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Vietnamese State Owned Enterprises:
‘Real Property’, Commercial Performance
and Political Economy

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VIETNAMESE STATE OWNED ENTERPRISES:
‘REAL PROPERTY’, COMMERCIAL PERFORMANCE
AND POLITICAL ECONOMY

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Abstract/Summary: The extinction in 1989-90 of residual elements of central planning from the transitional model that had arisen in 1980-81 saw the emergence of a market economy in Vietnam, yet without clearly operating factor markets. During the 1990s, rapid growth coincided with official data showing that the share of total output produced by the state sector was growing. Given that state ownership usually implies inefficiency and waste, this outcome flies in the face of most international development experience. This paper attempts to investigate this apparent paradox, by examining the nature of property-rights in State Owned Enterprises (SOEs). What, at root, was the reality of what was reported as ‘state ownership’?

One way of understanding this unusually good performance is to argue that, despite nominal state ownership, many SOEs had been effectively ‘privatised’ to a significant degree. Thus, capital and land would be seen as in practice controlled by ‘owners’ who treated them as well-priced productive assets. Another and quite different argument would stress the highly favourable levels of resources available to SOEs. These arguments can be linked by viewing the 1990s in terms of a process of ‘primary accumulation’, where interests associated with SOEs are anticipating an extension of private economic power, and thus combining a use of state power to ensure favourable resourcing with an underlying maintenance of particularist control. Assessing the relative importance of these and other ideas requires, amongst other things, micro-level investigation as well as an examination of policy and state practice.

The research reported in the first part of this paper poses, and attempts to answer, some of the classic property-rights questions through a small sample of SOEs. This, through interviews using the indigenous categories used by participants, addresses questions of control and revenue

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2 A consolidated list of acronyms can be found at the end of this paper, prior to the Reference section.
distribution, technological change, marketing strategies and investments. Interviewees report, not only on their own SOEs, but also on what is seen as ‘normal’. The sample suggests strongly that Vietnamese SOEs are best viewed as ‘Virtual Share Companies’ (VSCs), with a wide range of ‘Virtual Share Holders’ (VSHs). This includes both a classic ‘bureaucratic’ state ownership as well as the possibility of extensive de facto privatisation. Also, we can conceptualise situations where conflicts and confusion amongst ‘virtual shareholders’ are such as to suggest an anarchy, so such SOEs were in effect ‘ownerless’ (a not uncommon Vietnamese complaint). More normally, however, the structure of ownership rights allocated amongst the VSHs reflected varying balances between a normal business logic and administrative considerations. Finally, the VSC approach permits discussion of the dynamics of the situation, with changes in the nature and structure of VSHs linkable into a characterisation of the changing political economy, and the causes of it. This then raises the important issue of policy.

The second part of the paper extends the analysis with a longer-term and dynamic perspective, putting the first into its historical setting. It argues that, after the 1980s transition from plan to market, when economic rights tended to shift down towards the SOE, albeit far from completely, ownership then moved during the 1990s back up towards interests sited above the SOE. There was, to a certain extent, a ‘re-statisation’ of SOEs compared with the dominant trends of the 1980s. This corresponded to the major macro-economic shift, which was a substantial increase through the early years of the decade in state resources (taxes, Overseas Development Assistance [ODA], Foreign Direct Investment [FDI], bank credit). By the end of the decade, these interests above the SOE were structurally split into two – state organs and the various General Companies (GCs) and Groups. Thus whilst commercial interests tended to push for a further privatisation, this had had limits placed upon it. Viewed somewhat abstractly, this has implications for the nature of ‘state-business’ relations, and how they were changing. The paper concludes with some tentative characterisations of the political economy behind Vietnam’s emergent interventionist developmentalism.

INTRODUCTION

I have argued elsewhere that the shift from plan to market in Vietnam had important endogenous elements, and was driven by commercialisation processes within SOEs. Illegal SOE involvement in markets can indeed be seen as soon as the early 1960s. It was then legalised in January 1981 in the wake of the economic crisis of the late 1970s, and helped form an important element of the politics of the 1986 VIth Party Congress that introduced ‘doi moi’, or renovation. Although policy was clearly headed towards removal of remaining plan indicators as early as 1987, it was loss of the Soviet commodity aid program in 1989-90 that precipitated abandonment of administrative resource allocation to SOEs and the associated emergence of a market economy. Through the 1990s, the Vietnamese economy was noticeably ‘post-transitional’, with factor markets tending to emerge – clearly, in the case of land and labour, not so clearly in the case of capital.³ In 1989 40 percent of Vietnamese total output was produced by

³ de Vylder and Fforde (1996) analyses the transition of the 1980s; Fforde and Paine (1987) the economy of north Vietnam prior to reunification; and Fforde (1993) discusses the role of the ‘state business interest’ in the VIth Party Congress. See Vasavakul (1996) for an informative and perhaps seminal analysis of the emergence of order in economic management in the second half of the 1990s as part of a fundamental reformulation of state structures to cope with the realities of the market economy, of which SOEs were a central element. I place this perspective in a wider context later in the paper.
the state sector (see de Vylder and Fforde, 1996: 108).  

During the 1990s Vietnamese GDP averaged 8-9 percent annual growth, a respectable level granted that a market economy had only emerged in 1989-90, and also the effects of the 1997 Asian Financial Crisis. Yet, by 1999 the share of GDP produced by the state sector (i.e., SOEs) had risen to over 50 percent. This is, of course, deeply puzzling given the general failure of SOE-led growth strategies throughout the developing world (see, for example, World Bank, 1995). Whilst there are rare examples of rapid market economy growth combined with extensive state participation in production, such as France after World War II, these have usually depended upon certain somewhat unusual political economy configurations, usually ones where a highly disciplined ‘developmental’ cadre of officials works closely with, and imposes restraint upon, business. Yet in Vietnam this was lacking. Indeed, 1996-97 saw widespread bankruptcies amongst SOEs and growing evidence for extensive corruption and extremely weak constraints upon bank lending. This was the immediate background to the 1997 Asian crisis, from which Vietnam was relatively insulated, in part because of the relative lack of integration into world financial markets. Through 1998-2000, however, the looming balance of payments crisis was avoided, as was IMF conditionality, and growth remained positive, although far slower than in the earlier years of the decade. Yet the puzzle of the pre 1997 performance remains. Research needs to seek a means to identify institutions potentially capable of enhancing economic efficiency, perhaps comparable to the notion of ‘competitive clientelism’ developed to explain Thailand’s high growth despite endemic corruption. Otherwise, Vietnam’s economic performance through the 1990s risks being viewed as anomalous, and/or sui generis.

I have spent many years researching Vietnam in various ways, both as academic and consultant, and have made many field visits to SOEs. Working in the vernacular, and familiar with formal institutions, this has resulted in a working hypothesis that starts from stressing the divorce between form and reality, and finishes with a sense that it is far more useful to start with the view that any given

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4 This refers to Gross Social Product, in the old Soviet statistical methodology.
5 Vietnamese official data is not entirely reliable, especially when political considerations are important. Official data for the period since 1997 and the Asian Crisis shows GDP growth of 4.0 percent in 1998 and 1999, and trend growth of 8.6 percent 1992-97 (World Bank: Macroeconomic Update, p.1).
6 This figure is derived from General Statistical Office (1999: 15). This gives a ‘State’ share of GDP of 40.2 percent in 1995 and 39.5 percent in 1999 (preliminary basis). However, granted that almost all disbursed foreign investment was in the form of joint ventures with SOEs, it is reasonable to add back in to this the 6.3 percent (1995) and 11.8 percent (1999) derived from ‘enterprises with foreign capital’, giving a total of 46.5 percent in 1995 and 51.3 percent in 1999.
7 Whilst this is often referred to as a post World War II North East Asian model (e.g. Booth, 1999, Macintyre, 1994), many others from a wide range of perspectives, for example, Zysman (1983), Cohen and Shenton (1996) and Shonfield (1965), have shown how associated cultural issues, such as learning processes and notions of trusteeship, have a far longer history.
8 Doner and Ramsay (1997) deploy the notion of ‘competitive clientelism’ to help solve this puzzle. There is no equivalent in the Vietnam literature.
9 This issue has a long history. Fforde (1989) examined the collectivised northern agriculture in the period 1974-79 in these same terms.
Vietnamese SOE is, in essence, a private or quasi-private business.\textsuperscript{10} Granted, however, the importance Party doctrine attached to the state sector as a foundation of socialism in Vietnam, this usually posed obvious and thorny problems of data generation. Indeed, one of the best early studies of the nature of state property in Vietnam’s market economy argued, somewhat polemically, that what was occurring was simply theft and the creation of capitalism (Greenfield, 1993).\textsuperscript{11}

The work presented here offers an analysis of Vietnamese SOEs in terms of ‘real property rights’. The data is qualitative and based upon the views of ‘insiders’, and reflects what they see as ‘normal’.\textsuperscript{12} Clearly, though, SOEs privatised in this way are unlikely to be ‘normal’ in many areas. Privatisation of rights does not necessarily imply a privatisation of liabilities to taxes and bank loans.

It is worth starting with two quotes from a well-informed SOE manager:

You have to understand that most SOEs make losses. Why? First, their Managers are far inferior to those in other non-state businesses. Second, their salaries are far too low, so they work badly and are often corrupt. Third, state policies heavily constrain SOE managers – for example decree 59-CP \textsuperscript{13} involving finance and various instructions on wages from the Ministry of Labour. They have to work around or ignore these if they are to compete. Fourth, regarding personnel policy, it is almost impossible for a manager to recruit or sack anybody himself, and must ask permission of the party committee in the SOE and its superior level, who can veto his decisions, even regarding payment of bonuses or disciplinary action. The union branch will also have veto powers. A good businessman who is not a Party member will find it almost impossible to join the leadership of the SOE, whilst poor managers who are Party members will often have senior posts. Fifth, an honest manager who finds himself making a loss can face civil penalty and a requirement for compensatory payments to the state. If he makes a profit with the SOE, however, his rewards will not be great. These five issues are not the end of it, but they are enough to explain the situation.

There are three reasons why equitisation has gone slowly. First, the procedures are too complicated; second, people in SOEs don’t really understand what it is all about, or, if they do, are very worried about the likely consequences; and third, the SOE and state organs cannot

\textsuperscript{10} By ‘private’ here I suggest that they respond to the interests of particular groups who are best not understood as being part of some wider corporate body some of whose authority derives from a state sovereignty. By ‘privatisation’ here I do not mean a complete process, but one of degree. Thus in this sense a ‘privatised’ body may also still be subject to the authority of bodies other than the ‘private’ ones just defined negatively.

\textsuperscript{11} Greenfield argues further that the theft was consciously state-sponsored.

\textsuperscript{12} Fieldwork was carried out through 1999-2000.

\textsuperscript{13} A search in the Official Gazette (\textit{Cong Bao}) did not find this.
agree on how to value the assets … But that is all rather academic. In fact, the best assets have all gone already – you know what happened in Russia where it was just the same - public assets end up in private hands – it’s not a legal process, you know. B1

These quotes point towards two crucial issues: the unreliability of official statistics, for accounts must be expected to hide such processes; and the presence of powerful often hidden forces that make these businesses subject to ‘private’ and local interests.15

TOWARDS AN ANALYTICAL AND EXPOSITIONAL FRAMEWORK

The basic issue – reality is hidden

The Vietnamese SOE of the 1990s was well-described, by an Australian law firm active in the area of joint ventures, as a ‘black box’, whose inner workings were far from clear to the outsider. Lawyers did not find law a good guide to what happened (Phillips Fox, 1993). It was far from usual for the ‘real ownership’ of SOEs to be accessible to outsiders, so that core questions were hard to answer. Who decided upon key commercial matters: what was produced, where, by whom, using which technologies, marketed and sold how, at what prices and through which distributional challenges? How were those people rewarded? Who benefited from the resources generated by the business, over and above market-generated returns to inputs?

It is clear, however, that there had been a substantial process of de facto ‘privatisation’, in that such basic decisions were not typically made by official procedures that would have been expected had SOEs been orthodox state property. It was not possible to see, for example, overt and proceduralised methods for assessing manager performance.

The formal position: policy and legislation

The legislation on SOEs is complex and changed through the 1990s. SOEs were first legally permitted to buy and sell on free markets by decree 25-CP in January 1981. This started a process of legal commercialisation that I have discussed elsewhere and which ended, formally, with the termination of residual elements of central planning in 1989-90. For the 1990s, however, a good starting point is probably the last decree of the late transition period – 217-HDBT (1987).16 The history of which this is part is discussed in greater detail in the second half of this paper.

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14 Each SOE has been given a code name, such as B1.
15 Indicators of manager living standards are not available. Managers in general felt that the SOEs should have more freedom to set salary and wage levels. They were all relatively well off. This meant that they admitted to owning the usual middle class set of assets. No further details are to hand.
16 Fforde (1987) presents an overview of state industry in transition. See also de Vylder and Fforde (1996, passim) for a conceptualisation of an analytical framework that defines transition in terms of the co-existence of plan and market.
Like others before it, this sought a reform, and thus control over the spontaneous liberalisation of a system that still retained strong elements of traditional central planning. It therefore talked of reducing the number of plan indicators, and also of prohibiting an SOE’s superior levels from issuing orders without ensuring that the SOE had also been supplied with the resources to do so. This meant that the SOE had greater freedoms in securing resources on the free market, and also to sell the proceeds. Logically, this enhanced the freedoms of the SOE to shift resources to those activities that it found most profitable, and so supported its ‘own’ autonomy. However, whilst 217-HDBT pointed to a removal of plan targets, these were still in place when the market economy emerged in 1989-90 as Soviet aid was lost, and they forfeited their meaning. Thus the 1990s opened with Vietnamese SOEs highly commercialised, but still subject to external administrative regulation in many ways familiar from central planning, for example in areas such as appointment of management, labour recruitment and asset disposal.

