership and were classified into two groups: (i) 100% state ownership in sensitive industries of security and defence, airlines and maritime-pilotage services, power grid, large-scale seaports and airports, railways, broadcasting and television, tobacco, and lotteries; (ii) more than 50% state ownership in enterprises providing public goods and services, those in remote areas; and those in industries vital to macro stability, such as key infrastructure and transportation, oil, and mineral resources. During this phase, the party-state policies of maintaining majority ownership in strategic industries and utilities were clearly consistent with the gradual and partial approach to equitisation – a characteristic of developmental states.

Since 2016, the neoliberalism-inspired equitisation has advanced further with new rules narrowing the range of firms recognised as SOEs. Under the Enterprise Law of 2014, only firms with 100% state ownership are recognised as SOEs34; therefore, BGs

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32 Equitisation here means that shares in the SOEs were sold for the first time to insiders and/or outsiders, regardless of the ratio of state ownership.
33 The stock market has been an important channel for initial public offerings (IPOs) of the SOEs. In 2015, the IPOs of 112 SOEs generated 5,455 billion dong (Department of Enterprise Reform 2016).
34 The Deputy Prime Minister, Head of the Steering Committee for Enterprise Reform and Development, stated that ‘it needs to facilitate the downsizing of the SOEs and there should be as few SOEs with 100% state ownership as possible’ (See: Website of the Government 2016 ‘Tiep tuc thu hep
and GCs would not be considered as SOEs after their equitisation. Among these many utilities providers were classified as not needing to be wholly owned by the state. The aim of the Enterprise Law was to create more opportunities and greater scope and scale for equitisation. According to Decision 58/2016/QĐ-TTg, which involved 240 enterprises, the state would hold 100% ownership in 103 SOEs (key infrastructure and financial security, including 63 lottery companies); 65% ownership in four equitised SOEs (coal and minerals mining, agriculture and rural banking, oil exploration); 50-65% ownership in 27 equitised SOEs (telecommunications, food export, tobacco, regional electricity distribution); and less than 50% ownership in 103 equitised SOEs (53 water supply-sewage, urban utilities, and 14 industrial manufacturing). Thus, the proportion of state-ownership of most of the industrial BGs and GCs, including oil exploration and electricity, could be reduced by disinvestment to 50-65%. This change arguably implies a wholesale approach in that the decision makers wish to expose more majority-ownership SOEs to market forces in order to ‘free them from the social tasks or political influences’ (Son Nguyen 2014).

In summary, though the SOEs have been officially designated as the ‘mainstay’ of the economy, there has been a fundamental change in the party-state’s views about how much of a role the sector could play. On one hand, the party-state has to underscore the role of the SOEs to conform with its socialist political ideology; on the other hand, private firms are coming to be relied on as an ‘important engine’ of economic growth. In fact, many policies have been designed to support growth in this sector, including encouragement for start-ups, extensive simplification of administrative processes, and assistance for small and medium enterprises (SMEs). Nevertheless, even if the

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35 The small size of the private sector has often been blamed for the ‘crowding-out’ effects created by the SOEs, and the unfavourable business environment in which private firms operate; for example, only 1% of the SMEs have ambitions to become large corporations (see: Khanh An 2016, ‘Vi sao doanh nghiep khong muon lon? [Why don’t the firms want to develop?], 9 January, viewed 14 September 2016, http://www.baodautu.vn). Hence, the party-state’s policies towards the private sector have focused on administrative simplification and deregulation of business licenses, usually enshrined in different versions of Enterprise Law (1999, 2005), especially Investment Law 2014. (See: Lao dong 2015 ‘Bai bo 3,299 dieu kien kinh doanh: con hon ca ‘coi troi’ [3,299 business conditions are removed: more than…‘unleashing’], 1 July, viewed 14 September 2016, http://www.laodong.com.vn).

36 According to General Statistics Office (GSO 2008), by employment size, most of the private firms are SMEs (5-10 employees: 36.6%; 10-50: 32.3%); the FDI firms are normally larger (10-50: 29.1%; 50-200: 31.0%); and the SOEs are the largest (50-200: 23.2%; 200-500: 36.5%). Among the largest corporations,
role of SOEs is played down by the party-state, they remain the largest firms in scale and as corporate tax payers\(^\text{37}\). Hence the way in which the SOEs are reformed and how equitisation is governed will have a significant impact on the future economic growth of the country.

### 3.3 Vietnam’s State-led Development: Vacillation between Neoliberalism and the Developmental State

Analysis of Vietnam’s uneven experience of equitisation over recent decades reveals the extent to which it is embedded within a complex of economic and political constructs. In order to unravel the reasons for the uneven governance of policy and implementation outcomes, it is necessary to look beyond official accounts and examine the dynamics of the ‘backstage’ political economy. This section analyses the characteristics of state-led development in Vietnam, which reflect the philosophical contest between neoliberalism and the developmental state.

#### 3.3.1 Political Legitimacy Based on Economic Performance

The Vietnamese political system has been well described by Thayer (2010), who emphasises the role of the one-party leadership over the whole state apparatus as it seeks to respond to a variety of political challenges. Once wartime mobilisation ceased, patriotism and nationalism have gradually given way to concern about the low level of national wealth and the post-war economic difficulties. This has prompted the party-state to seek a new basis for its political legitimacy in the country’s economic performance (Bui 2015). Since the launch of *Doi moi*, ‘successful economic development and modernisation’ has become an important source of the political

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\(^{37}\) For example, in the list of largest corporate tax payers (V-1000), there were 229 SOEs contributing 82,344 billion dong, equal to 45% of listed revenue (or over 10% of the whole budget revenue); FDI had 460 firms (37%), and the private sector had 311 firms (18%). (See: Vietnam Report 2015, ‘*Bang xep hang V1000 2015: ton vinh doanh nghiep nop thue* [V1000 ranking 2015: congratulating largest tax payer corporations’), 27 November, viewed 14 September 2016, [http://www.vietnamnet.vn](http://www.vietnamnet.vn).
regime’s legitimacy (Thayer 2010, p. 425). To date, Vietnam has attracted
international recognition for some of its achievements (Masina 2012; Schwenkel &
Leshkowich 2012; Bui 2015), such as a rapid average annual growth rate of 7.42% in
the 20 years from 1991-2010 (GSO 1991-2010); poverty reduction, from 58% of the
population in 1993 to 23% in 2004 (Beresford 2008, p. 236)38; and a reasonable level
of income equality, ‘with a Gini coefficient of 0.37 compared with 0.47 for China’
(Malesky & London 2014, p. 397). The development path, however, has not been
smooth, particularly in relation to reform of the SOEs, as previously discussed39.

Both consistency and inconsistency between economic and political constructs are
evident in the course of Vietnamese development under the leadership of a state in
need of economic performance. The state has advanced its political agenda by
proclaiming the necessity of political stability for economic growth, and vice-versa.
This explains the willingness of the governing elites to adopt Doi moi, which
‘resonated with neoliberalism to rework the socialist form of governance’ (Bui 2015,
p. 83), and why market-based economic reform has always been preferred to a political
reform that is likely to be viewed as a threat to the party’s sole leadership (Thayer
2010). Nevertheless, the pace and scope of both kinds of reform have always been
debatable. Although the party-state is composed of reformers as well as conservatives,
these circles are still generally viewed as ‘hard-line’ by the population, who are likely
to favour any reforms that make their lives easier as signs of ‘progress and prosperity’
(Hayton 2010, p. xiii). With over 3 million members (since nearly every large family
has at least one Party’s member), the Vietnamese Communist Party (VCP) is large
enough to ensure that official policy discourse within the governing elites is not
isolated from popular discourse. Accordingly, as the population has embraced
elements of Westernisation that are identified with modernisation, so too has the party-
state. This appears to be consistent with the state’s claim for political legitimacy based
on economic performance.

38 In 2010 the poverty rate had further declined to 14.2% (according to the official Vietnamese poverty line) or 20.7% (adjusted according to the international poverty line). (See: The World Bank 2013, ‘Poverty reduction in Vietnam: remarkable progress, emerging challenges’, 24 January, viewed 23 September 2016, http://www.worldbank.org).
Nevertheless, given the state’s paternalistic control over ideology, the term ‘neoliberalism’ is unknown and reference to ‘capitalism’ is taboo in these discourses, despite the conspicuous presence of capitalism in the daily life of the society (Hayton 2010). As a result, discussion has been limited to the pace and extent of the reforms, and the greater the number of reforms, the more ‘progressive’ they are held to be. As long as the economic reform bears fruit, confidence in the drive for reforms that are actually inspired by neoliberalism increases. Interestingly, when an economic stumble occurs (typically a scandal involving SOEs or public investment), critics accuse the state of not reforming enough rather than needing to review or step back from previous policies. A forward-looking mindset is also due in part to the desire to avoid looking back to the mismanagement of the central planning economy (Hayton 2010).

In some postsocialist societies such as Vietnam and China, even though neoliberal policy is never openly acknowledged in the official state ideology, the adoption of neoliberal-informed strategies and practices is palpable in restructuring the economy, modes of governing, selfhood, and everyday life (Zhang 2012, p. 659).

While the official mantra still stresses that Vietnam is a “market economy with socialist orientation,” in practice Vietnam’s integration into the global economy through the membership in the World Trade Organisation (in 2007) has accelerated the development of a national economy driven by market forces. Vietnam’s party-state has made progress in reforming and privatising the state-owned enterprises… and there has been an explosion in the growth of the private sector (Thayer 2010, p. 439).

Thus, it may seem that the reforms, despite some initial fumbling, have been good enough to improve economic performance and secure enough legitimacy to enable the state leadership to remain in place. In fact, however, the ‘cacophony’ of official and unofficial voices conceals an ‘amorphous double movement’ of Vietnam between a developmental state and neoliberalism (Bui 2015). It may be that the party-state uses a pragmatic approach of oscillating policies - ‘sometimes favouring growth, sometimes
stability’ - to address the difficult task of creating ‘one million jobs a year’ (Hayton 2010, p. 3). Because of this strategy, scholars hail the country as a successful exemplar of an unprecedented ‘hybrid’ (Masina 2012) or ‘co-existence’ (Bui 2015) between elements of socialism and neoliberalism; or they praise the ‘state-crafted’ mediation of external globalisation pressures and domestic interests (Evans & Bui 2005) to secure a harmonious process of ‘continuity and change’ (Gainsborough 2010). In order to shed light on the policy discourse around equitisation, it is essential to explore the complex accommodation between Vietnamese socialism and neoliberal philosophy that has characterised the state’s approach to tackling the intertwined political and economic challenges.

3.3.2 Vacillation between Neoliberalism and the Developmental State

Although I am in partial agreement with these academic arguments, I propose another understanding of the Vietnamese developmental trajectory as a vacillation between the developmental state and neoliberalism in which neither agenda has been pursued successfully nor completely. On one hand, thanks to the pragmatic treatment of philosophical contestation as secondary to the primary goal of improving the population’s living standards, the Vietnamese economy has achieved a relative stable growth. This is in stark contrast to the stumbling growth of transition economies in the CEE and former CIS, where ideological transformation was prioritised as an overwhelming agenda – most clearly evidenced in their programs of mass privatisation. On the other hand, Vietnam achieved much less than the developmental states of East Asia, in terms of both economic growth and privatisation. According to Collins and Bosworth (1996, p. 136), most developmental states achieved an average annual growth in GDP of around 8.5% in the decades immediately before the Asian Financial Crisis in 1997 (from 1960 to 1994, the rates were: Korea, 8.5%; Singapore, 8.3%; Taiwan, 8.7%). Even some economies in South East Asia outperformed Vietnam when they were at a similar level of economic development (Thailand, 7.7%; Malaysia, 7.0% from 1960-1994). Vietnam’s average annual growth rates have indeed been declining over these decades: 7.7% (1992-2001); 7.2% (2002-2011); 5.7% (2012-2016) (GSO 1992-2016). Similarly, as discussed in Chapter 2, the management and privatisation of SOEs in the developmental states have been implemented more
consistently and effectively than have the governance reforms of the BGs and GCs and equitisation in Vietnam.

Essentially, the economic transition in Vietnam can be characterised as an adaptation of neoliberal economics. In the party-state’s policy discourse, it is easy to identify calls for the efficacy and rationality of market mechanisms to be recognised as ‘axiomatic truths’ or ‘objective rules’ that need to be accommodated (Schwenkel & Leshkowich 2012; Nguyen-Thanh 2016). As outlined earlier in this chapter, almost all of the Washington-consensus formulae were applied to create ‘the efficient market’ and burgeoning private sector. Two features, however, make the Doi moi distinct, at least from the processes that characterised the opening up of the CEE and the former CIS.

First, contrary to the idea of the minimal state – one of the cruxes of neoliberalism – the Vietnamese government has been at the helm throughout the course of economic development (Masina 2012). Its influential role in directing and overseeing the economy (Adams & Anh-Le 2010; Beeson & Pham 2012) has ensured that the dominance of neoliberalism has been neither complete nor ‘powerful’ (Gainsborough 2010). Hence, although Vietnam is often held up by international donors as a model of successful economic development for other third-world countries, it does not fit comfortably into the neoliberal mould (Hayton 2010; Masina 2012, p. 204).

Second, the popular explanation for the ‘marriage of convenience’ between statist socialism and neoliberalism (Bui 2015, p. 84) as a compromise between the “conservative” and “reform minded” camps within the governing elites has proved to be insufficient:

[I]n the cleavages over SOE reform […] the complexities of state, party and economic interests is such as to defy clear categorisation into such simple, broad-based blocs or tendency […] reflecting both the need for economic reform and the need to retain political control (Painter 2003, p. 21).

Hence, the policy outcomes – such as a ‘less liberalising reform trajectory’ (Malesky & London 2014, p. 407) here and ‘sudden u-turns or moments of dramatic reform after
period of inaction’ (Painter 2003, p. 21) there – have all resulted from a complex assemblage of political economy configurations within multi-centred ‘elite politics’ rather than from the bold calculation of a consistent source of power. It is a state-led development, but it also comes under a leadership that is collective, factionally representative and legitimacy-sharing. This amorphous tradition blurs both the neoliberalism and developmental state characteristics of Vietnamese economic governance. While neoliberalism needs a solid political hegemon that is willing to suppress the state itself to realise the legitimacy of free-market forces (as, for instance, in Thatcher’s Britain), the developmental state needs a centralised power to harness market forces to realise the state’s coordinative capacity (as, for example, in Lee Kuan Yew’s Singapore).

This is the reason why Vietnam has seemed to vacillate between neoliberalism and developmental state rather than definitively allying itself with one of them. Interestingly, although the contours of the reform have been pervaded by hegemonic neoliberalism (Masina 2012), the essential starting point was the developmental state (Bui 2015). Indeed, the stereotype of development inspired by successful economies in Northeast Asia seemed to be the most acceptable (or least harmful) mode of governance for the Vietnamese party-state in the early 1990s. Vietnam undertook reform in the light of ‘two largely alternative models for industrial development’ that were available for emulation (Masina 2012, p. 192). The stark rupture that marked the transition of the CEE and former CIS counterparts from statist socialism towards free-market capitalism was seen to have resulted in chaos, loss of control and the dilution of party power. At the same time, Japan and the four NIEs were emerging as miraculous exemplars of late industrialisation. The story of South Korea’s transformation from one of the poorest countries in the world to an OECD member in three or four decades was certainly appealing to the Vietnamese governing elites. Further, although they were old enemies, the fact that these autocratic, single-dominant-party East Asian regimes had maintained political stability over a long period of economic development seemed likely to provide a valuable source of legitimacy for the party-state. When China – which bore considerable resemblance to Vietnam in terms of its socio-political modality (Perkins & Vu 2009) – presented another successful showcase of an economy transitioning from socialist orthodoxy but looking East rather than West, the suitability
of developmental state doctrine for the party-state’s agenda was clearly affirmed (Beresford 2008; Masina 2012; Malesky & London 2014). These contextual particularities help to explain the apparent paradox in Bui’s (2015) proposition that Vietnam has approached the developmental state as a convenient platform to accommodate neoliberalism:

In Vietnam, the East Asian model of state-led developmentalism has great appeal to the party-state when embarking on the market-based reforms. The activist and interventionist role of the state in directing the course of development corresponds with the desire of the party-state to maintain control as the commander-in-chief. However, the Vietnamese party-state embraced this model when neoliberalism has already taken a strong hold… In this phase, the techniques of governance are seen in the co-existence and juxtaposition of both neoliberal and socialist forms of governmentality [more exactly, governance], which was once deemed unthinkable (Bui 2015, p. 81).

Nevertheless, given the ‘exception and novelty’ that resulted from the uneven interaction between ‘neoliberal logics and practices’ and the ‘entrenched socialist political visions and […] cultural values’ of Vietnamese society (Schwenkel & Leshkowich 2012, p. 382), the implementation of developmental state principles was not straightforward either (Masina 2012). As explained in Chapter 2, the developmental state is premised on three core elements: the prominent role of an effective bureaucracy to plan and coordinate industrial policy; the unique cooperative alliance between the state and business sector through market-conforming incentives; and the philosophy of a project that harnessed individual interests in the collective pursuit of a national export-oriented strategy. Vietnamese governing elites appear to have been aware of these salient features of the developmental state, but have not yet successfully adapted to them.

First, since ‘the historical context of development has changed’ (Evans & Bui 2005, p. 2), Vietnam now encountered ‘the additional challenge of “late-late” development’ (Beeson 2004). It had to break into the global hierarchy of production dominated by earlier developers (Beeson 2004; Ohno 2009), but it lacked the unique form of
international geopolitics that formerly favoured the Northeast Asian developmental states. Moreover, the new agenda of globalisation has worked to reduce the legitimacy and legality of barriers to external flows of trade and investment (Pempel 1999), narrowing the space for policy endeavour⁴⁰.

Second, both the first and second features of the developmental state noted above are less evident in Vietnam, even when the governing elites strived to emulate them. In terms of economic governance, Vietnam does not possess a strong state, since its capacity is limited by ‘vested interest of major political and economic actors’ (Masina 2012, p. 192). Despite attempts to install an equivalent to the MITI and hold periodic consultations with the business sector, the Vietnamese bureaucracy remains ‘sprawling and unwieldy’ (Painter 2003, p. 18) and far less effective⁴¹. After 30 years of modernisation and industrialisation, the fact that the ability of a minister to speak English fluently can become an online phenomenon creates doubt about the breadth of the technocracy and the merit-base of the bureaucracy⁴². This is not to mention the absence of a ‘coherent national industrial strategy’ – which, as Masina (2012, p. 202) emphasises, is a basic requirement of the development state. This is analysed further in the next chapter.

⁴⁰ Noticeably, the investment climate in Vietnam was far less friendly than those of the NIEs when the development course was started due to the entrenched legacies of the non-market economy. This did not only affect the pace of growth of the former but has also established a routine of indefinite neoliberal trajectories in the minds of the country’s reformers, such as adopting the WB’s initiatives of improving the regulatory environment for foreign and domestic private-sector growth, which essentially involved interminable deregulation and market liberalisation programs.

⁴¹ Given that administrative reforms are frequently emphasised in the Doi moi agenda, the internalisation, wastefulness and sluggishness of the bureaucracy at all levels appear in public media commentary almost daily. (See: Quyet Nguyen 2016, ‘Ca nha bi thu tinh uy Ha Giang lam quan [The whole family of the Secretary of Ha Giang are officials]’, 17 September, viewed 9 October 2016, http://www.nld.com.vn; Phuong Vy-Le Hoang 2016, ‘Du an dai hoc hon 400 ty thanh noi chan tha trao bo [The university construction valued 400 billion is vacated]’, 10 August, viewed 9 October 2016, http://www.vnexpress.net; Minh Quan 2016, ‘Khien trach giam doc so dai tiec trong gio hanh chinh [Department Director holding party in working hours is disciplined]’, 24 June, viewed 9 October 2016, http://www.laodong.com.vn).

⁴² See: Vnexpress 2016, ‘Lan truyen clip bo truong Kim Tien that bieu bang tieng Anh [Circulation of the clip of Minister Kim Tien speaking English]’, 5 May, viewed 9 October 2016, http://www.expressnet.net. It is estimated that 2.73 million people are employed in the whole state apparatus of Vietnam (at central and local levels, not including the army); 30% of these bureaucrats are perceived as ‘not delivering on tasks’. (See: Ngoc Tuyen 2016, ‘17.000 ty dong tra luong cong chu khong lam duoc viec’ [17 trillion dong of salary paid to “unqualified” bureaucrats], 13 October, viewed 14 October 2016, http://www.vnexpress.net).
Third, during *Doi moi*, there has existed a widespread form of ‘social mobilisation’, reminiscent of war-time nationalism; for example, football fans often encouraged the national team by carrying General Giap’s picture to the stadium, and the press referred to ministers as ‘commanders’\(^{43}\). At the same time, however, the country is geared up as ‘a collective enterprise moving toward prosperity by competing with other nations in the global market’ (Nguyen-Thu 2016, p. 98). According to Johnson (1999), the legitimacy that would eventually result from such a ‘quasi-revolutionary’ commitment to ‘overarching social transformations’ would enable the bureaucracy to smoothly override individual group interests and social conflicts to accomplish grand-vision objectives (pp. 52-53). In Vietnam, debate over the post-war status of the nation – whether or not it is a small country – has also attracted public interest, and a sense of inferiority about being a poor country has permeated society, especially its young members (Nguyen-Thu 2016). It is difficult to know if these discourses were deliberately promoted: despite the fact that most of the public media in Vietnam are state-owned and under ‘soft-authoritarian’ supervision (Thayer 2010), these narratives might often be constructed by the very program directors and actors who are influenced by neoliberal logics. Social mobilisation in the developmental states and Vietnam differs in one important way. While the former was a kind of institutional collectivisation, the latter has taken the form of institutional individualisation. In peace time, Vietnamese social mobilisation has taken the form of a neoliberal ‘commercial nationalism’ in which ‘personal wealth’ is viewed as ‘national pride’. According to Nguyen-Thu (2016):

> [P]ersonal achievements were characterised as ethical contributions to the prosperity of the nation (p. 90) … [B]usiness success was consistently treated both as an individualist value and a nationalist responsibility (p. 93) … [M]oneymaking efforts [were seen] as not only a legitimate action but also an urgent task, an ethical responsibility of each individual member of the nation (p. 96).

