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FOREWORD

In the year 2010, after the global economic crisis, the Vietnamese economy has had signs of recovery. Thanks to the efforts of Government and Vietnamese business community, the growth rate has been improved in all sectors and the GDP has achieved a remarkable level of growth 6.78%.

Following the annual reports of 2006, 2007, 2008, 2009 the Vietnam Chamber of Commerce and Industry continues to introduce ***Vietnam Business Annual Report 2010***. This report will give highlights on complicated changes in the business environment in Vietnam and in the World, on the major trends in economic restructuring and potential markets movements, including of domestic. Again, a picture of firm's capacities is illustrated through an assessment of firm's performance in those sectors, where there are pilot state owned economic groups. Under the theme of the year: Trends of corporate Restructuring, the Report outlines some features of process of restructuring companies and formation and development of economic groups in Vietnam. Based on this analysis, the Report has given some conclusions and suggestions to both policy makers and businesses, to create more favorable business environment and to support businesses in develop their own business strategy.

The Vietnam Chamber of Commerce and Industry would like to express special thanks to the World Bank and Housing Construction Investment Joint Stock Company (Housing Group) for sponsorship to develop and to public this report.

The report was completed in a constantly changing macroeconomic environment. Due to complex issues, it may have some shortcomings. Vietnam Chamber of Commerce and Industry is pleased to receive comments from readers for the improvement of report quality in the coming years.

We would like to send our best wishes to the Vietnamese business community and express our confidence that we will overcome challenges and achieve successes not only in domestic but also international markets.

Dr. VU TIEN LOC,
Chairman and President
Vietnam Chamber of Commerce and Industry

ACKNOWLEDGEMENT

The Vietnam Business Annual Report is implemented annually by Enterprise Development Foundation of Vietnam Chamber of Commerce and Industry (VCCI) since 2006. This is an important document to support enterprises and readers' understanding business development through year. Beside analyzing Vietnam business environment and firms' capacities in recovery period after crisis, the report also deeply analyzes the real capacities of firms upon selected topics in each year, that is actual from point of views of business communities.

In the year 2010, "***Trends of Corporate restructuring***" is a topic selected by Vietnamese enterprises for the Vietnam Annual Business Report. Since the "Doi Moi" policy in 1986 and when Vietnam joined the World Trade Organization, restructuring is usually set up at both macro and micro economic levels. At the macro level, the restructuring process is shown through enterprise rearrangement in some sectors, or types of ownership, especially in SOEs according to the strategy and target of country development. At the micro level, the restructuring is expressed through changing the size of firm, types of ownership, or M & A and the formulation of number of economic group in order to achieve more effective operation. Restructuring is more urgent and necessary in the year 2010. In fact, restructuring often takes place after a crisis. Economic crises push managers and policy makers to review the existing economic structure and then draw long-term strategies. Hence, it is the right time now in the post-crisis period to support recovery and development that forces enterprises to adjust management systems and business operations, cutting off ineffective activities and developing new business strategies and solutions.

The Vietnam Business Annual Report 2010 is expected to give an overall picture of corporate restructuring, the situation of conversion and moving of enterprises between sectors and types of ownerships. This report also focuses on SOEs' innovation and rearrangement. Through case studies, the report will introduce the restructuring processes of some corporations, especially economic groups.

Based on the assessments of research groups, the report will suggest some recommendations to improve the Vietnamese business environment, enhance firms' competitive capacities and orient the restructuring of economy as well as enterprises. The views given by this research group are open to allowing firms to draw their own conclusions and strategies of development.

Vietnam Business Annual Report 2010 includes four main parts:

Part I: Overview of business environment of Vietnam in 2010

Part II: Vietnamese firm's capacity

Part III: Trends of Corporate restructuring

Part IV: Formulation and development of EGs in Vietnam

Part V: Recommendations

The Vietnam Business Annual Report 2010 is studied by Enterprise Development Foundation of Vietnam Chamber of Commerce and Industry in the framework of implementation of cooperation Program between VCCI and Ministry of Science and Technology (MOST). The research has also received the sponsorship of World Bank (WB) and Housing group. The VCCI would like to aknowledge the donors, all researchers and experts, who make active contributions to this Report.