It is important to realise that one outcome of the 1980s commercialisation of SOEs was the existence of so-called ‘own capital’ (von tu co) within them. The interviewees discuss this below. Its legal and actual position changed over time, and contentiously. It was related to the so-called ‘three funds’ system, drawn from Soviet practice, which saw SOEs permitted to pay into certain funds amounts derived from reported good performance in terms of issues such as plan fulfillment and cost reduction. These funds could be used in ways that could benefit the staff and workers of the SOE, and ‘own-capital’ as at times viewed as ‘theirs’.

In the 1990s, it is sufficient for our purposes to look at a limited number of measures. First, measures were passed to establish a relationship between the state and the SOE through binding treatment of state assets. Assets were ‘allocated’ to SOEs for their management and use. Second, attempts were made to permit SOEs to be closed and their assets sold off. Third, a process of

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17 It is worth being careful with language here, as ‘sell’ in these circumstances is best understood to mean ‘dispose of for local benefit’, for money need not have been involved. For a fascinating study of the meaning of money as an underpinning for state sovereignty see Woodruff (1999).
19 The history of SOE legislation from the late 1970s onwards is complex and somewhat erratic. What follows is primarily designed to make coherent for the reader the interviews reported later rather than present a complete exposition.
20 Resolution of the Chairman of the Council of Ministers # 332, On the defence and development of capital in state business, promulgated 23 October 1991 and gazetted 15 November 1991. Note that Vietnamese legal documents have various titles, which can be translated in various ways. Here I have tended to use the term ‘resolution’ to cover a range of different terms.
21 Resolution of the Council of Ministers # 388, Promulgating Regulations on the establishment and dissolution of state businesses, promulgated 20 November 1991 and gazetted 31 December 1991. It is worth noting that the very first SOE reform decree (25-CP in January 1981) had envisaged SOE closures, but this remained a dead letter until the 1990s.
'equitisation' was initiated, with decrees appearing from 1992.\textsuperscript{22} This sought to re-establish SOEs as corporations whose formal owners would take the form of equity-holders. There was very little movement on this until the very late 1990s, and not much even then.

None of these measures led to great clarity. A State Business Law was passed in 1995, but again, and the interviewees confirm this, the formal position remained unclear.\textsuperscript{23}

In addition, during the mid 1990s two sets of structures emerged and were subject to legislation.

General Companies (\textit{Tong Cong ty} - GCs) and Groups (\textit{Tap doan}) drew on and further developed the Enterprise Unions (\textit{Lien hiep Xinhiep}) dating back to the 1970s. A range of GCs was set up in the very early 1990s. Then in 1994-95 legislation sought to reform these, and clarify their organisation. Crucial to this was, first, the absence of any clear stipulation of relations between GCs and their constituent SOEs in terms of rights and duties, and second, the clear right of GCs and Groups to 'move' (\textit{dieu}) capital between their constituent SOEs.\textsuperscript{24}

On the other hand, in 1995 a General Department (\textit{Tong cuc}) was established to manage state assets and capital in SOEs. This was called the General Department for Managing Capital and State Assets in Businesses (here, following interviewees’ practice, called the State Capital Management Department – SCMD). This paralleled other reforms to state finance at the time, including establishment and development of a national Treasury system somewhat earlier (1990) and a nearly simultaneous establishment of the General Development Investment Department.\textsuperscript{25} The latter was part of a shift in the channel of state development capital from the Bank for Investment and Development (a Soviet model) to Finance, encouraged by the World Bank and IMF.

Granted that SOEs were clearly in some sense meant to be state-owned, movements of state capital into and out of them were to be mediated by these two

\textsuperscript{22} Resolution of the Chairman of the Council of Ministers # 202, \textit{On continuing the experiments with shifting a number of State businesses onto a corporate basis}, promulgated 8 June 1992 and gazetted 30 June 1992.

\textsuperscript{23}Promulgated by Order # 39 30 April 1995 and gazetted 31 July 1995.


structures. Yet, as we shall see, and as is also rather obvious from the legislation itself, neither was clear as to what its position vis-à-vis SOEs was. At the same time, neither was clear about the relationship each had with each other.

The politics behind these two sets of structures is discussed in the second part of this paper, after an examination of interviewees’ comments. For now, however, the reader should bear in mind two things. First, SOEs were meant to operate in an environment where various official documents stipulated rights and duties, but these were not clear. Second, that there were organic cleavages within these sets of rights and duties, implying structured sources of conflicts.

Finally, the ‘cap chu quan’ or ‘owning level’ was the last participant in this litany of formal ownership. For a central government SOE that was not a member of a GC, this meant the line Ministry that had originally set it up, and which had had great authority during the period of central planning. For local government SOEs, the corresponding organ was the local authority. For members of GCs, the GC was the ‘owning level’. For some experts, history could be told in terms of the ways in which some of this unit’s powers had been devolved to the SOE (and/or GC), and others shifted to the GCMD and related organs. For a local SOE, this level was likely to be a city or province administration, for by this date very few indeed of the next level down (districts) retained SOEs.

Some general arguments against the existence of clear de facto state ownership as understood by the legislation

Three pieces of evidence point strongly towards the conclusion that state ownership was usually only ‘nominal’. The first is the relative failure of the equitisation program, in the face of opposition and evident veto rights amongst a number of clearly important but usually vaguely specified groups, such as SOE managers, local authority ‘interests’ and others. It was not so much a question of policy, as its lack of implementability. Second, there is the contradiction between the clear value of SOEs as sources of cash flow to various local interests, and their generally weak level of reported profitability. This points to systematic processes of ‘primitive accumulation’: SOEs, in their then economic situation, were deemed valuable to important interest groups, even if they were widely reported as loss-making. Finally, a de facto process of ‘privatisation’, by better pricing of capital assets and business goodwill in apparently less economically inefficient terms, would, if it were occurring, fit with three otherwise strange aspects of Vietnamese economic history.

26 This Vietnamese term is hard to translate neatly. Literally, it means the ‘boss management level’ – i.e., the organ outside the SOE that was its ‘boss’. But ‘chu’, which can mean ‘boss’, also means ‘head’ or ‘chief’. There is no decent English equivalent – perhaps ‘reporting level’ in some situations, but Vietnamese SOEs reported to many.

27 This is quite clear. For a general overview see Amin and Webster (1998) and for an early review Le Dang Doanh (1995). For recent perspectives Thu Thanh (2000) and NHL (2000) show the slow pace. By the end of the decade only 24 SOEs under the Ministry of Industry - a major line Ministry with many SOEs in its portfolio - had been equitised.

28 This is a repeated theme of World Bank and IMF reports for the period, as well as in the quality Vietnamese press, such as the Vietnam Economic Times.
First, during 1989-91 there was an exceptionally rapid output response to liberalisation (see Wood, 1989 and Lipworth et al., 1993). This occurred despite loss of a range of support and protective measures; without any major change to the SOE form; and seemed to reflect the effects upon essentially commercial units of greater market access and an ability to respond effectively to greater competitive pressures and a hardened budget constraint. This argues that Vietnamese SOEs had gone through a process, albeit far from completed, of de facto privatisation during the 1980s. This is discussed further in the second half of the paper.

Second, there is the already-mentioned growth in SOE share of GDP through the 1990s. This was supported by such preferential conditions as: access to FDI; access to land; access to tariff and quantitative protection; and access to bank credits. However, it is hard to accept that these would have been sufficient had SOEs been as statised as their formal constitution envisaged.

Finally, there is the combination of relative macroeconomic stability with evidence for ‘Zysman effects’ at important moments. An uncompleted process of de facto privatisation, if it was a central aspect of Vietnamese SOEs as they were in the late 1990s, is one that would have significantly enhanced their underlying economic efficiency. In that it was incomplete, it would also have entailed preservation of various economic inefficiencies, which offered, in their reform, potential for improved performance.

However, it remains true that very little rigorous and published research had been done by Vietnamese to access the ‘real ownership’ of SOEs. This contrasts with the situation in the 1980s. An important factor here was probably the continuing fiction that they were ‘state property’, with a ‘guiding role’ in the national economy. Given the Russian experience with over-rapid formal privatisation and the emergence of high concentrations of political and economic power based upon the new ownership forms, how these processes might have been taking place in Vietnam was of great importance. On economic efficiency grounds, greater privatisation was necessary; for political stability and a healthier national development, who the ‘New Men’ were who were taking powerful positions vis-à-vis these businesses was also of great importance. Economics, or rather moral philosophy, remained central issues.

PRESENTATIONAL TERMINOLOGY

What is reported here is thus a piece of investigative research designed to ‘open

29 Zysman (1983) provides a good exposition of the heuristic impact of institutional form, especially the results of the use of bank credit once it is realised that this particular solution to company finance (rather than stock markets) has important implications for who and what bears commercial risk. By ‘Zysman effects’ I here mean the ‘learning from experience’ that may result from such issues as the political consequences of government risk-bearing, for example methods of ensuring that ‘policy loans’ result in more rather than less dollar earnings.
30 There are various informal pointers to not inconsiderable efforts, sponsored by the Party, to look at related issues such as capital sources, but these remain unpublished.
the black box’ and establish, for a small number of representative SOEs, just what their ‘real ownership’ was. The interviews were carried out by insiders, with insiders.31 Various measures have been taken to ensure that information sources have been protected as far as possible from any adverse consequences. All references are simply sourced to the SOE, which is given a code word. It should be clear to the reader from the quotations already made that what was seen as ‘normal’ was often both illegal and highly prejudicial to the official interests of the state.

What is meant by ‘real ownership’?

As discussed above, and in the second part of this paper, there are of course different ways of answering this question. Above all, it is important to actually ask it, rather than assume, for example, that ‘SOEs’ are decision-making units in control of resources and responding to incentives, for example as though they were profit-maximising agents, or, alternatively, that they were subject to some set of Weberian bureaux. At root, we took an eclectic approach, posing various questions of managers, and then reporting and interpreting the responses. The sample was chosen to reflect this.

The second half of this paper will discuss academic literature relating to this topic in the context of SOE policy. However, three important issues brought up in the economics literature are immediately relevant. The most important, obvious enough, is the distinction between ownership and control (Marris, 1964). This pushes the analyst to at the least ask fundamental questions. The state may ‘own’ SOEs, but who controls them? Then there is the shift from viewing returns to ‘ownership’ in terms of a return to capital to viewing it as a residual claim upon incomes generated (e.g. Milgrom and Roberts, 1992). This can be related to the issue of risk bearing, as a fundamental element of commercial logic as well as of the logic of the economics of institutions. The true owners are not those who get paid, but those who bear risk, and so face profits or losses, depending upon the play of fortune. Here ‘ownership’ ultimately derives not from control, but from risk bearing.

Finally, ‘economic anthropology’, often drawing upon institutionalist and Marxian insights, examines elements of power through cultural and linguistic referents, as well as through examination of ‘checks’ and other elements of ‘the game’ (for example, see Fairclough [1992] for an exposition of discourse analysis). This gives some grounds for confidence that ‘native knowledge’ will provide insight into what is normal, as a corrective to imposed assumptions, perhaps that law, as written, reflects practice. And here ‘ownership’ is what the locals think it is.

I will articulate the following discussion from a perspective that views SOEs as potentially and usually ‘virtual share companies’ (VSCs), and much of the presentation will work with this terminology. This permits us to discuss issues in a relatively clear manner. It also encompasses the three issues just discussed.

31 The interview work was done through 1998-99.
I will therefore discuss the SOEs of the sample as though there were a number of agents, the ‘virtual share holders’ (VSHs), with varying rights in various areas. The nature of these agents can be discussed, as can their relationships with each other, with the SOE and with others. Using this language, the constellation of rights and VSHs, the very political economy of the business, can then be discussed in a relatively normal and so accessible vocabulary.  

REPORTS FROM THE SAMPLE

Introduction – overview

The sample covers a range of units. The largest (J1) has 1,000 employees and a turnover over 500 billion (bn) dong, the smallest (J2) with 125 employees had a turnover of only 20 bn dong. Some are involved in manufacturing, others in various forms of services, exports and contract work, including one (R1) that appears little more than a front for managing kickbacks from construction contracts. Various common themes emerge. These can be seen from the following rapid overview. I place this in the present tense for expository purposes, but the situation described is that of 1998-99.

J1

This northern SOE has a mature and politically well-developed ownership structure. The SOE has a commercial history going back to the 1970s, having been established in the 1950s. It therefore reflects the liberalisation process of the 1980s.

The manager has been in place for a considerable time, and is well aware of the various rights and powers of the VSHs. The SOE is part of a General Company (GC), through which state capital comes into it from the state budget, via the State Capital Management Department (SCMD). This means that the very important rights to veto investments, which effectively permit the existing VSHs to veto dilution of their rights over equity, are not vested in the agency that controls profits once they are moved outside the SOE. We will discuss this later.

