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Vietnamese State-owned Enterprises under International Economic Integration

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Abstract

This paper examines the progress and outcomes of state-owned enterprise (SOE) reforms under international economic integration in Vietnam. While the literature has focused primarily on strategic SOEs that have been largely treated as exceptions under international commitments or domestic reforms, the paper focuses on the Vietnam National Textile and Garment Group (Vinatex), a major SOE group in the textile and garment (T&G) industry in which the impact of international economic integration was expected to be substantial. The main findings are as follows. First, unlike large-scale SOEs in strategic sectors that receive the most attention in the literature, the transformation of Vinatex in terms of ownership, organization, policy roles, and relationship with the state, albeit incomplete, has made significant progress. Second, nevertheless, there are indications that Vinatex's relationship with the state and its non-commercial roles may continue in subtle and indirect forms. Third, with the entry and growth of foreign-invested and domestic private enterprises, both SOEs and Vinatex have lost shares in the T&G industry. However, some Vinatex members stay among the country's top garment exporters, successfully competing with their foreign-invested rivals. These findings suggest the recent realities of Vietnamese SOEs that are increasingly hybrid, similar to those in many other countries.

Keywords: International economic integration, State-owned enterprise, World Trade Organization (WTO), Vietnam, Vietnam National Textile and Garment Group (Vinatex)

JEL classification: F13, L32, P20, P31

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1. Introduction

More than three decades after the launch of a major economic renovation called "*doi moi*," the reform of state-owned enterprises (SOEs) remains one of the most pressing economic reform agendas for Vietnam today. On one hand, despite consistent delays compared to its plans, the country has made significant progress in SOE restructuring. Of the various restructuring schemes, Vietnam has placed particular emphasis on "equitization" (Gainsborough 2010: 71; Cheshier et al. 2006: 1), which literally means the conversion of SOEs into joint stock companies. Although Vietnam has distinguished equitization from privatization, the conversion is typically followed by the gradual divestment of state capital from equitized companies. As a result of restructuring, the number of SOEs was reduced significantly from around 12,000 in 1990 to just over 3,000 in 2012, of which 846 were 100% state owned[2]. On the other hand, there are doubts over whether SOE restructuring has translated into reducing the state's control over SOEs, making them compete on a par with non-SOEs, and improving efficiency. The recent literature highlights the persistence of problems such as monopolistic positions and privileges, weak governance, and inefficiency (Pincus 2015: 41, Vu Thanh Tu Anh 2017: 91–2).

Vietnam and Vietnamese SOEs, however, have come under considerable external pressure as the country has actively promoted international economic integration since the early 2000s. First, Vietnam has been compelled to open its markets and dismantle privileges to SOEs as it participated in a range of international trade agreements and organizations. In 2007, Vietnam became a member of the World Trade Organization (WTO), which called for the opening up of its markets and institutional reforms designed to ensure non-discriminatory treatment of foreign products, enterprises, and investments in comparison with their Vietnamese counterparts. More recently, Vietnam also signed the Trans-Pacific Partnership (TPP) agreement and concluded negotiations on the free trade agreement (FTA) with the European Union (EU). Although neither of these agreements has come into effect, both agreements include provisions that regulate the activities of SOEs and the relationship between the governments and SOEs.

Second, the increased openness of Vietnam's economy to trade and foreign direct investment (FDI), partly because of the country's participation in international trade agreements, has also meant intensified competition for SOEs. Vietnam's trade-to-GDP ratio increased rapidly from 103% in 2000 to 179% in 2015, which is seventh highest among 179 countries for which data can be obtained from the World Bank[3]. While the foreign-invested sector accounted for mere 18% of

[2] Cheshier et al. (2006: 7–8); the report of the government 490/BC-CP November 25, 2013 on the financial situation and the result of production and business activities of enterprises where the state holds 100% of charter capital and joint stock companies with state capital contribution.
[3] The author's calculation is based on World Bank Open Data (http://data.worldbank.org/, accessed October 31, 2017).

the country's GDP in 2015[4] (GSO 2016), its share in manufacturing output and exports reached 47% in 2011–3 and 72% in 2016[5], respectively.

The degree of external pressure for reforms and liberalization, as well as competition resulting from increased openness, is likely to vary substantially across sectors. On the international front, Vietnam managed to negotiate exceptions and/or transition periods for its commitments, often for a limited number of strategic sectors. On the domestic front, sectors subject to 100% or majority state ownership or entry regulations have been narrowed down to focus on sectors providing public goods and services, energy and natural resource exploitation, and strategic service sectors such as telecommunications. SOEs in such sectors, many of which continue to be wholly state-owed and subject to state-related privileges, have received the most attention in the literature. In the meantime, the consequences for SOEs in other sectors, which in fact are the majority, remain underexplored.[6]

The objective of this paper is to assess the progress and outcome of SOE reforms under international economic integration in Vietnam. Specifically, it focuses on the transformation of the role and performance of Vietnam National Textile and Garment Group (Vinatex) in the textile and garment (T&G) industry, one of the country's largest exporting industries. Since its establishment in 1995, Vinatex has been categorized as one of the most strategically important SOE groups with the mandate to lead the industry's development. Vinatex, however, faced considerable pressure for change as the T&G industry became one of the focal areas in Vietnam's negotiations for WTO accession and other trade agreements. The combination of strategic importance and the strong impact of international economic integration makes Vinatex the perfect case for analyzing the progress and limits of SOE reforms under international economic integration.

The remainder of the paper is structured as follows. Section 2 provides an overview of the progress of SOE reforms in Vietnam. Section 3 provides the case study of Vinatex, discussing its transformation in terms of organization, relationship with the state, and performance. The concluding section summarizes the findings and discusses the implications.

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[4] Apart from the domestic sector, product taxes less subsidies on production accounts for 10% of GDP at basic price.

[5] https://www.mof.go.jp/pri/international_exchange/visiting_scholar_program/ws2015_vu2.pdf, http://www.gso.gov.vn/default.aspx?tabid=621&ItemID=16174 (accessed October 31, 2017).

[6] A recent exception is Kawabata's (2017) study of Vietnam Steel Corporation (VN Steel), which experienced diminishing state support, the entry of private and foreign companies, and loss of market shares.

2. Overview of SOE reform in Vietnam

This section discusses the evolution of SOE reform and the current status of SOEs in the Vietnamese economy. It highlights the role of international economic integration in accelerating SOE reform as well as differences in the progress of reforms and their outcomes across sectors.

2.1 Stages of SOE reform

Vietnam's SOE reform over the past three decades evolved in three distinct stages. The following discusses the evolution of reform policies in each stage.