\(^{43}\) In his public speeches, General Giap often called on more support for business people to enrich the country in the new task of economic development.
3.3.3 Implications of Vacillation

As a result of these conflicting characteristics, the Vietnamese political economy has been realised as neither fully neoliberal nor a successful developmental state. The implications of this go beyond mere ideological contestation. Some might say that support for personal wealth creation in an underdeveloped institutional environment effectively legitimises greed and that this is a trademark of neoliberalism. At the very least, the responsibility for national enrichment seems to have been partly decentralised or contracted-out to individual citizens. Hence, numerous groups within the population have benefitted from the economic reform, legally or otherwise. These range from lucky families who have earned rents (either by starting up their own shops or leasing to others) when their houses happened to be situated on newly-built roads and workers who are ‘exported’ to foreign countries to send remittances home, to officials who are in a position to receive bribes. When people were encouraged to pursue private interests, the ‘animal spirits of capitalism’ unleashed ‘massive amounts of new labour and capital’ which helped the Vietnamese economy to thrive (Malesky & London 2014, p. 401). The effects of improved incentives, however, seem to have been confined to the initial phase of Doi moi as the economy – then at a very low base – was in need of basic factors of production. In the next stage of development, when economic growth requires a much more sophisticated industry and locally-developed
technological innovations\textsuperscript{47} (Ohno 2009), these liberalised and self-interested ‘moneymaking’ incentives become hindrances. At present, they are prone to populism and nepotism, which threatens to make Vietnam look like one of the less successful economies in Southeast Asia (Woo-Cumings 1999; Beresford 2008; Masina 2012).

The social embeddedness of Vietnamese development is clearly evident in the fact that the authority of both the state and its people stands to gain from economic performance. The party-state earns political legitimacy by delivering economic growth on the basis of populist policies that allow citizens to maximise their individual chances of earning a living and accessing utilities. Yet populism is a two-sided coin, if not a two-edged sword. Civil protests and costly compensations have made land clearance for infrastructure projects highly expensive and disputable in Vietnam\textsuperscript{48}. At the same time, the national industrial policy has been fragmented by cronyism, since every sector demands to be prioritised in the 5-year SEDP, and the devolution of the means to attract FDI to provinces has created a ‘race to the bottom’ as overly generous incentives are offered to investors\textsuperscript{49}.

It is possible to explain why the creation of a Vietnamese equivalent of the Japanese MITI has not been fully realised. In Japan, such a bureaucratic structure was created to

\textsuperscript{47} Local innovation applications only account for 10% of all patents licensed in Vietnam. Compared to neighbouring countries, Vietnam has one of the largest populations of doctorate-holders (24,000) but holds the fewest international patents and publications, equal to 1/5 of those in Thailand, 1/10 of those in Singapore. (See: Huynh Hai 2014, ‘Bang doc quyen sang che cua Viet Nam con qua it [Innovating patents of Vietnam are too few]’, 3 November, viewed 18 October 2016, http://www.dantri.com.vn; Chau An 2016, ‘Viet nam nhieu tien si, it thanh tuu: sao lai bat ngo? [Vietnam has many doctorates, but very few innovations: why be surprised?]’, 27 April, viewed 18 October 2016, http://www.baodatviet.vn).

\textsuperscript{48} Until now, the North-South traffic routes are still based on the downgraded colonial-era railway and national road. A national express-train project was initiated but was not pursued due to populist protest around fears of public debt. Only recently has a national freeway construction plan been discussed. In rural areas, land clearance often involves social unrest (either because firms gain extraordinary rents or are slow to implement, leaving the acquired lands unused), while 66%-90% of the costs of road construction in urban areas are paid for land clearance due to the genuinely increased values of these properties. (See: Hong Khanh, ‘Diem mat nhung con duong “dat nhat Vietnam” [Naming the “most expensive” roads in Vietnam]’, posted on 26 April 2016, viewed 18 October 2016, http://www.vietnamnet.vn).

\textsuperscript{49} Admittedly, there is no clear difference between firms that enjoy favourable treatment and those that do not; since only 5-6% of the technologies are advanced, the objective of attracting investment to modernise agriculture in remote areas has not been achieved. (See: Tu Hoang, ‘Uu dai FDI khoi dong cuoc dua xuong day [FDI incentives ignite a race to the bottom]’, posted on 27 June 2014, viewed 18 October 2016, http://www.thesaigontimes.vn).
concentrate the private rents relating to industrial policy under unified state coordination. In Vietnam, that level of bureaucratic power was also perceived as a kind of rent-seeking opportunity, so the benefits of which were equally distributed among three ministries (finance, planning and investment, and industry and trade). Similarly, the power and rents associated with national industrial policy, instead of being leveraged to incentivise the business sector for industrialisation, have been diffused throughout the VCP’s Central Committee, whose members are often leaders at the ministerial and provincial level. In Japan, by contrast, cabinet appointments are completely at the discretion of the Prime Minister. Thus, it might not be inappropriate to depict the political economy of state-led development in Vietnam using the metaphor of a chessboard with multiple interest groups at ministerial, provincial and business levels

In summary, Vietnamese economic governance takes the form of a state-led development that is executed in a decentralised manner – a vacillation between the developmental state and neoliberalism. Strictly speaking, it is a state-franchised development in which both self-automatised individualism – a key feature of neoliberalism – and equitable-benefit sharing – a traditional characteristic socialism – have been combined to satisfy all interest groups and social strata, though at different levels, in an attempt to achieve both political stability and economic growth. According to Painter (2003, pp. 18,21) and Gillespie (cited in Painter 2003, p. 18), however, the resulting system of ‘diffuse and shared authority’ and ‘polycentric power sharing’ led to the ‘unimplementability’ and ‘inoperability’ of state intervention in the economy when the need arises (Fforde cited in Painter 2003, pp. 18,19). Therefore, unlike the popular conceptualisation of Vietnam as a strong state that is in political control, state power is not equally strong in relation to socio-economic governance (Gainsborough 2010); this detracts from the state capacity for ‘structuring market

50 According to Vu Thanh Tu-Anh, the Vietnamese economy has been divided into various small realms shaped like a chessboard, which is vertically controlled by ministries, horizontally by provinces and obliquely by SOEs, creating numerous interest groups in between. (See: Le Nhung 2010, ’Tai cau truc: don da ke, benh nhan co chiu uong thuoc? [Restructuring: prescribed, but is it is undertaken?]’, 30 June, viewed 20 October 2016, http://www.vietnamnet.vn).

51 This is exemplified by the appointment of 8 deputies in a Department in Thanh Hoa that is only entitled to have three (for provinces) or four (for central-level cities) deputies. (See: Le Hoang 2016, ’Thanh Hoa “xe rao” bo nhiem 8 pho giam doc So Nong nghiep [Thanh Hoa “broke the fence” to have 8 deputy heads of the Department of Agriculture]’, 8 August, viewed 20 October 2016, http://www.vnexpress.net).
incentives to achieve national developmental goals’ (Johnson 1999, p. 48). This overall structure of the political economy helps to explain the ineffectiveness of the policies and institutional underpinnings in SOE reform and equitisation, which are discussed in the following sections.

3.4. Vietnamese Emulation of Developmental-State Policies and Institution Building in SOE Reform and Equitisation

The combination of dispersed power, ineffective state guidance, cronyism, and group interests has obscured the ways in which Vietnam adapted developmental states’ successful policies and institutions in the reform of SOEs and equitisation. These include the Chinese strategy ‘retain the large, release the small’; corporate governance models of the Japanese keiretsu and Korean chaebol; introduction of competition, transparency and hard-budget constraints; public-listing requirements; hiring independent professional managers; dispersed governance of state-owned capital in SOEs and privatised SOEs; and, most importantly, the gradualist and partial approach.

3.4.1 Retain the Large, Release the Small

Vietnam’s SOE reform policies, especially that of equitisation during 2001-2010, emulated the Chinese policy ‘retain the large, release the small’ (Beeson & Pham 2012). Accordingly, while thousands of small SOEs and firms at local or secondary level within GCs were divested, some general corporations (GCs) were actively expanded and upgraded to ‘business groups’ (BGs)52 and others only sold a minority of shares in exchange for capitalisation and managerial skills from the private and foreign-investment sectors. It should have been a sound policy: like the TVEs in China, the small and medium privatised SOEs could take advantage of the lack of economies of scale and dynamic context at the local level (small enterprises can be more efficient and dynamic)53, while the large SOEs had to utilise their economies of scale and adapt to the national industrial policy (with state incentives and support) to compete globally. As long as the budget constraints were not hardened, however, SOE reform and equitisation were seen as opportunities for rent-seeking (Vinashin and

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52 It was fashionable not just for the GCs but even for large private firms to upgrade to ‘business groups’, which gives the brand more cachet with creditors and customers.

53 In fact, the SMEs in Vietnam were less well-placed than TVEs in China with respect to the engagement of local authorities below the provincial level.
Vinalines were typical examples), and the policy slogan was effectively realised as a case of retaining the large ‘gains’, but not releasing the small ‘stakes’. Whether SOEs were large or small, their reform and equitisation could only proceed according to the interests of the capturing groups.

As Gainsborough (2008) pointed out, the privatised firms were still kept at arm’s-length from the ministries, local authorities, or holding corporations (GCs, BGs) insofar as these ‘virtual share holders’ (Fforde 2004) had various kinds of stakes in the businesses (which were vulnerable to spontaneous privatisation). Yet, if the ambiguity was sustained for the sake of ‘indirect rule’, the business environment could not be soundly competitive. This is to say nothing of the cases of SOEs purchased by ‘privateers’ who only sought to exploit their undervalued assets (often real estate) by converting the privatised firms to non-manufacturing businesses (asset stripping). In the case of the large SOEs, regardless of the change in state ownership, reform could still be undertaken in principle by restructuring unrelated to ownership transfer; in practice, however, the latter was preferred because delaying privatisation was less harmful to insiders than restructuring. Such a preference is contrary to the international best practice of restructuring prior to privatisation. As a result, though Vietnam carried out SOE reforms throughout the 1990s, the old soft-budget constraints and managerial boards were almost unchanged.

The scope, scale and prominence of large SOEs made it unlikely that clear cases of spontaneous privatisation could occur within them; for example, the directors could hardly devalue and buy shares in the primary-level companies. Yet de facto (or spontaneous) privatisation was often undertaken at secondary and tertiary levels in the SBUs (Fforde 2004), owing to inadequate information disclosure. This explains why, on the surface, the large SOEs seemed to be outperforming all the party-state’s objectives of reforming corporate governance by means of equitisation and business expansion, such as equitising a large number of member enterprises, establishing new JVs with private or foreign investors (these were implicit forms of privatisation since the SOEs’ assets, including financial obligations, were jointly owned by the private sector), signing new investment projects, and purchasing new equipment. Most of these activities, however, were implemented by member companies of the GCs and
BGs at the secondary and tertiary levels and related to the speculation bubble in stock and real estate rather than national industrial policy. Often, the inefficiency only came to light when the GCs and BGs themselves went bankrupt.

### 3.4.2 Corporate Governance Models of **Keiretsu** and **Chaebol**

Japanese **keiretsu** and Korean **chaebol** seemed to fit with the party-state’s ambition of building large conglomerates to advance national competitiveness globally. This was also in line with the strategy of consolidating the role of the SOE sector in the economy. At a business level, the **keiretsu** model was readily endorsed by the BGs and GCs since the existence of an internal central bank – the typical characteristic of a **keiretsu** – provides the network with greater autonomy in financial mediation among its members, while the **chaebol** model held out the promise of unlimited expansion of SOEs in non-core businesses. Ironically, Vietnam adopted these models despite the numerous problems associated with them during the East Asian financial crisis. The close and interlocking system of **keiretsu** combined with the overarching expansion of **chaebol** made the soft-budget constraints more harmful for large SOEs in Vietnam, which quickly amassed a huge amount of bad debt from unqualified loans from investment banks and financial companies within the BGs amid the fuss of diversification into non-core businesses.

During this period, the lines between SOE reform, equitisation and corruption were easily blurred. SOE managers and privateers used private ownership as bait to exploit the SOEs’ assets, (brand, capital, functions, and opportunities) rather than adding any real value to increase the enterprises’ performance. SOE managers could avoid corruption charges by justifying these projects as realising the greater role of the SOE sector in accordance with party-state policy.

As Le (2010, pp. 58-59) explains, the Vietnamese party-state ignored the fact that the concentration of wealth in both **keiretsu** and **chaebol** had occurred through market-conforming measures, albeit under the state’s guidance, not by administrative merger decisions. In particular, the enhancement of their core competencies was achieved by taking advantage of the economies of scale and the internal development and
accumulation of technologies, capital and managerial capabilities or exogenous expansion through mergers and acquisitions.

Moreover, there has long been ‘fierce competition among and within these conglomerates’ in both Japan and Korea. Such competition did not exist among the GCs and BGs in Vietnam (Le 2010, p. 55). Above all, the most important distinction is that the *keiretsu* and *chaebol* are private enterprises, so their owners pursue profit-maximisation. Yet they do so within a framework of governed interdependence. This means that profits are maximised within the constraints of agreements over industrial policy (with incentives for performance); in this situation, budget constraints are quite evidently hardened. If the conglomerates overinvested outside of the policy, they had to bear the risks privately. By contrast, in business terms, the Vietnamese GCs and BGs were vehicles of the state: independent co-owners were few in number or held a minority of shares and thus must be supervised in some other way – and closely so – to guard against inefficiency and abuse of assets. If the state does not effectively control the SOEs and their equitisation process by imposing monitoring regulations and hard-budget constraints, it is hard to expect these SOEs to pursue the strategy contained in state plans given that competition had rarely been introduced in practice, and financial markets were not fully developed.

### 3.4.3 Introduction of Competition

It is widely agreed that competition is meant to promote both ‘allocative efficiency [and] internal efficiency’ (Vickers & Yarrow 1988, p. 426). Hence gradual privatisation is partly necessary so that competition can be introduced in advance to prevent a public monopoly being turned into a private one, thus securing both economic and social welfare. While the lesson has been acknowledged in Vietnam and most of the markets have been opened for new entries (CIEM 2015) – notably within a neoliberalism-informed deregulation agenda – the presence of private

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54 According to the Vice Minister of Information and Communications, four ‘unchanged principles’ should apply in administering telecommunications policy: (i) Establishing competitive markets; (ii) Respecting the market economy by minimising intervention; (iii) Separating the provision of public utilities and commercial functions; and (iv) In spite of minimising state intervention, maintaining state regulation with enhanced effectiveness. (See: Le Van 2015, *‘Bon nguyen tac “bat bien” quan ly nganh vien thong’ [Four “unchanged” principles in administration of telecommunications]*, 31 July, viewed 26 October 2016, [http://www.vietnamnet.vn](http://www.vietnamnet.vn)).
competitors in these markets has not been realised in practice\textsuperscript{55}. Strictly speaking, the recognition of competition and effective state regulation of competition as indispensable components of privatisation is the key distinction between the post-Washington consensus and neoliberalism. It has been suggested that international donors have familiarised Vietnamese governing elites with the revised version of neoliberal recommendations that had been promoted by developmental states (Cramer 1999; Parker & Kirkpatrick 2005).

It is evident that the introduction of competition has resulted in better performance by SOEs in Vietnam. Over recent years, the list of Top 10 companies paying the largest amount of corporate income tax has consistently included the SOEs of oil and gas, telecommunications, dairy and banking\textsuperscript{56}. Except for oil and gas, which allow firms to reap Ricardian rents from natural resources, the markets of the other sectors are all highly competitive. For example, the Vietnamese banking sector had 34 commercial banks operating in 2014; with the Herfindahl-Hirschman Index (HHI) of 0.07 and the Concentration Ratio of the three largest companies (CR3)\textsuperscript{57} of 0.38, they compare favourably with the average market concentration indexes of 20 developed countries (HHI of 0.11 and CR3 of 0.47, respectively). This should be seen as ‘one of the factors leading to efficiency improvement of the system’, according to Nguyen-The (2016, p. 37), which is also evident in the success of Vietcombank as the ‘best bank in Vietnam’\textsuperscript{58}. In telecommunications, despite the limited presence of the private sector owing to capital intensity, competition among the oligopolistic SOEs has been fruitful.

\textsuperscript{55} According to CIEM (2015, p. 18), even though most markets are currently accessible to businesses with different forms of ownership, competing equally in the same legal context, many business conditions are still designed in such a way that only SOEs can meet the requirements; this is not to mention the fact that private firms rarely enter markets in which the SOEs already have monopoly power (85% of electricity and petroleum, 90% of telecommunications, 98% of domestic airlines, 56% of financial and banking services, 70% of rice exports, 80% of chemical fertilizer production).

\textsuperscript{56} In 2016, the nine SOEs were PetroVietnam, PVGas, PVEP (oil and gas); Viettel, Mobilefone (telecommunications); Vinamilk (dairy), BIDV, Vietinbank, and Vietcombank (banking). While PVN, Viettel and Mobifone are still 100% state-owned, the others are all partially equitised (Vinamilk has the least state ownership at 45%). The only foreign firm in the list is Honda Vietnam; in 2014, a brewery SOE was listed instead of PVEP. (See: Vietnam Report 2016, ‘Cong bo V1000: 1000 doanh nghiep nop thue lon nhat Viet Nam 2016 [Publicising the V1000: 1,000 enterprises paying largest amount of tax in Vietnam in 2016]’, 13 October, viewed 27 October 2016, \url{http://www.vnexpress.net}).

\textsuperscript{57} HHI is frequently used to assess the level of competition in an industry, ranging from 1/n (firms relatively have equal sizes) to 1 (monopoly); CR(n) takes into account the total market share of a group of leading companies in the industry (Nguyen-The 2016, p. 34).

\textsuperscript{58} See: Thanh Thu 2016, ‘Vietcombank duoc bau chon ngan hang tot nhat [Vietcombank is selected as the best bank]’, 16 July, viewed 27 October 2016, \url{http://www.vnexpress.net}
Viettel, for instance, recorded a profit of over US$2 billion in 2015 and has been among the few local businesses that have successfully invested abroad.

For a long time, Vietcombank was the only bank providing payment services for foreign trade activities, which enabled it to install ‘state of the art’ technologies. Similarly, Viettel had an advantage in being a military enterprise. The success of these two SOEs, however, resulted from both the excellence of their leadership and staff and the trade agreements secured by Vietnam which mainly focused on retaining protection of such sensitive sectors. In other words, there needs to be a constellation of nurturing factors in addition to the market forces of competition to guarantee the effectiveness of equitisation; ownership transfer on its own is not sufficient. Vinamilk provides another showcase for the value of a combination of institutional elements – preferential commitments in trade agreements, introduction of competition, partial equitisation through the stock market, advanced corporate governance (with institutional partnership), good strategy and managerial talent of the CEO. It is noteworthy that, since all of these firms are SOEs, they have had to abide by the state’s prohibition of cartels or similar forms of association. In fact, although Vietnam promulgated its Competition Law in 2005, it took 10 years for law-makers to criminalise the establishment of cartels under the Penal Code enacted in mid-2016.


60 In banking services, the WTO commitments allowed the establishment of 100% foreign banks which were limited by taking deposits of Vietnamese in local currency and not opening the secondary branch within 5 years while the shareholding of foreign investors in local banks was just under 30% (Vietcombank still has 77% state ownership). In telecommunications, foreign investors could only provide services based on the local-owned infrastructure. Import tariffs of dairy materials and products are reduced by 2% to 18% within 2 years and by 5% to 25% within 5 years, respectively. (See: Hoang Ngan, ‘Ban tom tot co ban ve cam ket WTO cua Viet Nam [Basic summary of WTO’s commitments of Vietnam]’, posted on 3 July 2007, viewed 28 October 2016, http://www.agro.gov.vn).

61 Vinamilk accounts for 45% of market share (53% of fresh milk and 25% of milk powder) in the local dairy industry. It was established in 1988 on the site of a Nestle milk factory. During the 1990s, it developed its cooperative network of farming (to 113,000 cows) to control inputs rather than depending on imports; it was able to succeed in the market despite intense competition from established foreign brands. It pays 3,000 billion dong/year on average in tax revenues and has invested into 31 regional and developed markets, with exports reaching US$200 million. It won an award as the company with the best governance in Vietnam, and ranks among the 100 best valued companies in ASEAN and the 50 best listed companies in Vietnam. Vinamilk was equitised in 2003, with 45% of the ownership held by SCIC. (See: Dan Tri 2015, ‘Ba Mai Kieu Lien chia se hanh trinh vuot kho cua Vinamilk [Md. Mai Kieu Lien shares the successful journey of Vinamilk]’, 9 December, viewed 29 October 2016, http://www.dantri.com.vn).
3.4.4 Enhancing Transparency, Hard-budget Constraints and Managerial Professionalism

Just as the managers of SOEs might have sought to establish collusive relationships post-reform, so too have they often resisted governmental efforts to enforce more transparency, hard-budget constraints and management improvements in the context of equitisation. It should be emphasised that the regulations on transparency – such as information disclosure and the requirement for periodical reports to related agencies on the state capital investment and performance of SOEs – were only made obligatory in recent years, during the period of restructuring the economy and following the scandals involving SOEs. The SOEs themselves are required to restructure their ‘corporate governance in accordance with the best practices of the market economy’ (Decision 704/QD-TTg in 2012), for which the OECD guidelines on SOE corporate governance (2005) provide the template. Although these were instructions rather than legal requirements, the reform of the framework of SOE corporate governance was expected to lead to enhanced autonomy, improved transparency, greater professionalism among Boards of Directors, hardening of budget constraints, and an effective monitoring mechanism (CIEM 2015).

In fact, the transparency obligations were initially stated in Articles 11 & 12 of Decree No 59/2011/ND-CP alongside the requirements for public listing on the stock market and the employment of professional consulting services to evaluate the assets and divestiture plan during the equitisation process. Thus, transparency was implicitly linked with the supervisory mechanism of the financial markets. These stipulations, however, only applied to publicly listed SOEs after privatisation. In 2012, they were restated in the stock-market development strategy (Decision 252/QD-TTg) and the overall economic restructuring project (Decision 339/QD-TTg) in 2013. Transparency was further enforced by Decree 108/2013/ND-CP, which specified that shares must be listed on the secondary stock exchange one year after the IPO on the primary market, and by Decree 81/2015/ND-CP, which regulated the nine requirements for disclosure regardless of whether or not the privatised SOE was publicly listed on the stock exchange.
The slack enforcement of transparency has largely been attributed to the conflict of interest between managers and bureaucrats. Mobifone, which is number two in the telecommunications market, provides an example. The decision to equitise this corporation was made as long ago as 2005. The implementation process, however, slowed down many times due to: selection of expensive consultants (e.g. Credit Suisse), the global financial crisis, change in management boards, a plan for merging with Vinafone (eventually not approved), the splitting off of VNPT (Vietnam Postal and Telecommunications) and, at present, government inspection. Thanks to its substantial profitability, there was little enthusiasm for equitisation among both the Mobifone management and employees and their counterparts in VNPT (the holding business group of both Mobifone and Vinafone, and the second and third largest firms in the market) because their profits had been the main sources of finance for the whole organisation\textsuperscript{62}.