There is unresolved conflict between the GC to which the SOE belongs and other groups within the state apparatus, which results in the SOE being subject to considerable harassment from ‘inspections’ of various sorts. It is therefore treatable as a VSC with a well-identified but divided community of VSHs who cannot agree on what to do with the business. Naturally, this suggests, as we might expect, that the ‘virtual shares’ are not easily transferable, but of some expected positive value. The manager is highly conscious of the complex nature of the structure of his VSHs, and clearly well informed about the internal politicking that goes on. He appears to manage an effective balancing act

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32 Thus, if state ownership is as laid down in the legislation, it will no longer be nominal, but real. And then the VSC and the prescribed pattern of ownership will coincide.

33 I have chosen to label each SOE with a simple Western given name, for no reason other than convenience.

34 Through 1998-99 the exchange rate was close to 14,000 VND to 1 US$. 

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between various blocks of interests.

The manager seems to have a minor equity stake in the business, but this gives him very little power compared to other VSHs. The equity stake largely reflects his relative political importance as broker and mediator, and the obvious potential he has for siphoning-off funds and capital if he wanted to.

**J2**

Unlike **J1**, it is clear from the manager’s attitudes and the way in which the business is run that the VSHs form a relatively united group. This is a province level company with mainly US $ earnings from processing and export of marine products. There is no intermediate level between it and sources of additional equity. Thus appropriation of profits outside the SOE occurs at the same site as decisions to allocate capital to it. In effect, therefore, the VSHs act in ways that are close to that of a normal ownership group, controlling profits and then deciding whether to re-invest in the business or not.

Interestingly, it does not seem to matter to the manager exactly who in the province are the VSHs. They are simply referred to as ‘the province’ (but see below). There are no signs of conflict amongst the VSHs, and the nature of ownership is not a major issue.

**A1**

This business is also provincially owned. It holds major amounts of real estate, but receives no additional equity that would permit it to develop these assets, which appear to be run-down. Leasing them out for retail, low quality accommodation etc generates minor cash flow volumes.

Like **J2**, it appears that the manager feels that his VSHs form a relatively united group. His main frustration is the inability to obtain funds to develop the assets. This suggests that the owners have sufficient authority – and use it – to prevent others investing and so diluting their own equity: veto power is important. The manager seems primarily a salaried employee. He has ready access to bank finance. He also has his ‘own profits’ derived from rather independent commercial activities, but these seem to be treated indifferently by the VSHs.

It appears very likely that the owners are keeping the business as a long-term investment in real estate, and in the meantime are – according to impeccable developer logic – keeping control but letting it run down.

**R1**

This business is in essence designed to control profits from kickbacks on construction contracts implemented by private companies. Its historical origins are as a Livelihood Company, and it is very much a cash generator for officials within the party-state apparatus. There are a small number of VSHs high in the particular party-state body responsible for it that appropriate the profits.

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35 See below p.23. These units were set up by other parts of the state economy, usually during the 1980s or early 1990s, as ways to earn extra for workers and officials.
Unlike other SOEs who actually produce things for sale, R1 does not require ongoing injections of capital if it is to grow. Thus the need to exercise control over investments that require equity injections is absent. It is striking that the SOE cannot prevent rather large appropriations of surpluses by the contractors, suggesting that it has little control over them. There is a strong suspicion also that SOE staff are on the take.

The business is not, therefore a ‘business' in any normal sense, as it is acting as a collector of shares of resources acquired by others. Unlike an ordinary business, therefore, its owners do not worry about usually important functions. For example, it does not have any requirement for ongoing capital injections.

B1
This SOE is a service unit, and the interview mainly reports on the commercial environment in general.

L1
Like J1, L1 also has a mature ownership structure. It is also in light manufacturing, and also has a history going back to the 1960s, although it is a local not a central SOE. It has high levels of ‘own capital’ and does not seem to be making important levels of pay-offs. Rather, it may be that its importance to the local state budget is its main way of keeping control over its VSHs, who might thus be seen as distant bondholders. In any case, they seem to leave the SOE very much to its own devices. It is striking that it retains sufficient profits under the form of ‘payments into the production development fund’ for it largely to finance investments from retained earnings. This suggests, and this comes out from various remarks, that the manager is also a VSH, with other members of the SOE.

Like J1, also, L1 has a prestigious manager with high status in the sector due to his background in technical education who seems to have a well-established set of relations with the local authority. He appears, also like J1, to be a VSH, and again is confronted with the problem of how to realise the value of these rights when he retires. This helps explain why he is so keen on formal equitisation.

The SOE has its own ‘quasi-legal' wage structure, which seems to have allowed the staff – or some of them – to share in profits. This suggests that there is a degree of staff-ownership. They are very keen on equitisation, and think they would control the company if it happened.

L1 thus appears very like an SOE from the 1980s, with its high incidence of internal VSHs apparently related to the 1980s pattern of commercialisation, and assisting what appears to be relatively efficient use of capital.

D1
This SOE is essentially the rump left over after formation of a joint venture with a multinational. It appears to be ‘owner-less', with no clear agency appropriating

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36 See above p. 6. Recall that establishment of the ‘three funds' system goes back to the conservative reforms of the 1970s and before.
profits or deciding upon possible equity injections. As such it is an interesting example of such a situation.

Interestingly, it has rather a high proportion of so-called ‘minor’ products – 30 percent of total reported turnover.\(^{37}\) This suggests that preserved under this form were the various ‘sideline’ activities that arose to exploit market opportunities and support staff wages during the 1980s. Thus they will probably be rather close to the unit’s staff. It is possible that these sidelines were the low-margin elements of the business – at least the manager reports that market conditions are the main source of problems for them. This is different from most other SOEs, which tended to blame changing state policies.

**PRELIMINARY REMARKS**

This overview points to some quite accessible commercial issues. For example, it is far from mysterious to argue that, if they existed and could act in a relatively coordinated manner, owners (VSHs) had a number of varied interests and choices, of which the following seem particularly interesting. They also point clearly to a degree of de facto privatisation.

Above all, there is the issue of mechanisms to ensure owners’ adequate and ongoing control over key decisions. First, as we will see, owners often appeared only willing to lose or dispose of part of their ownership rights if it was profitable for them to do so. Thus they sought to have the right and ability to block capital investments into the unit. Second, in a tactic deeply familiar from any small business milieu, they sought to gain effective control over profits, and only then decide whether to re-invest them into the business or not, as a commercial decision. Thus they would tend first to remove profits, then to give them back, rather than leave them in the business and risk their loss to others’ sticky fingers. Third, owners tended to avoid investing in situations where they could not ensure adequate control over outcomes. This could explain situations where they did not exploit apparently profitable opportunities, since they feared that they could not prevent profits being siphoned away.\(^{38}\)

We will see from the interviews that managers often expressed awareness of ‘controls’ that acted to prevent dilution of equity. This, and other evidence presented below, argues that significant commercial power over the SOE was usually outside the unit, with the manager brought into that group, or kept outside it. We should note that most units seem to have needed superior level permission to invest. This means that they could be stopped from obtaining additional capital

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\(^{37}\) Minor products were products not on the list of products for which the SOE had originally been established, and so usually, when liberalisation started, not subject to plan targets.

\(^{38}\) Trust is a central issue in any commercial world. Thus McMillan and Woodruff (1999) examine the consequences for inter-firm trade credit of the weak development of formal institutions. This is in many ways a general issue, not simply one facing SOEs. Another important matter, not dealt with overtly in the sources, is that of the generational shift. Many of these Managers were getting close to retirement age, at which the problem of realising the value of their virtual shares in some transferable manner would become particularly important. See also Ronnas (1992) and (1998).
in forms that would reduce the equity ownership of the existing owners. This suggests that whoever stopped them would be trying to maintain their own ownership rights over the unit. We therefore ask who was exerting this blocking power.

For example, some units (e.g. J2) had easy access to external funds, at no apparent cost. These seemed to be close to equity investments. Did they bear risk? It seems so. Again, who did they get them from? Others (e.g. A1) could only obtain bank credit.

**CORE ISSUES**

Discussion of core issues will start with the general business environment and lead on to business strategy. Here I move the narrative into the past tense, for strict accuracy.

**Environment and strategy**

**Business conditions**

It is striking that all SOEs felt that they were receiving inadequate protection, for example from smuggled goods and other market competition. This suggests that VSHs within the state apparatus were not in a position to maintain market barriers in place to protect their investments.39

In services such as guest houses and restaurants SOEs were at a tax advantage compared with the private sector as they still paid tax on a contract basis (rather than VAT), so that they could easily pay off tax collectors A1.

**The general business environment and broad business strategy**

Almost all managers reported considerable business difficulties – they were inclined to complain. However, they tended also to have rather good personal asset holdings, in terms of TVs, etc. The main remark, interestingly, was that changing state policies and market conditions were the major factors determining business performance. For example, in the manufacturing SOE L1, which was not diversified, the manager felt that the main problems caused by his business environment were as follows:

> There are usually many issues, but the main one is state policy: for example, policy on wages and bonuses means that staff cannot be encouraged to improve their skills or productivity, or their underlying loyalty to the business. So, I decided to ‘fence break’40 and just

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39 This suggests, in turn, that local rent seeking in product markets was relatively unimportant, as barriers could not be erected here so as to prevent the ‘competing away of advantage’ (Levy, 1995:96 – rather, they existed elsewhere, mainly in land and capital markets, but also in national product markets.

40 This term is a technical one from the vernacular, referring to the illegal establishment of direct relations to effect some form of transaction, viewed as a ‘positive violation’ (vi pham tich cuc). Dam van Nhue and Le Si Thiep (1981) first documented it in an academic work in an early study.
ignore some of these regulations, and secured tacit support from the local party committee. L1.

This implies that state policy, per se, in the end ceased to be a real issue. Rather, it took time and resources to deal with it. As in many parts of the world, policy’s meaning was determined most tellingly in its implementation.41

This issue of incoherence in the formal was also relevant in the central issue of business strategy. At one extreme, of relative chaos, the SOE that appears to have been kept as a real estate development holding company, this was clear from the interviewee’s frustration.

Our commercial structure is topsy-turvy. We are meant to be a tourist company, but our turnover comes mainly from retailing and trade … The manager comes from a revolutionary background. A1.

The status of the SOE’s plan reveals much about basic control issues.

Production and business plan

Unlike investment plans, the production plan of these SOEs was almost always reported as being prepared by them – by either the manager, or the management board, or its staff. However, approval typically had to be secured from the superior level.

Our management board decides and creates the business plan, but we must also consult and get permission from the superior level (cap chu quan)42 in order to get their support and make them share responsibility. J1

It was very common for these business plans to be prepared by consultants.43

The management board usually prepares the SOE’s business plan, but it all has to be approved by the trade department of the province and the People’s Committee. A1.

Approval of business plans

For J1, an SOE with a General Company as its ‘superior level’, the GC approved the business plan and had the main power of control (vai tro chi phoi) regarding projects and plans for its SOEs.

The line department at the province, as our direct manager, approves the business plan … [However …] The line department

Typically, such behaviour would involve mobilising of protection through relations with officials (in this case in the local Party Committee), referred to as an ‘umbrella’ (o du).

41 For example, the famous American political scientist Aaron Wildavsky, in a number of works, stresses the importance of implementation in US policy analysis.

42 That is, the responsible line Ministry, local government or GC. See p. 8.

43 Reported by J1.
only lays down a general direction, and does not directly participate in what we do or otherwise control us. J2

This picture was also confirmed by L1, where the plan was prepared by the SOE (if small) or consultants (if large), but based upon the manager’s ideas. The local People’s Committee approved it.

Usually, the People’s Committee hardly interferes in the activities of the company, and lets us get on with it and take initiatives. L1

**Who had responsibility for incorrect business plans?**

For J1, it was clear that the Manager was responsible (despite the fact that the GC had approved it). However, for J2, where ownership appears rather clear, the SOE’s management tended to follow the book of ‘leadership by the collective, individual responsibility’, which meant that the manager was responsible for executive mistakes and the management board for the overall direction of the business. This is contradicted by A1:

> If the plan or its justification is incorrect then the management board is responsible. That is what collective leadership means … the manager cannot take responsibility as he is only executing the plan. A1.

B1 had strong opinions on the meaning of ‘collective responsibility’:

> This is not something that really exists. It is a very general concept, and a primary reason why in party and state organs things are very confused. Previously in my company work was very confused, mainly because of ‘collective responsibility’. Everyone is in charge, but nobody is responsible before the SOE for their work. It also provides an opportunity for people to attack each other, to seek power for themselves and then avoid the consequences if things go wrong ... There is also the slogan ‘leadership by the collective, individual responsibility’ … There was a time when these ideas were on the lips of everybody involved in leadership work, whether it be a Party or state official. In essence, it encourages people to take credit for things that go well, and blame the collective when there are problems. This also encourages corruption. But the main thing is that nobody is in charge – the manager, the Party Secretary, the Chief Accountant (gives example of a wrecked JV with a foreign company).... Also, it is important to bear in mind that whilst the manager is too busy to be Party Secretary, and so acts as Deputy Secretary, the Party Secretary is usually Deputy Manager in charge of Organisation and Cadres – so who is the senior?... When the ‘gang of four’ meet, nobody is in charge. B1

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44 ‘Bo tu’ – that is, the Manager, the Party Secretary, the Mass Organisations and the Trade Union Head. This was the ‘real management board’, at least in principle.
Taking a slightly different tack again was L1, where the manager was quite clear that he would be responsible if the justification for the plan proved awry.