Up to the 1990s–Restructuring and formation of general corporations

Early reform attempts focused on restructuring small-scale SOEs. Since 1987, a series of reform measures were introduced to establish SOEs on a commercial footing and to provide managerial autonomy. In the early 1990s, a large number of small-scale, loss-making SOEs at the local level were restructured primarily via liquidation and mergers, reducing the number of SOEs from around 12,000 in 1990 by nearly half by the mid-1990s (Cheshier et al. 2006). In 1992, Vietnam launched a pilot equitization program. The aim was to diversify enterprise ownership by mobilizing capital from the society, improving managerial efficiency, and encouraging workers to buy shares and become real owners of the enterprises (Fujita 2017). Even after the end of the pilot phase in 1996, equitization only covered small-scale SOEs in non-strategic sectors until the early 2000s.

Large SOEs, by contrast, were to remain under the state's control (Cheshier et al. 2006). In the mid-1990s, when Vietnam set the goal of industrialization and modernization, large SOEs started to be reorganized into SOE groups referred to as General Corporations (GCs). As of the end of 2001, there were 18 large-scale GCs under the management of the Prime Minister (called "GC 91") and 78 small-scale GCs managed by various ministries and provincial governments (called "GC 90")[7], with more than 1,700 member enterprises under their umbrella (Bùi Văn Huyền 2008: 109). As will be discussed below, some of the largest GCs were converted into diversified conglomerates, called "State Economic Groups" (SEGs), from 2005 onwards.

[7] GC-91 and GC-90 were established on the basis of the Prime Minister's Decisions 91-TTg and 90-TTg in 1994, respectively. Decision 91-TTg in particular called for the formation of large groups occupying important places in the national economy and having the potential to expand business overseas.

The largest GCs under the GC 91 category operated in industries such as coffee, rice export, oil and gas, electricity, T&G, chemical, steel, airline, and telecommunications. The state expected GCs to play roles such as providing essential goods and services, providing the state with the tools to achieve macroeconomic stabilization, leading the development of strategic sectors, and contributing to fiscal revenue. GCs, in return, were provided with special treatment. Figure 1 illustrates the relationship between the state and GCs established for leading the development of strategic sectors such as the shipbuilding and machinery industries. Such GCs were expected to make investments that were not commercially viable at this stage of Vietnam's development. The state provided such GCs with protection from tariffs and preferential finance, and even guaranteed market outlets for the GCs' products by, for example, applying preferential interest rates for purchasers or requiring other SOEs to buy domestically produced products (Ishida 2004).

(Figure 1)

Early 2000s–Reforms accelerate under international economic integration

The early 2000s marked a turning point as Vietnam set a course for deeper engagement with regional and global economies. The landmark trade agreement between the US and Vietnam, under which the US granted the most favored nation status to Vietnamese imports, was signed in 2000. As the agreement went into force in December 2001, Vietnam's exports to the US surged dramatically, bringing about a significant impact on economic growth and employment creation. This prompted the Vietnamese leaders to launch a proactive strategy of international economic integration and accelerate negotiations for WTO accession. The negotiations were concluded in 2006 and accession came into force on January 11, 2007.

The progress of international economic integration had major consequences for SOE reform. WTO accession called for the opening up of markets and institutional reforms designed to ensure non-discriminatory treatment of foreign products, enterprises, and investments in comparison with their Vietnamese counterparts. Table 1 summarizes Vietnam's main commitments related to SOEs. With regard to tariffs on goods, Vietnam committed itself to reduce tariffs for approximately 3,800 of the total of 10,444 tariff lines within 12 years of accession (IMF 2007). With regard to services, many of which had been subject to restrictions on FDI so as to protect domestic companies and especially SOEs, Vietnam made wide-ranging commitments to liberalize sectors such as banking and finance, telecommunications, and distribution. The Report of the Working Party contained numerous commitments Vietnam made in relation to the country's legal and regulatory framework. A key milestone was the promulgation of the Unified Enterprise Law and Common Investment Law in 2005, wherein, for the first time in Vietnam, a common legal framework was provided for all types of enterprises regardless of ownership.

(Table 1)

With the increasing outward orientation of the economy since the early 2000s, Vietnam sought to accelerate equitization and the sales of state shares to external investors, including foreign investors, as a means of improving the efficiency of SOEs. Whereas the estimated number of equitized SOEs in the period 1992–1999 was only around 370, the number exceeded 2,700 during the period 2000–2006[8]. This happened as the attraction of equitization for SOEs increased along with tightened access to budget subsidies, particularly to small SOEs, and the improved private-sector climate (Gainsborough 2010), whereas the growth of the stock market gave rise to growing opportunities for the state to generate revenue by selling state shares at high prices. Nevertheless, large-scale SOEs, including GCs, were yet to be equitized at this stage.

After 2007–Setbacks and trying to get back on track

The reformist orientation of the early 2000s was not maintained after 2007. Immediately after WTO accession came into force, the Communist Party clarified its intention to restructure, develop, and increase the competitiveness of SOEs so as to make them the leading force in international economic integration[9]. In practice, the focal policy to achieve this end was to reorganize some of the largest GCs into large and diversified state-owned conglomerates called "SEGs"[10]. By around 2010, nearly a dozen SEGs had been established. They acted as monopolies or dominant players in sectors such as energy, mining, electricity, and telecommunications. Their monopolies or dominant status stemmed primarily from a range of privileges provided by the state. Even after the enactment of the 2005 Investment Law, common to enterprises of all ownership types, FDI was still subject to conditions in many of the sectors in which SEGs operated. The establishment of some SEGs, as well as several cases of mergers and acquisitions involving SEGs, were apparently against the Competition Law, which was instituted as a part of Vietnam's WTO accession commitment (Vu Thanh Tu Anh 2017).

Despite ample assistance and privileges offered, expectations that SEGs would become a leading force in international economic integration were belied when financial failure and the

[8] There are no precise data on the number of equitized SOEs. These estimates are based on Cheshier et al. (2006) and Nguyen Thi Kim Cuc (2010).
[9] Resolution of the Central Committee 08-NQ/TW dated February 5, 2007 on some important policies for rapid and sustainable development of the economy when Vietnam becomes a member of WTO.
[10] The resolution 08-NQ/TW specified equitization as the first measure to achieve this objective, yet, in practice, equitization made limited progress in the subsequent years. The resolution mentioned the formation of economic groups as the second measure.

mismanagement of some of the largest SOE groups came to light. The most symbolic case is Vietnam Shipbuilding Industry Group (Vinashin), which despite generous government support, including $750 million mobilized by the country's first sovereign bond issue in 2005, defaulted on internationally syndicated loans in 2010. Subsequent government investigations unveiled extensive misconduct by Vinashin and other SEGs and GCs. This included massive investments in sectors unrelated to their main business lines, especially the booming financial and real estate sectors. Many of such investments, fueled by huge inflows of indirect and direct investments spurred by Vietnam's WTO accession[11], were unviable and some of them were even against state regulations.