In developmental states, transparency rules and public listing were clearly targeted at the beginning of privatisation and were successfully achieved. In Vietnam, they were realised only slowly. As a result, the implementation of hard-budget constraints and management renovation has made no progress. One of the main objectives of ownership transfer in SOEs is, at least, to shake up the management, if not to appoint bright new Harvard Business School graduates to all managerial positions. Arguably, it could have involved a combination of old and new teams, as happened in Japan’s railway privatisation. Yet when five Vietnamese SOEs were designated to pilot the appointment of independent directors in 2004, only two of them actually did so – in one case, recruiting back the very manager who had just retired and, in the other, appointing the manager of a member company (effectively a promotion)\textsuperscript{63}.

\textsuperscript{62} In the restructuring plan to make Mobifone independent, it has to carry 60 units with debts of 1,600 billion dong; while the VNPT retains profitable ones, including Vinafone. (See: Dong Phong 2014, ‘Co phan hoa Mobifone – cau chuyen dai chua ro hoi ket [Equitisation of Mobifone – long story without an end], 7 April, viewed 30 October 2016, http://www.vnreview.vn ). Currently, Mobifone is under review by the Government Inspectorate for its purchase of 95% of AVG at 8,000 billion dong for an asset rumoured to be valued at 2,000 billion dong. (See: Ho Mai 2016, ‘Co phan hoa Mobifone: hon 10 nam ve trong tau van lo chuyen tau [Equitisation of Mobifone: more than 10 years having tickets but missing the train], 3 August, viewed 30 October 2016, http://www.vietnamfinance.vn)

3.4.5 Dispersed Governance of State Capital in SOEs

Efficiency rather than the fiscal implications of privatisation has been prioritised in Vietnamese equitisation \(^{64}\). Hence it is ironic that the very system of governance of equitisation can create its own inefficiency. This is due to the dispersal of governing power within the bureaucracy, as explained below. Obviously, this dispersal of power is a consequence of the vacillation between neoliberalism and the developmental state, which was discussed earlier.

By 2016, the Ministry of Finance was playing the central role in the policy-making process of SOE reform and equitisation. In addition to the Agency of Corporate Finance, which functions as a regulator in the field, the ministry has two other institutions: (i) a fund for supporting the rearrangement and development of enterprises\(^{65}\), which collects the revenue from equitisations to spend on the welfare of employees retrenched during the SOE reform, to capitalise SOEs, and on investment; and (ii) the State Capital Management Corporation (SCIC), operating as a portfolio investment company (of which the model is Temasek Holdings of Singapore)\(^{66}\), which manages the above fund, facilitates and represents state ownership in about 1,000 cases of equitisation and divestment of small and medium SOEs, and invests in new projects.

Nevertheless, the role of the Ministry of Finance is still limited by various powerful hubs of decision-making that exist alongside it. First, the Office of Government continues to monitor large-scale projects and decisions that need the PM’s approval. As well as a department specialising in SOE reform, it has a Steering Committee for

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\(^{64}\) Recently the budget contribution was raised when the Ministry of Finance asked two equitised state-owned banks - BIDV (95.3%) and Vietinbank (64.5%) - to amend their dividend policies in favour of a cash payment that would be channelled to the state budget (with an expected total of about 5,000 billion dong). In the state budgeting plan, total revenue for 2016 is 1,014,500 billion dong, of which 55,000 billion (5.4%) is from dividend collection from state capital in the SOEs. It should be noted that the revenues obtained from equitisations are still channelled to the Fund. (See: Thu Hang 2016 ‘Don doc BIDV va Vietinbank nop co tuc bang tien mat la dung quy dinh phap luat [Facilitating BIDV and Vietinbank to pay dividend in cash is lawful]’, 16 June, viewed 6 September 2016, http://www.cafef.vn).

\(^{65}\) The Fund operated from 1999 under Decision 177/1999/QD-TTg, and currently under Decision 21/2012/QD-TTg (See: http://www.quyhtsxdn.vn).

\(^{66}\) Established by Decision 151/QD-TTg in 2005, it currently operates under Decree 151/2013/ND-CP and Decree 57/2014/ND-CP (See: http://www.scic.vn).
Enterprise Reform and Development, chaired by a Deputy Prime Minister, which acts as an inter-ministerial advisory council to assist the PM in policy making and monitoring SOE reform. In practice, the Office of Government exerts dominance over all ministries. Second, line ministries not only have their own departments to oversee the process of SOE reform and equitisation, but each ministry also controls BGs and GCs in relation to managerial appointments, monitoring and evaluation, and implementation of developmental policies in their areas, which are often designed by functional departments and regulatory structures within the ministries. Since these units are all on the same level, the head of a regulator can be the director of an SOE and vice versa. Third, as the Ministry of Planning and Investment (MPI) has traditionally drafted laws relating to corporate governance such as the Enterprise Law, it continues to regulate the governance framework of different types of SOEs and privatised SOEs. This is not to mention the restructuring projects promoted by this ministry which cover all areas of the economy.

Overall, the participation of many bureaux in the decision-making process leads to the perception that the SOEs are ownerless (Fforde 2004). Recognising this issue, the 12th VCP Congress (2016) identified finding a solution to the problem of decentralised governance of state capital in SOEs as one of the priorities of SOE reform and equitisation. Specifically, it recommended: facilitating equitisation; selling state capital where state or majority state ownership is not necessary, even in profitable enterprises; separating trading functions from political roles and utilities provision; separating the functions of state ownership, state regulation, and the firm’s business administration; abolishing the roles of ministries and local authorities as representatives of state ownership in SOEs; and creating a professional agency to control state capital in SOEs.

The establishment of a state bureaucracy to control all of the state capital in SOEs has been a controversial topic in the discourse of SOE reform and equitisation. Under this general direction, the MPI has been charged with creating such a unified agency to

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67 Established in 1993 by Decision 83-TTg, and currently operating under Decision 2092/QD-TTg and Decision 648/QD-TTg in 2012.
protect these huge assets, which are valued at around US$147-257 billion. According to the Central Institute for Economic Management (CIEM, a unit of the MPI that is in charge of drafting the relevant legislation), two plans have been proposed: (i) establishing a new agency at ministerial-level, which will take over the governance of state capital at 30 or so of the largest BGs and GCs (including the SCIC); and (ii) upgrading the SCIC to become such an agency or continue as a holding company. The first plan proposes that all related ministries and the SCIC contribute to the human resources of the newly created agency, but concern has been expressed about the capacity of the agency to manage assets of such large scope and scale. In fact, a unified agency to manage state capital should have been created at the beginning of the SOE reform and equitisation process, as was done in both transition economies and the developmental states (e.g. Poland, Czech Republic, Hungary, China and Singapore), as discussed in Chapter 2. Although the idea has been acknowledged, the policy-making process has been delayed and the ministries continue until the present day to discuss which model to follow. Given the dispersed structure of power and rents that has come to be embraced as a political economic tradition in the country, it has proved equally difficult to solve the problem of dispersed governance at lower levels. In fact, GCs, BGs and SCIC were created as pilot projects – a familiar policy-making technique in Vietnam. When the interests of certain groups have been accumulated in these institutions, they often resist rather than facilitate any subsequent reviews and reforms.

3.4.6 Rationale for a Gradualist and Partial Approach
One of the ways in which the process of SOE reform and equitisation in Vietnam most closely resembled those of the developmental states was its adoption of a gradualist approach. 

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68 By 2014, 781 SOEs with 100% state ownership had assets equal to US$147 billion; the BGs and GCs accounted for 90%, with capital of US$58 billion. If the majority-state owned firms are included, the total assets are US$257 billion. (See: Ngoc 2016 'Những điều cần biết sau việc thành lập siêu ủy ban 5 triều ty [What is behind the super agency in charge of 5,000 trillion dong]’, 11 June, viewed 11 September 2016, http://www.cafef.vn).

69 In practice, there is a variety of similar agencies across countries. They can be either a governmental agency as in China or a sovereign fund as in Hungary or Singapore. Certainly, Vietnam is familiar with the experience and SCIC constitutes an adaptation to such a model. Yet, as an entity of equal rank to other BGs and GCs, SCIC was not designed to govern these other enterprises. So, in fact SCIC has often been criticised as underperforming in relation to a mandate it had not been granted; on the other hand, SCIC did not easily accept the establishment of a new agency above it. (See: Le Viet – Quynh Nga 2017, ‘Quan ly von nha nuoc: de xuat lap uy ban moi doc lap [Governing the state capitals: proposing to establish a new independent agency]’, 10 February, viewed 21 June 2017, http://www.cafef.vn).
and partial approach. In the showcase example of Japan’s railway privatisation, the gradual approach was implemented through careful calculation and planning, as was the partial privatisation of statutory boards in Singapore. In China and Vietnam, however, the approaches were more sophisticated. As well as reflecting the need to create favourable rules and conditions in preparation for equitisation, the gradualism evident in China and Vietnam was rooted not only in the party-state’s reluctance to concede its orthodox ideology but also in other considerations that are analysed in detail below.

There are various explanations for the gradualist approach that has characterised Vietnam’s economic reform in general and the equitisation process in particular. Malesky and London (2014), drawing on a considerable amount of scholarship, describe Vietnamese gradualism as a cautious, incremental and exploratory step-by-step sequence of reforms that was ‘antithetical to the “shock-therapies” adopted by the Soviet Union and other transitional economies’ (Masina 2012, p. 190). Although the governing elites in Vietnam who consistently deployed this strategy had learned from the transition experiences of the former socialist bloc, it was also influenced by a wealth of factors endogenous to the domestic political economy, in particular the embryonic nature of relevant institutions. The adoption of a gradualist tradition in governance at all levels of the Vietnamese party-state today appears to reflect a profound fear of making incorrect policy decisions, with failures potentially undermining state authority. Indeed, Vietnam appears to eschew radicalism. The confidence of Vietnamese governing elites in the gradualist methodology has been further strengthened by the bitter experiences of rural-land reform (1950s) and urban-bourgeoisie oppression (1970s) – memories of which are still vivid – together with an obsessive preoccupation with the chaos that occurred in their former socialist counterparts when they implemented abrupt changes from the pre-existing social order, including the role of the communist party.

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70 For example, a pedestrian zone at the centre of Hanoi was created as a pilot project. (See: Vy An 2016, ‘Ha noi se thi diem tuyen pho di bo quanh Ho Guom [Hanoi will pilot the establishment of pedestrian streets around Hoan Kiem Lake]’, 20 June, viewed 4 November 2016, http://www.vnexpress.vn).
As emphasised in previous sections, the governing elites in the country were not composed of formally-trained technocrats; most of the leaders were promoted on the basis of their revolutionary background. Hence, when they launched the reform process, they had no effective long-term vision and failed to craft a planned trajectory of the development. This shortcoming is evidenced in the lack of clarity in key developmental strategies, objectives and norms (Beresford 2008; Masina 2012). Furthermore, the governing elites had little experience of the market economy, since Vietnam, unlike Eastern Europe, had no neighbouring capitalist economies nor did it have a capitalist history like the developmental states in East Asia. Social discourse around how a market economy works was poorly informed, given the limits imposed by the state on any discussion that went beyond the orthodox ideologies (Evans & Bui 2005). Hence the party-state responded to challenges pragmatically by way of incremental and experimental policies that offered the opportunity to learn through trial and error, slowly achieving success in ways that may not have been obvious in the first place.

Such a cautious and defensive strategy would also help policy makers contain social conflict and political challenges. Certainly, Vietnamese politicians often have to commit simultaneously to a syncretism of conservative and pro-reform ideas to secure their political positions in accordance with the ‘continue and change’ tradition of the party-state (Gainsborough 2010 cited in Malesky & London 2014). They need to accumulate evidence of small successes to build coalitions against opponents in the political arena and achieve the consensus that is necessary to override criticism from interest groups that might be adversely affected by the reforms. Of course, the rate of change could also be affected by legitimate concerns about the laying-off of employees and disruption of social welfare, as well as other issues created by the previous round of policies. The retreat from over-investment in non-core businesses of BGs and GCs was an example of this.

In fact, gradualism is not just about how quickly reforms are unleashed but also about partiality, with which it is philosophically conflated. These are different aspects of the hesitant concession of the economic role of the state while retaining the state’s capacity for effective intervention. Nevertheless, the partial approach does not always
work as expected. It involves the matching of resources and wants. By this I mean that the gradual and partial approach to equitisation must be accompanied by carefully-crafted plans and effective implementation or regulations, otherwise there is no point in the state retaining 75% or 50% ownership. Alongside the benefits of a gradualist and partial approach, however, it also necessary to acknowledge possible negative effects on institutional consistency and time-lags that might be quite significant for equitised SOEs. For example, when Vietnam decided to develop a ship-building industry its plan was hit by the global financial crisis (GFC), which thereafter also retarded the progress of disinvestment of SOEs in non-core businesses via the stock market.

In summary, the gradualist and partial approach should be considered, on one hand, as a strategy that was actively chosen by the Vietnamese governing elites and, on the other hand, as the most feasible adaptation to neoliberalism according to the internal logic of the local political economy. This kind of path dependency proved to be successful in Japan, Korea, Taiwan, Singapore and China. Why, then, was the gradualist and partial approach less effective in Vietnam? Although equitisation has not entailed the economic and social consequences observed in the wholesale privatisations of transition economies, neither has it produced the satisfactory outcomes achieved in developmental states. The main factor behind poor implementation lies in the distinctive arrangement of group interests in Vietnam.

3.5. Policy-Implementation Gap and the Strategic Groups

It would be a mistake to construe from the foregoing discussion of gradualism and partiality that the state has full control of equitisation. In fact, the biggest issue in Vietnamese equitisation is the gap between policy and implementation. Over generations of leadership, it has been normal for the party-state to kick off each congress with a well-shaped policy agenda, only to see its implementation produce quite different outcomes. Although limited state capacity is, of course, partly responsible for the low level of enforceability, the main reason is the influence of

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71 Private investors in partially equitised SOEs claimed that if the state still held majority ownership, the unchanged management would undermine the meaning of equitisation, which is not necessarily true.
strategic groups whose competing interests defy reconciliation. Under the slogan of *commercial nationalism*, these endeavours are taken for granted.

In the following discussion of the individualisation of state capacity, I use the term ‘strategic groups’ (Heberer 2003) to avoid both the particularity of ‘interest groups’ and the generality of ‘class’. Heberer (2003, p. 3) defines strategic groups as:

>a group of people linked by a common interest in protecting or enhancing their common chances of appropriation [which]… does not refer only to material goods, but also to immaterial ones... The members of such groups share a distinct strategy of acting and the self-understanding to eventually constitute on the long run [sic] an important social actor... Strategic groups do not intend to achieve limited interests within a short time, but conceive themselves as an essential force in the balance of power of all strategic groups within an entire society… Strategic groups attempt to improve those opportunities by altering and reshaping the framework to suit their own interests… Concurrently, they work to form coalitions with other strategic groups.

Vietnamese SOE reform and equitisation have largely involved five strategic groups interacting in three main configurations: bureaucrats and SOE managers; privateers; and alliances between donors and elites.

3.5.1 Bureaucrats and SOE Managers

In a monolithic party-state system like Vietnam’s, the relationship between bureaucrats and SOE managers takes a hierarchical paternalistic form, with the latter reporting to the former. Holding administrative posts, bureaucrats do not only govern the pace of equitis-

ation, but also have access to information about industry-wide policies. Hence, they are often superior players in the policy-making process. Nevertheless, SOE managers are, in practice, the real controllers of their ‘ownerless’ enterprises, thanks

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72 The issue of ‘ownerless’ enterprises is frequently discussed in Vietnam in the context of wasteful usage of public assets. Arguably, it is due to the lack of institutions rather than ‘collective responsibility’. As explained by Fforde (2004, p. 17), the disincentives resulted from the practices of ‘encouraging people to take credit for things that go well, and blaming the collective when there are problems’ were particularly evident in collective farms in the period before *Doi moi*. However,
to their privileged access to corporate-level information (Fforde 2004). As well, some managers might have become *de facto* owners of these businesses, especially when economic incentives for employees were introduced to facilitate equitisation. Like insider (spontaneous) privatisation in the CEE and former CIS, most of the shares held by the employees eventually ended up in the hands of the managers. In this context, the bargaining power of bureaucrats in dealing with SOE managers is weakened, given the former’s political and economic interests in the businesses. Critically, their economic interests include rents. On one hand, bureaucrats inevitably rely on the cooperation of SOE managers when they seek to promote the policy agenda. On the other hand, their economic rents are secure as long as their administrative power over the SOEs is not undermined. The close interrelationship between political authority and economic stakes enables the managers and their cronies to appropriate SOE ownership in a variety of ways (Gainsborough 2008, pp. 14-15). This explains why bureaucrats often lean towards restraining the progress of reform, or at least keeping the SOEs in ‘a climate of uncertainty’, even after they have been privatised, so that the SOE managers have to depend on them for favourable use of their discretionary powers (Gainsborough 2008, pp. 18-21).

The reform process will only be advanced when the outcomes are distributed satisfactorily according to the interests of the two strategic groups. Their relationship, however, is based on contestation rather than alliance because this interwoven network of rents must be realised through a regulatory system in which ambiguous legal documents created by upper levels essentially rely on the interpretation of those at lower levels. In effect, the process of regulation is captured by the lower levels of the state bureaucracy (Painter 2003). Furthermore, the ‘fragmentation of control’ has been unintentionally fortified by the culture of ‘consensual decision making’, which allows ‘no major move to be taken until all have been consulted and, in some way, included’ (Painter 2003, p. 21).

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collectives are still successful in developed countries. So, this underscores the role of institutions in improving the issue.
3.5.2 Privateers

This contestation is made more animated and complex when privateers are involved. These are private investors who have built coalitions with either bureaucrats or SOE managers to compete with each other in seeking rents from equitisation. Unlike their allies, who can always act ostensibly in the public interest, thereby creating a semblance of legality, the privateers’ profit-maximising hustles are rarely exposed. Further, while the former can blame the institutional framework for any wrongdoing – usually the overall system, higher-level policies or collectiveness – the latter lack any such justification, particularly for activities that may be illegal. In fact, there is little disclosure of information about privateers’ activities, since charges have to be laid before evidence can be presented in public. Often the public only knows that these actors (bureaucrats, SOE managers, and privateers) swap on-stage and backstage positions and only hears about fraudulent behaviour when deals turn into a scandal that provokes prosecution. There are several ways in which private enrichment can occur on the cheap at the expense of public assets.

First, during the heyday of financialisation in 2007-2008, the burgeoning stock market enabled all publicly listed companies to earn quick profits. Equitised SOEs and newly established non-core businesses involving joint investments by SOEs and private entrepreneurs emerged rapidly. As previously explained, sharing an SOE brand was valuable because it signalled access to market monopolies, licenses, undervalued properties, favourable credits, and contracts from other members of the network. The new companies were usually created with virtual shares reserved for specified privateers who would resell the equities, in the companies’ IPOs, to small and amateur investors; they would receive increased amounts of real money in return, pay a part of this as equity capital in the firms (at face value), and keep the surplus. This explains why the GCs and BGs were so eager to spread out into non-core businesses during this period, since state-owned capital could be easily extracted.

Second, land acquisition is a favourite target of privateers in equitisation. Historically, SOEs were granted locations at a notional fee for land-use rights. As the cities expanded, these lands have become potential business centres and have commanded enormous prices. Thus, SOE equitisation provided privateers with the opportunity to
buy the land-use rights at much cheaper prices than those officially regulated by the state, not to mention the market price. The privateers would convert the usage of these locations from manufacturing to residential or retail. Because the mandate for ‘commercial nationalism’ bestows on mercantilism a certain kind of normality (Nguyen-Thu 2016), such activities have not met with any great antipathy from the population at large. In any case, the old SOEs plants or outlets — lacking new investment, innovation and competitiveness — have become so ugly that any changes are welcomed as a symbol of ‘progress’, regardless of who is known to be capitalising that ‘prosperity’ (Hayton 2010, p. xii). To be fair, the impact of urbanisation has meant that some industrial facilities have to be relocated out of the inner cities to provide space for residential and commercial developments. In other cases, however, SOE managers who are connected with privateers might deliberately let the firms underperform. Hence, the evaluation and pricing of public assets is an issue of great concern; it has been reported that the land-use rights purchased from the sale of a state-owned hotel could be resold in the market at double the price. The privateers also target SOEs for licenses to engage in profitable industries such as mineral resources or telecommunications. There has also been a reverse form of privatisation, in which the SOEs have overpaid to buy shares in a privateer’s company. Because of their grandiose scope and scale, such schemes have not been numerous.

All these patronage transactions between bureaucrats, SOE managers, and privateers – which vary by context and ties – have produced numerous interest groups vying with each other to appropriate public rents in an underdeveloped institutional environment (especially, perhaps, with regard to information disclosure). It is worth noting that while the private and public gains are at odds, those within the private sphere are no less contradictory. Outsiders to the equitisation process, for instance, may have no idea that a privateer can acquire an SOE only to discover that its assets and contracts have

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73 It should be noted that the official salary of a public-sector employee is scarcely enough to live on. Despite several overhauls of salary scales in the public sector, the minimum salary is around 3,000,000 dong/month (equal to USD 130/month), which is insufficient to meet the needs of an individual or family. (See: Hoang Phuong 2016, ‘Tăng 11 lần, hệ thống lương vẫn như thời bao cấp [Increasing 11 times, the salary scale system is still no better than in the command period]’, 21 November, viewed 2 December 2016, http://www.vnexpress.vn).