ENTERPRISE DEVELOPMENT FOUNDATION

ACRONYMS AND ABBREVIATIONS

ASEAN	Association of Southeast Asia Nations
BOT	Build-Operate-Transfer
BRIC	Brazil, Russia, India and China
BT	Build – Transfer
BTO	Build -Transfer-Operate
CAGR	Compound Annual Growth Rate
CEO	Chief Executive Officer
CPI	Consumer Price Index
DATC	Debt and Asset Trading Corporation
EG	Economic group
EIU	Economist Intelligence Unit
EPS	Earning Per Share
EU	European Union
EVN	Vietnam Electricity
FDI	Foreign Direct Investment
FPT	Financing and Promoting Technology Corporation
GDP	Gross Domestic Product
H*	Herfindahl-Hirschman Index standard
HHI	Herfindahl-Hirschman Index
HNX	Hanoi Stock Exchange
HUD HOLDINGS	Housing and Urban Development Holdings
IPO	Initial public offering
ISO	International Organization for Standardization
JV	Joint Venture
KPI	Key Performance Indicators
M&A	Mergers and Acquisitions
MLE	Men Led Enterprises

OECD	Organisation for Economic Co-operation and Development
OPEC	Organization of the Petroleum Exporting Countries
P/E	Price to Earning Ratio
PETROVIETNAM	Petrovietnam Oil and Gas Group
R&D	Research and Development
ROA	Return on Assets
ROE	Return on Equity
ROS	Return on Sales
SCIC	State capital investment corporation
SEG	State Economic Group
SOEs	State-owned enterprises
UPCOM	Unlisted Public Company Market
USD	US dollar
VIETTEL	Viettel group
VINACHEM	Vietnam National Chemical Group
VINACOMIN	Vietnam National Coal, Mineral Industries Holding Corporation Limited
VINASHIN	Vietnam Shipbuilding Industry Group
VINATEX	Vietnam National Textile Garment Group
VNPT	Vietnam Posts and Telecomunications Group
VRG	Vietnam Rubber Group
VSIC	Vietnam Standard Industrial Classification
WLE	Women Led Enterprises

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EXECUTIVE SUMMARY

Overview of the business environment of Vietnam in 2010

Vietnam has had an essential improvement in the business environment, leaping forward 10 levels compared to 2009, ranked 78 of 183 countries and 4th out of 10 economies which have reformed the most in making favorable business environments. A major achievement is economic growth with GDP at 6.78% higher than the plan set up by the Government (6.5%).

In 2010, total export turnover reached USD 71.6 billion, increasing by 25.5% compared to 2009. That might be considered a great achievement of the economic growth of Vietnam in the unfavorable context of the international economy. The structure of export commodities are changing positively, which shows an increase in the proportion of manufacturing and high technology products, and a decline in raw products. The import turnover of Vietnam reached USD 84 billion, increasing by 20.1% compared to 2009, the ratio of the trade deficit over export was 17.3%, decreasing by 5.2 points compared to 2009. It is a positive result.

The process of administrative reform was important to Vietnam in 2010 with the most fiercely and widely implemented Project 30 on administrative reform. Additionally, there was an important change in the regulations on market entry and corporate administration, including the introduction of Decree 43/2010/ND-CP on business registration and Decree 102/2010/ND-CP on guiding the implementation of some articles of the Enterprise Law.

Thanks to improvement of business environment, the number of newly registered enterprises continues to increase. The number of enterprises established in Vietnam in 2010 was 89,187 increasing by 5.5% compared to the same period in 2009. At the end of 2010, the total number of business-registered enterprises under the Enterprise Law has reached more than 544,394 exceeding 500,000 enterprises to the plan of the Government.