Although SOE reforms in general had lost momentum in the post-WTO period, resulting in the situation in which Vietnam could not fulfill its WTO commitment to complete the transformation of SOEs into joint stock companies or limited liability companies by July 1, 2010, the above developments prompted a renewed focus on SOE reform. The government designated the restructuring of SOEs, along with that of the financial sector and public investment, as one of the key tasks in the five-year socioeconomic development plan for 2011–2015. The SOE restructuring scheme adopted in 2012 sought to specify the required levels of state ownership according to the sectors in which the SOEs operated, promote the equitization of SEGs and GCs that did not require 100% state ownership, and divest state capital from their non-core businesses[12].

2.2 The current status of SOEs in the Vietnamese economy

Three decades of SOE reform, with equitization at its core, has brought about mixed results. On one hand, equitization has made progress in terms of *the number of enterprises*. The number of SOEs, i.e., enterprises in which the state owns more than 50% of charter capital, has been reduced from around 12,000 in 1990[13] to 3,048 in 2014 (GSO 2016). Of the 3,239 SOEs that existed in 2012 (ibid.), only 846 were 100% state-owned, which included eight SEGs and 97 GCs[14]. Several SEGs and large GCs have been equitized recently, such as Vinatex, Vietnam Airlines, and the Airport Corporation of Vietnam.

On the other hand, there are worrying signs about the *quality* of equitization. The state continues

[11] Disbursed FDI, remittances, assistance, and portfolio investment flows in 2007 exceeded US$20 billion or 30% of GDP. In the absence of sterilization measures, the sudden surge in capital inflows fueled lending among small joint stock banks to property developers and buyers of real estate properties and equities, resulting in rising property and equity prices (Pincus and Vu Thanh Tu Anh 2008).
[12] Prime Minister's Decision 929/QD-TTg approving the scheme of restructuring SOEs with a focus on SEGs and GCs for the 2011–2015 stage dated July 17, 2012.
[13] The estimates range between 12,054 and 12,300 (Cheshier et al. 2006: 7–8).
[14] The report of the government 490/BC-CP dated November 25, 2013 (see footnote 1).

to hold very high proportions of capital in equitized enterprises, which casts doubts on the effectiveness of equitization in transforming SOEs. While the state held 46.1% of the total shares of equitized enterprises as of the end of 2004 (Perkins and Vu Thanh Tu Anh 2010: 17), this share is reported to have increased to 92% by 2017 (Trí Dũng 2017). This has happened as the state continues to hold large stakes, particularly in large SOEs in strategic sectors, even after equitization.

Table 2 shows the resulting structure of SOEs and their roles in the national economy as of 2012. SOEs account for very small proportions of the number of enterprises and employment, but large shares in the fixed assets and profits. This also suggests that the role of SOEs differs across sectors, with SOEs continuing to play key roles in capital-intensive industries.

(Table 2)

The foregoing analyses have the following implications. First, while Vietnam continues to emphasize equitization, there are suspicions over the effectiveness of equitization in transforming SOEs' management and improving their performance. Second, recent developments suggest there are likely to be significant differences across sectors in the pace and outcomes of reforms. These observations suggest the need for a sector-level analysis. This will be done in the subsequent section.

3. The Case of Vinatex

Despite being one of the most strategic SOE groups, Vinatex came under substantial pressure to transform because of WTO accession and international trade agreements, domestic reforms, and the entry of domestic private and foreign-invested enterprises. The analysis below will focus on how Vinatex was transformed after the early 2000s in terms of ownership, management, and relationship with the state as well as its role and performance in the Vietnamese T&G industry.

3.1 Vinatex up to the early 2000s

Ownership and organization

Vinatex was established in 1995 as a large-scale GC under the management of the Prime Minister (GC91). Upon establishment, it had 53 members, including 44 independent accounting units

(T&G companies and a financial company), four dependent accounting units (trade and service companies and regional branches), and five research institutes and schools[15].

Vinatex in the early years was closely tied to the state and was subject to a range of state interventions. First, both the parent and member enterprises were wholly state-owned and the appointment of key management personnel was controlled by the government. Vinatex was managed by a Board of Management (BoM) and operated by the general director[16]. The Prime Minister made decisions regarding the appointments of the BoM members[17]. The BoM made recommendation on the appointment of the general director to the Minister of Light Industry, who then presented it to the Prime Minister for approval[18]. In practice, government officials took the top management posts. Of the seven BoM members in the late 1990s, two were former officials of the Ministry of Light Industry (one of them also served as the general director), four were former officials of Textile Import–Export Corporation (TEXTIMEX), Vinatex's predecessor, and the remaining one was director of a member enterprise (Akiba 1998: 106).

Second, the intervention of government organs in Vinatex's management was prevalent, involved numerous actors, and was non-transparent, with procedures differing from one member enterprise to another. Key management decisions, such as development strategies and plans, the establishment of joint ventures, and large contracts, required approval by the Prime Minister. Large-scale investment projects also required the Prime Minister's approval after consultation with relevant ministries (Akiba 1998: 108). Akiba (1998) revealed that key management decisions by member enterprises also required approval by or consultation with various parties, including the parent company (i.e., Vinatex), ministries, and/or Communist Party organs and labor unions within the enterprises, depending on the types of decisions, although actors that intervened in the decision-making procedure and their roles in practice differed from one member enterprise to another (Akiba 1998).

One crucial factor that intensified the magnitude of government intervention in the T&G industry is export quotas. EU, which was one of Vietnam's major T&G export markets since the 1990s, had imposed quotas since 1992. The US, which became the largest market since the early 2000s, imposed quotas on Vietnamese T&G imports from May 2003. Although the specific mechanisms of quota allocations in the 1990s are not clear, Vinatex is reported to have played a decisive role (Vu Quoc Huy et al. 2001: 40). SOEs were the exclusive recipients of quotas until the mid-1990s and they continued to be the dominant recipients in the subsequent years (Hill 2000: 292). The

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[15] Government Decree No.55-CP dated September 6, 1995 approving the Charter of Activities and Organization of Vinatex.
[16] Government Decree 55-CP, Article 4.
[17] ibid. Article 14.3.
[18] ibid. Article 14.2k.

resale of quotas, officially illegal, was widespread as SOEs on-sold quota rights to private companies (ibid.).