74 The average successful bidding price on 23,059 public assets was just 8% over the starting price, far below the average rate of 20-50% in other countries. (See: Dau Anh Tuan 2016, ‘Kiem lợi bằng tài sản công [Seeking rents on public assets]’, 12 October, viewed 21 November 2016, http://www.vnexpress.net)
already been transferred or looted by the former managers. The unpublicised implications, however, relate not only to distribution (inequity disguised as those market-determined increases in the efficiency of resource allocation often claimed for privatisation by neoliberals), but also to distortions in SOE reforms and equitisation policies. In stark contrast to the neoliberal assertion that state ownership and intervention distort the market, experience has shown that it is the unconstrained self-interested activities of the strategic groups that distort state policy.\textsuperscript{75}

\subsection*{3.5.3 Alliances between Elites and Donors}

While bureaucrats, SOE managers and privateers engage in their contests, elites and donors seem to have established their own alliances. ‘Elites’ here refer to local leaders of the political and intellectual establishment who are most influential in the policy-making process. International donors include multilateral organisations and countries that provide Official Development Assistance (ODA) on an annual basis to Vietnam; among these, the most prominent are the WB and the IMF\textsuperscript{76}. Unlike the strategic groups discussed earlier, the elites and donors do not engage directly with particular SOEs or equitisation; rather, they are involved in shaping overall policies at the macro level and controlling the tenor of the reform. This leads to a different approach.

Since Vietnam became integrated into the world in the mid-1990s, it has vigorously pursued not only trade and investment but access to sound knowledge about economic and social development. There has been an increasing outflow of local officials and

\textsuperscript{75} It is important to emphasise that not every bureaucrat, SOE managers or private entrepreneur is corrupt. However, the contestation between them has been so evident that the Party’s leader has admitted that ‘nowadays, the interests are interlacing with each other’ to influence policy. (See: Vietnamnet 2015, ‘Chong tham nhung kho vi loi ich kinh te, chinh tri chang chit [It is difficult to fight corruption as the economic and political interests are interlacing with each other]’, 28 December, viewed 2 December 2016, http://www.vietnamnet.vn)

\textsuperscript{76} ODA has played a significant role in Vietnamese development during Doi moi. In 1993-2012, the total amount from both multilateral and bilateral commitments (as announced at annual International donor conferences) was US$80 billion, of which US$58.4 billion was pledged and US$37.59 billion was disbursed. While the WB and ADB are the largest multilateral donors, Japan and European nations are the largest bilateral donors. After a steep increase (from US$1.8 billion in 1993 to US$8 billion in 2009, for the year 2010), the annual commitment of ODA has declined considerably as Vietnam has moved into the ranks of middle-income countries. It has also become less of a priority for the Vietnamese government due to awareness of public debt and quality of disbursement, though the other terms of these sources of aid are generally favourable. (See: Huong Giang 2013, ‘Nhin lai 20 nam thu hut von ODA [Reviewing 20 years of ODA attraction]’, 15 October, viewed 25 November 2016, http://www.baochinhphu.vn)
scholars for training abroad in mainstream economics, and international donors have come to Vietnam to convey neoliberal ideas. Arguably, this like-mindedness has led to the establishment of an effective complex of consultative channels between elites and donors which allow them to jointly formulate ‘a wide-ranging strategy that links structural adjustment and economic reform [including SOE reform and equitisation policies] with poverty reduction goals’ (Painter 2003, pp. 13-14). The donors’ recommendations are rhetorically incorporated into the party-state’s ten-year strategies, five-year plans, or even legal documents. The extent to which they are enforced, however, is another matter, and the pressure exerted by donors has not been as influential as is generally believed (Painter 2003; Engel 2007). Overall, the reform is led by readily neoliberal-inspired local politicians who retain ‘a fair degree of autonomy’ (Engel 2007, p. 148): international donors need only to try to accommodate reformers rather than to impose their usual influence on the discourse. As Painter (2003, p. 15) observed:

In general, the conditions set out typically do not demand more than might be feasibly delivered … They are a mixture of re-iterated government objectives and a few additional specific encouragements … In sum, the extent to which the SOEs program is shaped by the external pressures of lenders and donors should not be exaggerated … In this alliance, the donors as much follow the lead of the reformers as try to impose a different direction, treading carefully for fear of creating a political backlash from forces opposed to specific reforms.

Clearly, as long as the foreign aid and technical assistance have been substantially supportive of the country’s various needs (infrastructure projects, poverty reduction programs, funding the legal-drafting process), the elites’ reform agenda is vindicated and the legitimacy and bargaining power of their coalition against political opponents are consolidated (Painter 2003; Gainsborough 2010). At the same time, lack of local knowledge makes it difficult for expatriate representatives of donors to confidently interrogate ‘project quality or implementation [which] is less important than hitting disbursement targets’, particularly as Vietnam has already been represented as a showcase for the developing world (Gainsborough 2010, p. 484). Hence, despite
concern that the indigenous and external forces cannot be reconciled, the elites and donors realise mutual benefit through a ‘marriage of convenience’ (Gainsborough 2010, p. 485). This does not mean that enforceability is not considered important, but it is so little prioritised that poor implementation has not affected the alliance between elites and donors. As a result, donors have always been able to praise some achievements, express a little dissatisfaction, propose several ideas, and find a rationale for continued collaboration.

3.6. Social Impacts of SOE Reforms and Equitisation

Employment and income equality are the two main issues that need to be investigated here. Normally, mass redundancies and job layoffs are of most concern during the restructuring and privatisation of SOEs. Thanks to the gradualist and partial approach, however, Vietnam has largely avoided this problem. Another contributing factor has been the development by the party-state of favourable policies for vulnerable members of the workforce, including an option scheme for employees to buy shares at discounted rates and the provision of compensation and pension rights for those being retrenched; in practice, these were merely notional due to the workers’ lack of purchasing capacity and information, the bureaucracy’s failure to engage fully, and the timidity of trade unions (Evans & Bui 2005). In fact, the impact of Vietnamese equitisation on employment should have been minimised by practices embedded in the ‘socialist’ tradition of equitable reconciliation of interests to avoid conflict in a collective setting. Gainsborough (2008, p. 14) describes one manager who was so irresolute in the face of employment issues that his solution was to ‘keep everyone!’.

Quite significant levels of unemployment could have resulted from the reorganisation and equitisation of SOEs. Labour statistics in Vietnam are so unreliable that it is impossible to know how many former SOE employees have moved to other sectors, started their own private and household businesses, or become unemployed.

Among the most alarming issues raised by academics are the ‘arduous working conditions’ of Vietnamese workers in general (Masina 2012, p. 205) and the ‘erosion of social welfare entitlements… [and] poor vocational training for workers’, particularly after equitisation (Evans & Bui 2005, p. 234). It is noteworthy that the lack of a formal social safety net and a developed civil society in Vietnam has put those
families who were affected by SOE equitisation at risk of becoming financially marginalised and unprotected (Evans & Bui 2005). According to Evans and Bui (2005), women are the most vulnerable group during equitisation. Similarly, Beresford (2008) points to the undermining effects of the process on female empowerment, since their relative lack of skills, education and connections often exposes them to retrenchment and a return to unpaid housework, where their voices remain unheard.

A kind of ‘trickle-down’ may occur when managers of privatised SOEs have to share the fruits of spontaneous privatisations with employees. Yet, because these privileges are controlled and distributed according to position and connections, low-skilled, low-paid workers often get the least. These practices seem to occur at the expense of the public assets. Yet because managers and employees perceive the accumulated assets of SOEs as their ‘own capital’ or ‘the fruits of the workers’ own efforts’ (Gainsborough 2008, p. 12), the ‘public–private’ distinction within SOEs is often blurred (Beresford 2008). This explains why, although spontaneous privatisation has certainly had an adverse effect on the economy, it is eagerly pursued by SOE employees when the process of equitisation is not well governed or when no compensation is offered. What is evident is the widening income inequality that favours those in possession of production factors, be they SOE managers or private investors – a cumulative causation.

Indeed, the income gap may be the most alarming social impact of equitisation in Vietnam. If public ownership, as is often assumed, does lead to the most equitable distribution of income, this would be reversed as private ownership (i.e. equitisation) expands – and at an increasing rate if it is unfairly handled. Beresford (2008, p. 238) argues:

[I]nequality in Vietnam is increasingly based on new mechanisms of capital accumulation in which control over the means of production – whether indirectly, through management of state-owned assets, including land, or directly through private ownership – is confined to a small proportion of the population while strong redistributive mechanisms are absent.
Such interpenetration of state and market has resulted in the formation of a new capitalist class within and related to the state (Cheshier 2010). Moreover, the widespread public perception of ‘equitisation as a corrupt practice’ (Evans & Bui 2005, p. 235) will not only erode popular belief in the role of the state but also encourage further selfishness and self-interested appropriation (Stiglitz 2008a). All of this is antithetical to the goal of equitable and inclusive growth and the model of the developmental state that the Vietnamese party-state has pursued.

3.7 Summary and Conclusions

Over the past three decades, Vietnam has conducted comprehensive economic reform by opening its economy to trade and investment, establishing fledgeling market institutions and pursuing structural reforms in which the SOEs were reorganised and equitised. During the 1990s, the number of SOEs declined sharply, mostly due to administrative measures that concentrated them into general corporations; only a few SOEs were experimentally equitised. In the following period, after Vietnam joined the WTO and financial markets were developed, thousands of small and medium equitisations were undertaken and major SOEs were consolidated into business groups that rapidly expanded into non-core businesses. Due to corporate scandals and overinvestment, the SOEs have been restructured in an attempt to maintain the role envisaged for them in party-state policies as the driver of economic growth.

The evolution of SOE reform and equitisation is best analysed against the backdrop of the country’s political economy. Arguably, Vietnamese governing elites have vacillated between neoliberalism and a developmental state, with neither being achieved fully or successfully. On one hand, to achieve political legitimacy based on economic performance, the party-state adopted the neoliberal-informed agenda. In doing so it was also responding to the impact of global integration and pressure from donors, which was based on neoliberal beliefs rather than empirical evidence that privatisation promotes national economic performance. On the other hand, to secure the role of the state, and in the face of the contrasting experiences of post-socialist transition economies and successful economic development in East Asia, the most suitable option was deemed to be the emulation of developmental states. In general, however, the country’s political economy was characterised by inconsistencies that
hindered the state’s capacity to follow a developmental state model, such as the lack of an effective bureaucracy and the individualised ‘commercial nationalism’ that allows group interests to burgeon instead of concentrating private rents under state coordination for developmental objectives.

Particularly in relation to SOE reform and equitisation, Vietnam has managed to adopt the main features of the developmental states, including the ‘retain the big, release the small’ policy, *keiretsu* and *chaebol* corporate governance structures, a gradualist and partial approach, ‘guided’ competition, transparency, hard-budget constraints and managerial professionalism. Yet, successes\(^{77}\) have been rare; most attempts were diverted towards serving the interests of strategic groups in the context of institutional inadequacy. Thanks to the gradualist and partial approach, Vietnamese equitisation has not caused the massive rupture of welfare that occurred in transition economies in the CEE and former CIS; nonetheless, it did not produce the effective outcomes that were achieved in the developmental states. Bureaucrats, SOE managers and privateers competed to enhance their own opportunities for appropriation of public assets, using the bargaining power that came from their positions and resources. Donors and elites proved indifferent to the gap between good policies and poor implementation of SOE reform and equitisation in Vietnam. Although there have been no reports of large-scale unemployment, there have been adverse impacts on unskilled and unconnected workers, especially women, who have been retrenched. Income inequality has emerged as a growing concern. Of equal concern is the possibility that, in the course of equitisation, the politics of the strategic groups could overwhelm the national interest arguments, thereby limiting the state’s capacity to coordinate production, investment and distribution for developmental purposes.

\(^{77}\) The criteria of success refer to improving the productive efficiency, which include financial performance of the enterprise and the broad contribution to social and economic development.
Chapter 4
Governing Privatisation in Vietnam

The title of this chapter deliberately echoes Robert Wade’s construct of ‘governing the market’ (Wade 1990). Clearly, if privatisation is to expand the role of the market, as advocated in mainstream economics, it should be governed not only to protect consumers’ interests but also to achieve national economic and social development. As explained in previous chapters, there has been a large gap between the neoliberal advocacy of privatisation and the actual impact of privatisation in practice. This has resulted in the adoption of different policy approaches in different countries.

In Vietnam’s privatisation, as analysed in Chapter 3, the outcomes have been neither adverse, as in the transition economies of the CEE and former CIS, nor successful as in the East Asian developmental states. This is due to the overall vacillation in economic reform between neoliberalism and the developmental state approach. It is concerning that the poor performance of the SOEs – the result of underdeveloped market institutions and the endeavours of strategic groups – continues to undermine the faith of the governing elites and the population in the economic role of the state, which may induce further movement towards neoliberalism. Wholesale privatisation is looming as policy makers and the public blame SOEs for all the problems in the economy. It is argued, however, that the association between ownership transfer and enhanced productive efficiency is largely underpinned by ideological bias against the intervention of the state and by political interests, rather than being driven solely by economic considerations. Essentially, the centrality of privatisation in economic reform is politically constructed. The question is whether the politics serves broad national economic and social development objectives or the enrichment of a few. If broad national economic and social development is identified with greater productive efficiency, further issues arise. Developing countries, which are characterised by the prevalence of market failures, often lack those institutions that neoliberals traditionally assume will be available to advance their agenda; these include enabling institutions such as market institutions, complementary non-state institutions, and state regulatory institutions. Even if productive efficiency and, thence, shareholder value were
improved by privatisation – which is notoriously difficult to assess – shareholders are not the only stakeholders: these include, among others, the state capacity itself.

State capacity is crucially important for the coordination of business and investment. A developmental state needs to retain its coordinating capacity, including the bargaining power to achieve a competitive industrial structure and regulate conflicts between stakeholders. The contrasting practical experiences of privatisation in transition economies in the CEE and former CIS and in the developmental states in East Asia have shown that it is only possible to achieve productive efficiency and secure the state capacity for industrialisation when privatisation policy is implemented as part of other reforms and is subject to rules and conditions. For Vietnam, the necessity to emulate the developmental state is made the more urgent because of the challenges associated with sustaining growth by enhancing the indigenous business sector’s capacity for industrial innovation. This is the central argument of this thesis, and also the rationale for the proposition of governing privatisation presented in this chapter.

The first section examines political aspects of the efficiency argument, and the role of enabling institutions. The second section considers the implications of a stakeholder approach versus concentration on improving shareholder values. This is followed by an analysis of the developmental state’s capacity for industrialisation, sustaining growth and innovation. The final section proposes a framework of governing privatisation for broad national economic and social development objectives.

4.1 The Myth of the Efficiency Argument: Politics and Enabling Institutions

In mainstream thinking, privatisation is represented as a means of improving the productive efficiency of SOEs in particular and, thus, the economy as a whole (see Chapter 1). Greater productive efficiency is seen as increasing shareholder values. Yet the ‘efficient market’ argument – on which this ideal is based – is largely mythical. Today’s markets are not like those which existed in circumstances of simple commodity production; they are not some sort of natural phenomenon, but have to be constructed (Polanyi 1944), often politically (Acemoglu, Johnson & Robison 2005).

78 The title draws on Burke et al. (2014).
According to King and Pitchford (1998, p. 314), the neoliberal belief in the superiority of market forces and private ownership is ‘superficially attractive … [but lacking in] intellectual rigour’. That the efficiency argument for privatisation is a political construction has been proved in the practice of privatisation in transition economies in the CEE and former CIS (see Chapter 2). As analysed in Chapter 3, the Vietnamese experience of equitisation has also revealed the influence of both the ideological pendulum and the endeavours of strategic groups, which have hindered the country’s success in adopting the developmental state model. The underperformance of a Vietnamese SOE provides an opportunity for ideological bias and group interests to push the efficiency argument for equitisation further towards a wholesale approach, without adequate consideration of the role of institutions in realising improvement in the productive efficiency of equitised firms.

4.1.1 Selling-off for Efficiency: A Politically Constructed Argument

Comprehensive reviews of the copious literature on privatisation have been published by Megginson and Netter (2001) and Parker and Kirkpatrick (2005). These reviews – which, interestingly, arrived at opposite conclusions – analysed a large amount of empirical research on the effects of privatisation, almost all of which focused on the issue of efficiency, particularly as illustrated by financial performance. According to Megginson and Netter (2001, p. 329):

Implicitly, we assume that the goal of government is to promote efficiency. Thus, we discuss the efficiency implications of government ownership and, more importantly, the movement from government ownership to privatisation. To a large extent, we ignore the arguments regarding the importance of equitable [sic] concerns such as income distribution… The effects of privatisation on productive efficiency, or at least observable variables that are proxies for productive efficiency, is the focus of most of the empirical literature we review here.

The contrasting findings of the above-mentioned reviews and the focus on efficiency have been acknowledged by the indigenous literature in Vietnam. Truong and Ngo (2016), building on their previous work, used empirical data to compare the
performance of 301 privatised firms (2007-2010) and 127 SOEs. They concluded that privatisation has positive impacts on an array of financial indexes, such as return on assets (ROA) and return on sales (ROS), but no similar effects on productivity were evident. Furthermore, while the reduction of financial leverage (the ratio of total debts to total assets) may be interpreted as a positive sign of the firm’s financial restructuring after privatisation, the decline in employment with unchanged productivity (the ratio of revenue to number of employees) may be seen as indicating reduced output. In other words, just as empirical research in other developing countries (Megginson & Netter 2001; Parker & Kirkpatrick 2005) and transition economies (Hanousek, Kocenda & Svejnar 2008) failed to clearly identify the impact of privatisation on efficiency, neither has it produced definite results for Vietnam.

These mixed results and questions about the validity of the assumed relationship between ‘efficiency’ and financial performance are discussed in more detail below. For now, what needs to be noted is that this kind of empirical research is rarely represented in Vietnamese policy discourse. Instead, the arguments are often based on normative assumptions, influenced by public disbelief in the state sector as a whole. According to the analysis presented in Chapter 3, the more an economic reform idea inclines towards neoliberalism, the more it is perceived by the Vietnamese population as being ‘pro-reform’ or ‘progressive’. Consequently, a wholesale approach to equitisation is being advocated in which the government is urged to disinvest from industries where the private sector does better. Illustrative of this proposition are recent efforts to sell off all of the state-owned equities at profitable dairy- and brewery-manufacturing SOEs (Habeco, Sabeco and Vinamilk), with official instructions that the privatised businesses will not be constrained as long as they preserve the national brands and generate maximum profit and efficiency for the state, whose only responsibility is to use the resulting revenue in a transparent way (Bao Anh 2016). These instructions were praised by the representatives of investors as good for every party except the

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79 Hanoi Beer-Alcohol & Beverage JS Company and Saigon Beer-Alcohol & Beverage Corporation are the two largest and most profitable brewery companies in Vietnam (similar to Vinamilk). Habeco has been equitised with the following breakdown of ownership: state 81.79%, employees 0.56%, other shareholders 1.88%, Carlsberg (strategic partner) 15.77%. A plan has been approved to sell an additional 5.77% to Carlsberg and then all of the state-owned equities by public offerings after the company was publicly listed in 2016. Sabeco has 89.59% state ownership; it was planned to sell 53.59% in 2016 and 36% following public listing in 2017. (Bao Anh 2016).
interest groups of bureaucrats and SOE managers (who resist the sale) on the argument that the financial market will create more transparency and stronger monitoring pressures on management boards to focus only on the interests of this business; this, in turn, will lead to enhanced efficiency and greater tax revenues for the state.

Such ideas are all in accordance with neoclassical economics (see Chapter 1). Quiggin (1999, p. 50) seeks to balance the distribution of activities between the public and private sectors by suggesting endorsement of private ownership in businesses producing private goods, in competitive markets, with few externalities or economy-wide risks and, often, labour-intensive production methods. Vickers and Yarrow (1988, p. 426) also discuss the conditionality of privatisation:

[P]rivate ownership is most efficient – and hence privatization is most suitable – in markets where effective (actual or potential) competition prevails…. Where monopoly exists […] the case for preferring private ownership to public ownership weakens considerably; privately efficient profit seeking can no longer be expected to lead to socially efficient results.

The equitisation agenda in Vietnam, however, is not confined to selling off manufacturing SOEs, but goes beyond these formulae and warnings. The recent Decision 58/2016/QD-TTg entails plans to sell a majority of state-ownership in most BGs, GCs and utilities-providing SOEs (see Chapter 3), including regional electricity companies that control both the power grid and distribution and urban water-supply enterprises. Thus, the developmental philosophy in Vietnam appears to have been overwhelmed by neoliberalism rather than the approach of the developmental state. A new phase of Doi moi seems about to be ushered in, in which the party-state promotes the private sector as the sole driver of economic growth, in contrast to its previous endorsement of a public-private mix that typifies the developmental states.

Interviews with economists suggest that these instructions showed the determination of the government to withdraw from industries in which the state does not have to intervene, in order to give the private sector ‘more space to perform’ and allow healthy market development so capital can be invested in other industries. (See: Phuong Dung 2016, ’Chinh phu khong di ban bia, ban sua: mot quyet dinh tot cho tat ca [The government is not seller of beer or milk: a good decision for all]’, 1 September, viewed 21 January 2017, http://www.dantri.com.vn).
Belief in the superiority of private ownership is supported by the popular ideological bias against the economic role of the state rather than by any clear empirical evidence that the private sector performs better in terms of productive efficiency (whatever the evidence suggests in relation to shareholder values). According to this one-sided observation, SOEs are perceived as inherently deficient, especially since many cases of wasteful public investments and corruption scandals in SOEs have been made public. Currently, three SOE managers have fled abroad to escape charges associated with their accountability for company losses. Twelve SOEs and public investment projects have been classified as unprofitable and bankrupt. These state-owned projects, often mocked by the population as ‘the more they run the more unprofitable they become’, have ignited huge public resentment, especially after it was revealed that some of the managers were subsequently promoted to other leadership positions in the bureaucracy.