However, beside positive achievements, there were factors creating unfavorable conditions for firms doing business in 2010. The interest rates were often high: in the first quarter the interest rates of borrowings were up to 17-18%, in addition to high inflation with CPI at 11.75% in comparison to December 2009 and much higher than the target of the National Assembly.

While considering that the increase in the consumer price index came from an inefficient structure of the Vietnamese economy, the trade deficit, and a continuous increase in the budget deficit, it needs to be seen that the macroeconomic operations of the government are still inadequate. These are reflected by the lack of close coordination between fiscal and monetary policies, solving problems for short terms and in inappropriate ways, lack of appropriate implementing measures for strong policies, and the weakness of capacity of forecasting macro economy.

In the year 2010, Vietnam could not reach the planned target of attracting FDI. The FDI registered in real estate businesses still took a high portion. The issues of "price transfer" at FDI enterprises has not been resolved. The main achievement in this area is that the implementing capital has increased.

Infrastructure for business remains poor. Power shortages continue to occur and tend to be more serious in 2010 than in previous years. The power cut which took place lasted long in many places and impacted production and living. Despite efforts in both investment and construction, the transportation system in Vietnam is still inadequate compared to the requirements of modern life in both quantity and quality. The weaknesses of the transport system in Vietnam have caused increasing impediments to the development process of modern society and economy. The outdated water supply and drainage systems also cause pollution and reduction of water resources.

Besides internal factors, Vietnam business environment is affected by other outside issues. The world economy in 2010 and subsequent years witnessed a downturn in the domination of the large economies of the USA, the EU, Japan and the rise of powerful emerging BRIC countries and developing countries. Vietnam has an opportunity to take advantage of the objective conditions (increased economic costs of China) and subjective ones (cheaper labour compared to many countries in the region) when participating in the production regionally and globally. To be able to grasp these opportunities, enterprises need better reform in their performance, and an understanding of the international general standards and restructuring their businesses. In that way, firms can improve their domestic production, integrate better into the international economy, and provide a foundation for sustainable growth and long-term stability.

Vietnam Firm's Capacities

Based on criteria of concentration, eight sectors selected to analyze capacities of enterprises are: Manufacture of wearing apparel; Manufacture of chemicals and chemical products; Manufacture of rubber and plastic products; Generation and distribution of electricity and gaseous fuels and air conditioning; Construction; Water transport; Telecommunication; Insurance, reinsurance and social insurance (except mandatory social insurance). Most of studied sectors have a very low level of concentration.

It is easy to observe the low labour efficiency in three industries with low concentration: manufacture of wearing apparel, manufacture of rubber products, and construction. Particularly, manufacture of wearing apparel, with the lowest labour efficiency among the eight, also experiences labour shortage, including low-skilled labour. Restructuring would greatly depend on improving labour productivity, or labour-use efficiency of the businesses. Without improvement of labour indicators, breakthroughs would be hard to achieve by these industries in the coming time.

Regarding financial capacities, quick ratios of businesses in the eight selected industries all meet the expected standard level. However, while all private sectors have quick ratios meeting the expected standard value, this is always not the case for FDI and especially for the SOEs.

As such, of the eight studied industries, capital-use capacity of communication, electricity generation and distribution, and construction are the lowest. Generally, capital-use capacity of businesses in all industries tends to decline.

As such, it is obvious that even though FDI sector has the highest loss-making rate as compared to the state-owned and private sectors, its profitability is the highest in all three ratios – return on assets (ROA), return on equity (ROE) and return on sales (ROS). There are gaps, not so much with regard to tax management policy, but FDI attraction policy, when incentives for FDI businesses not only fail to attract investments in high value-added industries, but in effect encourage FDI enterprises to invest in processing industries with intensive use of imported inputs. This is also the reason for Vietnam's continuous trade deficit so far, as FDI businesses have to import inputs for production.