Policy roles and state-related privileges

Upon its establishment, Vinatex was the given the mission of implementing business in the T&G industry according to the state's masterplan and according to market demand[19]. Vinatex's policy role is best illustrated in relation to the development strategy for Vietnam's T&G industry until 2010 as stipulated by Prime Minister's Decision 55/2001/QD-TTg dated April 23, 2001. The strategy set the target of developing the T&G industry into one of the main and key export industries, satisfying the increasing domestic demand, creating employment, and increasing the competitiveness and integrating with the regional and global economies. Within this broad target, the strategy particularly emphasized the production of materials (i.e., cotton, yarn, and textiles).

Vinatex played a key role in relation to this national strategy. To start with, Vinatex took responsibility for drafting the document[20]. The strategy also assigned SOEs and Vinatex, in particular, a leading role in its implementation. In the production of materials, which the strategy emphasized, the state sector was to play a leading role, whereas in garment SOEs that did not require 100% state ownership were to be equitized and investment by other economic sectors was to be encouraged. The strategy also assigned Vinatex to implement roughly one-third of the total investment of the whole industry during the 2001–2010 period[21].

Along with the tariff protection from imports that had been in place, the strategy outlined generous support including: (1) support funds from the budgetary and/or ODA sources for purposes such as the development of raw material regions, cotton and mulberry growing and silkworm rearing, and investment in waste water treatment facilities; (2) state's credit capital for development investment for fiber production, finished weaving, printing and dyeing; and (3) a government guarantee for deferred payment for procurement of equipment and/or commercial loans from suppliers or financial institutions by SOEs engaged in fiber production, finished weaving, printing and dyeing, etc. Some of the programs specifically targeted SOEs. Even where the programs did not explicitly target SOEs, the main beneficiaries were enterprises engaged in the production of

[19] Prime Minister's Decision 253-TTg dated April 29, 1995 on the establishment of Vietnam National Textile and Garment Corporation, Article 2.
[20] This is apparent from the fact that the strategy starts with the statement that the Prime Minister made the decision after examining Vinatex's proposal (Ishizuka 2004:190).
[21] The strategy estimated the total investment in the industry required to achieve its targets to be 35,000 billion dongs (US$2,377 million) for 2001–2005, of which 12,500 billion dongs (US$ 849 million) was to be undertaken by Vinatex, and 30,000 billion dongs (US$2,037 million) for 2006–2010, of which 9,000 billion dongs (US$611 million) was to be undertaken by Vinatex.

raw materials (cotton and mulberry) and materials (yarns and textiles), dyeing, infrastructure development, and waste water treatment—the segments in which SOEs were to play a leading role.

In practice, Vinatex emerged as the key implementer of the strategy. It invested in the production of textiles, planting of cotton (FEI 2003: 49–50) and a number of T&G industrial zones equipped with waste water treatment facilities[22]. Implementation, however, faced obstacles. State funds were not necessarily disbursed as planned, with some projects facing a shortage of funds (Ishizuka 2004: 195). While GCs often requested or even designated companies under their umbrella to use the products produced by members, this turned out to be difficult for Vinatex. This is because the low levels of technological accumulation in dyeing and finishing processes made it difficult for Vietnamese textile products to meet the requirements of buyers—especially those overseas (Goto 2003: 165–6).

3.2 Transformation of Vinatex since the early 2000s

While several factors, both domestic and external, contributed to Vinatex's transformation since the early 2000s, Vietnam's WTO accession in particular had direct and immediate consequences. First, T&G products were subject to the most drastic tariff reduction from 36.4% in 2006 to 13.6% in 2007 (IMF 2007:3–4), which applied equally to all players in the industry. Second, the development strategy of the industry toward the year 2010 was invalidated because the strategy, according to the negotiating partners, provided subsidies prohibited by the WTO[23]. Third, US quotas on Vietnamese T&G exports were terminated upon Vietnam's WTO accession as the two governments had agreed under an agreement in 2003. The EU had lifted quotas earlier in January 2005.

Ownership and organization

Vinatex has undergone significant changes in ownership and organization since the early 2000s: conversion to an SEG in 2005; equitization of member enterprises since around 2005 and of Vinatex in 2014; and conversion to a parent–subsidiary structure in 2010. These changes amounted to a transformation of the state–SOE relationship from an administrative one to an investment-based one, in which the state invests capital in the SOE as a majority owner and exerts influence over these firms through investment-based relationships (Cheshier et al. 2006; Ishida

[22] A typical example is the investment in Pho Noi B T&G Industrial Zone in Hung Yen province by Pho Noi T&G Infrastructure Development Joint Stock Company, a subsidiary of Vinatex.
[23] While Vietnam's commitment was only to eliminate all prohibited subsidies to the T&G industry as of the date of accession, the entire strategy was invalidated by the Prime Minister's Decision No.126/2006/QD-TTg dated May 30, 2006.

2009). The same structure applies to the relationship between an SEG or GC and its subsidiaries, though the ownership ratios may vary.

Let us examine how the above transition changed the state's control over Vinatex via ownership, appointment of key management personnel, and decision making. First, ownership diversification has taken place, although the state remains the majority shareholder of Vinatex and the largest shareholder of many of its member companies. Table 3 shows Vinatex's shareholding structure as of 2015. The state, Ministry of Industry and Trade (MOIT), owned 53% while two strategic investors[24], both Vietnamese real estate developers, held a total of 24%. In 2015, Vinatex had 16 majority-owned tier-one subsidiaries, most of which engaged in the production of cotton, yarn, and textiles, and investment and infrastructure development, and 21 associated companies that were minority owned by Vinatex and included the country's major exporters of garments.[25] Given that Vinatex was only 53% owned by the state, most of the subsidiaries, with the exception of those wholly owned by Vinatex, and all of the associated companies were now privately owned. However, the state remained the largest shareholder in many of these companies.

(Table 3)

Second, the state retained control over appointment of key management personnel. After Vinatex's conversion to a joint stock company, BoM members were elected by shareholders. According to Vinatex's charter after equitization, only those shareholders with at least 10% of shares held consecutively for at least six months have the right to vote in the election and to nominate candidates for the BoM, and the maximum number of candidates that could be nominated was determined in accordance with the shareholding ratios of the respective shareholders[26]. With a shareholding ratio of 50% or more but less than 60%, the MOIT is entitled to nominate a maximum of five candidates, whereas the two strategic investors, holding 10% or more but less than 20%, are entitled to nominate a maximum of one candidate each. Given that Vinatex's BoM consists of seven members and that large shareholders are limited to the two strategic investors, the MOIT retains control over the appointment of most BoM members.