**Autonomy, strategy and control over capital**

A basic implication of state ownership is that the SOE should operate according to guidance from outside it. Replies to this were ambiguous. Yet, understanding of access to capital showed private power clearly being exercised.

**Was the SOE ‘autonomous’ in the sense of Decree # 388-CP?**45

We still do not have real autonomy in production and business activities. There are a wide range of decisions, policies and so forth that contradict each other and negate (decrees like 388-CP), such as 59-CP on finance and accounting, and Circular Letter # 18 on wages. [sic; not in the Official Gazette as far as I can see.]

Compare with:

You can say that the SOE has a real autonomy in production and business. However, for the manager, he is still constrained by various decisions and circular letters. J1.

And:

Decree # 388 overcame a number of problems, but our SOE, like the Management Board, does not yet have real autonomy but depends heavily upon the superior level and the leadership of the province. It was the various guiding decrees of the line Ministries that stopped the spirit of the legislation from having effect. A1.

Interesting opinions on this were offered by D1, the rump business left over after the JV.

Decree 388 aimed to increase the autonomy of SOEs in production and business, but it mainly had its effects on the management of production and business, with no autonomy arising in management of the SOEs capital and assets. For example, when preparing for a JV the SOE must discuss and get the opinion of the GC … Why? Decree 59-CP46 involved the state allocating all capital to the SOE for it to be managed by the SOE. However, in reality it was understood as follows: the General Department for Managing State

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45 See above p.6. Decree # 388 (1991) largely maintained the discourse of the 1980s, stressing the idea of SOE autonomy around the notion of ‘capital allocation’.

46 This probably refers to Quyet dinh so 397 TTg ve viec chuyen giao nhiem vu quan ly von va tai san thuoc so huu Nha nuoc tai doanh nghiep (Resolution of the Head of the Government #397 on the transfer of management responsibility of capital and assets to government business) (TTCP) 7 July 1995, in The Official Gazette 31 May 1996.
Capital and Assets at SOEs (of the Ministry of Finance),\textsuperscript{47} which was given full rights to manage state assets, as its name implies. This body, in its work, allocates capital via the General Company, not directly to the SOE. The GC then allocates capital to us. Thus we become ‘2 necks, 1 noose’. Both the GC and the GD maintain that they are the owners and have full powers over the capital allocated to the SOE. Thus they both demand powers, and both deny responsibility when things go wrong.

**The power and authority of the manager within the SOE**

There are two key state officials within an SOE, the Manager and the Chief Accountant.\textsuperscript{48} According to many managers, the spirit of legislation that gives them responsibility to manage state capital under their authority is contradicted by other legislation.\textsuperscript{49} For example:

In reality, though, the role and rights of the Manager are constrained by various regulations and guidance documents that negate or eviscerate the overall spirit of the law J1

Do I know what my role is? Of course I do, or I could not do my job, but it’s no joy ride...We have not done much to reform wages and set up wage scales of our own (like some SOEs) .. And we are doing rather well with current levels, especially as we owe the bank money borrowed by the previous manager. J2.

L1 again seemed more independent:

I have to say that I have been lucky. This is one of two large companies in the sector in Vietnam so I am not part of any General Company. The SOE is entirely independent and I can act with full autonomy. I respect the opinions and ideas of the local branch department authority and Party Committee, who are helpful. In reality there are many problems, but we try to get around them. L1.

**Who prepared the long-term development strategy, if there was one?**

According to most managers, the long-term development strategy was prepared by them (J1, J2, A1, L1). But D1 did not have one (see below).

For an SOE like A1, which had been effectively abandoned by its owners, who would not put in more funds, the meaninglessness of any such exercise was

\textsuperscript{47} This interviewee gives the full title of the body. Others do not, and it is referred to generally here as the SCMD – State Capital Management Department.

\textsuperscript{48} The responsibility of the Chief Accountant was laid down in a Resolution (# 26-HDBT) that promulgated a Statute on the SOE Chief Accountant. This was promulgated on 18 March 1989 and gazetted 31 March 1989. This, and other documents, state that the Chief Accountant is responsible to the state for protection of its assets. The responsibilities of the SOE Manager are not laid down separately in any gazetted document that I am aware of.

\textsuperscript{49} The reader may wish to recall the elements of reform that involved ‘allocation’ of capital to SOEs (giao von), here contested.
Of course we have a long-term strategy, but it makes no difference, as we have no capital to implement it … and no profits to fund investments … A1.

And D1 expressed similar sentiments.

The Management Board would prepare any long-term development strategy, obviously, but recently we have been unable to, as conditions (markets, in society) have been too unstable, as have state policies. Basically, we respond to profitable opportunities as they come up… I guess we probably are generating positive cash flow but making a real loss if we were to account for capital properly. D1

The investment decision, and sources of funds

We have seen that the SCMD had not managed to exert its authority in any meaningful way.

All SOEs reported that borrowing money from the banks was rather easy. A1 reported that the SOE had to lodge title to fixed assets with the bank as collateral, which was easy and permitted easy borrowing throughout the year. Yet this was not used for expansion into the central potential core business of the SOE:

We have a solution, but we have no money. It makes me sad, with a small amount of money we could upgrade the rooms or the restaurant to increase our profits, but we can’t. A1

It is interesting to note that A1 reported having various stocks on its books, built up both by the present management and earlier. They were starting to sell off stocks at low prices in order to free up capital.

An SOE with rather clear ownership clearly gained protection from banks as it was under pressure to repay loans but was receiving additional funds to finance expansion (J2).

The SOE (A1) that appears to have been a holding company for real estate was being kept on a rather tight rein. The picture of a business with no retained earnings is clear.

Almost all of our capital is in fixed assets. With no circulating capital of our own, if we want to finance commercial activities we must always have debts to the bank. Our capitalisation has always been out of balance like this as long as I have been here. And why don’t we ask for budgetary capital? Because we cannot generate a high return the leadership of the province saves its scarce resources for other opportunities. A1.

This contrasts with L1, where as we have seen the SOE manager reported a high
level of independence. Here:

We usually just borrow short term and repay quickly ... Borrowing is simple because we are an SOE, and also because we are a large and profitable company with the confidence of the local authority ... For fixed capital investments, we usually rely upon retained earnings paid into our production development fund, and if we need more we ask the local authority for supplements from the state budget. L1.

Finally:

To invest in assets or new technology ... under the old system we used to get budgetary allocations as part of the industrial sector's development plan, but now we have to borrow or get it from the production development fund, but there is not enough, so we simply find some from somewhere that gives good returns ... D1

This suggests, in a rump of an old light manufacturing company, with rather high diversification into sidelines, that the core remaining management group had its own relations with inward investors quite separate from those with the GC or the GCMD. Thus whilst the SOE as a whole seemed in essence unowned, appropriation of assets from within had occurred, although hidden from view, and this appropriation was jointly investing with outsiders in various rapid-return ventures. This confirms the pattern of competition between alternative outcomes, and here the two official structures, usually central to understanding the ownership arrangements, were extremely unimportant.

Interestingly, this picture of a boundary dividing off certain elements of the business was confirmed by the treatment of rather high stockholdings:

In store we have very many goods, mainly inputs left over from the time of previous managers – at that time, the time of the subsidy system and just after, responsibility was unclear ... and so they paid very high prices for these goods, and if they were sold we would have to report a very high accounting loss.... When we were 'allocated capital' we had to accept these goods at book value ... and so we will sell them off when we are making enough of a profit. D1

Whilst this is highly inefficient in a wider sense, the economic calculation being made is quite rational. Irrational structure does not imply irrational behaviour. The realities of capital management. Could the SOE run a loss for a few years if guaranteed an eventual return?

No manager felt that this was possible. Owners would not accept such risks, and demanded positive short-term returns. J1, J2, A1 and D1 directly confirmed
Note the explanation given by J2, an SOE with a clear ownership set-up:

...each time we apply for additions to state budgetary capital allocations we must prepare a proper proposal for various bodies to inspect. However, this must show a positive return from year one, and a short pay back period. ... So we have to lie. **J2**.

And that given by **L1**, a large company without a GC above it:

This is a tough question to answer. It is not something that happens in Vietnam, although I know that it occurs overseas. Here, losses would lead to criticism – if it happened in two business ventures, not to mention for a year ... and people would start talking about criminality ... Why is this? During the old subsidy (*bao cap*) period losses meant that something serious had gone wrong, yes, but nowadays. In part it is because the press is so critical. **L1**

**The realities of capital management (continued). How was the term ‘own capital’ (**von tu co**) understood, and how had it changed over time?**

For most managers, ‘own capital’ had changed in meaning, suggesting that there had indeed been a shift in the typical site of ownership power through the 1990s, upwards and away from the SOE. This is discussed further in the second part of the paper. Here quotes reveal what was felt, and the realities of institutional change.

Earlier, in economic accounting we usually would say that ‘own capital comes from our own efforts’, so that we all used to think (in SOEs) that it was our own, and so it was usually managed without any reference to outsider agents – we did not need to get permission from anybody. This gave SOEs a *real* autonomy in the utilisation of it, and made SOEs therefore develop very dynamically. This efficiency of capital use came from the fact that people in the Management Board acted conscientiously and responsibly when they dealt with ‘own capital’. Naturally, it would be wasted, and not grow if the Management Board was corrupt or ineffective.

Now, however, ‘own capital’ has to be understood differently, as capital derived from profits earned by the SOE after paying taxes and other contributions to the state *on turnover that exceeds plan targets*. As it derives from capital allocated from the state budget, it is referred to as budget capital *not subject to capital tax*. It is paid

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50 ‘We do not have permission to run at a loss.’ **D1**.
51 This is the vernacular term used to refer both to the period before the partial reforms of 1981 and to the transitional years that followed, when elements of central planning continued besides the growing commercial sectors de Vylder and Fforde (1996).
52 By this is probably meant, during the 1980s.
into enterprise funds such as the welfare, bonus and capital development funds.\textsuperscript{53} \textsuperscript{J1}

Own capital is capital left over after all obligations to the state budget have been met, wages paid etc … It is paid into the various funds of the SOE … and is not much difficult from other state budgetary sources other than the fact that we have a little bit more freedom in how it is used. \textsuperscript{J2}

Another definition, or rather lack of it:

Our SOE has no ‘own capital’ … we understand it in the way that the state does, but it is not at all clear.\textsuperscript{A1}

However, in \textsuperscript{L1} ‘own-capital’ was a real concept, and was reported as amounting to some 40 percent of total capital (the rest being capital supplied from the state budget). This SOE was also involved in a JV. The manager was an ex head of the technical school of the branch and had been manager for over a decade.

‘Own capital’ comes from the capital development fund of the SOE and is used for re-investment and production development. Our SOE is entirely free to decide what it does with this capital, but in principle we have to report on how it is used and consult the opinion of organs at the superior level. In other SOEs, so far as I know, and especially in the south, during the subsidy period when living conditions were very bad, people used a policy then in force (I think 54-HDBT [\textit{sic}. I cannot find this]) to establish various ‘livelihood’ units under their SOEs or state organs, whose profits were divided amongst the staff and workers and some payments were also made to the SOE from profits. When this decree was revoked, these units were amalgamated into their ‘mother’ SOEs, and their assets were viewed as being the SOEs’ ‘own capital’. If they were not, then they were either changed into private share companies or the resources were pocketed by various gentlemen…. Why was it called ‘own capital’? At that time the livelihood’ units could easily make money, either from the ‘stamp’\textsuperscript{54} or the legal position of the mother company, or by using its capital (supplied by the state) for business purposes…. Thus the term was of utility for defining the resources as theirs … and so could be used more freely \textsuperscript{L1}

A similar sentiment, if rather different technical understanding, came from \textsuperscript{D1}. … ‘own capital’ is capital derived from SOE profits after payment of taxes and other budgetary obligations. It is paid into the ‘three

\begin{footnotesize}
\begin{itemize}
\item[\textsuperscript{53}] See above, p. 6, referring to the ‘three funds’ system.
\item[\textsuperscript{54}] An SOE possessed an official stamp that could be used to advantage across a wide range of activities, through the access it granted to resources, permission to engage in economic activities of various sorts, and so on.
\end{itemize}
\end{footnotesize}
funds’ … It can be understood as state budgetary capital that is not liable for capital tax. Despite it being created by the SOE, when it is invested, permission of the superior level must be obtained and it cannot be used freely.

We can see here clearly how the GC had strong powers to prevent use of outside capital to invest in the business, not just from outside the business but also from outside its own direct control.

**Competing channels of influence – law, state direction, or capital’s interests?**

The tensions between formal law and actual practice are clear from what has already been discussed. Gillespie (2000) discusses this in the context of issues related to corruption. Much of the problem is to do with the underlying assumptions in much of the literature, including Vietnamese legislation, of a rational and predictable ‘Weberian’ state. This then confronts the evidence for considerable incoherence as well as for quite different notions of what constitutes correct action, as we have already seen. The formal is not only incoherent, but also a theatre for contestation, not only between different structures beyond the SOE, but also between them and interests within it.

The importance of the legal context is therefore considerable. Managers had much to say about it. We have seen already how there was a considerable body of legislation in effect.

**Effects of the legal context in general and the 1995 SOE Law in particular**

Managers on the whole did not think that these attempts to legalise the environment around SOEs had changed much. As we suspect, it is the underlying commercial relationships and institutions that make the difference. The 1995 SOE law created a clearer and easier environment, but there are still key issues that remain confused: Who receives state capital and is responsible for it? Who acts as representative to the state in acting as holder of the capital allocated? The Management Council, its Chairman or the General Manager/Manager?