It can be argued that these accusations of poor SOE performance do not focus enough on the low quality of governance and soft-budget constraints which, admittedly, are prevalent not only within the SOE sphere. The evaluations did not take account of other factors, such as unusual changes in world market prices for the products of some SOEs. There is little consideration of alternative policies in SOE reform and equitisation. For example, even if equitisation is desired for fiscal gain, the state does not necessarily have to sell off all of the equity. Partial equitisations can be seen as good investments because national sovereign funds are moving around the world to seek similar opportunities. Furthermore, the private savings that are poured into the purchase of state-owned assets may be responding to brand recognition and ‘hype’ and

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81 They were bosses of PVN’s member units – PVC (construction), PVTex (textile fibre) and PVPower (electricity). (See: Luong Bang 2016, ‘State owned corporation bosses travel abroad to avoid responsibilities’, 17 December, viewed 22 January 2017, http://www.english.vietnamnet.vn).
82 These are all projects of the Ministry of Industry and Trade: Dinh Vu petroleum textile fiber plant; Dung Quat Bio-ethanol plant; 2nd stage expansion of the Thai Nguyen steel production plant; Phuoc Nam paper powder plant; Ninh Binh Urea fertilizer plant; Ha Bac Urea fertilizer plant; Lao Cai DAP 1 fertilizer plant; Hai Phong DAP2 fertilizer plant; Binh Phuoc Ethanol; Phu Tho Ethanol; Dung Quat shipyard; joint venture of Quy Sa mine; and Lao Cai steel production plant. (See: Bao Quyen, ‘Them 7 du an lon cua nganh cong thuong thua lo nang [Seven more projects of the industry and trade are unprofitable]’, 20 December 2016, viewed 22 January 2017, http://www.vnecconomy.vn). Initially, 5 projects were questioned by the National Assembly, with a total investment value of about 30 trillion dong; 7 other unprofitable projects were subsequently added.
may be less effectively invested than if they were deployed in other productive opportunities; thus economic growth might be hindered rather than helped (Bortolotti & Milella 2008; Jomo 2008). Why does the state not channel private investment into innovative areas within an industrial policy agenda? The ‘sell-off-to-boost-efficiency’ approach towards even well-performing SOEs might mean that some of the revenue that could have been invested in improving the SOEs’ productivity is converted to private profit.

In the face of the popular appeal of neoliberalism, which shows far less tolerance for the SOEs than for the private business sector, the bureaucrats choose duplicity as the safest strategy. The public and the state-controlled media ignore both the unprofitability and corruption scandals of many private sector firms (especially the violation of minority shareholders’ property rights) and the profitability and large contributions of tax-paying SOEs. The bias is strengthened (if that is possible) by the widely-held view – mainly promulgated by the bureaucracy – that the SOEs have benefitted unfairly from favourable conditions and policies that do not apply to their private competitors. Perkins and Vu (2009) rank the SOEs as the most cosseted form of ownership thanks to their ties to ministerial interests, followed by foreign investors who can take advantage of a vast array of governmental and local incentives designed to attract them (FDI). Luong and Vu (2014) also claim that the SOEs and FDI corporations are more easily able to access loans and skilled labour than are their local private counterparts. Hence, local private businesses – which are perceived by domestic academics and policy makers as intrinsically more efficient – are represented as the most vulnerable sector, crowded-out by the SOEs and subject to adverse rules, to the detriment of the efficient allocation of resources in the economy as a whole. Who, however, should be blamed for the ‘soft-budget constraint’ in the SOEs? According to the CIEM (2015) report, which describes soft treatment of SOEs as ‘market distortions’83, it should be blamed on the government itself. The report listed

83 According to CIEM (2015), the SOEs are responsible for three kinds of ‘market distortion’:
(i) market entry and accessibility to production factors, including: the rising costs and barriers created for other forms of business ownership by monopolistic economies of scale and regulated conditions; easy accessibility to credit from state-owned banks, which prefer SOEs because they are likely to be protected by the bureaucracy; favourable access to foreign sources of finance that are guaranteed or re-lent by the government; funding from the state budget for targeted or social projects; and historical accessibility to land;
nearly 20 letters from the Office of Government in 2014 allowing commercial banks to finance the SOEs over the official limits on the amount of credit that can be drawn from state-owned banks, thereby demonstrating the discretionary way in which budget constraints are administered (CIEM 2015, p. 22). In other words, the bureaucracy as well as SOE managers are the sources of both poor governance and duplicity in the engagement with neoliberal reforms.

In summary, as explained in Chapter 3, the party-state has so far vacillated between neoliberalism and the developmental state strategy. Emulation of the developmental states has been hesitant and unsure, and the governing elites have responded to the popular appeal of neoliberalism by committing to a wholesale approach to equitisation without a clear improvement in public administration. This is reflected in the prevailing discourse of SOE reform and equitisation, rather than a careful and detailed economic justification of partial or full equitisation. Worryingly, if the trajectory fails to deliver – as evidenced in Chapter 2 – the trend towards neoliberalism will gain further momentum.

4.1.2 The Role of Enabling Institutions

Mainstream economics views the establishment of SOEs – that is, mechanisms of state governance – as distortions of the market. On the other hand, corporate governance is held to defer to market principles. The phrase ‘deferring to market principles’ is ubiquitous in Vietnamese policy discourse, as if market principles and efficient markets are already out there. This is a salient difference from the view of heterodox economics (Polanyi 1944).

For the heterodox economist, the presumption that markets are generally ‘perfect’ or ‘efficient’ is unfounded. There is a variety of markets. The establishment of each

(ii) market competition, such as: many forms of input are not fully accounted, creating unfair pricing; some utilities are still priced by the state; business groups are not subject to competition law; favourable policies are designed by owner-ministries; soft-budget constraints, including taxes and managers’ incentives, and accountability in financial performance;

(iii) market withdrawal: insufficient frameworks to ensure that unprofitable SOEs are foreclosed.

84 Institutions are defined as ‘the humanly devised constraints that structure political, economic and social interaction. They consist of both informal constraints (sanctions, taboos, customs, traditions, and codes of conduct), and formal rules (constitutions, laws, property rights)’. (North 1991, p. 97)
reflects a different set of circumstances or political and economic forces that are locally specific and, in each case, the market requires a particular set of complementary institutions or rules (Acemoglu, Johnson & Robison 2005; Rodrik 2005). Admittedly the quality of an institution may be deficient (property law may accommodate corruption, for example) (Dixit 2009). Since a market may be subject to failures and markets may not signal what responses are appropriate, it may be argued that SOEs and state policies towards them are not distortions of the market but a set of rules complementing an underdeveloped market. Dutt, Kim and Singh (1994, p. 10) describe them as ‘the institutional arrangements which sustain the norms which set the boundaries within which buyers and sellers compete in market’. Hence, SOE reform should include the possibility of revising complementary or supportive institutions as well as some degree of privatisation approached more institutionally. What deserves to be examined is the set of factors that has created the success stories, rather than dismissing them as anomalous, as popular discourse would have it.

It is possible that privatisation enhances productive efficiency within privatised enterprises in various ways – such as by ‘influences on managerial style and organization structure directly and strategic orientation indirectly’ (Brouthers, Gelderman & Aren 2007, p. 238) or through changes in management and corporate governance which lead to improvements in goals, incentives and control, followed by strategy, structure and culture (Cuervo & Villalonga 2000). There is, however, no guarantee that this will occur in the context of developing countries that lack enabling institutions.

The more we experience privatisation, the more we have come to acknowledge its complexity. Since the beginning of the 1990s, even leading proponents of privatisation have ceased presenting ownership transfer on its own as a panacea for firm performance. According to Shirley (1992, p. S29), ‘privatisation works best when it is only one part of a larger program of reforms designed to create an environment that promotes efficiency’. Kikeri, Nellis and Shirley (1992, p. 13) also noted:

Privatisation is a complement to, not a replacement for, the other aspects of the development of the private sector in member countries of the World Bank. In
many instances privatization will be less important for the growth of the private sector than the emergence of new private businesses.

Echoing other contemporary authors in their emphasis on the importance of competitive markets and regulatory capacity (as discussed in Chapter 1), Kikeri, Nellis and Shirley (1992) interpreted the ‘conditions for success’ to include the ‘overall macroeconomic policy framework’. Shirley (1992) also suggested a series of tasks for the government in order to achieve the best valuation, transparency, and sustained efficiency after privatisation.

Since the beginning of the 21st century, the assertion that ownership ‘itself matters’ (Kikeri, Nellis & Shirley 1992, p. 3) has been further discredited through improved understanding of institutions. According to Megginson and Netter (2001, p. 364), institutional quality determines the impact of privatisation on the national economy:

[T]he gains from privatisation come from change in ownership combined with other reforms such as institutions to address incentive and contracting issues, hardened budget constraints, removal of barriers to entry, and an effective legal and regulatory framework.

Specifically, Parker and Kirkpatrick (2005, pp. 526-527) explain why privatisations in developing countries are less fruitful than those in developed ones in this way:

[P]rivatisation developed as a policy strategy in the developed economies. These economies benefit from mature capital markets with stock exchanges, venture capitalists, banks and other loan creditors, a well-functioning legal system that protects private property rights, and conventional standards of business behaviour (‘business ethics’) that facilitate market exchange. None of these institutions can necessarily be taken for granted in developing economies.

According to Parker and Kirkpatrick (2005, pp. 526-528), developing countries are often outperformed by developed ones in relation to several sets of rules and conditions that affect privatisation outcomes. The deficiencies of developing countries
include: (i) imperfectly competitive and incomplete product markets and under-
developed capital markets; (ii) the absence of an organised and competitive labour
market, and managerial capacity; (iii) poor protection of property rights, under-
developed business codes of behaviour, and a low level of probity in public
administration; (iv) inadequate state regulatory and supervisory capabilities; and (v) a
lack of overarching targets for poverty reduction and sustainable economic
development.

Thus, the role of institutions in determining efficiency improvements at either firm or
national economy levels, not to speak of broad national economic and social
development, is just as – if not more – important than ownership transfer. The
contributions of privatisation in developed countries should not be presumed in
developing countries, where the institutional arrangements are often embryonic (Cook
& Uchida 2003). In other words, privatisation is easier in developed economies mainly
because they have the appropriate rules and conditions, while privatisation in
developing countries is unlikely to be successful because these rules and conditions are
under-developed.

The experiences of privatisation analysed in Chapters 1 and 2 illustrate how the
application of different rules leads to different outcomes. Privatisers in developed
economies are more informed, capable, flexible and self-confident in implementing
policies. In the face of certain imperatives at the point of privatisation, they do not
typically rush to sell off the SOEs’ assets without careful planning (although there
have been notable examples of governments rushing headlong into privatisations –
such as in the case of the privatisation of parts of electricity markets in the Australian
states). Furthermore, the sizable domestic markets for goods and services and the
developed labour and financial markets provide these privatisers with effective tools
that are not available in developing countries. On the contrary, privatisers in the third
world have to cope with various constraints at the same time as coping with deficient
supportive and regulatory institutions.

This discussion is not complete without comment on the conditions that may be
imposed by the state on privatisations. These may include conditions attached to the
method of equitisation. A certain proportion of the total equity being off-loaded might be sold to foreign investors regardless of the attractiveness of the sales offer in relation to other offers the investors may be considering. Such conditions can be said to overload privatisation with objectives, as occurred in some privatisation projects in transition economies in the CEE and former CIS in the 1990s. A particular case in point is that of Bolivia, where the state imposed a requirement on the vendor of reticulated fresh water that the network supply be expanded. The sale did not go through (Hailu, Osorio & Tsukada 2009). The rules and regulations pertaining to sales of state enterprises and assets can undermine the regulation necessary to guide the consequences of privatisation into conformity with development goals.

4.1.3 Examples of Vietnamese Institutions and Capacity

There is empirical evidence for Vietnam on a few enabling institutions and capabilities. I will focus on the quality of three categories of rules and conditions suggested by Parker and Kirkpatrick (2005): market-based competition, managerial capacity, and corporate governance – transparency and protection of property rights.

**Market-based competition.** According to CIEM (2015, pp. 16-53), although the legal framework ensures an equal platform for SOEs and private businesses, the former have still been favoured by informal government practices or by the nature of their industry, which helps them to maintain their dominant position in the market. These same issues can, however, be viewed as governing rules rather than ‘market distortions’. Hence, it is possible to think of devising new institutional arrangements rather than changing ownership. For example, if SOEs tend to ‘crowd out’ private firms in key industries (such as energy, telecommunications, chemicals, mineral exploration, and utilities provision) thanks to a range of favourable rules (market entry regulations, government-sponsored loans and funds from both domestic and foreign sources, non-market pricing and favourable access to land and governmental projects) (CIEM 2015), the appropriate strategy may be to change the rules. Putting all one’s eggs into the basket of transferring ownership to the private sector may simply substitute a private monopoly for a public one. Private corporations are quite capable of capturing the regulatory framework and limiting the market entries of other firms, and of
concentrating control of factors of production to an extent that really does distort the market (Kay & Thompson 1986; Van De Walle 1989, p. 605).

**Managerial capacity.** SOE managers are widely perceived to have low levels of qualifications and managerial capabilities in comparison with their counterparts in other sectors. According to Edwards and Phan (2013, p. 33), SOE managers show ‘less profit-maximisation, low efficiency, low responsiveness, and bureaucratic-political management style’ while the opposite is true of managers of domestic private enterprises (DPEs) and, especially, of foreign-invested enterprises (FIEs). In fact, if such a gap does exist, it may only reflect what King and Pitchford (1998, p. 317) claim about ‘the difference between the incentives that face private and public managers’. In this case, institutional improvement – that is, establishing ‘competitive managerial labour markets and institutionalised managerial training’ (Parker & Kirkpatrick, p. 527) – is the solution. In practice, this means reducing the reliance of SOE managers on their networks of relationships and their influence over the regulatory regimes, and to enhance their engagement with employees, commitment to developing a firmly established corporate strategy, willingness to learn, and understanding of how to create a productive, creative and rewarding business environment (Edwards & Phan 2013, p. 34).

It is generally believed that private managers should be more business-oriented and more inclined to profitability maximisation than public ones. However, this difference may reflect little more than the fact that most SOEs are larger than private enterprises. Truong and Nguyen (2002), for example, argue that SOE managers are more bureaucratic than private managers mainly because of the relative scope of their corporations. According to these authors, all of the managers in three groups of enterprises (state, private and joint venture) are mostly characterised by a style that is bureaucratic, familial and conservative rather than entrepreneurial. In relation to other leadership qualities, such as avoidance of a paternalistic approach and delegation of power, the two domestic sectors are almost the same in displaying a style that is more authoritarian than participative. Joint ventures seem to have a more progressive managerial style than the two domestic sectors, and thus outperform them in respect of
employee satisfaction, financial strength and public good will. Therefore, if the institutional environment is improved by competitive labour markets, professional training and merit-based managerial appointments, SOE managers are not intrinsically less capable than those in the private sector, though all these indigenous human resources need to develop advanced skills like those of their counterparts in the developed economies. Hence, while privatisation is often expected to improve management, it should not be taken for granted that this will happen in the absence of rules or plans designed to achieve that goal.

**Corporate governance.** Transparency and protection of property rights are two of the greatest concerns in the Vietnamese business environment around privatisation. On the World Bank’s annual Ease of Doing Business Index, Vietnam’s overall ranking is often in the middle. However, its ranking on the sub-index of Protecting Minority Investors (PMI) is much lower than that of most countries. In *Doing Business 2015*, Vietnam’s overall ranking was 78th out of 189 countries, with a score of 64.62/100 and the PMI was 117/189, scored as 46.67/100. In 2016, the overall ranking was 90/189 countries (62.1/100) and the PMI was 122/189 (45.0/100). Even when compared with other countries in the region, Vietnam’s performance on this indicator was poor; Indonesia, for instance, ranked 109 overall, but its PMI was 88 with a score of 53.33/100 (2016). Only by the *Doing Business 2017* report does Vietnam improve on its position on this index, when it was ranked 82/190 (63.83) overall and 87/190 (53.33) for PMI thanks to a series of reforms that helped to secure minority shareholders’ rights and reinforce corporate transparency (World Bank 2016). This supports the analysis by Smith et al. (2014, p. 31) who found that, although Decision 929/QD/TTg enacted obligations for information disclosure and transparency by SOEs and related agencies in 2012 as part of the SOE restructuring plan, implementation has in fact lagged; as a consequence, ‘the public information is […] at best outdated, ambiguous and contradictory’. A less transparent legal environment clearly favours

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85 It should be noted that since 2002, when Truong and Nguyen (2002) was published, the private businesses have demonstrated impressive development; thus, an underestimation of the private managers may be less appropriate.

86 The PMI index is calculated by averaging two groups of indicators: (i) extent of conflict of interest regulation index, which consists of the extent of disclosure, director liability, and ease of shareholder suits; (ii) extent of shareholder governance index, based on extent of shareholder rights, ownership and control, and corporate transparency (World Bank 2016).
those strategic groups who seek to appropriate rents in SOE privatisation, as discussed in the previous chapter. Such violation of property rights – which Dixit (2009) views as corruption – adds further weight to the argument that the institutional frameworks of developing countries cannot be presumed to be appropriate for either efficiency or the realisation of socially optimal outcomes from privatisation.

Just as the push for privatisation can be shown to be politically constructed, the neoliberal proposition that ownership is linked to efficiency is more mythical than real. The empirical results of research on privatisation across different economies have been mixed in relation to the superiority or otherwise of private ownership in improving efficiency. Yet, the popular appeal of neoliberalism, which itself reflects resentment of SOEs, ensures that the efficiency argument continues to be accepted. In Vietnam, this state of affairs could well lead to wholesale privatisations, in which privatisers may ignore governance issues, namely, the quality of institutions and capacities that would enable privatisers to achieve broad economic and social development objectives, not just value for financial shareholders.

4.2 Shareholder Value versus Stakeholder Approaches

Undoubtedly, there are difficulties involved in assessing the impact of privatisation on efficiency. Yet a narrow focus on efficiency in relation to financial performance and shareholder value obscures the wider impact of privatisation on economic and social development. Even if shareholder value were improved by privatisation, shareholders are not the only stakeholders in privatisation and any shareholder benefits do not necessarily ‘trickle-down’ to wider benefits. This represents a counter argument to the use of the shareholder value approach to regulating privatisation, which privileges only one stakeholder – the owner of equity shares.

4.2.1 Inaccuracies of Financially-based Efficiency Assessment

Let us look first at the assessment of the impact of privatisation on shareholder value and financially-based efficiency. In empirical research, one of the most frequently used methodologies is the ‘pre- versus post-privatisation’ comparison of financial (or ‘economic’) performance at firm, industry or country levels (Megginson & Netter 2001; Truong & Ngo 2016) over an average 3-year period, which seeks to determine
whether or not there is a causal relationship between policy change and performance improvement. Another approach is to compare the differences between actually privatised enterprises and their non-privatised counterfactuals or between privatised and yet-to-be privatised SOEs in the same industry during the same period (Parker & Kirkpatrick 2005). Finally, the popular method of comparing performance between the SOE and private sectors seeks to contrast the influences of different ownership regimes (Megginson & Netter 2001). There are, however, a number of methodological limitations with all these approaches, which reduce the ‘internal and external validities’ of the efficiency assessment (Kellstedt & Whitten 2013, pp. 69-90 passim).

First, it is enormously difficult to distinguish privatisation policy from numerous confounding variables in explaining changes: privatisation and performance improvement may be associated rather than causally related (Kellstedt & Whitten 2013, pp. 51-68 passim):

Performance may change because of other economic events contemporaneous with privatisation, including more macroeconomic stability, fiscal prudence, freer capital movements, promotion of competition and regulatory changes ..., [and] also by institutional and structural factors (Parker & Kirkpatrick 2005, p. 516).

Secondly, the endogeneity of explanatory variables can easily lead to selection bias, subverting the external validity of the conclusion. Based on its own strategic plan, the government may choose particular industries or SOEs (small or large, in bad or good shape) to privatise first. As a result, the selection of a sample of privatised firms for empirical analysis risks being arbitrary. Furthermore, the government normally has more incentive to sell public assets when it needs to improve budget conditions, fund new infrastructure projects, or pursue an economic restructuring agenda. Whether it is possible to sell these assets, however, depends on the public’s ability and incentives to buy and invest. Therefore, according to Parker and Kirkpatrick (2005, p. 516), there is often greater ‘propensity to privatise’ in periods when the economy and financial markets thrive – as was evident in Vietnam before the credit crunch. Putting it another
way, as much as privatisation is perceived to have a positive impact on economic performance, a reverse causal relationship is also possible.

Thirdly, weighing up the two sectors against each other is equally problematic. As Megginson and Netter (2001, p. 332) put it, ‘it is difficult, if not impossible, to determine the appropriate set of comparison firms or benchmarks, especially in developing economies with limited private sectors’. This is certainly true. During the 1990s, hardly any Vietnamese private enterprises were equal in scope and scale to large SOEs. Yet, in all respects the average growth rates of the private sector outperformed those of the SOE sector, which had shrunk due to the equitisation process itself. Of course, the SOEs had traditionally been geared towards more strategic economic and social objectives, reflecting the rationale for their establishment. These included: initiating industrial production and creating employment in localities that needed it; managing natural monopolies; acquiring and domesticating foreign technologies and creating technical links between existing upstream and downstream industries; ensuring that certain basic necessities are available to people everywhere at about the same price; providing low-cost utilities to the low-income population or cheap inputs for other strategic industries; and promoting network expansion to rural and remote regions. One can expect that the financial indicators of these firms would have shown better performance than those of the private sector, since these social functions could be shifted to another part of the public budget. There must be a sophisticated approach to the assessment of efficiency within the SOE sector (before and after privatisation) and in comparison, with the private. If such an approach was pursued in the Vietnamese discourse, the SOEs would be assessed more fairly and the ideological bias towards wholesale privatisation could be checked.

Indeed, privatisation and privatised firms should be assessed on grounds of both economic benefits (which sort of firm produces the most from what is provided) and social welfare (who is able to consume better from the stock of what is produced). Thus, an improvement in the financial performance of a privatised utilities-provider that results from raising prices may not be in the interests of consumers; a decision not to expand the distribution network to rural and remote areas may save costs for the
privatised SOE but not help the state achieve its social policies; a privatised company may delay technical upgrades to produce goods at lowest cost but also pollute the environment; a privatised firm changing from innovation and manufacturing to trading or real estate may serve the corporate strategy but not the national industrial policy. In summary, the focus on efficiency assessed by financial indicators represents a narrow approach to the impact of privatisation, which should also be considered in relation to national economic and social development.