Unlike the 1990s, however, government officials no longer occupied the top management positions. As of October 2017, the chairman and general director are promoted from member

[24] Strategic investors are domestic and foreign investors who have financial capacity and commit themselves to have a close relationship and long-term interest in equitized SOEs and to assist them via measures such as technology transfer and training of human resources (Government Decree 59/2011/ND-CP dated July 18, 2011 on the transformation of 100% state capital relationship into joint stock companies, Article 6).
[25] Vinatex's consolidated financial statements for the year ending December 31, 2015.
[26] Article 19, charter on the organization and activities of the Vietnam National Textile and Garment Group according as joint stock company, January 2015.

enterprises[27]. It was confirmed that of the five remaining BoM members, one represented the MOIT, one represented Vingroup, one represented an investment fund, and no information could be found on the profiles of the remaining two members.

Third, after equitization, the state's intervention in management decisions is officially limited to its capacity as a shareholder. Vinatex's charter upon equitization stipulated specific functions of the general meetings of shareholders, BoM, and the general director, and there was no mention about interventions by government organs in management decisions. Nevertheless, there is no evidence on how management decisions are made in practice or whether government intervention is, in fact, limited.

Policy roles and state-related privileges

To explore how Vinatex's policy role changed after invalidation of the industry development strategy toward the year 2010, we will first examine the policy documents that replaced it: the Prime Minister's Decision No.36/2008/QD-TTg dated March 14, 2008 approving the T&G industry development strategy toward the year 2015 and the Decision of the Minister of Industry and Trade No.3218/QD-BCT dated April 1, 2014 approving the masterplan for the development of the T&G industry toward the year 2020. The latter was designed to provide details on the basis of the broader strategy spelled out in the former.

The new strategy adopted in 2008 broadly defined its aim as building the T&G sector into one of the key industries, both export-oriented and meeting the domestic demand, creating employment, increasing competitiveness, and integrating with the regional and global economies. Within this broad objective, the masterplan added a number of more specific aims: (1) to ensure sustainable development of the T&G industry, competitiveness on the basis of modern technology and quality control, labor management, and environmental management according to international standards; (2) to ensure appropriate regional distribution of T&G industry; and (3) to construct famous trademarks by the year 2020.

In terms of Vinatex's role, the new strategy and masterplan are different from the old strategy in the following ways. First, Vinatex had not taken the drafting role, at least not explicitly. The new strategy was drafted by MOIT, whereas the masterplan was drafted by the Department of Light Industry of MOIT. Second, Vinatex was assigned only a limited role in the implementation. The strategy only assigned a number of specific roles related to the production of textiles for export and the training of human resources to Vinatex, whereas the masterplan never mentioned Vinatex.

[27] Information about the profiles of BoM members in this paragraph is based on Tập đoàn Dệt May Việt Nam (2015) and *CafeF* (http://www.cafef.vn).

Third, the state provided only limited support to the industry, without any explicit privileges to SOEs or Vinatex. Both documents stipulated that the industry was to mobilize capital from every sector in the country and abroad and encouraged capital mobilization via the stock market and commercial loans without government guarantee while the state was to assist with the costs for research, training, and environmental treatment.

However, even without being designated, Vinatex continued to play a key role in implementing the production of materials—one of its key policy objectives, yet with limited success. Vinatex's development strategy emphasized the construction of integrated value chains linking spinning, weaving, and sewing in each geographical region (Tập đoàn Dệt May Việt Nam 2015: 59). According to the group's investment plan after equitization, raw materials, spinning, and weaving–dying segments accounted for 91% of the total investment in fixed capital (Tập đoàn Dệt May Việt Nam 2014: 71–75). Vinatex's business in the materials segment, however, has failed to be competitive. The symbolic example is the US$325 million project to build the nation's first polyester fiber and yarn factory the group had invested together with Vietnam Oil and Gas Group (Petrovietnam). Vinatex withdrew from this project after running huge losses within a few years of operations[28].

In addition, Vinatex is likely to maintain policy involvement via Vietnam Textile and Apparel Association (VITAS), over which Vinatex maintains strong influence over VITAS as its top leaders typically held concurrent posts at VITAS. VITAS has played a key role in coordinating the enterprises in the industry, cooperating with the government in developing industry strategies and programs, and implementing the government's support program for trade promotion.

The other questions to be explored in this sub-section is, does the transformation lead Vinatex to compete on a par with other players in the T&G industry and to restructure unviable businesses so as to improve its efficiency? The literature has criticized how SEGs and GCs exploited their privileged access to resources to make unviable investments in unrelated sectors (Pincus 2015, Vu Thanh Tu Anh 2017). Vinatex was no exception. It set up a large number of subsidiaries in unrelated sectors such as real estate and finance[29]. As of 2008, Vinatex, had loans from its own finance company and a joint stock commercial bank in which it held stakes[30] as well as

[28] The plant, run by PVTex Dinh Vu Joint Stock Company (PVTex), faced difficulties competing with imports under reduced tariffs (Hoàng Anh 2015). PVTex incurred losses of $53.8 million and shut down its factory in 2015 (Ha Vy 2016), three years after coming into operation. As of July 2017, five former executives and related parties have been prosecuted in relation to this incident.
[29] In the restructuring program promulgated in 2013 (Prime Minister's Decision 320/QD-TTg dated February 8, 2013), Vinatex was to divest 100% of its capital from 37 subsidiaries. The list of subsidiaries shows that Vinatex's diversification focused on banking and finance (eight subsidiaries) and real estate and infrastructure development (11 subsidiaries).
[30] Vinatex had established a finance company under its umbrella in 1998. As of 2011, Vinatex held

government-related sources such as the Vietnam Development Bank, a provincial development fund, and Petrovietnam. However, as discussed in Section 2, Vinatex was required under the SOE restructuring program to divest all of its investments in unrelated sectors by 2015. By 2016, its investment in financial institutions were limited to a 0.01% stake in Vietnam Joint Stock Commercial Bank for Industry and Trade (Vietinbank) and all outstanding loans were made by commercial banks, with none coming from government-affiliated financial institutions or other SOEs[31].

Nevertheless, there are indications—though not explicit—that Vinatex may continue to enjoy state-related privileges, avoid being pressured to restructure unviable businesses, and deviate from operating commercially. The first concerns access to credit. A large proportion of the loans are made by former state-owned commercial banks that are all well connected with SOEs. For instance, Vinatex signed a cooperation agreement with the Bank for Investment and Development of Vietnam (BIDV), under which BIDV made commitment to provide Vinatex with lending of up to US$600 million during 2014–2016 (Hung Le 2014). The BIDV signed similar agreements primarily with large corporations, most of which were SEGs and GCs such as Vietnam Post and Telecommunication Group (VNPT) and Electricity of Vietnam (EVN). The interest rates applied to Vinatex's outstanding short-term loans in Vietnamese dong as of the end of 2015 ranged between 5.4 and 6.0%[32], which is much lower than 7.118%, the average short- and medium-term lending rate for the year[33].