Human resources devoted to scientific and technological activities are an important indicator to reflect the technological capacity of a business. Of the studied industries, except for water transport and telecommunication with a large share of scientific and technical staff due to the business nature, all other industries have a fairly low share of technical staff of below 50 per 1,000 employees. Another worrying sign is the downward trend of this indicator. In a comparison of manufacturing industries, the share of scientific and technical staff is the highest and most stable in the chemical industries, while significantly reducing in the others.

As such, six of the eight studied industries have secured capacity of core business operation with high levels of workforce and revenues. The two industries with low and declining core business capacities are water transport and electricity generation and distribution. In these two industries, special attention needs to be paid to SOEs, which have fairly low capacities of core business operation.

The capacities of Women Leaded Enterprises (WLEs) are limited as compared to Men Leaded Enterprises (MLE); nonetheless, from gender respects it can be said that Vietnamese women are competent at mobilizing their gender potentials. They can make an important contribution to the creation of jobs for other women. They tend to operate businesses in the areas close to their family and lifestyle (services, catering, hotel, retails and whole sale) and they can be successful in these areas. Women have capacities and advantages in integrating their family activities and business. Therefore, it is important to create an enabling business environment encouraging women to use their gender potentials and supporting them in overcoming the constraints in managing their business. The priority should be given to those m easures, which aim at improving the financing management capacities at WLEs and supporting them in expanding their business.

Trends of Corporate restructuring

In terms of the structure of Vietnamese businesses, the share of number of non-state enterprises accounts for more than 95% and continues to increase, however their contribution has not been corresponding to this share, except that the number of workers in this sector is at 60% of total number of emloyees working at entepises. The size of non-state enterprises in term of labor and capital are both smaller than two other economic sectors (SOEs and FDI) . However, non-state enterprises are moving positively to the growth of assets and their business effectiveness is higher than that of SOEs.

The restructuring of non-state enterprises therefore becomes an issue for its important role in the economy. Due to the economic crisis the non-state enterprises have had a movement toward industries requiring high quality of labor such as Information & Communication, Professional Services & Science and Technology, Education & Training, Administrative & Business Support Services, and Real Estate. In contrast, sectors like Finance-Insurance-Banking, Electricity & gas, Mining, Processing-Manufacturing, Accommodation and Catering, and Transportation & Warehouse have a slowed growth, mainly because of the impacts of economic downturn and high inflation during 2008-2009. In labor movements, industries like Information & Communication, Professional services & Science and Technology, Education & Training, Administrative & business support services, and Real Estate have had the fastest growth. These new industries however are taking just a small portion of the employment structure of non-state enterprises.

SOEs reform has been carried out on a gradual and continuous basis since 2001 up to now and accelerated since the introduction of the Central Party Resolutions 3 and 9 (IX Plenum). SOEs restructuring plan of 2010, approved by the Government for ministries, central government agencies, groups, General Corporation 91 and localities, includes 1,117 enterprises of which 901 enterprises transform to one member limited liability companies (accounting for nearly 81%), 148 go for equitization (over 13%), and the rest is other forms of restructuring (more than 6%).

Corporate restructuring through debt subrogation is a new activity in Vietnam implemented through the Debt and Asset Trading Company (DATC) of the Ministry of Finance. This is one of the main activities of the company to contribute to the consolidation of enterprises' financial strength and to promote the restructuring process and ownership transformation of SOEs. Through this process, a number of SOEs who are loss-making and lose all state capital and not eligible for equitization have been restructured and transformed to joint-stock companies by DATC. Listing is a final step in corporate restructuring process through debt subrogation. As of December 31, 2010, DATC has 34 enterprises formed by transforming debt into capital contribution in association with restructuring.

The M&A activities in 2010 appear to be less active than they were in 2009, however there were some big deals by the end of the year. In fact, the legal environment of Vietnam has not accommodated for this kind of business activity yet.