4.2.2 Distractions Resulting from Financially-based Assessment

There is yet another concern about the distracting effects of financially-based assessment of privatisation. A focus on the single benchmark of financial indicators is likely to overshadow other important aspects of privatisation policy, notably, the distributional effects among different groups and the design of the program itself. As the discussion in previous chapters has shown, the differences in privatisation reflect the way in which privatisation is pursued and this determines the extent to which there is improvement in both productive efficiency and distributional equality (or fairness).

In practice, privatisation could result in large-scale negative distributional impacts which in turn undermine the political credibility of the privatisation process (Vickers & Yarrow 1991; Birdsall & Nellis 2005; Stiglitz 2008a). For example, according to Stiglitz (2008a), if privatisation creates illegitimate wealth for a few, initial support for privatisation may give way to a call for re-nationalisation, thus creating a risky environment in which investors would be preoccupied with rent-seeking rather than investing productively. Other potential problems include the following: (i) underpricing of the divested assets, which can have a negative impact on government revenue, leading to future tax burdens; (ii) the possible regulatory capture of private monopolists if competition and a legal framework have not been introduced before privatisation (Stiglitz 2008a); (iii) conflicts of interest and adverse distributional impacts between indigenous local people and foreign investors (Cramer 1999); (iv) recombinant ownership, which intensifies social inequality and disruption (Marangos 2002); (v) the frequent reduction of employment after privatisation; (vi) the interlocking issues of price, service quality and access to infrastructure that directly determine the distributional outcomes of privatisation for low income groups (Cramer
1999; Birdsall & Nellis 2005; see also Van De Walle 1989, p. 606, who expressed concern that ‘privatisation may affect the poor if the goods and services provided by the privatised enterprises become less accessible to them’). It can be concluded that the distributional effects of privatisation cannot be easily predicted … [as they] depend on at least three factors: initial conditions, the sale event, and the post-privatisation political and economic environment… Unless governments take specific actions, the gains from reform take longer to reach the real poor than the richer segments of the population. (Birdsall & Nellis 2005, pp. 10-23)

Focusing too much on financially-based assessment also diverts attention from the importance of the design of the policy implementation itself. The efficiency argument often leads to the taken-for-granted assumption that privatisation, regardless of how it is organised, will generate efficiency improvement. As explained in the previous section, however, the rules and conditions applied before, during and after privatisation are major determinants of not only the improvement in productive efficiency of the privatised firms but also the spill-over effects to the economy (or externalities to affected groups) as a whole. Fear of a reverse in popular sentiment regarding privatisation often leads ideologically-driven privatisers to endorse a wholesale approach, without checking whether alternative reforms would be equally effective or if enabling conditions have already been established. According to Megginson and Netter (2001), it is necessary to

examine the sequencing and staging of privatisation…. Until these policies are identified, and the interactions between various policy options are established, launching large-scale privatisation programs will remain a leap of faith. (Megginson & Netter 2001, p. 382)

4.2.3 Stakeholder Approach
Essentially, the neoliberal advocacy of ownership transfer and profit maximisation as the determinants of financially-based efficiency improvement is supported by the shareholder value philosophy. According to Friedman (1970), ‘there is one and only one social responsibility of business – to use its resources and engage in activities
designed to increase its profits’. The SOEs, however, were not established for profit-
maximising and nor were privatisers tasked with profit-maximisation. Neoclassicists
acknowledge the need for SOEs to address market failures. The notion of market
failures emerges within neoclassical theory, where it refers to ‘externalities and public
goods, monopoly, information asymmetry, and distributional inequity’ (Meggison et
al. 2001, p. 329; Wolf 1979, pp. 108-111). Yet some neoclassicists concede that, for
markets to operate efficiently in both economic and social terms, state intervention is
necessary to minimise those market failures. As some have argued, this is what largely
laid the theoretical foundation for the establishment of SOEs after WWII.

Neoliberals are quick to claim that, if state ownership is not evidently an effective
solution to market failures, then privatisation can provide the market solution to the
problem. Neoliberals also argue that there is an impressive range of government
failures (Wolf 1979, pp. 116-131). Such failures may occur in ‘the procedures of
management, the practices of workers and features of the organisations which made
sense when they were established but have subsequently become anachronisms’
(Butler 1989, p. 7) but which are all reparable. In other words, the solution to the
problem of government failures may be to repair the machinery rather than throw it out
and reduce the capacity which SOEs provide to the state. It is necessary to move away
from a view of government involvement in the political economy as being primarily
one of dealing with market failures while avoiding government failures towards the
approach adopted by the developmental states to state regulation, including regulation
of SOEs. This approach sees the public and private sectors as interdependent and the
interdependence as governed. Moreover, there is an implicit path dependency of
governing institutional arrangements (Acemoglu, Johnson & Robison 2005; Lavi-Faur
2005).

Scholars who adopt a statist perspective acknowledge that SOEs provide governments
with capacity to direct the development of the social and economic structure. In other
words, much more than financial efficiency and performance of enterprises is at stake
in economic and social development. There are many more issues on which the latter
is dependent – there are many more stakeholders than private equity owners. The
efficaciousness of SOEs ought to be assessed in relation to those tasks which they are
expected to achieve (King & Pitchford 1998, pp. 314-315). Thus, the appropriate question is not how much profit the SOEs make, but how effectively they have assisted the state to direct the economy along a developmental path. According to Butler (1989, pp. 6-7), there can be a ‘very long list of common objectives of public enterprises other than the “commercial” objective of making profits’. For example, the SOEs may be mandated to: guarantee a stable supply to another industry, often at lower prices; be ‘capable of keeping to a minimum the quasi-rent component of the price charged for [a] monopoly’s output’; or, more generally, to engage in price formation for the sake of broad development objectives. In summary, they may be mandated to achieve quite different outcomes than financial benefits for shareholders. As illustrated in Chapter 2, these rules did work in the developmental states. Therefore, the mainstream assumption that financial efficiency and performance of enterprises is the only goal of the government is inappropriate. On the contrary, especially in the case of SOEs, the interests of the society at large are a more relevant concern.

Stakeholder theory in the field of business administration defines the stakeholder as ‘any group or individual who can affect or is affected by the achievement of the organisation’s objectives’ (Freeman cited in Mitchell, Agle & Wood 1997, p. 854). According to the concept of social responsibility of business in stakeholder theory, firm managers can guarantee business sustainability and fulfil ‘corporate citizenship’, but only at firm level. In the administration of privatisation, the stakeholders are not only suppliers and customers of businesses, private financiers, near geographic neighbours, and the firm’s workers. They also include the broader constituent groups within society – the policy-makers and bureaucracies in charge of governing privatisations must be economically and socially responsible at the level of the national economy and society.

A useful model in the present context is provided by Mitchell, Agle and Wood (1997), who developed the normative theory of stakeholder identification and the descriptive theory of stakeholder salience. According to this model, there are three classes of stakeholders: (i) those with controlling powers over the course of privatisation – bureaucracy, SOE managers, investors, elites-donors, and the informed public; (ii) the state in respect of its capacity to coordinate industrial policies – consistency in the
supply chain and provision of utilities, contribution of privatised firms to industrialisation, and national sovereignty; and (iii) businesses, recipients of revenues from sales, and socio-economic groups within society. It should be noted that all three groups of stakeholders and their respective stakes intersect and are accorded equal significance, but are differently prioritised in different specific contexts. Each group of stakeholders is concerned with particular objectives or benefits in a particular privatisation. For example, if the purpose is to strengthen the SOE’s profitability, the strategy should be to choose financially capable and experienced investors, giving them together a large enough share of ownership to renovate the management but with less focus on fiscal impacts and distributional equity. For SOEs in key utilities and infrastructure, by contrast, the priorities may be to introduce competition, harden budget constraints, and improve the current management with less ownership sold to outsiders and regulation to provide greater access and lower prices for other industries and consumers.

These ideas are not new to the current privatisation agenda of the party-state in Vietnam which, however, has been unclear and has had less of a developmental-state orientation. This is partly due to the vague and undifferentiated hostility towards domestic SOEs that has been evident in popular discourse. While the domestic SOEs are often characterised in terms of waste, inertia and low accountability, their counterparts in many other countries are perceived as socially responsible. For example, when the Vietnamese government recently attempted to award the EVN (Electricity Vietnam business group) an honour for its contribution to the country’s development, there was strong public protest. There was resentment about EVN’s pricing, unprofitability and other ‘inefficiencies’, such as excessive director pay and the inclusion of villas and tennis courts in the account balance. Many of these resentments may be real, but many may be based on misinterpretations (e.g. the power tariff is indeed inexpensive if compared to international prices). More critically, public opinion has ignored the contribution of thousands of EVN’s workers who have built a nation-wide network that currently reaches 90% of the population. Among the most popular comments were: the suggestion that ‘EVN often asks to raise the price’ (due to its low price level, it is unlikely to attract investment); criticism of the EVN’s pricing formula, which is designed to reduce power consumption; the more power used, the higher the rate at which it is charged, a system that favours the poor over the rich but which contravenes the market principle of

87 Among the most popular comments were: the suggestion that ‘EVN often asks to raise the price’ (due to its low price level, it is unlikely to attract investment); criticism of the EVN’s pricing formula, which is designed to reduce power consumption; the more power used, the higher the rate at which it is charged, a system that favours the poor over the rich but which contravenes the market principle of
the achievements of the corporation as a whole, the public fails to pay due respect to the ordinary workers while the perks which EVN directors enjoyed as a result of the soft-budget constraints remain in place.

In summary, the assessment of privatisation should be approached within a broader framework of stakeholder governance than that provided by a focus on financial efficiency and shareholder values as the only benchmark. A corollary of the stakeholder approach is that it can preserve the state’s capacity for industrialisation and achievement of economic and social development goals.

4.3 The Developmental State’s Capacity for Industrialisation and Equality

Broad economic and social development requires the state to coordinate enterprises for the development of an industrial structure, which relies for its competitiveness on ‘dynamic efficiency’ as opposed to ‘static (allocative) efficiency’. This is because the market is unable to coordinate investments, especially in non-traditional activities, which are the key factor in sustaining economic growth (Rodrik 2005, p. 999). Coping with a slow-down in growth since the financial turmoil, Vietnam has clearly perceived the threat of a ‘middle-income trap’ (Ohno 2009) in the movement between the two phases of development – igniting growth and sustaining growth (Rodrik 2005). Instead of designing institutional arrangements to address the coordination problem, however, the current restructuring agenda in Vietnam continues to focus on mitigating ‘government failures’ – in other words, on further entrenching neoliberalism (Gainsborough 2010). It can be argued that the long history of the developmental states as a showcase for successful industrial policies and sustained growth has demonstrated the necessity of securing the state’s capacity both during and after privatisation in the pursuit of industrialisation and equality.

cheaper cost for higher volume of purchased products; and the proposal that, if similar contributions to those of the EVN are taken into account, other industries, such as the rice-exporters, should also get an award (see Hoang Thuy 2015, ‘Bo Cong thuong ly giai de nghi phong anh hung lao dong cho EVN [Ministry of Industry and Trade explains the proposal of labour hero award for EVN]’, 29 October, viewed 14 February 2017, http://www.vnexpress.net).

88 It should be stressed that the significant 500KV North-South line was built during the 1990s, when no private capacity for contracting-out had been developed. This means that the EVN’s work was indispensable.
In this discussion, state capacity refers to the entrepreneurial, coordinating and guidance capabilities of the state. In particular, it involves the ‘institutional/political arrangements for public- and private-sector interactions’ (Wade 2003, p. xvii) that ‘induce socially desirable behavior on the part of economic agents’ (Rodrik 2005, p. 1005) in pursuit of industrial policies, and the bargaining power that the state should retain for itself to secure its interests and influential edge over other parties. With this bargaining power, the state can mediate conflicts of interest among stakeholders (Butler 2015). Mazzucato has written of the state’s role in enabling a ‘smart, inclusive and sustainable growth’ (Mazzucato 2013, p. 331). She goes on to suggest that the experience of leading innovative economies has shown

…the State acting as a force for innovation and change, not only ‘de-risking’ risk-averse private actors, but also boldly leading the way, with a clear and courageous vision […] State investments catalyse, influence and connect to the growth of business organisations on which we rely, ultimately, to deliver new technologies on a broad scale (Mazzucato 2013 pp. 48,332).

As state capacity is affected by privatisation in various ways, this is of significant concern, even for developed countries, not least because of its impact on the effective capacity of the bureaucracy to make policies (Hodge 2002; Tingle 2015).

4.3.1 Challenge of Sustaining Growth

In Vietnam, the state has assumed legitimate responsibility for the country’s political, economic and social domains. By implication, it must secure its capacity to sustain the country’s development in periods of economic slowdown, such as the present. State capacity is blunted, however, when state interventionism is accused of causing inefficient allocation of economic resources and the economic governance model of the developmental state is displaced in favour of neoliberalism. Yet Vietnam’s GDP growth rate has seriously decelerated since the financial turmoil in 2008. Between 1991 and 2008, the annual GDP growth rate was 7.6% on average (Ohno 2009, p. 25) but from 2008 to 2016 it averaged only roughly 6.0% (see Appendix 1). The recent record is such that the Vietnamese party-state should be seriously concerned about the
resilience of the local economy and about whether its own policies and performance are part of the problem. It is worth noting that, before the GFC, the economy was already on the brink of a credit crunch, faced with record inflation and trade deficits (Pincus & Vu 2008). In contrast to the short period of two years (1998-99) it took for the economy’s growth to recover after the Asian financial crisis, the later slowdown has continued since 2008 to the present.

‘Vietnam is thus seemingly at a critical juncture. Decisions at this stage matter for meeting long-term income aspirations’ (WB-MPI 2016, p. 18). The report *Vietnam 2035*, jointly prepared by the World Bank (WB) and Ministry of Planning and Investment of Vietnam (MPI), describes four scenarios of different growth rates in per capita GDP (in PPP), ranging from 4% to 7% per year. An average annual growth rate of 7% would be seen as evidence of a successful implementation of the ‘catch-up’ strategy, similar to China’s, that would make Vietnamese income by 2035 equal to that of South Korea in 2002. By contrast, a 4% growth rate would make Vietnam’s income equal to that of Thailand at present (i.e. US$12,000, half of what a 7% growth rate would produce) and it would likely be lagging behind other countries (WB-MPI 2016, pp. 15-18).

The above-mentioned ‘juncture’ was described by Ohno (2009, p. 26) as a ‘middle-income trap’:

> [So far] growth has been supported by new trade opportunities as well as large inflows of foreign funds. Industrial activities – especially manufactured exports – continue to be dominated by foreign firms, and value creation by local firms and workers has been limited […]; productivity breakthrough is needed to climb further. Future growth must be fueled by skill and technology rather than a mere injection of purchasing power.

Ohno’s prescription requires the exercise of state capacities. Largely consistent with it, but more market-orientated, is Rodrik’s (2005) claim that developing countries must

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89 Despite not being the first author to coin the term, his analysis of Vietnam initiated a widespread debate in the literature on developing countries’ catch-up strategies. The concept is distinguished from the previously used terms ‘low-level equilibrium’ or ‘poverty trap’ (Felipe 2012, p. 2).
adopt different developmental strategies in two stages of growth, with the latter stage (progressing through the ‘middle-income trap’) being more challenging. Accordingly, igniting growth requires governmental efforts to improve the ‘low-equilibrium investment climate’ by removing failed institutions (such as those that create unnecessary delays, uncertainty and risk) to ‘unleash a flurry of new investments and entrepreneurship’; this would be accompanied by the ‘crowding-in’ effects of an array of governmental incentives and the use of the depreciation of the real exchange rate to stimulate ‘tradable activities’ (pp. 998-1002). At the same time, Rodrik (2005) continues, achieving long-term growth demands the comprehensive adoption of advanced ‘market–sustaining institutions’ to preserve the ‘productive dynamism and resilience’ of the economy (pp. 973, 1005-1006). In fact, the first two decades of Vietnam’s economic reform has seen the pursuit of policies to spur domestic entrepreneurship and attract foreign investment as much as possible, but without linkages between the two.⁹⁰

Yet, the concept of a middle-income trap is debatable. Perhaps it is more accurate to suggest that it is easier for a nation to achieve economic growth from a low base in stage 1 than continuing growth from a higher base in stage 2. While lower-income countries’ traditional advantages of cheap labour have been undermined by other emerging economies (Beeson 2004; Burke et. al. 2014), the complex challenges facing their entry into the more profitable segments of the global value chain – that is, to create an ‘internally articulated economy’ (Wade 2003, p. xlviii) and to upgrade ‘internal strength’ or ‘industrial human capital’ (Ohno 2009, pp. 25, 27-28) – confront all developing economies, not just Vietnam. So, the issue is less about being trapped than about how to sustain the pace of economic growth. According to Felipe (2012a), a lower middle-income economy (US$2,000-7,250 GDP per capita in 1990 PPP) needs to grow at 4.7% per annum to achieve an upper middle-income ranking (US$7,250-11,750), which takes 28 years. To reach the next threshold of US$11,750, it should

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⁹⁰ The story of how local producers can only supply low value products, such as packages for Samsung, attracted considerable public attention. By 2016, there were 190 local suppliers for Samsung in Vietnam, triple the number from the previous year, but only 3 firms were integrated into the electronics value chain, and then only as secondary suppliers. Most of the other local partners at primary and secondary levels provided packaging and low value items. (See: Nguyen Hoai 2016, ‘SamSung tiep tuc tim nha cung cap oc vit, sac pin tai Vietnam [SamSung continues searching for suppliers of screws and chargers in Vietnam]’, 21 June, viewed 24 February 2017, http://www.vnexpress.net).
grow at least by 3.5% per annum in 14 years. In the case of Vietnam, an average annual growth rate of 4.3% would move the country out of lower middle-income status by 2030 (p. 24). Additionally, if the ‘flying geese’ pattern of industrial development is adopted, the shifting of resource-based and labour-intensive industries to less developed countries should be seen as an encouraging transformation of local manufacturing’s ability to export further-refined products and capital goods (Akamatsu 1962). Thus, whether or not the middle-income trap is real, the challenge of sustaining growth is evident.

4.3.2 Challenge of Innovation

Growth is dependent on the ability of domestic businesses to enhance productivity and participate in innovative activities, which raises the issue of dynamic efficiency versus static efficiency. Both Ohno (2009) and WB-MPI (2016) prioritise the improvement of productivity as the key to growth sustainability. Comparing the present period with the period before the mid-1990s, it is clear that the incremental capital-output ratio (ICOR) rose and the contribution of total factor productivity (TFP) to growth declined over recent years, indicating an ‘investment-driven growth with low efficiency in capital use’ (Ohno 2009, p. 26). Expressing a similar view, but blaming the SOEs for the inefficiency, WB-MPI (2016) claimed that ‘[l]abour productivity actually declined in mining, public utilities, construction, and finance – all sectors in which SOEs have kept their dominant role’ (p. 19). Furthermore, according to the report, ‘the imperative to improve productivity growth is therefore clear and strong [especially] in the next phase of development [when] each of these compensatory factors\footnote{These factors include the rapid labour-force growth, structural transformations, and acceleration of capital accumulation, which have offset the low and declining productivity growth due to inefficiency, often assigned with the public sector (WB-MPI 2016).} is projected to have a sharply diminished impact (WB-MPI 2016, p. 21). Nevertheless, the policy-solution package suggested by WB-MPI (2016) does not vary from its traditional Washington Consensus agenda which, according to Ohno (2009), ‘may achieve middle income if [the policies] are properly executed, but that is […] insufficient to improve skill and technology’ to cater for the next stage of “catch-up industrialisation”’ (pp. 26, 28, 29).

Ohno (2009) proposes the following: (i) within the narrowed ‘policy space’, it is still possible to support ‘industries and industrial human resources [in a manner which]
does not violate WTO rules’ (pp. 29-30); (ii) firms should be ‘coordinated and assisted’ to ‘expand along the value chain to encompass higher value-added activities and uplift the whole value chain by raising productivity’ (pp. 30,32); (iii) first of all it is necessary ‘to acquire capability to embrace an appropriate industrial vision and implement effective measures towards it’, i.e. build state capacity and enforcement capabilities with ‘concrete strategies’ to achieve ‘internal value creation’ (pp. 29,31); (iv) it is equally important for the state to enrich its ‘experience and confidence … to encounter problems and challenges over time … [by allowing] trials and errors and learning by doing’ (p. 32). As can be seen, these are all characteristics of the developmental states.

As suggested at the beginning of this section, it is necessary to go beyond a focus on productivity improvement and static efficiency: it is less important ‘to do things better’ than ‘to do new better things’. According to Klein (cited in Ghemawat & Costa 1993, p. 60), static efficiency reflects ‘the optimal combination of given inputs subject to the constraints imposed by a fixed production function’, whereas dynamic efficiency involves enlarging that production function by promoting ‘the ability to make good use of newly disclosed opportunities, be these opportunities for improving the production process or developing and producing new products’. Romer (1990) specifically assigns the role of major driver of growth to research and development (R&D), while Jorgenson and Vu (2005) attribute the development of the world economy since 1995 to investment in IT equipment and software.

In relation to ‘catching-up’ for developing countries, Felipe (2012b) affirms the significance of dynamic efficiency via a comparison of the range of new exported products from various economies over the different stages of their growth. The key to development is to possess the productive capabilities to export as many sophisticated and well-connected products as possible. For example, the Republic of Korea’s economy performed best when its export basket was most diversified and contained new ‘core products’ of knowledge-intensity rather than capital- and labour-intensity (p. 16).
Given these findings, Vietnam’s challenge is to acquire productive capabilities similar to those of economies that have achieved sustained rapid growth, in contrast with its laggardly counterparts in Southeast Asia. These countries have either confined their pursuit of competitive advantage to labour-intensive products, as in The Philippines, or have sought to engage in sophisticated industries like electronics but with weak linkages to established indigenous industries, as has been the case with Malaysia (Felipe 2012b).