The second concerns the access to land. In the Vietnamese context, where land is under state administration, preferential access to land creates significant advantages to firms not only to execute their main business activities but also to facilitate access to credit by easing collateral requirements to provide opportunities for engaging in lucrative real estate businesses. It is argued that SOEs tend to occupy most of the land allocated for business activity and also tend to take a considerable portion of new land that is provided by the government for business rental (Nguyen Van Thang and Freeman 2009: 229). Vinatex is known for its vast land holdings in privileged locations and, even after 2015, Vinatex and its subsidiaries continue to invest in real estate for rental,[34] which is a quick way to generate revenue.

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stakes in Eximbank, Maritime Bank, Navibank, Asia Commercial Bank (ACB), and Techcombank. As of 2008, Vinatex had short-term loans from ACB. Moreover, nearly half of the outstanding short-term loans as of 2008 came from unspecified sources.

[31] Vinatex's consolidated financial statements for the year ending December 31, 2016.

[32] Vinatex's non-consolidated financial statements for the year ending December 31, 2015.

[33] http://data.worldbank.org/indicator/FR.INR.LEND?locations=VN (accessed October 31, 2017).

[34] As of 2014, land used by Vinatex and its subsidiaries amounted to 540,000 square meters, which includes land in central locations in large cities where rental fees are extremely high as well as industrial zones in surrounding provinces (Tập đoàn Dệt May Việt Nam 2014). As of the end of 2016, Vinatex's outstanding investment in real estate for rental was 101 billion dongs, including offices and apartments in Hanoi and Ho Chi Minh City, and factories, warehouses, and industrial zone

The third concerns cross subsidization within the group. Vinatex itself recorded profits during 2009–2016, the years for which consolidated financial statements are available. However, the financial statements demonstrate that Vinatex depends on profits from investments in associated companies engaged in the export of garments to fund businesses that are unviable. With the group's focus on the production of yarns, textiles, and dyeing, which is yet to be competitive, combined with high sales and operating costs, Vinatex would run losses without incomes from these associated companies (Table 4). In short, dividends from large and competitive export-oriented garment companies of which Vinatex owns minority share are used to finance loss-making cotton-yarn-textile businesses.

(Table 4)

The last concerns Vinatex's non-commercial roles. The government assigns Vinatex the role of contributing to the country's socioeconomic development[35], and Vinatex's charter includes improving the living and working conditions and raising the income for workers among its objectives. In practice, Vinatex continues to emphasis its roles in employment creation and social stability (Tập đoàn Dệt May Việt Nam 2015: 78). Vinatex and its wholly or majority-owned subsidiaries invest in poor provinces, where employment opportunities in modern industries are limited, such as Ha Tinh, Quang Binh, and Nghe An. For instance, Vinatex claims its contribution to poverty reduction in Song Dong District, one of the poor districts in Bac Giang province, by investing in a sewing factory and creating employment for 500 workers, with an average monthly income of 4,000,000 dongs (ibid. p. 80), which is nearly twice the minimum wage for the region[36]. It is difficult to identify exactly what Vinatex's motivations are and what consequences such investments generate. However, it is possible that serving national and local development objectives might help Vinatex expand its political influence over the central and local governments and extract favorable treatment, for instance the allocation of land by the local government[37].

3.3 Vinatex's performance

Let us first examine the role of SOEs as a whole in the T&G industry. Figure 2 shows that in both textiles and garments, the state sector's share in industrial production declined considerably

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infrastructure in the provinces.

[35] Prime Minister's Decision 320/QD-TTg.

[36] The minimum wage for the region in 2015 was 2,150,000 dongs (103/2014/ND-CP).

[37] This observation reflects on Pincus et al.'s (2012) analysis on fragmented public investment in transport infrastructure under the triangular relationship between the central government, the local government, and SOEs.

between 1995 and 2010. Caution is needed in interpreting this data, however, because the decline may partly be due to the conversion of SOEs into domestic private enterprises via equitization and the divestment of state capital from equitized SOEs. This is especially likely for the garment industry, where equitization and divestment of state capital made rapid progress. However, the figure does suggest that domestic enterprises as a whole lost their shares to foreign-invested sector, which accounted for nearly half of garment production by 2010.

(Figure 2)

We now focus on the performance of Vinatex and its members. To start with, there are varying estimates of Vinatex's share in the industry in the early 2000s. Nadvi et al. (2004) cite the text of the speech on Vinatex's website that suggests Vinatex accounted for 31% of Vietnam's T&G production in 2000 and nearly 30% of exports. Vinatex's share of 31% in T&G production seems consistent with industrial statistics, which indicates that the state sector's share in T&G production in 2000 was 44%[38]. There are no available data on profitability or efficiency of Vinatex or its members up to the early 2000s.

How did Vinatex's share in the country's T&G industry change in the subsequent years? Again, caution is needed with the data because many of Vinatex's members, especially garment manufacturers, were converted from subsidiaries to associated companies, whose performance is reflected in Vinatex's consolidated financial statements as returns on equity investment. Whereas Vinatex had 52 members in the early 2000s (Vu Quoc Huy et al. 2001: 18), Table 5(a) shows that the number of subsidiaries continued to decline in the 2010s while that of associated companies increased. For the sake of clarity, Table 5(b) shows Vinatex's performance and share based on its consolidated financial statements while Table 5(c) shows the share of total employment and exports of Vinatex's member companies in Vietnam's T&G industry. Vinatex's share in exports decreased from around 30% in 2000, as discussed above, to just 10% in 2016. Vinatex's share in total turnover and profits earned by the T&G industry also declined rapidly between 2009 and 2015.

(Table 5)

While Vinatex's overall share in exports declined, performance has varied among its members. Apart from the divergence of performance between members producing yarns and textile and those producing garments, performance diverged even among those producing garments. Table 6

[38] The author's calculation is based on GSO (various years). Vu Quoc Huy et al. (2001: 18) estimate Vinatex's share in production of fiber, fabrics, and garments to be 80%, 65%, and 45%, respectively (no year given), which does not seem consistent with the industrial statistics.

shows the structure of Vietnam’s 50 largest garment exporters in August 2015. The fact that 34 of the 50 companies are foreign-invested while only six Vinatex members appear in the top 50 reinforces the above observation based on industry-level data that SOEs are losing out to foreign-invested enterprises. However, Vinatex’s three largest associated companies are ranked first, fifth, and ninth, respectively, among all garment exporters in the country. This means that some Vinatex members continue to compete successfully with foreign-invested enterprises even after the export quota was abolished. Similar observations were made at an earlier stage by Goto et al. (2011), who surveyed Vietnamese garment exporters, most of which were SOEs and former SOEs, in 2001 and 2007. He found that the performance of garment exporters in the face of competition with China diverged by 2007 and the difference in performance was attributed largely to productivity differentials.