Contrast with:

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55 This term refers to an additional levy on state budgetary capital employed (not ‘own capital’) by SOEs.
56 Gillespie (2000) makes the telling point that certain types of effective state practice (e.g. successful anti-corruption measures) often operate, not upon incentives, but to harmonise the tensions between different conceptions or, in his terms, ‘ideologies’ regarding what is viewed as correct conduct. Politically, however, this would remove the valuable source of order that the existing situation provides, which is itself congruent with (arguably) a stable political economy.
57 Here the Management Council (Hoi dong Quan tri), distinct from the Management Board (Ban Giam doc) that usually had executive functions.
Many laws and decrees have been passed in the past 5 years, but we have no time to research them A1

And:

…the trend is certainly positive, with responsibilities of the manager, the constituent parts of the SOE and of the state getting steadily clearer…. L1

And:

The SOE Law created better conditions for SOEs as it stopped superior levels from issuing binding production targets. D1

The picture is thus both mixed and contested.

**SOE relationships with its ‘superior levels’**

Where a GC existed, relations were tense. For example:

We inevitably have obligations to the GC. Levies are imposed and paid for things like management costs, profit sharing etc. We feel as though we have just had an additional management level imposed on top of us, which is basically exploitative rather than there to assist us. J1.

However, when relations were with a state management body like a province, rather than a GC or equivalent, they were usually far easier (e.g. J2). However, where the VSHs were not interested in the ongoing business of the SOE, things could get tetchy.

We are subject to a number of influences … mainly these are from state policies and ‘superior levels’…. Let me give you an example. The finance department of the province decided to issue a directive that any SOE that wanted to buy, sell, invest or whatever over 100 mn dong had to have the opinion of the department who would send somebody to check. It made no difference where the money came from, and so what that the SOE had been allocated state funds and granted autonomy. And if we want to sell cigarettes or act as an agent for a Vietnamese company we have to ask permission of the trade department of the province … [and] … the trade department is our superior level, and it approves our plan and sets out guidelines for us…. It has a very important role…. A1.

In D1, which was part of a GC, the GC approved the SOE’s business plan. However, the manager reported that there was little effective control. If the plan was based upon faulty calculations, ‘…nobody would be held responsible for those mistakes.’ D1
SOE real ownership and its formal relationships with superior levels other than its ‘superior level – eg, with the State Capital Management Department – SCMD (Ministry of Finance)

For those Units, such as J1, that belonged to a General Company (GC), the GC was seen as acting as an intermediary that reduced the autonomy of the SOE, since capital from the SCMD came via the GC. This was seen as part of a set of structures that involved being subject to checks and inspections and ‘always having to ask the permission of the GC’. There was very little mutual trust, so that the GC, although in principle sharing a common interest with the SOE, in practice was in conflict with it and other state organs, and saw them as interfering and hostile.\(^{58}\)

For other units, such as J2, without a GC, and in this case provincially owned and with clear profitability, there was also hostility.

I have no idea how to describe relations between the SOE and the SCMD. It is not a ‘superior level’, and is certainly not an ‘owner’, even though it gives us our capital. So who are they? Who has the right to make us report monthly, and to inspect our finances? It’s the same as the ‘superior level’ or the People’s Committee of the province – they have the right to control us, but nobody takes any responsibility. J2

For an SOE left to hang in the wind, like A1, it seemed like state bodies were a set of hostile elements.

One usually says ‘1 neck, 2 nooses’, but we usually say ‘1 neck, 5 or 7 nooses’– relations between us and the SCMD (now part of the Finance Department of the province), and the Trade Department, and the People’s Committee, and the Planning and Investment Department … are such that I really do not know who the ‘father’ of the SOE is. Any of these can say that they gave us our capital, so as the state capital owner they have the right to control us etc. But nobody is responsible if the SOE makes a loss and so the state loses its capital and assets…. A1

However, for the other locally owned and relatively clearly managed SOE, L1, the main issue was again one of hostility:

There is a problem that is rather unclear in the management and allocation of capital to the SOE. The SCMD does not allocate capital directly to us, but does so via the local People’s Committee. So we report to SCMD and also to the Industry Department of the locality. But, in the SOE I personally am the representative of the state in the management and ownership of the capital, and the Chief

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\(^{58}\) Compare opinions reported in Jerneck (1995) to the effect that the Enterprise Unions were at times seen as helpful.
Accountant is also a representative of the state in these matters … So, granted that this is state capital, then who is the state? Whoever controls it must be responsible for it…. And so with all these different agencies it must be that nobody owns it and takes responsibility for it. L1

These quotes reveal two distinct sets of structures above the SOE.

**Reform and formal change**

Changes, such as reform, again call into issue the exercise of certain ownership rights. As we saw earlier, through the 1990s the formal system was not static. Core elements were equitisation and public administration reform. These generated remarks that further illuminate the nature of ‘state power’ over these SOEs.

**The meaning of SOE reform**

Some managers were sarcastic about the meaning of SOE reform. For example:

One has to say that this means Re-Form and Re-organise, so that nothing really changes at all … as the state sector remains there throughout…. Basically, none of our leaders really want to reform properly at all, it is all just a matter of ‘measures’ … and SOEs must retain their ‘guiding role’... they get moved out of larger bodies, then put back into them, and so they just sit there – it’s sad, isn’t it! For SOE reform to be real … most SOEs have to be privatised…. 60

B1

**Likely effects, meaning and problems, of equitisation**

Managers were generally in favour of equitisation. For example:

Personally, I favour equitisation since it creates a clearer property form and can also mobilise additional capital into the development of the business. J1

Their explanations for the slow pace of equitisation revealed general issues of power and interests within the state sector.

There are many reasons for the problems facing equitisation. I think that the first reason is that most SOEs are not very profitable, mainly because of state management, which means people have little confidence in SOEs. They do not expect their shares to be very valuable. The second reason is that the law still differentiates

59 That is the ‘vai tro chu dao’ – the ‘leading role’ that under-pinned the privileged position of SOEs as laid down in the Constitution.

60 The meaning here is the literal one of ‘selling to private individuals as their own property’.

61 The various company laws – for SOEs, share companies etc. – were all pervaded with the official notion of there being different economic ‘components’ – thanh phan kinh te. The word for ‘component’ was that used to determine an individual’s ‘class status’, with important
between SOEs and other businesses. This means that there is an inevitable expectation that there will be discrimination against non-SOEs, and so people fear that they will lose various privileges (such as uncollateralised bank loans, and access to contracts financed from the state budget) if they equitise. Finally, people fear that they will lose their jobs. \textbf{J1}.

For an SOE with clear ownership, obviously, when the manager was not a VSH and the VSHs were well organised, equitisation would not change his position, but yet could threaten the possibly delicate balances amongst the VSHs.

It really makes no difference whether we equitise or not. We will still basically just be hired employees. We have no money to buy shares, and if we were equitised it could well be even more confused than it is at the present. \textbf{J2}.

For \textbf{A1}, the SOE kept for its real estate, changes in capitalisation were clearly important to its owners (even if the manager did not realise the potential value to others of the SOE's assets):

\begin{quote}
Equitisation? It makes no difference whether we like it or not, it’s up to The Man at the province to decide … And all SOEs in this province make losses, so how could they be equitised? Who would buy the shares? [Also] – I think equitisation would be very difficult – procedures are still confused and vary from place to place … valuing assets leads to heavy contradictions between SOEs and state bodies … and the public does not really know enough about it…. \textbf{A1}
\end{quote}

For a company with a strong manager, like \textbf{L1}, equitisation had its attractions. This suggests that he was a part owner who thought that equitisation would benefit him.

\begin{quote}
We really want to equitise. Mainly, so we can grow. There are a number of reasons why equitisation would be a good idea - the state would get money from selling shares; the state would no longer have to allocate capital, manage, bear losses etc; ownership would be clearly defined; people in the company, myself included, would become the real owners of the SOE. We would decide upon and manage the work. Everybody would be closer to the SOE and be more responsible.
\end{quote}

consequences in terms of privileges and status, and had been at least until the early 1990s stated on each individual’s ID card. It was therefore reasonably clear that use of this language meant that the non-state sector was of inferior status.

\textsuperscript{62} There is no contradiction between this statement and that above. At times, SOEs were granted favourable access to bank credits, specifically through instructions from the State Bank that uncollateralised loans could be made. But not all enjoyed this favour.
... The main difficulty I foresee in equitisation would be in fixing the value of the assets of the company in a harmonious manner. It's just like selling any commodity – the buyer likes a low price and the seller a high one. L1

It is clear that the interviewee was discussing the ‘float’ of the company, not the likely rise and fall of stock prices thereafter.

**Likely effects and meaning of Public Administration Reform (PAR)**

The more reflective managers linked PAR and SOE reform. For example:

The old administrative/subsidy system ate deep into official practices and thinking, and eroded popular confidence in them. PAR will clarify responsibilities of each part of the administration and make it clearer and cleaner. ... Parallel with PAR is SOE reform. ... perhaps half of the total number of SOEs are run inefficiently, they are a heavy burden on the state and people.... State policy is to keep only those SOEs that are profitable and competitive, and those that produce public goods. J1.

The administration is very bulky, especially at province level, and people act in their own way and at cross-purposes, especially in construction and investment. Any permit to build, upgrade etc takes great efforts to obtain – maybe six months of running around.... Everybody can see the benefits of PAR, but people resist it as they will lose power, material benefit and other rights as well. A1

**Conclusions**

The data is weak, and, were circumstances more favourable to the collection of data, likely unacceptable. However, the importance of the issues, and the problems in accessing this central problem – SOE ‘ownership’ – means that it is extremely valuable. The sample has an investigative rather than a structured basis.

It suggests that classic commercial issues – controlling profits, and preventing loss of equity control - are indeed central to understanding Vietnamese SOEs. Ownership and control are separate issues, and their implications are worked out in various ways. This suggests that any ‘Weberian’ view is off the mark.

The interviews show managers and others capable of, to varying degrees, acting as informants both on the wider issues of state business management and their recent history. They reflect with considerable insight on the institutions around them.

This tends to support the argument that the SOEs of the period are best viewed as VSCs. VSHs, in this sense, had varying rights, some of which were contingent. Apparent lack of ownership could then be understood as reflecting lack of agreement amongst VSHs, either permitting Managers to do what they liked, but only in very limited areas, or leading to paralysis. And such things are not peculiar
to Vietnamese businesses.

One important implication of this is that it is not SOE managers who effectively control SOEs. They certainly participate in such activities, but the story is far more complicated. Success or failure cannot be laid at their door, but must be shared with others.

The VSC and VSH framework offers a promising approach to the analysis of Vietnamese SOEs, and therefore to refining and concretising what is meant by their de facto privatisation. This suggests in turn that research should focus upon the determinants of the VSC structure, and how it varies, for example between industrial sectors. In that a significant part of the literature has argued that the marketisation of the Vietnamese economy was a liberalisation, rather than a reform, it places to the fore the central issue of whether or not better economic performance will be attained through changes exogenous to SOEs (such as a hardening of budget constraints by changes in bank lending practice) rather than through formal privatisation. And also just how such processes might, through an acceleration of unregulated de facto privatisation, lead to socially unacceptable concentrations of economic power, such as in Russia. This is perhaps more plausible at a local than at a national level, but in areas such as agricultural processing and exports it is not hard to make the argument that costs could easily be very high. One can ask, for example, who the VSHs of an SOE heavily involved in cash crop exports are, and then what their wider economic powers entail. More fundamentally, the real political economy is, or should be, central to the analysis.

**LITERATURE REVIEW**

Now, granted that the empirical position is as described above, how does this compare with the existing literature?

**The literature on ‘transition’ and property-rights**

There appears to be a schism in the literature, which reflects the contradiction between the rather rapid growth seen in China and Vietnam and their self-evident failure to meet orthodox Western legal norms. Property-rights are neither clear, nor transparent, and orthodox economics argues strongly that this implies high levels of inefficiency, and so slow growth. Yet growth is rather fast.

For example, consider the debate, exemplified by that over the work of Bramall (1993) with regard to Chinese agriculture, regarding the extent to which output gains should be credited to reform-linked micro institutional changes rather than to arguably non-systemic policy such as state price changes and inputs reallocation; crucially, the availability of high levels of savings, abundant state revenues and other resources created earlier.\(^63\) This argument attacks heavily

\(^{63}\) Sikor (1999) presents a similar critique of ‘post hoc ergo propter hoc’ views that attribute change to policy rather than technological and price shifts in the analysis of a shift away from shifting cultivation amongst farmers in the northern mountains.
‘post hoc ergo propter hoc’ positions that draw upon a priori arguments regarding the efficiency of resource allocation under different economic institutions (see Bramall, 1993, 1995).  Similar issues arise in the discussion of industrial expansion.

Indeed, there appears a certain puzzlement amongst some Western researchers as to just what the sources of rapid economic growth in China and Vietnam have been. The challenge implied by revisionist tendencies in the literature relates to the extent to which some schools of Western economics possess adequate conceptual tools for analysing transitional processes. The key issue here is the effect upon the economy of private ownership with clearly defined property rights. To quote Naughton (1994: 266):

Martin Weitzman and Chenggang Xu (1993) point out that public ownership with vaguely defined ownership ought to represent a recipe for economic disaster ... [however] TVEs are responses to one of the most distinctive characteristics of the Chinese transition as a whole: the early creation of product markets, which exist for a prolonged period without well-developed markets for factors of production or assets. TVEs are a flexible and effective but basically ordinary adaptation to this environment [Emphasis added].