By 2016, foreign direct invested (FDI) firms accounted for 71.6% of Vietnam’s exports – a figure that had risen rapidly from 54.2% in 2010 – while the share of domestic firms declined from 45.8% to 28.4% during the same period (see Appendix 2A). The participation of the domestic sector in foreign trade activities overall has shrunk as the FDI firms also dominate imports. Appendix 2B compares the baskets of major exports and imports in 2010 and 2016. Though the data are less detailed and not equivalent to those in Felipe (2012b), they can suggest the structural development of the exporting activities of Vietnamese firms. There was a noticeable increase in the share of technologically sophisticated products during 2010-2016, which accords with a laudable propensity to expand exports from labour-intensive and resource-based products to capital-intensive ones. On the other hand, the increased presence of manufacturing products among the leading exports has entailed equivalent amounts of imports of their components and parts; this suggests the possibility that there may only have been a growth in assembling activities, without greater value-adding than in labour-intensive production. The pace of diversification in exported products, which was rapid before 2010, seems to have slowed down during 2010-2016 as the shifts in ranking have occurred within the same group of exports without new additions. Hence, the structural transformation of Vietnamese exports towards more sophisticated products may have been associated with the surge of particular investments by FDI firms in these fields rather than growth of indigenous industrial capacity or of the

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92 Labour-intensive and resource-based products (among 18 leading exports) accounted for 55.2% in 2010, but only 37.5% of total exports in 2016; meanwhile the shares of technology-based and capital goods increased from 16% to 42.4% of total exports during the same period. (Source: GSO)

93 Although the top 4 exporting products remained unchanged during 2001-2010, their proportion reduced from 57% to 36% of total exports, meaning that new exported products had been added. By 2016, there have only been shifts among the rankings of the above exports but no new groups of products have been added. (Source: GSO)
connections between foreign invested and local enterprises. For example, since 2013 Samsung has relocated the manufacturing of display and smartphones – its flagship products – from China, where the cost of labour has risen, to Vietnam, where the company enjoys favourable tax policies and cheap labour. Thanks to its intensive investment strategy, the company’s export value quickly achieved a record of US$39.9 billion in 2016, accounting for 22.7% of Vietnam’s total exports. Yet, only 20 local suppliers have joined the value chain as primary suppliers (admittedly an increase from four primary suppliers and only three secondary suppliers of technological inputs in the previous year)⁹⁴. Although this is a rapid rise and promises a wider structural transformation, at present most of these local vendors can only supply packaging, printing and mechanical inputs.

In summary, the challenge for Vietnam is to build and coordinate innovative capabilities. Initially, this may involve the domestic industries absorbing spill-over effects created by the FDI firms. In the long term, however, local firms have also to realise new opportunities to enhance their competitive edge in the global economy. This is the sort of national economic development in which privatised SOEs may play a part, or at least where the active coordinating role of the state is required.

4.3.3 Developmental State Capacity
In order to enhance both static efficiency and – more importantly – dynamic efficiency, there needs to be ‘investment intensity’ in non-traditionally knowledge-based industries and this in turn requires the backing of the state (Ghemawat & Costa 1993). Yet Vietnam seems to be responding with a policy agenda that is increasingly shaped by neoliberalism. As mentioned earlier, the abuse of public ownership and the underperformance of some SOEs and public investment projects have intensified public resentment against the economic role of the state, fortifying the popular support for neoliberalism, which in turn influences the policy agenda of the state. For example, most of the press reports on recent inflows of imported cars from Southeast Asian countries to Vietnam blamed the state and its customs and tax policies that limited

⁹⁴ Besides low connectedness, in practice, these assembling processes are rather labour-intensive. For example, Samsung Electronics in Vietnam employs 140,000 local workers. (See: Linh Anh 2017, ‘Bat chap su co Note 7, Samsung van dat doanh thu 46.3 ty USD [Despite the Note 7 saga, Samsung still achieves US$46.3 billion of revenues]’, 6 January, viewed 1 March 2017, http://www.cafef.vn).
expenditure on vehicles for fear of traffic jams in cities (thus reducing the market size) for the failure to develop the domestic car industry. While the criticism is pertinent, Vietnam has actually developed two car and truck manufacturing clusters. One went bankrupt because it produced its own sedan in the absence of necessary assistance from the state. The other was successful using a model of public-private coordination of industry policy at the provincial level and because of its CEO’s clearly envisaged strategy of gradually enhancing the local content of the product rather than domesticating the whole value chain.

Innovative capabilities are listed among the key breakthroughs proposed by the WB-MPI in Vietnam 2035, alongside the building of institutions for a ‘fully established market economy’ and economic modernisation with the private sector ‘firmly in the lead’ (p. 16). Nevertheless, aside from recommended strategies for ‘environmental sustainability’ and ‘equity and social inclusion’, the solutions proposed for problems in the economic and political domains reflect a modified version of neoliberalism. They recommend the same strategies for successful privatisation and public sector reform that the Bank has been proposing since the 1990s – a ‘market friendly intervention and good governance’ (Kiely 1998, pp. 686-688) and ‘politically desirable, politically feasible and credible’ foundations (Bayliss & Fine 1998, p. 844).

After the 12th VCP Congress in 2016, the new government in Vietnam introduced the concept of *nha nuoc kien tao*, which loosely translates as ‘creative/enabling or developmental state’. This, however, is unlikely to signal a move towards the East

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95 The mocking sentiment is often expressed that Vietnam will be importing cars from countries like Laos and Cambodia (See: Ngoc Tuyen 2017, ‘Vietnam nhap hon 1,800 oto con tu Indonesia trong 1 thang [Vietnam imports more than 1,800 cars from Indonesia within a month]’, 14 February, viewed 3 March 2017, http://www.vnexpress.vn).

96 Thaco Truong Hai’s chairman stated: ‘if each car product is sold with enhanced local content (over 40%) it is a success’. The ratios of local content are currently 18% (cars), 40% (trucks), and 60% (buses). (See: Duc Tho & Bach Duong 2016, ‘Chu tich Thaco Truong Hai: chua bao gio toi nghi se lam oto con thuong hieu Viet [Chairman of Thaco Truong Hai: I have never thought to produce Vietnamese branded cars]’, 19 November, viewed 3 March 2017, http://www.vneconomy.vn).

97 Chapter 3 of the WB-MPI report advocates developmental states in East Asia as role models for Vietnam, with suggestions of four foundations of an innovation-led economy to stimulate firms’ learning, including competitive pressures, human capital, R&D, and improving labour force skills, all of which emphasise the necessity of an enhanced state capacity (pp. 170-71). Yet these details are less evident in the executive summary of the report, which is often more accessible to the policy-makers.

98 The meaning attached to *nha nuoc kien tao* still provides loosely defined space for the interpretation. (See: Nguyen Vu 2017, ‘Chinh phu kien tao, khi nha nuoc nhu mot doanh nghiep
Asian developmental state and, thus, tip the balance in the vacillation between developmental state and neoliberalism. In Vietnam, there have been few inquiries into the nature of existing market economies, even though the ‘socialist-oriented market economy’ is often characterised as a contradictory model by the public at large. On the one hand, the new government wants to actively promote economic growth because the performance of the economy is pivotal to political legitimacy; on the other hand, it is constrained by neoliberalist warnings not to harm the business environment and macroeconomic stability by ‘meddling’, as it is said to have done during the credit crunch. A genuine trial of a new version of the developmental state might have been thwarted by the failure of the Vietnamese party-state to pursue the model of developmental states in the region due to inadequate state capacity, disorganised commercial nationalism and the activities of interest groups. The consequences have included macroeconomic instabilities, involving public debts, and a slowdown in the growth rate from 2008 up to the present. Instead, the preferred interpretation of nha nuoc kien tao is a state that merely creates market institutions and secures favourable conditions to enable the private sector to thrive as a major player and driver of new growth – including the encouragement of ‘start-ups’, facilitation of privatisation, endorsement of the Trans-Pacific Partnership (TPP), and deregulation. While all of these conditions – closely associated with the above-mentioned neoliberal agenda – in fact constitute the ‘more invasive form of neoliberalism’ that Gainsborough (2010) associated with the post-Washington Consensus (pp. 477-478), it is unlikely that the vacillation will be addressed.

It is important to continue to correct or at least mitigate the government’s failure to develop institutions to support entrepreneurship and private investment (Rodrik 2005), yet not necessarily at the expense of state capacity. While belief in the superiority of private ownership tends to lead to support for a minimal state and a flourishing market, the developmental states’ technocracies have proved that a strong state and a


99 Domestically, Hong and Thien (2014) present a rare, rigorous account acknowledging the theoretical foundations of the market economy which, the authors argue, is ‘not perfect’ but is ‘most suitable for the period when humankind is basically self-interested’. Accordingly, given the bounded rationality that can lead the market to work inefficiently, the market is still ‘self-regulated’; thus ‘the state should only play a neutral arbitration role to guarantee market competition, property rights, and social security and welfare’ (pp. 31,33,34).
flourishing market can co-exist. This is the message of the ideas behind ‘governed interdependence’ (Weiss 1995) and ‘coordinated market economies’ with various forms of effective regulation by the state, the private sector and global institutions (Braithwaite 2008, pp. 26-27). Indeed, the developmental state is ‘rule-based’ – that is, based on rules of some sort – and the distinction sometimes attempted by neoliberals is questionable at least. Market rules can be nurtured in a manner consistent with ‘developmentalism’, as demonstrated by Levi-Faur (2013) in the East Asian nations, along with and by means of state regulation (formal institutions). Accordingly, as neither state nor market can be presumed superior in promoting (or deterring) development (Dutt, Kim & Singh 1994), ‘the central question for growth becomes, “What kind of institutional arrangements will best enable societies to generate new skills, knowledge and ideas and the networks needed to diffuse and take advantage of them?”’ (Evans 2008, p. 4).

The respectable achievements of the ‘catch-up’ strategies adopted by the Northeast Asian developmental states show that ‘[d]evelopment was achieved by management of the market, industrial strategies, public investment, and export strategies reflecting state-business co-operation’ (Natsuda & Butler 2005, p. 332). Contrary to orthodox beliefs, the retreat of the state and ‘getting the basics right’ were not effective in sustaining growth and creating innovation (Amsden 1994; Rodrik 2005; Ohno 2009; Mazzucato 2013). Industrialisation was not automatically generated by the market and business alone, but as a result of state-crafted ‘deliberate policy’ and ‘national effort’ (Felipe 2012b). In practice, the role of the state in trade protection, export-reward schemes, pioneering R&D and financial sponsorship of industrial espionage has been evident throughout the history of advanced economies (Chang 2003). To promote entrepreneurship (Mazzucato 2013), the state needs the greatest capacity (Beeson 2004).

Yet, the developmental state model is not without its vulnerabilities. First, the state should not be captured by interest groups (Mazzucato 2013). While incentives are needed to improve the public service, their disposition should be monitored (Beeson 2004).
Second, despite the fact that many developmental states have successfully utilised state-owned or state-linked businesses (Amsden 1994; Rodrik 2005), it does not follow that equitisation should be opposed. In Vietnam, this would be to repudiate the popular resentment of SOEs and would undermine the cooperation needed for widespread acceptance of a decisive developmental state. The challenges are to coordinate the privatised SOEs and other private firms in a ‘governed interdependence’ framework (Weiss 1995) and to harness them within an overall industrial strategy as a ‘national project’ (Evans 2008). This may mean that the state reserves powers for itself on the boards of directors of equitised or privatised enterprises. There are two further elements to this harnessing of SOE’s that are worthy of mention at this point: private investment should be encouraged out of ‘non-traditional activities below the social return’ into activities characterised by ‘scale economies and inter-linkages’ (Rodrik 2005, p. 981); and monitoring can only be effective if the “reciprocal principle” (industrial performance in exchange for state assistance) is secured in the state-business alliance (Amsden 1994, p. 632).

Third, while a high degree of vigilance is appropriate in dealing with SOEs, enough leeway must be provided for ‘trial and error’, as occurred in the development of Hyundai’s car engine with ‘2,888 design changes and ninety-seven tests … during fourteen months’ (Kim cited in Felipe 2012b, p. 16).

Fourth, though rent-seeking behaviour may be exploited to encourage industrial achievements (Wade 2003), it should not be allowed to create a society of greed. Equality and the institutions that support it should not be traded off too easily for growth (Stiglitz 2014). Since ‘the expansion of human capabilities is both the key means and central goal of development’, the state’s capacities must be used to expand general social wellbeing and to distribute the gains from industrialisation widely for the benefit of otherwise under-rewarded sectors and underprivileged groups (Evans 2008, p. 12), who in turn would help to sustain economic growth (Rodrik 2005).

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100 Lacking an industrial policy, Vietnam is threatened with premature deindustrialisation (Felipe 2012b) if private investment is attracted into the service sector. (See: Bach Duong 2016, ‘Ty phu bat dong san chiem mot nua top nguai giau chung khoan 2016 [Billionaires in real-estate account for half of the top richest people on the stock exchange in 2016]’, 30 December, viewed 8 March 2017, http://www.vneconomy.vn).
These considerations about the role of the state, industrial policy and equality need to be carefully integrated into the privatisation strategy.

### 4.4 Governance of Privatisation

At a seminar in Hanoi, Stiglitz noted that:

…liberalisation, privatisation and so on […] are just means to an end. The real objectives, in my view, are raising the living standards and social welfare of the Vietnamese people (Stiglitz cited in Evans & Bui 2005, p. 237).

As suggested above, privatisation as a means of SOE reform should be regulated within an overall strategy for meeting economic and social development objectives. Clearly, it is necessary to avoid the experience of ideology-led privatisation in the transition economies of the CEE and former CIS, which so often benefited a new nomenklatura, while lessons should be learned from the rule-based, state-led privatisations of developmental states in East Asia. Overall, the gradual and partial approach is more effective than the wholesale approach. Accordingly, the governance of privatisation should be constructed on a case-by-case basis, but in accordance with common principles designed to ensure that privatisation not only contributes to improved productive efficiency but also promotes social and economic development. The three most important common principles are: the governance of privatisation must regulate conflicts between empowered players; it also has to consider the economic sustainability of privatisation in relation to fiscal impacts, business viability and distributional equity; and the state must have the capacity to coordinate privatised SOEs within a developmental state agenda. This last principle is the central argument of this thesis.

#### 4.4.1 Rule-based, State-led and Gradualist Approach

Worldwide historical experience shows that carefully designed and timely privatisation programs, with various institutional supports, are more effective than the strategy of selling as many state assets as quickly as possible. The latter strategy reflects the view that ‘even a flawed privatisation – and the more rushed the privatisation, the more likely was it that it would be flawed – [is] better than a postponed privatisation’ (Stiglitz 2008b, p. 45). A gradualist approach would allow the sale to be carefully
planned, accommodate trial and error, and conciliate conflicts of interests between stakeholders. In any case, gradualism is warranted when privatisation is to be partial, not only because state ownership may have to be maintained in industries of strategic significance in terms of national sovereignty, industrial policy or distributional effects, but also because of the superior performance of firms of mixed ownership (Gupta 2005). This last is often the result of combining the supervision of market mechanisms and the reduction of transaction costs via linkages to the state. Most importantly, a gradualist approach is needed for development of various enabling institutions which are crucial for effective privatisation.

**4.4.2 Enabling Institutions**

Privatisation cannot achieve productive efficiency and other objectives without the development of three sorts of institutions: market institutions; non-state institutions; and state regulatory institutions.

The vast array of *market institutions* ranges from ‘first-order economic principles’ such as protection of property rights, market-based competition, and contract enforcement (Rodrik 2005, p. 973) to formal institutions such as credit and financial markets, labour markets and intermediary institutions. Property rights are often underlined as the most important institution to nurture appropriate incentives for business and innovative activities (Acemoglu, Johnson & Robison 2005; Dixit 2009).

In contemporary Vietnam, there is a popular call for the establishment of private property rights to land in order to stimulate growth. Although land notionally belongs to the nation or population as a whole, it is *de facto* privately owned. The only differences between the current land-use rights system and private ownership of land are that owners have to pay annual land-use tariffs and there is a time-limit (which is extendable) on land-use rights on production sites. Land-use rights can be mortgaged or used as collateral. While this system is beneficial for industrial purposes, current land-use rights under this system are secure and tradable and therefore do not affect privatisation. What should be of greater concern is the violation of property rights that occurs both in the public service (i.e. corruption or nepotism) and private ownership (i.e. abuse of corporate assets at the expense of minority shareholders’ interests). Thus,
securing property rights through anti-corruption legislation and procedures and preventing abuses in the public and private sectors is the only way to achieve ‘sound money’ and equity in both the distribution of business opportunities and income equality without requiring a trade-off between the two (Rodrik 2005).

The introduction of market-based competition is another central condition for the success of privatisation (Vickers & Yarrow 1991; Parker & Kirkpatrick 2005). This depends not only on whether there is cooperation or collusion between the firms in a market but also on the scope and scale of private sector development (and, hence, the likelihood of competition for market entry, among other things), as well as state regulations addressing competition. Currently, Vietnamese courts do not reliably enforce contracts, so enforcement depends on the general practice of the rule of law and social conventions. Capital markets need to be mature (for equities to be tradable), well-capitalised and subject to transparency and to prudential and supervisory regulations. Labour markets must be competitive (workers compete on the basis of merit), extensive and diverse and there must be provision for on-the-job training (learning by doing), so that skilled and experienced workers and managers are available, able to enhance their skills and replaceable if they move on. No less important to privatisation are professional service firms in areas such as auditing, managerial and legal consulting, insurance and communications, as they help to evaluate assets, minimise transaction costs, and manage risks on behalf of investors. Sufficiently large numbers of such firms are necessary to ensure competition among them.

Non-state institutions are formal and informal rules and conditions created by players other than the state. While the development of a solid basis of capital and labour markets and managerial capacities is necessary for successful privatisation, so too is the building of non-state institutions, which comprise the conventional codes of business conduct, especially in relation to ethics, transparency and protection of minority investors. The growth of self-regulation involving adherence to non-state formal and informal institutions must complement the state’s formal institutions (Braithwaite 2008). Business, professional and consumer protection associations, as
well as trade unions, are indispensable both to regulate their members’ behaviour and to reconcile the interests of stakeholders.

*State regulatory institutions* need to be enhanced at the same time as state ownership declines and the role of the state is transformed to ‘steering rather than rowing’ (Lavi-Faur 2005). As Vickers and Yarrow (1991) suggest, ‘what matters is how the combination of ownership and regulation under private ownership compares to ownership and (implicitly or explicitly) regulation in the public sector’ (p. 116). In other words, privatisation involves shifting ‘a public firm with imperfect corporate incentives’ to ‘a private firm with imperfect regulation [to protect public interests]’ (King & Pitchford 1998, p. 324). The regulatory agencies that are established should work independently of enterprises and even of ministries, since their role is to protect public interests (the interests of enterprises in general and of consumers) and not the sectional interests of either privatised businesses or the bureaucracy. As long as the regulatory system is smart and transparent, additional regulation is not antithetical to the administrative simplification efforts that have been widely undertaken in Vietnam to improve the investment climate. Hard-budget constraints and transparency should be priorities throughout the SOE reform and privatisation process. It is only by regulation, financial discipline and transparency that public interests can be secured.

In summary, privatisation should be matched with the implementation of an overall program to reform the institutional environment. Transition economies in the CEE and former CIS rushed to undertake privatisation without preparing enabling rules and conditions. Since the financial markets and domestic private investment only existed in embryonic form, mass privatisation and free distribution of vouchers to the population only resulted in the accumulation of illegitimate wealth among a small number of privateers and foreign investors. Due to limited state regulatory capacity, national industrial production was not coordinated and consumer interests were unprotected. Similar outcomes were observed in privatisations in developing countries in Latin America, South Asia and sub-Saharan Africa. In contrast, privatisation in the East Asian developmental states and other advanced economies has largely been effective because the foundational institutions were already well developed and the privatisation process
was carefully planned, with specific, limited objectives and reckoning with all stakeholders.

4.4.3 Uneven Power of Stakeholders

Many social groups have a stake in the privatisation of SOEs. There can be no presumption that power to affect the outcomes of privatisation will be distributed evenly between, for example, the SOEs’ managers and bureaucrats, private entrepreneurs, foreign investors, elite-donors, employees, consumers, public media, and value chain partners such as suppliers and wholesalers. Moreover, the stakeholders and the distribution of power between them differ depending on the industry and the level of government in which an SOE is situated. The issue of power includes not only power to determine the terms of a privatisation but the extent to which a party to an agreement can challenge enforcement of it (Painter 2003). Given the spread and unevenness of power to influence privatisation, there is a risk of arbitrary and inconsistent outcomes. This points to the need to establish a single agency to govern state ownership in all enterprises and all cases of partial or complete divestment. The agency would need to be alert to many issues such as the different reasons for state ownership and the different roles of the specific SOEs established within an economy.

There is an important question about possible contradictions between the power of some stakeholders and their commitment to the reform of an SOE. In the case of the managers of an enterprise, for example, too much power risks the suppression of other stakeholders’ interests; yet too tight a limit on the extent of their power may damage the incentive structure necessary to recruit superior management. The enforceability of privatisation policies and agreements would be consolidated by the inclusion, alongside the existing supervisory channels, of a more independent Government Inspectorate, State Audit of Vietnam, as well as obligations to submit annual reports to and attend hearings before the National Assembly and the participation of the public media. All of these institutions can be expected to appeal to private investors. As for elite-donors, while they may continue to be significant sources of funds and consultation, a domestic policy-making process that was both more sensitive to ‘the empirics’ and more open to discussion is likely to be welcomed. There is also a need to build sufficiently protective institutions for workers and consumers – who are
concerned, respectively, with issues of remuneration and working conditions and the stable supply and prices of utilities, for example – against the likelihood (certainty?) that they will be vulnerable in the face of the newly empowered owners of the privatised firms. The impact of the power of this group will reverberate throughout all supply chains in which the privatised enterprises are located.

The point of this last section is that the interests of all of the various stakeholders in any privatisation are highly unlikely to be protected simultaneously. Thus, to ensure that all privatisations contribute to broad economic and social development, privatisation requires tough-minded, well-designed and enforceable state supervision and regulation. It also requires discussion of privatisations, case by case, especially of how and to what extent each privatisation may contribute to the national goal. In so far as any particular privatisation can have contradictory impacts on economic and social development, the contradictions need to be made transparent and handled in a public context.

4.4.4 Ensuring the Objectives of Economic and Social Development

Each privatisation plan should be carefully evaluated as a specific case (King & Pitchford 1998; Cramer 1999). For those industries that are more appropriately owned by the private sector (Vickers & Yarrow 1988; Quiggin 1999), the SOEs’ assets or equities may be fully or partially transferred to the private owners. In these cases, the major concerns of the state would be: (i) the viability of the business after privatisation/equitisation and, preferably, its capacity for long-run growth; (ii) the ability of the business to create linkages with other established and nascent industries, so maximising domestication of the particular activity and localisation of the supply chains; (iii) the fiscal effects of the privatisation – that is, the contribution to state revenue on the basis of a sound valuation of the assets or equities; and (iv) the distributional or social equity implications of the privatisation.