(Table 6)

The most prominent example of success is Viet Tien Garment Joint Stock Corporation. It was one of the largest garment exporters in the early 2000s, and remains the largest exporter in 2015. The literature provides two possible reasons for the company’s success up to the early 2000s: advanced technological and managerial capability and state-related privileges. Ishida (2004) argued that, while the company benefited from its capacity to adapt to new market opportunities and to learn from overseas buyers, it also enjoyed very large allocation of export quota and possibly privileged access to credit from state-owned commercial banks. Of the two reasons for the company’s success, the company’s advantage in export quota allocation at least had been lost by the 2010s, and the company’s capacity to adapt to new market opportunities and to learn from buyers is likely to have been an advantage for the company to survive increasingly fierce competition. However, the reason for the company’s continued success requires further investigation, including possible privileged access to credit.

3.4 Discussion

The foregoing analysis has shown that the transformation of Vinatex in terms of ownership, organization, policy roles, and relationship with the state, albeit incomplete, progressed significantly between the early 2000s and 2010s. Vinatex is now partially owned by the state although the state remains the largest owner in the parent and many of its member companies. Its explicit role in drafting and implementing policies has diminished considerably. It is now managed by managers who were promoted internally instead of ex-government officials; in addition, explicit state subsidies have been dismantled. Vinatex members compete for export orders without privileged allocation of export quotas.

As a result of Vinatex's transformation, the entry of foreign-invested and domestic private enterprises, and changing domestic and international landscape of the industry, the share of SOEs and Vinatex in Vietnam's T&G industry has declined significantly. It is now foreign-invested and domestic private enterprises that play the dominant role in Vietnam's T&G industry. However, it should be emphasized that the growth of domestic private enterprises, particularly in the garment segment, has been fueled at least partly by the equitization of SOEs and divestment of state capital from equitized SOEs. In fact, some Vinatex members, which are now only minority-owned by the state and, therefore, nominally "private," remain among the country's top T&G exporters, competing successfully with foreign-invested enterprises.

On the whole, Vinatex and its members operate more in accordance with market mechanisms and in a more competitive environment. However, problems do remain. As is the case with other SOEs, there are indications that Vinatex may continue to exploit privileged access to credit and land and deviate from operating as a commercial entity. Moreover, cross-subsidization within the group has enabled Vinatex to finance investments in projects that are not commercially viable and/or are executed inefficiently. If this situation continues, then it will act as a constraint to the functioning of market forces that facilitate the exit of inefficient businesses out of the industry.

Given that Vietnam's WTO accession acted as a catalyst to push reforms forward, one might be tempted to ask if Vietnam's participation in new-generation free trade agreements, such as TPP and the FTA with the EU, would help address the outstanding problems. Taking the example of the TPP, it is unlikely that even if TPP comes into effect this would have significant impact. First, as the state is set to retreat from majority ownership, it is not clear if Vinatex and its members would be SOEs as per the definition in Article 17.1 of the TPP agreement. Most of Vinatex's subsidiaries are already less than 50% owned by the state; in addition, Vietnam recently announced an ambitious plan to completely divest the state's stake in Vinatex by 2018[39]. Second, it may be difficult to demonstrate that Vinatex or its members enjoy preferential access to credit or land *by virtue of state ownership or control*. Emerging large conglomerates that are privately owned but reportedly receive support from powerful allies in the party and the state (Pincus 2015: 47) are apparently capable of negotiating favorable terms in access to credit and land. Also, at least a part of the problem with access to land has to do with SOEs' vast land holdings (i.e., their initial resource endowment rather than privileged access to resources).

4. Concluding remarks

This paper set out to assess the progress and outcomes of SOE reforms under international

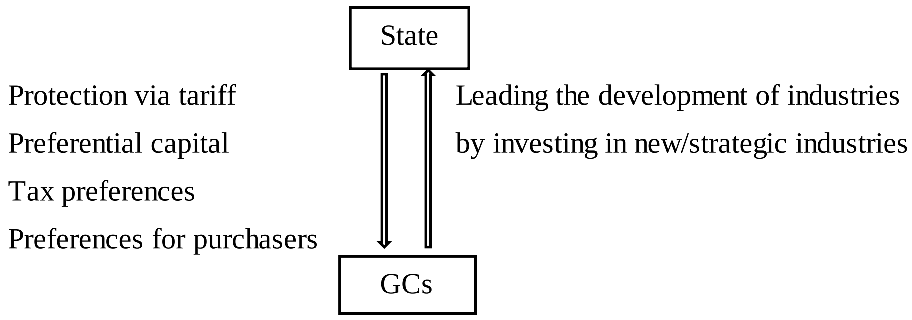
[39] Prime Minister's Decision 1232/QD-TTg on August 17, 2017 approving the list of state-owned enterprises marked for divestment during 2017–2020.

economic integration in Vietnam. It specifically focused on Vinatex, a major SOE group in the T&G industry in which the impact of international economic integration was expected to be substantial. The findings can be summarized as follow. First, unlike large-scale SOEs in strategic sectors that have received the most attention in the literature, the transformation of Vinatex in terms of ownership, organization, policy roles, and relationship with the state, albeit incomplete, has made significant progress. Second, there are, nevertheless, indications that Vinatex's relationships with the state and non-commercial roles may continue in subtle and indirect forms. Third, with the entry and growth of foreign-invested and domestic private enterprises, both SOEs and Vinatex have lost shares in the T&G industry. However, some Vinatex's members stay among the country's top garment exporters, successfully competing with their foreign-invested rivals.

The above findings suggest the recent realities of Vietnamese SOEs that are increasingly hybrid in terms of ownership and control, management, strategy, and their relationship with the state, similar to those in many other countries (Bruton et al. 2015). Vinatex now includes the parent company and numerous member companies with varying levels of state ownership and control. Apart from the parent and the few subsidiaries, all remaining member companies are now nominally "private." Vinatex and its members are now more autonomous in management than in the early 2000s. However, far from becoming purely private entities independent from state, many of these member companies are still likely to maintain varying levels of relationship with the state. Even though such relationships have become increasingly implicit, this study identified several illustrative examples, such as the state's control over appointment of the BoM, or Vinatex's pivotal role in industrial association and contribution to social development objectives.

The findings suggest a number of areas in which further research is needed. First, the varying levels of success in transforming the management and competing with rivals among Vinatex members deserve further examination. Future research should analyze how the members differ and what factors account for such differences. Second, because the progress and outcomes of reforms are likely to be influenced by specific competencies possessed and strategies pursued by SOEs in question as well as competitive landscape in the industry, it would be worth replicating similar analyses for other large and strategic SOEs in Vietnam that have faced reforms and international economic integration.