Naughton, here and in other works, moves away from the heavily a priori arguments informed by somewhat narrow neo-classical premises that permeate much of the literature. However, his statement that adaptations are ‘ordinary’ poses almost as many questions as it answers. Since it is impossible to conceive of product markets in the scale we can observe them in both countries through the 1980s without there also existing control over capital and other inputs (to the extent that they are priced and their use controlled by those concerned to ‘buy cheap and sell dear’), it is – surely – the emergence of something reasonably called capital that we are discussing (see Greenfield, 1993; Nolan, 1991).

Other issues also suggest the importance of keeping an open mind. The important collection of articles in the December 1995 China Quarterly argued that (quoting Walder, 1995: 978) ‘economics has as much to learn from transitional economies as it has to teach them’.

The tension appears to derive in part from the way in which strong assertions regarding the value and relevance of clear private property rights, free markets...
and other elements of the standard package face the strong contradiction, expressed well in the quote above, between the great economic successes of China and Vietnam (dating the latter since 1989) and the clear absence of such prerequisites. One root of this is the difficulty involved in conceptualising a system ‘in transition’. Yet, economics is important: what we are observing are societies whose productive capacity is changing profoundly and rapidly, and we expect and see major social transformations that accompany these economic changes and are related to them. Perhaps the main issue can be found in a characteristic that both countries share – the continuing importance of government agencies and officials in areas of economic activity in ways that are foreign to most other market-based systems. Power, class and the relationship between the micro and the macro are then all complicated by the pervasive importance of what seem to be state or quasi-state activities. Indeed, the basic ‘state-private’ categorical dualism becomes blurred, perhaps confusing those – such as the more ‘naive’ neo-classical economists (and others) – for whom it is fundamental.\footnote{To quote the seminal Vietnamese reformist Dao Xuan Sam - ‘O Viet nam, tu khong han la tu, cong khong han la cong’ - ‘In Vietnam, the private is not entirely private and the public is not entirely public’ - personal communication. To note that these relate to deep-rooted philosophical ideas that are not shared with all other societies would be to argue the proposition that cognition plays a major role in determining institutions, with which the author would agree, but for which he would, as an economist, find hard to argue. See Mitchell (1991) for an attempt to save the state-society metaphor for political science by asserting that the blurred nature of the boundary between state and society is revealing of the nature of reality, with the state as ‘an effect of certain techniques of rule’, rather than an inherent problem with the metaphor. Almond (1988) argues to the contrary.}

To again quote Walder (1995: 978-9):

\begin{quotation}
\begin{quote}
\text{[c]onventional economic analysis, upon which much policy advice has been based, is remarkable for the degree to which it is blind to the analysis of government agencies and officials. Yet [the analysis of China in transition] ... is all about the shifting opportunities and constraints facing them.... A transitional economy is defined as one undergoing profound institutional change, and institutional change involves changing incentives and constraints facing all actors whose behaviour has economic consequences.}
\end{quote}
\end{quotation}

Surely at the root of this is the pervasive and often authoritative assumption that significant change is policy-driven, with policy assumed capable of coherent conceptualisation \textit{ex ante}. Intuitively, this means also to seek justification for a focus upon use of state power viewed as sovereign and coherent (a monarchical metaphor), which, as the interviewees report, is wide of the mark in the Vietnamese case.

\textbf{The analysis of transition – approaches in the literature}

In the relative absence of easily accessible theories about the operation of economies in transition, non-economic explanations of change tend to stress other factors, most importantly the historical and the political.
Thus Selden (1988: 23), writing on China, sees

a coalition of forces embracing market-oriented reformers at the state center and substantial segments of the peasantry at the rural periphery [that] pressed the program, of household-based and market-oriented reforms that ... swept the countryside in the 1980s....

Later analyses expanded these notions to examine the impact of decentralisation, and most importantly the role played by checks and balances within the state apparatus as it became more involved in commerce (for China, see, for example, Shirk, 1993 and Montinola et al., 1995; and for Vietnam, Beresford and MacFarlane, 1995; and also Porter, 1990 and 1993 and Thayer, 1995). Again, though, the literature on China is far more advanced than that for Vietnam.

Thus, for example, Che and Qian (1998) develop a theory to explain why insecure property-rights could co-exist with relative economic success in China, whilst Jin and Qian argue that it is the complex set of links between businesses and local interests that supports economic growth. Increasingly, political economists have explored implications of this for gradualist processes of change. Many have seen Russia as offering a bitter consequence of recourse to rapid mass privatisation. There are many examples (Stark and Bruszt, 1998; Bunce 1999; see Oi and Walder, 1999 for a recent overview of the situation in China).

What this seems to point to, however, is two main conclusions. First, that important parts of the specialised literature does not feel itself too unhappy with a situation that combines unclear property-rights, in a Western sense, and rapid economic expansion. Second, that there remains a general puzzle, since the basic implication of much economic analysis is that property-rights have major implications for economic performance. Thus this paper argues that a relative clarity exists in Vietnam, but it is, for good reason, hidden.

The Vietnam literature

The existing literature on Vietnamese SOEs reflects similar differences to those already discussed. It divides into certain clear groups:

69As in the case of certain schools of economics, with the problems in assessing the origins of Chinese and Vietnamese growth, so too it appears does political science face difficulties. Montinola et al. (1995: 81) point out that China can be seen to defy conventional wisdom in that she exhibits – first, economic reform without political reform, second, a government that can nevertheless impose periods of conservative reaction, and, third, the lack of any system of secure property rights, commercial law or an independent system for adjudication. It is argued that the main factor limiting the extractive, behaviour of central and local governments is the 'jurisdictional competition' between them. There are two points that may be made here. First, that jurisdictional competition has a deep historical reality in Vietnam, reflected in the oft-quoted maxim that the 'Writ of the Emperor bows to the customs of the village' (Phap vua thua le lang). There are a multitude of stories, frequently from frustrated foreign investors, showing how this still applies to local authorities, who are in Vietnam usually local people (and here there appears to be a contrast to China). Second, that whilst property rights may be unclear to outsiders, often the traditional questions of economic anthropology (e.g., 'who decides', and 'who gets what') are easily answered by insiders.
The ‘SOEs as decision-making units school’

What could be described as ‘orthodox’ economic analyses tend to assume that SOEs are decision-making agents, with ‘assets’ (such as fixed capital), ‘production’ and control over various other resources, such as labour. This basic assumption is extremely useful. It means that the traditional apparatus of neo-classical constrained optimisation micro behaviour can be applied. Deviations from this basic model may then be attributed to issues such as bureaucratic ‘interference’ in decision-making, ‘market failures’ (such as directed credit) and distorted incentive structures (such as the ‘soft budget constraint’ syndrome). These lead in turn to criticisms of poor economic performance, both statically and dynamically. Advocated policy changes then follow easily from this position, and entail logically prescription of various measures to remove the sources of market failure: bureaucratic interference, non-market criteria for the allocation of credit, hardening of the budget constraint so as to impose the discipline of the market, and so forth. An important part of this is the tendency to view ownership as exogenous to the analysis, and, for SOEs, to be determined by implementable policy. Privatisation is thus exogenous, not endogenous.

Good examples of this approach can be found in the analyses and reporting from multilateral agencies such as the World Bank and UNIDO, as well as a range of academics.70

Whilst coming at the problem very differently, this perspective can also be found in the more neo-institutionalist approach of McMillan and Woodruff 1999. This interesting work on private businesses was based upon the ‘prior’ of SOE autonomy. For example, companies were asked about their relations with SOEs viewed as autonomous agents.

The ‘SOEs as part of a wider structure of state institutions’ school

Starting with the work of Jerneck (1995a; 1995b), academic research started to move out ‘beyond the SOE’. This appears to have come from a combination of a more ethnographic and historical research perspective, combined with a willingness to interview and examine what might be called ‘actual economic behaviour’. Akiba 1998 has developed this further. This approach, which is far more ‘historical-institutional’ than the more neo-classical orthodox position, seems attractive to various regional scholars (see Mitsui 1997; Sun 1998).

The ‘SOEs as part of a wider emergence of various forms of capital’ school

Early academic expressions of the sense that it was necessary to look at SOEs within a wider framework, that of the emergence of forms of capital, or even capitalist organisation, are Fforde (1987, 1993) and Greenfield (1993). These both placed the question of the nature of SOEs within the wider historical one of

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70 For a valuable survey of the Vietnamese textile industry see Hill (2000); also, for example, Butcher et al. 1995 (UNDP); World Bank (1992) and (1995); Diehl (1995); Mallon (1995); Lestrange and Richet (1998).
the social processes that were occurring, driven by interests and leading perhaps to class formation. Greenfield (1993) argued clearly that capitalism was emerging from within a process of appropriation of state assets, thus forming a new capitalist class as managers and others acquired, usually illegally, assets that became capital (to distinguish capital as meaning assets held under social forms distinctive to capitalist 'relations of production'). Fforde (1993), however, stressed the importance of the so-called 'state business interest' in pushing politically for reform-based social and economic change. This 'interest' was understood to include elements within SOEs as well as political forces sited outside SOEs but whose interests were closely allied to them. It therefore included, in political economy terms, the boundary between SOEs and other elements with rights over, and power over, the ways in which SOEs were operated.

These different approaches correspond in part to ongoing debates in the political economy of development. The hopes for an autonomous developmental state, with an elite of bureaucrats available to implement Development (Johnson, 1982; 1995; Haggard, 1990), encourage and support donor activities. Thus institutions tend to be seen as policy outcomes, rather than endogenous. The more sceptical hope for an insulated bureaucracy with strong internal traditions combined with developed state-society ties to provide for coherence and an external check on government (Evans, 1995). Both confront the realities of Vietnam with some confusion. Can the Vietnamese Communist Party (VCP) be viewed as an autonomous ‘developer’? If not, what are the main ‘structured associated interests’ that act upon it?

The Vietnamese state bureaucracy never underwent the confusions and destruction of a Cultural Revolution, and retained considerable professional élan and self-respect. This was particularly true of the more technical branches, such as Finance. Yet it would be quite hard to point to ‘developed state-society ties’ as a means to enforce coherence and check abuses. It is possible to imagine these forming within the murk, but that is all. Mitchell (1991) would support arguments that the partially-privatised SOEs discussed above, in their blurring of the state-society boundary, offer evidence of underlying order, an ‘effect of certain techniques of rule’.

Through the 1990s, there was no clear emergence of political groupings, within or outside the party, which could represent such notions, of ‘developed state-society ties’ (Riedel and Turley, 1998). Yet, through the 1980s, if not before, the increasing autonomy of SOEs could be seen playing a political role, providing, through a ‘state business interest’, political support for liberalising reforms. But concrete organised links have never been proven to exist.

Further, any such statist project could arguably face pressure to articulate some coherent development ‘doctrine’ (Cohen and Shenton, 1996). This could not be so easily found in Vietnam, where the VCP’s public attitude to such central issues as the role of the private sector remains deeply ambiguous and, not very surprisingly, incoherent. There is clear and ongoing political disagreement about core elements of development, perhaps reflecting the institutionalised division of powers at peak level.
Some basic issues

The development of commerce within a state-socialist system is not complicated. Contrary to a range of opinions, after the famous ‘U-turn’ during the Soviet agricultural collectivisation drive, trade and private ownership over the means of production were, doctrinally, accepted in the Soviet Union during Stalin’s time (and re-affirmed at the highest level in Stalin’s *Economic Problems of Socialism in the USSR*). Apart from private ownership of means of consumption such as houses, farming families were permitted the so-called ‘private plots’ (Wadekin, 1982), and state enterprises were permitted various types of so-called ‘minor’ operations that involved their own decisions based upon calculation of relative costs and benefits in terms of local interests and resources.

Quite apart from this, it is well known that ‘existing socialism’ saw a wide range of various market-like activities, that the literature called black, grey and parallel markets etc.\(^71\) The extent and range of these activities were characteristic of the political economy of the region or country. They reflected factors such as the doctrinal position, the extent to which it was realised in practice, and the pattern of local incentives. The latter included such issues as the gap between free market prices and other value indicators (itself in part caused by the extent of inflationary finance of the plan), the extent to which food rations met subsistence needs, and so forth. There was, in the economist’s sense, an ‘equilibrium’, in which the extent of these various activities was understandable and relatively fixed. Typically, indigenous terms viewed these dichotomously, reflecting the Marxist dualism between ‘capitalism’ and ‘socialism’. In Vietnam, dualities such as ‘inside’ and ‘outside’ were commonly used. Much of the academic literature focused upon ‘plan and market’. The ‘equilibrium’ was thus often seen as being one based upon these two spheres, which interacted in various ways. However, since the two spheres interpenetrated each other, the boundary between them, perhaps like that between ‘state’ and ‘society’ was never clear (see Mitchell, 1991).\(^72\)

The authorities in countries of ‘existing socialism’ often had a decidedly ambiguous attitude to the nature of this equilibrium. Movements in which direction were good for socialism? Granted that Stalinist doctrine granted a positive role to a certain degree of ‘outside’ activities, they were clearly ‘necessary’. There was usually no clear answer to these questions.