The enhancement of business performance after privatisation in turn may require greater state commitment to the technical training of the workforce and to higher education. The state may also be required to assist in improving the management of privatised enterprises (Cuervo & Villalonga 2000; Brouthers, Gelderman & Aren
Improvement may be best assured by choosing purchasers with track records of superior management skills and management expertise in the industry concerned. Purchase by an existing business group is unlikely to regenerate management, as has been evident in many BGs and CGs in Vietnam in recent years.

If the combination of a private component to the management of the business and financial market pressure results in improved performance of the enterprise, the prospects for sustained growth would guarantee long-run fiscal benefits for the state in terms of both dividends and tax receipts. Vietnam Airlines is a good example of this strategy, in which the short-term revenues from the public offering of shares were reinvested back into the business so the SOE could purchase new planes to make it more financially competitive. Of course, when partially privatised companies issue more shares as a main source of capitalisation, the state’s share of equity will inevitably shrink if it declines to buy any of the new shares.

The effect of privatisation on the state’s revenue (and, thus, the finances available for economic and social development) depends in the first place on the valuation of the assets being sold. Yet establishing a sound valuation can be difficult; even in developed economies, undervaluation of assets often occurs. According to Quiggin (1995), evidence of this can be seen where the state’s proceeds are equal to just 50% of the projected earnings by the state-owned equities. In Vietnam, the most valued assets of unprofitable SOEs are often the land-use rights targeted by private investors, mainly for real-estate development. However, the value of land rights is not easy to determine, while official pricing by the state usually lags behind the market. Asset valuation is an important site of corruption. Particularly in the case of land rights, undervaluation can only be tackled through open auctions with full disclosure of information.

\[101\] Vietnam Airlines has been privatised under a plan to reduce state ownership by 75%; 1.5% was for the employees and trade union, 3.5% was publicly offered (most of which was purchased by two domestic banks), and 20% was for institutional investors (nearly 8.8% was sold to ANA Holdings Inc. of Japan). Importantly, the share premium that the state can take over would be reinvested, so that the firm will be able to use further financial leverage to expand its fleet. It is planned to reduce the state’s ownership to a minimum of 65% in the second phase of privatisation (See: Anh Minh 2016, ‘Vietnam Airlines sam dan sieu may bay [Vietnam Airlines purchases modern fleet]’, 29 November, viewed 17 March 2017, http://www.baodautu.vn).
Where privatisation opens up the possibility of the sale of assets, or any change in the nature of the enterprise concerned, stakeholders in the SOE may well be displaced. The well-being of and opportunities available to displaced workers in particular may be significantly reduced. To ensure that this group of people is not overlooked in national economic and social development, it may be necessary to expand compensation arrangements, with the participation of the affected group (through representatives such as delegates to trade unions), to cover financial compensation, retraining, establishment of employment centres, and provision of training vouchers to retrenched workers, among other initiatives. New institutions might be required to ensure that the new ownership of an enterprise provides compensation and that, prior to equitisatation, the obligations are made known to prospective buyers. Compensation may also need to be extended to people involved in other parts of the supply chain in which the privatised enterprise has been located.

4.4.5 Ensuring Capacity for the Coordination of Industrialisation

As discussed above, the governance of privatisation depends on what the state most wants to gain from it. Assuming that a principal goal is national social and economic development, a capacity to coordinate industrial investments is vital. A major contributor to the achievement of social and economic development objectives is the capacity of the state to coordinate investments. This is all the more necessary since state ownership of jointly owned enterprises (and thus the power of the state to instruct management) will be gradually diluted over time. The capacity for coordination can be preserved through the use of golden shares, retention of state ownership of a majority of shares, or restricting the sales of shares to domestic investors or investors from a certain range of countries with limits on possible transfers to third parties.

In order to preserve state capacity to govern investments in industry development, any privatisation of utilities providers and other key industries must ensure: consistency of supply; price stability; commitment to the creation of opportunities for using environment-friendly but potentially less profitable technologies (such as the technology that enables households to sell their surplus solar energy to the distributors); and, especially, expansion of utilities networks to rural and remote areas where the population may be less able to afford them (in fulfillment of ‘community
service obligations’). Any market segmentation needs to be purposefully designed in a way that guarantees private investors’ profitability, if possible without state subsidisation. In the absence of carefully designed segmentation, newly privatised provision of either infrastructure or utilities may face ‘operational spillovers’, requiring the managerial and technical articulation of privatised firms in the same logistic or productive value chain. King and Pitchford (1998, pp. 321-322) use the example of how rescheduling of flights in one airport impacts on another, and argue that where there is little need for competition, the integrated operation of two (or more) such facilities could be desirable.

The list above of conditions necessary to maintain governance of investments in industry development when privatisation occurs is long. It is so long, and the conditions so onerous, that one might conclude that privatisations will only rarely be consistent with national social and economic development. At the very least the responsibility on the shoulders of state leaders to support and articulate state governance of the process of privatisation is a heavy one.

Where there is privatisation of significant industrial SOEs that had previously given effect to national industrial policy but which are not natural monopolies, the structure of regulation may incorporate competition but under the umbrella of state coordination. Since the SOEs have an ‘early-bird’ advantage, favourable state assistance to new entrants, granted conditionally and non-discriminately between firms of different ownership (foreign- or domestically-owned), may be necessary to create ‘regulatory competition’. The state may divest equity before the original monopoly power of the SOE has been effectively governed by the competition of smaller rivals and undermined by the removal of special privileges; but in the meantime, the process of privatisation must include control of residual monopoly power. In other words, the state must simultaneously ‘crowd in’ the private investment required to form a sustainable and competitive incubation centre or industrial cluster, govern the transitions involved in privatisation, and coordinate the development of complexes of industries, in some cases entirely new industries, including the creation of measures to thwart monopoly positions along supply chains.
4.5 Summary and Conclusions
The mainstream or neoliberal view in economics emphasises (i) exposing enterprises to market forces to ensure productive efficiency and (ii) the superiority of private ownership. But the case for privatisation on these grounds is shaky and driven by ideological bias or conflict among many stakeholders in SOEs. Fundamentally, privatisation is politically constructed; only proper governance of the process can ensure that broad economic and social objectives are achieved. Appropriate governance is beyond the capacity of the finance market and separate corporate managements, and must inevitably involve politics and the state.

As discussed in the previous chapter, Vietnamese privatisation has been implemented in the context of a policy vacillation between the developmental state and neoliberalism. Due in particular to recent cases of abuse and corruption in the SOEs and public investment, popular resentment of the economic role of the state has pushed the privatisation agenda further towards neoliberalism and has encouraged a wholesale rather than case-by-case approach. Moreover, given the prominence of local and foreign neoliberals, the SOEs are viewed as market distortions, and bureaucrats and the public are exhorted to limit the scope of state ownership.

Nevertheless, it is argued that the market is but one institution among many, and that its efficiency depends on a vast array of other institutions created by the state, embedded in the society, and interacting with businesses. Accordingly, to improve the productive efficiency of SOE activities, analysts who are sympathetic to the notion of a developmental state argue that privatisation policy be implemented only as part of a reform of the institutional framework and the development of institutions to support the market – privatisation alone is not a panacea. Underdeveloped institutions and ‘market failures’ or ‘distortions’ are all prevalent in developing economies. Yet ‘market failures’ and ‘market distortions’ can be perceived as the products of deficient institutional development; Vietnamese examples of this include the low level of management principles in comparison with those in more developed countries, and rules for the protection of minority shareholders that are badly designed and barely known.
It should be noted that there are always huge problems in assessing the impact of privatisation on efficiency of production, not only because the variables are heterogeneous and difficult to measure but also because the SOEs deserve to be assessed according to the premises on which they were established, i.e., to tackle social and economic development where the private sector could not be expected to do so. Focusing on financial performance rather than productive efficiency (because that is so hard to measure) may distract attention from policies for broad social and economic development and social equity – the wider impacts of privatisation. The interests of some stakeholders in enterprises are difficult to reconcile with the interests of shareholders in maximum returns/maximum shareholder value, and there are stakeholders with different interests in the wider society beyond the walls of the enterprises. The drive for financial performance at the level of the individual enterprise does not necessarily benefit these other stakeholders; that is to say, it does not reliably work – directly or indirectly – to meet the objectives of broad national economic and social development. Thus, at the very least, the shareholder approach should be replaced by a stakeholder approach to privatisation.

State capacity should be the foremost consideration among the Vietnamese governing elites as they confront the challenge of enhancing the nation’s capabilities for sustained development. For example, while there may not be a middle-income trap, the present growth slowdown can only be tackled by improving the dynamic efficiency of indigenous businesses. That is more challenging than continuing to focus on necessary but not sufficient static efficiency, as recommended by the World Bank, as it calls for coordinated investments and innovation. The respectable long-term growth of developmental states in East Asia demonstrates that the coordinating role of the state is indispensable to the achievement of industrialisation and equality.

Overall, the analysis presented in this dissertation leads to the following conclusions and recommendations. The governance of Vietnamese privatisation should be rule-based and state-led. It must avoid ideology-led privatisation that tends to privilege particular private interests of the kind that has characterised transition economies in the CEE and former CIS. The governance of privatisation requires the development of enabling institutions, including market institutions, other formal and informal non-state
institutions, and state regulatory institutions, in order for the process to be based on appropriate valuation, to increase productive efficiency, and to protect public and consumer interests. As there are different stakeholders with different incentives, bargaining powers and interests that have, in practice, significantly hindered the implementation of privatisation policy in Vietnam, privatisation must be accompanied by: the creation of means of conflict reconciliation and supervisory channels so that transparency and accountability are improved; the hardening of budget-constraints; the representation of workers’ and consumers’ interests; and investment coordination across the economy. On a case-by-case basis, privatisation should be designed to ensure transparency in relation to its targets – be they state revenue, greater business viability, redistribution of employment and opportunities for training, and so on. Contradictions between such targets must somehow be confronted in a public manner.

Most importantly, however, it must be recognised that not all enterprises need to be privatised; there are valid arguments for keeping firms in industries that are basic to national sovereignty, utilities provision and industrial policy under state ownership. Often, partial privatisation may be more appropriate than complete privatisation. Here especially, the design of the process of privatisation presents complex requirements for institutional development.
Conclusion

This dissertation inquired into the governance of privatisation (equitisation) in Vietnam from an institutionalist perspective. It examined the political economy of privatisation policy, in terms of both theory and practice, to answer the research question: What constitutes and influences the discourse of privatisation policy and the process of its implementation? The conclusion of the dissertation is that privatisation needs to be governed in a developmental state approach to maximise its contribution to broad national economic and social development objectives – an industrialised economy and a ‘civilised and equitable’ society.

Summary of Findings

Chapter 1 explained that privatisation began as part of the resurgence of neoliberalism, pioneered by Thatcher’s administration in Britain. The implementation of this policy in developed countries thereafter has been relatively successful, albeit with many reservations; in fact, it is ongoing in Anglophone countries like Australia today, with uneven results and amidst vigorous debate. Privatisation was introduced into developing countries by the WB and IMF as a panacea within the framework of the Washington Consensus during the 1990s. This project, it is worth noting, was launched on the promise of productive efficiency improvement rather than evidence, with deliberate neglect of the foundational rationale for SOEs and, most significantly, with disregard for the embryonic nature of institutions in developing countries compared to those in developed economies. Indeed, privatisation was promoted on the basis of the new institutionalist traditions – the neoclassical theory of the firm, property rights theory, agency theory and public choice theory – all the philosophical flagships of the neoliberal agenda. There has been acknowledgement that the benefits of the policy have been exaggerated; at least, that it should only be pursued where an enabling institutional structure is available. Proponents should be wary of political contests to capture the process, of private appropriation of rents, and of privatisation’s effects in hollowing-out the state’s capacities.

These lessons became evident in the practical experience of transition economies in the CEE and the former CIS, the East Asian developmental states and China, which were
analysed in Chapter 2. During the period of transition from central planning to a market economy in the CEE and the former CIS, the SOEs were accused of inefficiency due to ‘soft budget constraints’ and vaguely-defined property rights. The privatisation agenda, however, was overwhelmingly driven by political imperatives. With a biased hostility to the economic role of the state, the shock-therapy, wholesale approach and voucher distribution method were pursued in the absence of institution building. Needless to say, the consequences were worst where privatisation was most rapid, i.e. in Russia, where production levels plummeted, huge assets were sold cheaply in ungoverned auctions to a few oligarchs, and social welfare was disrupted. In contrast, the SOEs had been run effectively with state coordination in the developmental states of Japan, Korea, Taiwan, and Singapore and made a significant contribution to the economic growth of these countries. When these countries also undertook privatisation, they did so with careful planning, using a gradual and partial approach with emphasis on the creation of favourable institutional structures and with public participation in eventual corporate governance. China is a transition economy yet it is adapting to the developmental state philosophy. As a result, its TVE transformation was a clear success, while large SOEs in key sectors were privatised only partially, if at all, and were backed by the state, as were privatised businesses in other sectors, all within the terms of a defined industrial policy.

Chapter 3 analysed the political economy of Vietnamese privatisation. As in similar transition economies, Vietnam set out to transform itself into a market economy according to the many principles of neoliberalism. Yet, the developmental state also had great appeal to its governing elites, as was especially evident in respect of privatisation. The SOE sector has been continuously affirmed as the ‘cornerstone’ of the economy. Only a few privatisations were undertaken as pilot projects during the 1990s. When a certain level of institutional development had been reached, e.g. in the financial markets, privatisation was then rapidly implemented and thousands of SOEs were equitised in 2003-2008. This occurred alongside the consolidation of the large BGs and GCs, mainly through financial leveraging, spontaneous privatisation of member companies, and over-investment in non-core businesses. When the credit crunch and GFC occurred, these keiretsu- and chaebol-like conglomerates were afflicted by irrecoverable debts, corruption and bankruptcies. Hence the party-state’s
policy was reversed to one characterised by withdrawal of the state, restructuring and a further push for privatisation. Nonetheless, economic growth has slowed down until the present, while the SOEs and privatisation have made little progress over the period. With respect to economic growth, Vietnam has achieved more than the transition economies in the CEE and the former CIS but less than the developmental states; the same can be said of privatisation as a consequence (not a cause).

As argued in Chapter 3, this is because the Vietnamese party-state has vacillated between neoliberalism and the idea of the developmental state, with neither of these political economic ideologies being completely or successfully adapted. There has been too much state intervention in the Vietnamese growth experience to claim that it is fully neoliberal. Yet, there has been enough neoliberalism to spoil enthusiasm for the developmental state. Vietnam arguably lacks a sufficiently effective bureaucracy, a national industrial policy, and an effective state-business alliance and the necessary coordination for proper implementation of the policy. The neoliberal-inspired ‘commercial nationalism’ in Vietnam diffuses the rents for individual enrichment at the expense of a collective ‘social mobilisation’ that is needed in developmental states. There is evidence in the implementation of SOE reforms and privatisation of a gap between the design and enforcement of policies caused by contestation between strategic groups. The fragmentation of the governance structure enables bureaucrats, SOE managers and privateers to form alliances with each other, to contest and compromise in different ways for the appropriation of public assets, while official aid donors and domestic elites have also pursued their own stakes, regardless of the policy-implementation gap. While the social impacts in Vietnam have not been as great as they were in transition economies in the CEE and the former CIS, there are concerns about widening income inequality, with the worst-affected groups usually being those who were already the most vulnerable – unskilled and female workers.

Chapter 4 presents the central arguments of the dissertation and proposes a framework of governance of SOE privatisation. Based on the findings of previous chapters, it concludes that, at its heart, privatisation is politically constructed. Essentially, the argument that transfer of ownership will lead to improved efficiency as a result of the superiority of market forces and private ownership, is often driven by ideological bias
derived from neoliberal beliefs rather than empirical evidence. The implementation of the policy is shaped by conflicts of group interests rather than by ‘efficient markets’ – which should not be taken as given, especially in developing countries. Privatisation outcomes, therefore, depend on the availability and quality of market institutions, and of state and non-state regulations – and especially of state regulations. Hence, privatisation needs to be governed by the state to achieve productive efficiency improvement and to secure broad national economic and social development objectives – in Vietnam, an industrialised economy and a ‘civilised and equitable’ society. The neoliberal focus on financially-based efficiency is too narrow to enable adequate assessment of the performance of either SOEs or of privatised SOEs. Enrichment of shareholder values does not necessarily equate to enrichment of the economy and society at large, which requires regard for all stakeholders. As Vietnam seeks to cope with the challenges of sustaining its economic growth, the state’s capacity to coordinate investments, in accordance with the developmental state model, should be prioritised to ensure that privatisation is implemented to achieve industrialisation, innovation and social equity.

**Concluding Remarks**

Overall, this dissertation makes four main contributions to knowledge about privatisation in general and Vietnam in particular.

First, it continues the traditional counter-argument of heterodox economics against the neoliberal taken-for-granted efficiency argument for privatisation. Accordingly, the enhancement of productive efficiency in privatising firms should not be viewed as given. On the contrary, the impact of privatisation on productive efficiency is conditional. It depends on the governance of privatisation, i.e. on the rules for privatisation within the specific institutional structure of the economy. The way the state privatises largely determines what the outcomes will be – a wholesale or gradual approach, with or without careful planning, the stage of development of its enabling institutions, the presence (or absence) of regulations for competition, whether privatisation is driven by state-led national industrial policy or only by concern for private profits, whether the stakeholder or shareholder value approach is taken, and whether or not there are complementary policies to ensure the continuation of social
welfare. This is quite different to the neoliberal belief that if the SOEs are thrown to the winds of market forces, then efficiency improvement must be realised.

Second, since governing privatisation is seen to be imperative for achieving broad national economic and social development objectives, politics is inevitably and conspicuously involved in privatisation. While the neoliberal proposition is that privatisation is a tool to isolate business from politics, the practical examples analysed in this dissertation clearly show that politics is at work throughout the privatisation process, from the policy discourse to implementation. What differentiates heterodox from orthodox economics is the view of what interest the politics serves – the development of political economic institutions that are organised to serve national industrial policy or public interest (for example, the stable supply of utilities), or private corporate interests and rent-seeking endeavours. As illustrated in different examples of privatisation in the CEE and former CIS transition economies and in developmental states in East Asia, the results of these approaches are clearly different.

Third, institutions play an important role in enabling privatisation to improve productive efficiency. Privatisation is just one policy among different projects and agendas. It is not a panacea. Indeed, it must be complemented by key institutions such as regulations for competition, monopolies, financial markets, and corporate governance. A public-private mix in both ownership and management seems to work better than when SOEs are sold off entirely to the private sector.

Fourth, particularly in regard to Vietnam, this dissertation has built on previous academic accounts to analyse in some detail the party-state’s vacillation between neoliberalism and the developmental state philosophy. In my view, sustainable economic and social development can only be achieved by adapting to the developmental state model in the pursuit of industrialisation and equity. Accordingly, the party-state should improve the effectiveness of bureaucracy (in relation to detailed knowledge of the diversity of industries, training, self-confidence and status), enhance the enforceability of policies with effective supervision and performance-based assessment, focus on state coordination of national industrial policy, and harness interest groups to achieve industrialisation goals.
Future Research

In order to supplement this research on the political economic dimensions of the Vietnamese privatisation project, at a time when Vietnam is facing the challenge of sustaining economic growth, future research could usefully pursue several issues, as outlined below.

First, there should be continued research into the political economy of state and market governance of the economy to enhance future economic growth. Given the policy vacillation that has been identified, current governance seems to lean more towards the popular appeal of neoliberal tenets, despite acknowledgement by the governing elites of the possible capture of the process of privatisation by private interests. The future trajectory of vacillation will influence the privatisation process, and is thus a worthwhile research topic.

Second, the institutional structure required in specific industries should be analysed. Since this dissertation is concerned with the overall political economy of the privatisation process, there has been little room to examine particular institutions. To date, there have been few inquiries into privatisation by industry – perhaps not surprisingly, since the scope and scale of such work would be large. In oil exploration, for example, there are joint ventures with foreign enterprises; in dairy production, there has been a solid basis of competition between the privatised SOEs and private companies; in power generation, there have been many private entrants; in the grid-management and retailing, however, privatisation is only now being planned. Global trade agreements, under the umbrella of the World Trade Organisation (WTO), have regulated the presence of foreign investors in a number of service-provision sectors, such as banking and securities. Privatisation on a case-by-case basis in these industries needs detailed investigation.

Third, there should be more research on the social impacts of Vietnamese privatisation. For example, how are the various groups of SOE employees affected by privatisation?
Appendices

Appendix 1: Annual GDP Growth Rate and Consumer Price Index (CPI y/o/y)

Source: General Statistics Office

Appendix 2A: Comparable Total Export-Import Values by Ownership (in US$ Billion)

<table>
<thead>
<tr>
<th>Year</th>
<th>Total value</th>
<th>Exports</th>
<th>%</th>
<th>Imports</th>
<th>%</th>
<th>Exports</th>
<th>%</th>
<th>Imports</th>
<th>%</th>
</tr>
</thead>
<tbody>
<tr>
<td>2010</td>
<td>71.63</td>
<td>32.80</td>
<td>45.8%</td>
<td>47.53</td>
<td>56.6%</td>
<td>50.04</td>
<td>28.4%</td>
<td>71.06</td>
<td>41.0%</td>
</tr>
<tr>
<td>2016</td>
<td>175.94</td>
<td>50.04</td>
<td>28.4%</td>
<td>125.90</td>
<td>71.6%</td>
<td>102.20</td>
<td>59.0%</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Source: General Statistics Office

Appendix 2B: Comparable Exported and Imported Products in 2010 and 2016 (US$)

<table>
<thead>
<tr>
<th>Order</th>
<th>Major exports</th>
<th>2010</th>
<th>2016 (est.)</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Major exports</td>
<td>$ bil.</td>
<td>$ bil.</td>
</tr>
<tr>
<td>1</td>
<td>Garments &amp; textiles</td>
<td>11.17</td>
<td>13.49</td>
</tr>
<tr>
<td></td>
<td>Machinery, tools &amp; equipment</td>
<td>13.49</td>
<td>28.08</td>
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</table>

Source: General Statistics Office
<table>
<thead>
<tr>
<th></th>
<th>Category</th>
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Source: General Statistics Office


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