Figure 1. Relationship between the state and the GC



Source: Prepared by the author.

Table 1. Vietnam's WTO accession commitments related to SOEs

Area	Vietnam's Commitment
Enterprise/Investment Law	Promulgation of laws common to all ownership types in 2006.
Competition Law	Promulgated in 2006
Trading rights	Granted to foreign-invested companies except for tobacco, crude oil and petroleum products, printed and cultural products, and aircraft, which were subject to state transition enterprises. Transition periods were granted for imports of pharmaceutical products, certain types of printed products, and printers, and exports of rice.
Equitization/privatization	All SOEs were to be converted to either joint stock companies or limited liability companies, so as to make them subject to United Enterprise Law, by year 2010. Vietnam was to clarify the sectors where companies were to be wholly or majority owned by the state. Vietnam was to make annual report on the progress of equitization.
Price controls	Vietnam would apply price controls in a WTO-consistent fashion, and it would continue to publish the list of goods subject to state price controls and any changes.
Subsidies	Vietnam was to adhere to WTO rules, i.e., dismantle subsidies covered in the strategy for the development of the textile and garment industry toward the year 2010.

Source: Prepared by the author on the basis of the WTO (2006).

Table 2. Share of SOEs in enterprises in Vietnam (2014)

	Number of enterprises	Shares in all types of enterprises (%)				
		Number of enterprises	Employment	Fixed asset/ long- term investment	Net turnover	Profit before tax
Centrally managed	1,703	0.4%	9.7%	36.8%	18.6%	28.3%
Locally managed	1,345	0.3%	2.9%	2.9%	3.3%	4.9%
Total	3,048	0.8%	12.7%	39.7%	21.9%	33.2%

Source: GSO (2016).

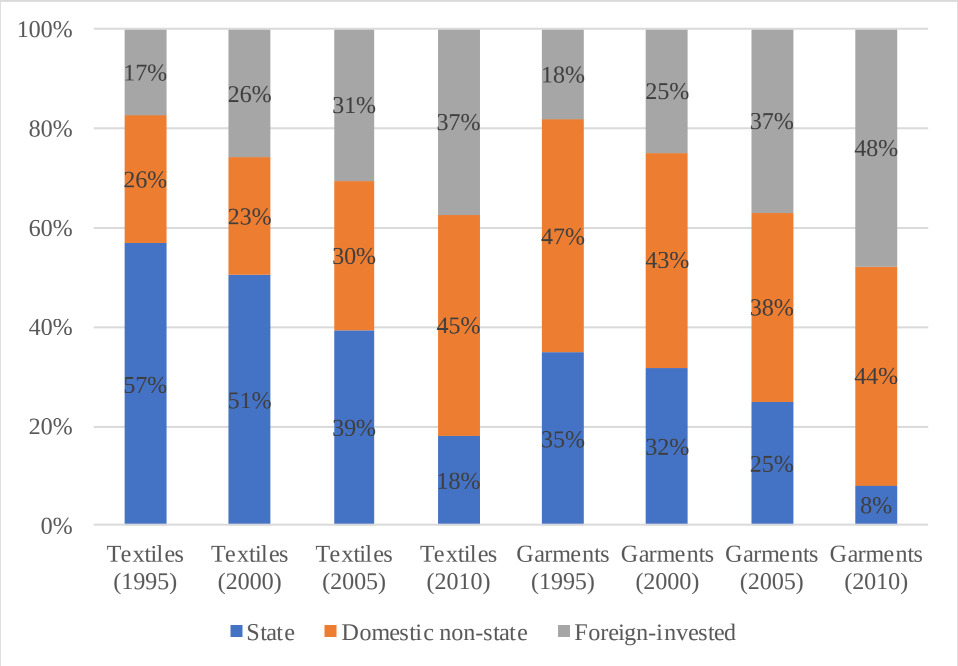
Table 3. Vinatex's shareholding ratio as of 2015

Shareholder	Shareholding ratio	Number of shareholders
Ministry of Industry and Trade (MOIT)	53%	1
Vietnam Investment and Development Group (VID) *	14%	1
Vingroup *	10%	1
Individual shareholders in Vietnam	10%	1,750
Organizational shareholders in Vietnam	1.40%	5
Individual shareholders abroad	0.01%	18
Organizational shareholders abroad	11%	12
Total	100%	1,788

Note: * denotes strategic investors.

Source: Tập đoàn Dệt May Việt Nam (2015).

Figure 2. Structure of T&G production by ownership



Source: GSO (various years).

Table 4. Summary of Vinatex's profit and loss statement (Unit: billion VND)

	2014	2015
A. Gross profit	1,533	1,865
B. Net financial income	-96	-246
C. Share of profits and losses of associated companies accounted for, using the equity method	378	498
D. Selling expenses	650	561
E. General administrative expenses	921	980
F. Ordinary profit	245	575

Note: F = A + B + C− (D + E)

Source: Vinatex's consolidated financial statements for the year ending December 31, 2015.

Table 5. Vinatex's share in the T&G industry

	2009	2010	2011	2012	2013	2014	2015	2016
(a) The number of member companies								
Subsidiaries	36	36	30	25	17	18 (38)	16 (39)	18 (39)
Associated companies	25	25	31	30	26	34	36	38
(b) Vinatex's share in T&G industry (on the basis of consolidated financial statements)								
Net turnover	10%	9%	8%	4%	3%	3%	3%	n.a.
Profit before tax	22%	11%	17%	12%	3%	5%	6%	n.a.
(c) Vinatex's share in T&G industry (total of all Vinatex member enterprises)								
Exports	15%	13%	12%	13%	11%	11%	10%	10%

Note: (1) The number of second- and third-tier subsidiaries is shown in parentheses.

(2) The number of subsidiaries in 2012 and 2013 are only for first-tier subsidiaries. No number of second-tier subsidiaries is given.

(3) The number of subsidiaries in 2009 and 2010 does not indicate whether they only include those at the first-tier or also include those at the second- and third-tier.

Source: Tập đoàn Dệt May Việt Nam (2014), Tập đoàn Dệt May Việt Nam (2015, 2016), GSO (various years).

Table 6. Vietnam's 50 largest T&G exporters in August 2015

Category of companies	Number of companies	Export value (thousand US$)
Foreign-invested companies	34	494
Vietnamese companies	16	273
Vinatex member	6	121
ex-Vinatex member	1	11
non-Vinatex member	9	142
Total	50	767

Source: VITAS, *Ban tin Kinh te - det may*, so 10-2015.

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