But an established literature argues that the emergence of an increasingly marketised economy can be thought of as an endogenous process. That is, that the equilibrium between ‘plan’ and ‘market’ could evolve so as to increase the extent of markets. Thus, there could be ‘liberalisation’ without ‘reform’. Historically, in the two countries where this analysis was most relevant (China

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\(^71\) The literature here is extensive. See, for example, Ericson (1984) and Wadekin (1982).

\(^72\) See Mitchell 1991. A possible analytical problem with use of these dichotomies, only partially resolved by focusing upon the notion of ‘contestation’ (see also Beresford 1997), or ‘negotiation’ of the unclear boundary, is that it permits retention of the notion that ‘plan’ and ‘market’ do retain ‘essential’ and separate existences. This encourages the idea that somehow one or other can exist without the other, with certain political implications.
and Vietnam), the shift to a market economy clearly involved important elements of ‘reform’ (i.e., formal policy shifts). However, major studies have tended to look at the interaction of policy and practice historically, thus showing that at times of (temporary) government reaction against markets, liberalisation would continue under its own dynamic.

This view, however, presents severe problems for a Weberian, neo-classical persuasion. This is at root because of the questions that it throws up for the nature of change and the role of policy, for in these parts of the forest enormous stress is placed upon the pre-eminent role of policy in inducing change. This may be related to the important political role played by these doctrines in modern state management and government.

A most important expression by an economist of the ‘endogenous change’ approach with regard to China is the work of Barry Naughton (1994, 1996). This work, drawing upon the rich literature on Chinese politics (for example, Shue, 1995), presents a picture of the evolving history of liberalisation. This work relates also to the relatively extensive literature discussed above that points to the apparent lack of clarity in Chinese ‘transitional property forms’.

With regard to Vietnam, the assumption of ‘bottom-up’ change has had some effect upon academic literature since the publication of various work coming out of the University of Cambridge in the early 1980s (Vickerman, 1982, 1985, 1986; Fforde, 1982). Paradoxically, this reflected two quite different issues within the literature. On the one hand, there was opposition to the ‘strong state’ assumptions, of both right and left, in the political analyses of the 1970s (Pike, 1978; Turley, 1977, 1980; Duiker, 1981; Elliot, 1976; Stern, 1981). And on the other there was almost complete ignorance, especially when compared with the China literature, regarding the peak level politics behind policy change.

It was the ‘bottom-up’ approach to change that is the equivalent in Vietnam studies to Naughton’s economic work on China (de Vylder and Fforde, 1996). This, whilst far more ignorant of the politics of policy-change than Naughton, spelled out clearly the incentive patterns that encouraged liberalisation at the micro level, and the detail of formal policy change.

Where was all this heading? And what were the historical origins of the semi-privatised SOEs discussed above?

HISTORICAL OVERVIEW – THE VIETNAMESE SOE

Background

The historical origins of the state economy of modern Vietnam are to be found in the ‘socialist transformation’ of the northern economy under the Democratic Republic of Vietnam (1945-76). In granting this activity the dates of 1954-76, I ignore the economic management and other issues that existed prior to the 1954 liberation of Hanoi. These are of some importance, most especially the shift towards ‘central planning’ techniques after the Communist Chinese government arrived at the border in the late 19040s, but do not greatly affect the story (Fforde
This planning system followed then orthodox Soviet methods. The fixed assets brought under the SOE form came either from the ‘nationalisation’ of existing plant and equipment, or from the Soviet bloc and Chinese aid programmes (Spoor, 1985). Rather rapid industrialisation and urbanisation was meant to occur, with resources from external assistance to be supplemented by so-called profits accruing in SOEs as a result of the setting of appropriate state accounting prices. These were to finance high investment rates.

What happened, however, was that for various reasons domestic resource mobilisation was insufficient; monetary discipline was weak, so wages and procurement of rural products were too lax, leading to increases in the monetary base and, in turn, ‘free market’ prices. Consequently, and no doubt assisted by political and social factors about which we remain rather ignorant, incentives encouraged SOEs to involve themselves in markets to a degree beyond that generally acceptable to socialist doctrine at the time. Plena in the later years of the First Five Year Plan (1961-65) saw some criticised for ‘running to the market’ (Fforde and Paine, 1987). Also, farmers started to sell rice on urban free markets.

This helped create a syndrome of institutional adaptation, in that SOEs, planners, cooperativised peasants and others tended to exhibit economic behaviour with more, rather than less, involvement in market or quasi free market activities. In Fforde and Paine 1987 this was called ‘aggravated shortage’, and was expressed as a characterisation of the DRV economy prior to the onset of the so-called ‘Vietnam War’. This, it must be stressed, was argued to be the starting point to post-Reunification economic development. Inherent in this idea was that of equilibrium between ‘plan’ and ‘market’. And in this equilibrium a key exogenous variable was the availability of resources to the planners from outside the system – most importantly, foreign aid.

In sum, north Vietnamese SOEs arguably exhibited familiarity with involvement in markets from very early in the history of Vietnamese state socialism. The policy measures that tried to curb this illustrate the nature of the problem. Additional support for this ‘syndrome’ comes from the overall historical pattern, as we will see, as well as the attempts by Party General Secretary Le Duan to seek solutions to the identified problem, albeit viewed for now in conservative terms, from the late 1960s or early 1970s. This resulted in conservative reforms in cooperativised agriculture (Fforde, 1982, 1989) as well as state industrial organisation. These reforms in essence sought to reinforce, through greater

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73 This is rather clear from a reading of the conservative reform measures.
74 Vietnam studies badly needs good research into Le Duan, effectively the victor of the US war, alleged by many to have been the personal author of the over-ambitious 2nd Five Year Plan (1976-80), but still General-Secretary when the Pandora’s Box of legal market participation by SOEs was opened in early 1981 by decree 25-CP. Le Duan died in office in mid 1986 just before the VIth (‘Doi Moi’) Congress
75 This mainly took the form of attempts to attack incentives, through the so-called ‘three funds system’ (e.g., 2 May 1972 decree HDCP TT: 88-CP ‘On the improvement and supplementing of
bureaucratic controls, plan discipline, and, in the area of industrial reform drew upon the experiences of the German Democratic Republic with Industrial Combines.\(^76\)

In 1976, therefore, after the decision had been made to merge the state structures in north and south and establish the Socialist Republic of Vietnam, policy-makers confronted two related but distinct problems: establishment of a ‘socialist system’ in the south, and addressing the long-identified problems of the northern economic management system.

Granted that the overall policy-stance in the north was conservative, dating from well before 1975, there was a clear logic to the equally conservative treatment of the south. If no fundamental rethinking was yet possible in the north, traditional neo-Stalinist ideas had to form the basis for ‘development doctrine’ in the south after liberation and take-over (tiep quan). Added to this was the post-war hubris of the top leadership, party general secretary Le Duan, and the apparent failure of political opponents effectively to confront this.

The collapse of the conservative position in the late 1970s was marked by economic shocks that opened the way to a process of liberalisation where the ‘equilibrium’ between plan and market had moved decisively towards markets.\(^77\) Loss of Chinese and Western aid in the aftermath of Vietnam’s signature of the Treaty of Friendship with the Soviet Union, and military incursions into Cambodia (by Vietnamese troops) and northern Vietnam (by Chinese troops), pushed the whole system onto a liberalising dynamic. This was given added impetus by the failure of the local party leaders in the Mekong delta to use Stalinist methods to extract food from the peasantry. The resulting ‘procurement strike’ (to use Melanie Beresford’s term – Beresford, 1988) also cut resources available to the system of state resource allocation, again generating changes in the pattern of incentives around those who controlled mobile resources in SOEs in ways that encouraged markets and discouraged participation in the plan. Out of this period

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various concrete regulations on the distribution of profits and the establishment of 3 funds in the Temporary Statute on profit distribution\(^*\)). The most important indigenous academic work on the real situation in northern state industry in the late 1960s and early 1970s is Nguyen Tri 1972, which revealed extensive evidence for non-conformity with the norms of central planning. Interestingly, this source blamed almost none of this on wartime conditions. Nguyen Tri, who died in the early 1990s, was a leading academic at the Finance and Economics University, which later became the Economics and Planning University, and is now the National Economics University, in Hanoi.

\(^76\) This period saw establishment of the Central Institute for Economic Management Research (Vien Nghien cuu Quan Ly Kinh te Trung Uong), largely staffed with German speakers, directly under the Council of Ministers. During the 1980s it came to become the dominant public face of the reform effort. Renamed (in English acronym) CIEM, it lost considerable influence in the early 1990s, in part due to the World Bank’s decision to focus upon the then planning organ, the State Planning Commission (SPC), and in part due to political pressures against its overall policy stance in favour of SOE autonomy - see below). It was then moved across to be under SPC, which then added international investment approval to its responsibilities to the contemporary Ministry for Planning and Investment (MPI).

\(^77\) Here is not the place to discuss opposition to the conservative position, and conservative reforms, prior to the 6\(^{th}\) Plenum of 1979, but it may very well have existed.
of ‘economic clarity and policy chaos’ came the partial reforms of early 1981 that permitted SOEs to engage in quasi-market activities under what was called the ‘three plan’ system.76 Termination of this system by events in 1989-90 arguably marked emergence of Vietnam’s market economy.

Basic ideas of the 1980s industrial reforms

A reading of both policy documents and political debate shows that the focus of policy towards state industry through the early 1980s was upon the SOE. It could have been upon planning, or some other issue, but it was not.79 A fundamental element of the strategy adopted by reform thinkers, which was by the late 1980s highly successful in political dispute, was to stress the importance of encouraging ‘dynamism at the base’. Yet the trajectory was not untroubled. After reactionary decrees in the early 1980s, which maintained the ‘discursive’ logic of focusing upon SOEs, policy returned to overt liberalisation in early 1986 with a Party decree (306) in the run-up to the December VIth Party Congress which announced ‘Đoàn Mới’, and (somewhat incidentally) permitted some analysts to maintain their ‘policy driven change’ perspective by dating marketisation from this ‘policy shift’.80

In terms of peak politics, what may have happened is that Le Duan, having initially supported the partial reforms, then changed his position under pressure from Truong Chinh81 on ‘anti-socialist’ grounds (similarly to the pattern regarding agricultural decollectivisation in the late 1960s). However, as pressure from below mounted, with marketisation increasingly seen by groups within and around SOEs, especially provinces, cities and line Ministries as being in their own interests, Le Duan probably reversed his position again, and the race was then on to see what would emerge from the leadership changes due at the 1986 VIth Congress.

In this process, granting increased access to the valuable and appropriable economic resources created by the liberalisation process made considerable political sense. After Le Duan’s death in mid 1986, Truong Chinh acted as a stop-gap Party General Secretary until the Congress, when he was replaced by Nguyen Van Linh.82

After the Congress, decrees further enhanced SOEs’ formal freedoms, from such

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76 The famous Decree ‘25-CP’ of 21 January 1981– see de Vladder and Fforde (1996). It can be found in The People - Nhan Dan – the Official Party newspaper for 22 January 1981, under the complex title ‘Some policies and measures aiming to continue to develop the right to production and business autonomy (chu dong) and financial autonomy (tu cu) of SOEs’.
79 See Beresford and Fforde (1999) for a discussion of feasible reform able elements of state-socialist doctrine, and their relative attraction to reformist thinking.
80 For a literature survey, see de Vladder and Fforde (1996), already mentioned.
81 Truong Chinh had lost his position as Party Leader in the aftermath of the 1950s Land Reform, but remained a top political player through his prestige, and more formally his position as Chairman of the Standing Committee of the National Assembly, at that time the collective Head of State according to the 1960 Constitution.
82 This is a much abbreviated version of what remains a contentious and intriguing history.
things as plan targets, with the last in the sequence – 217-HDBT – specifically preventing superior levels from issuing targets ‘that could not be backed up by supply of the inputs required to meet them’.  

By the late 1980s, therefore, reform doctrine clearly focused upon enhancement of SOE independence from superior levels. Growth of ‘own capital’ and various other measures showed this. Official decrees, and the refinements of these ideas by leading intellectuals such as Tran Viet Phuong, Dao Xuan Sam and Phan Van Tiem, expressed these ideas widely and forcefully. The basic stripped-down ‘model’ of the economy was one of SOEs, farming households and markets (i.e., with no obvious place for the private domestic sector).

This is in contrast to more conservative reformists, such as Tran Phuong, for whom a reformed central planning perhaps remained an intellectual possibility, even if it was in the end to prove politically ineffectual. Political expression of this could be seen in the Managers’ Club set up in the early 1980s by CIEM (see above), and the detail and tone of both reformist writings and decrees shows clearly the importance attached to enhancing the independence of SOEs. Much of this was to collapse in the 1990s, as political conditions changed, and this shows up in the evidence from the sample above. The trajectory shifted.

Yet through the 1980s SOEs were increasingly and legally involved in markets, with spare resources and dollars that clearly ‘talked’ in many political arenas.

In the late 1980s, SOEs typically operated a range of activities. Additional activities had emerged in the transitional economy of the 1980s, and served to meet various interests. Amongst these, and of more importance than we see in the sample which looks at the situation a decade later, was the creation of profit-sharing relationships with workers so as to increase consumption levels, for food rationing was typically inadequate. It appears that profits from market-oriented activities were not so often re-invested, but rather were ‘decapitalised’. However, groups around SOEs other than workers clearly benefited also from these activities, but at levels that were limited in extent. This was not so much a dynamic accumulating system but one designed to improve consumption through improved economic performance and retention of resources that should, under a successful neo-Stalinist development pattern,

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83 de Vylde and Fforde (1996) and p.5 above.
84 Tran Phuong was a Deputy Prime Minister in charge of economic affairs who lost his position just before the 1986 VIth Party Congress, probably after running foul of the results of an attempt to reform the official wage-price system in a direction that was not entirely market friendly, and which led, for reasons probably not at all blamable on him, to hyper-inflation.
85 A note of caution is needed here. Whilst it is clear that SOEs were intended to gain greater autonomy, it remains hard to refute the argument that it was not so much SOEs that benefited during the 1980s, but elements lower down in the apparatus, but still above and outside SOEs. I thank Martin Gainsborough for pointing this out to me.
86 Like many other important elements of the traditional and transitional systems, food rationing died a natural death once its prerequisite (a basic imbalance between wages and market food supplies) had gone. This happened in 1988-90. I can find no formal decree in the Official Gazette terminating the system.
have gone up to finance plans for investment. Worker de facto profit sharing dwindled through the 1990s.

A common phenomenon in the late 1980s was the so-called ‘Livelihood Enterprises’ (Xi nghiep Doi song) set up by various state bodies and mass organisations to generate resources for wage supplements. Again, these bodies, and the purposes behind them, are as we have seen reflected in the SOE de facto ownership patterns of the late 1990s. Finally, and as these activities gathered coherence and strength, inter-SOE patterns of investment were starting to arise, as capitals developed sought additional investment outlets. In these stirrings of an emergent capital market, various forms of inward investment into SOEs and business ventures were occurring - such as by richer workers, groups active in the black markets of Central Europe and the Soviet Union, southern groups with access to hard commodity smuggling profits and so forth. Parallel to this could be seen, before 1989, elements of the state banking system developing so-called ‘soft’ plans to divert lendable funds into more commercial investments, typically with SOEs.

The transition process offered a great clarity of logic and purpose, and this was itself associated with reformers’ chosen stress upon SOE autonomy (quyen tu chu) as an intellectual and political slogan that had by the late 1980s considerable political power. It had become ‘part of the reformist-dominated discourse’, and so was extremely hard for political opponents to challenge.87

The 1990s: policy and political economy

In 1989-90, as the Soviet aid program, and the Soviet Union, was collapsing, SOEs emerged into an economic system that lacked entirely the administrative resource allocation methods of central-planning. At the same time, many ‘side’ units, set up to take advantage indirectly of opportunities for commercial gain through SOEs, collapsed, as the valuable and appropriable resources available from the aid program vanished, and were yet to be replaced by Western aid and FDI. Thus could be explained part of the story behind the apparent problems facing the so-called private manufacturing sector in 1989-90, whilst the service sector boomed.

It is possible to imagine that the ‘natural’ next step was for an extensive formal privatisation, under which managers, workers and others would take over SOEs, perhaps re-established formally as share companies. In this case, the political basis for the regime would probably have had to shift to greater reliance upon a ‘developmentalist’ bureaucracy, probably with considerable support from the rural areas (increasingly now decollectivised). Further ‘socialist market’ intellectual developments would have supported this. Some form of democracy

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might possibly have permitted elections, perhaps of a Vietnamese Yeltsin equivalent.

But this, it appears, is not at all what happened. The sample discussed above suggests that ownership of SOEs was, by the end of the 1990s, not at all concentrated upon SOE managers and other within SOEs. Rather, partly through the two sets of structures mentioned, ownership appeared to have moved back up and out, at the expense, in economic and political terms, of managers and workers. In general, managers were certainly well paid, but they increasingly appeared as rewarded executives rather than dominant controllers of capital and its allocation to preferred investment opportunities. This was a profound shift, with major social and political implications.88

The details of this have already been discussed. However, these two sets of formal structures appear to correspond to two quite different, and opposed, ideological and political logics.

‘Above the SOE’ there were, as we have seen from both the sample and formal policy, usually but not always, essentially two sets of structures.

First, were the state bodies linking the SOE into the state apparatus. Following on various ‘technocratic’ reforms, strongly supported by donors such as the World Bank, the Ministry of Finance was the state body with formal control over various conduits for state resources, newly established. These were, most importantly, the State Treasury and the State Capital Management Department (SCMD). In addition, there was a range of development funds for various purposes.89

Here can be envisaged an embryonic ‘state-focused developmentalism’ where the Party rules and implements development through the classic bodies of a ‘developmental state’. Through the 1990s, party doctrine as taught to its members remained that the fundamental basis for party rule was the state apparatus, seen in terms of the local and central state ‘authorities’ (chinh quyen).

Second, there were other state business organisations, the descendants of the GDR ‘Enterprise Unions’, the various ‘Groups’ and ‘General Companies’ set up (either anew or based upon earlier forms) in the mid 1990s. These groups, with as we have seen typically hazy formal powers (apart from key and important rights, such as to move capital between their constituent SOEs), followed a quite different logic, where economic power is sited, not within state bodies, as such, but within large commercial units.

In the world economy of the late 1990s and early 2000s, it was perhaps clear that such bodies could hope to free themselves from local state control, to an important degree, through direct access to foreign capital, technology and markets through various mechanisms such as a stock market. They therefore

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88 This position would suggest a need to re-examine the arguments in Greenfield 1983, and especially to pay more attention to the role of officials outside SOEs.
89 These do not require detailed discussion here.
offered a potential basis for political power *independent* from the state apparatus. This is, of course, the stuff of high politics.

It is possible that one amongst many causes of the lack of coherent state developmentalism in Vietnam during the 1990s was due to the contradictions between these two tendencies. Whilst internal Party relations would have integrated both sets of structures, their different logics are striking. Perhaps, effective subordination of one or other of these power structures to the other would have opened the way to a major exercise of state power in the cause of national development. For example, if the Ministry of Finance, the State Bank, the Ministry of Planning and Investment (MPI) and other state bodies had been brought under one authority, and then acted in coordination to select and then support priority sectors, for example as recommended by Japanese advisors (Ohno and Ohno, 1998), then we might have been able to observe such things as:

- Clear subordination, in terms of authority and social deference, by General Companies and others to these peak state bodies.
- Rapid and effective closure of areas of state business activity not in accord with the overall development strategy.
- Development of various measures to cope with the socialisation of risk inherent in targeted allocation of resources, especially bank credits (Zysman, 1983; Wade, 1988) – for example, clear performance criteria for exporters.

We had, in fact, prior to the Asian Crisis of 1997, seen none of these things.

Had the polarity been reversed, and large state capitals attained dominance (GCs), then perhaps we would have expected to see a different pattern. Available resources would have tended to go to them, they would have tended to seek self-publicity as important national ‘developers’, and budget constraints would have remained soft for them, but hard for their components. So far, however, they have been unable to escape important restrictions on their relations with foreign businesses and the global economy.90

It is thus striking, however, if we recall what SOE managers said, how the trajectory of the 1980s had been reversed, and how the confrontation and tensions between these two structures are what clarifies the character of their ownership structure. Thus, for what it is worth, the micro level data to a certain extent might be understood as expressing the consequences of fundamental political conflicts over development strategy and control over national assets occurring at a national level. In caricature, the dominant political issue of the 1980s was to obtain the support of the state business interest, which involved both creating it and then gaining its support. But then in the 1990s, the issue shifted, to re-establishing control over state business. If these conjectures are correct, the outcome of this politics was on the one hand to significantly curb

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90 For example, there has been no JV in television, bringing-in outside programming and offering the possibility of relief from strong party control over access to the mass media.
trends to emergence of a relatively independent business sector out of SOEs, but on the other to fail to re-establish a coherent and relatively united set of control structures.

It is possible, but, although interesting impossible to discuss at length here, that important changes were afoot in the late 1990s. The 1997 Asian Crisis came on top of the gathering balance of payment crisis that had been visible since late 1995, and added to widespread evidence that nature of state-SOE relations was threatening macroeconomic stability. In 1998-2000, focusing upon the State Bank, measures were taken to restore stability, boost exports and enhance growth. In these processes, it is likely that state rather than state business organisations gained power. Interestingly, the private sector also started to emerge rather fast, in part because harder budget constraints, and the passage of time, increasingly encouraged capital to move out of SOEs into more normal forms. VSHs, having seen their assets under attack, and with less attractive opportunities offered by the state, to move their capital out of SOEs and into more formally private forms. And, perhaps incidentally, since in these forms private assets could be matched by private liabilities, and techniques used were more labor-intensive, long-term prospects for less unhealthy economic expansion were thus probably enhanced.

FINAL CONCLUSIONS

SOEs and the political economy of transition and 'post-transition'

Once we move away from the assumptions of the ‘SOEs as decision-making units’, and ‘SOEs as part of a wider structure of state institutions’ schools, and simply think of them as rather messy Virtual Share Companies, then the essentially commercial logic of SOE ownership becomes clear. There was nothing mysterious inside the ‘black box’. This conclusion is of great importance, most profoundly because it turns the solution to the ‘SOE problem’ from one defined by state policy to one influenced by commercial logic. From this much follows, both in analytical and policy terms.

Yet, whilst no longer mysterious, the contents of the black box certainly remained rather dark. There are two reasons for this. First, the various types of Virtual Shares were not formally institutionalised. They were not expressed in formal systems, reproducible and written down. The different rights were highly contingent and often imprecise, and often clearly frustrating for their owners, most especially in their lack of transferability. For these middle-aged men, approaching retirement from business careers that probably started to take off in the early 1980s, this was almost certainly a key issue. Second, normal commercial interests, amongst others, acted to keep information hidden. Yet not all information was secret, by any means. As we have seen, important pointers to key aspects of commercial power and ownership were far from concealed from view.

The context

There is enough evidence to suggest that further research needs to examine the
'macro political’. The recovery of state resources in the early 1990s, their use to support an SOE focused development logic, the different political logics of the separate structures identified in the interviews are all pointers to major forces at work, although hidden. There is no reason to suppose that senior politicians were not well aware of the possible implications of these major strategic events. And what was at stake.

Economic policy conclusions

There is a strong likelihood that in the first decade of the new century Vietnam will see, through the emergence of a stock market, further equitisations and also development of the informal capital market, changes of the nature of SOEs towards a higher degree of privatisation. This is also likely to entail changes in efficiency, and also systematic changes in underlying ‘real ownership’ that reflect changing commercial conditions as well as political priorities and formal ‘reform’ measures. However, it is very unlikely that this privatisation will reach a degree at which it becomes reasonable to refer to them as ‘private’. At a minimum, Party links will continue to offer avenues for political influence.

The naïve policy conclusion is that some form of equitisation is important, so as to clarify ownership and improve efficiency. This does not, however, deal with the implementation issue. In part, as one manager pointed out, there is the awful example of Russia to worry about. However, once it is realised that SOEs are already de facto VSCs, then it can be seen that equitisation has usually to deal with the issue of re-capitalisation, where the existing VSH structure has to be confronted.

This suggests in turn that additional inflows of funds as part of a real equitisation program are an option once the process has been relatively successful. This would permit VSHs with important blocking rights to be bought off, and also deal with the issue of managers and others seeking to realise the value of their assets before retirement. Yet this would not necessarily be as simple in practice as it might sound. The funds are likely to be mediated through the GCs.

There is a risk, for example, of these funds supporting a high concentration of private shareholdings, after the Russian model. Yet avoiding this could mean abolishing the GCs beforehand. The main objections to this would be political, in that this would entail a major shift in the overall political balance. It is therefore unlikely to happen. Instead, GCs will probably increasingly act as interfaces between their component SOEs and global sources of capital, which will face competition from other VSHs in extracting funds to pay dividends. The comparative ability to do so will probably be an important part of the learning process for foreign investors later in the decade, if not for domestic ones earlier on.

The likely outcome, therefore, may be for what might be called a ‘competitive statism’, analogous to Donner and Ramsey’s ‘competitive clientelism’. Matching the relative importance of formal (‘state’) structures in Vietnam, the prospects for a relatively healthy economic expansion would perhaps be enhanced if
competition between various groups for resources were mediated through different state organisations. In this, we have already seen the importance of two ‘national’ institutions for regulating conflicts and ensuring that things do not get too out of hand. These are the Party, and the State Bank. Clearly both share a common interest, in their different ways, in ensuring that international contacts do not erode the various different foundations for their roles. Since the Party naturally controls key appointments in the State Bank, much will therefore hinge on the extent to which other divisions within the Party do or do not influence the State Bank’s position. In that the Party as a whole has certain common interests, not least in political stability, will these be reflected in the policies and practices of the State Bank?
ACRONYMS and ABBREVIATIONS

bn – billion

CIEM - Central Institute for Economic Management Research

FDI - Foreign Direct Investment

GC – General Company (Tong Cong ty)

IMF – International Monetary Fund

JV – Joint Venture

MPI - Ministry of Planning and Investment

ODA - Overseas Development Assistance

PAR – Public Administration Reform

SCMD – State Capital Management Department (Tong Cuc Quan ly Von van Tai san Nha nuoc tai Doanh nghiep)

SOE – State Owned Enterprise (Xi nghiep quoc doanh, and then Doanh nghiep Nha nuoc).

SPC - State Planning Commission

TVEs – Township and Village Enterprises

VCP – Vietnamese Communist Party

VND – Vietnamese dong

VSC - Virtual Share Company

VSH - Virtual Share Holder
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