In general, corporate restructuring in Vietnam has a certain progress, especially in the private sector, where the restructuring is a self motivation Regarding SOEs reform; the need of separate state ownership and state management functions becomes an actual requirement above all. This emphasizes the rules of market economy, to which all stakeholders have to adhere. The role of the State is to create a condition to allow SOEs to have good business performances and play a leading role, but now against the market rules.

The formulation and development of economic groups in Vietnam

In Vietnam, two categories of EGs exist, including SEGs and PEGs. There are currently twelve SEGs, but the exact figure on the number of PEGs is unknown. Groups were established by the Prime Minister's Decision and operate in the form of single member limited liability Company following the model of the council of members. As opposed to the SEGs, the establishment of PEGs is not under decision of any competent agency; the establishment of these groups is decided by the enterprises themselves. The establishment and development of PEGs have been made through the progressive expansion and development of business from one enterprise.

Part II of the Report shows the natural concentration process of industries where twelve SEGs are operating. From this it can be seen that the SEGs have both horizontal and vertical concentration but have not yet reached the corresponding development level. The funds mobilising at the first stage "Capital Concentration" have not been completed. The SEG have not had basic science management skills of level one- the first level of four levels of Business management- and essential factors of health of each EG.

The main trends in restructuring of state-owned economic organisations in 2010 are: (1) To focus on the core business areas; (2) To speed up equitisation of state-owned enterprises, to reduce the sizes of State's capital in enterprises for which the State's control is not necessary, to improve the performance of joint-stock companies in order to make them eligible to be listed on regional and international stock exchanges; to have more joint-capital projects, joint-ventures, and links with domestic and overseas partners; (3) To make all the necessary preparations for equitisation of holding companies and groups in order to diversify ownership forms while ensuring the key roles of the holding companies and groups in the economy; (4) To recompose investment portfolios by converging resources to ensure progress and quality of key investment projects to be put into operation; (5) To increase the chartered capital of the groups through re-valuation of assets on the basis of market prices and with additional investments by the State so that the sizes of the groups become big enough; (6) To structure the human resource in parallel with step-by-step modernisation of corporate governance, with particular emphasis on standardising accounting and statistical practices, accounting production and business results, and risk contingencies,....

For PEGs, restructuring is self-demand, especially when affected by global crisis and recession. Once developed to a certain scale or when the market is no longer favourable, the owners and PEGs will face difficulties in the management of business activities of the whole group and its member companies as well as functional units. This fact pressed these enterprises to either completely or partly restructure themselves as a self-demand. Another practical issue is the linkage between the restructuring process and initial public offering or equitization strategies of PEGs.

In Vietnam, currently there are no regulations for EGs in all economic sectors but only regulations for piloting SEGs. The more important matter however is creating a policy for EGs development, and to not distort the market and repeat the mistakes experienced by some other countries. Due to the limited natural concentration and lack of organic linkage between members of EGs, especially in the SOEs, the special policy shall therefore accelerate the natural concentration, and at the same time allow EGs select a management scheme, which is appropriate to their level of development and ownership features.

PART I

OVERVIEW OF THE BUSINESS ENVIRONMENT OF VIETNAM IN 2010

I. ANALYSIS ON ECONOMIC GROWTH AND IMPORT- EXPORT TRENDS

1.1. The economic growth

In 2010, the world economy including the Vietnamese economy continued to be complex. The world economic recovery was slow, protectionism seemed to be more popular and prices of many materials fluctuated. In early 2010, prices of the goods in the domestic market rose, the trade deficit continued to increase, and business operation and production of many enterprises faced difficulties due to lack of capitals and high interest rates. Therefore, on June 4, 2010 the Government issued Resolution No. 18/2010/NQ-CP which includes many solutions to stabilise the macroeconomy, controlling inflation and removing difficulties in business operation and production of the enterprises. The drastic direction of the government at all levels and the efforts of the business community have resulted in an increase in economic growth. All industries showed growth and the growth of the later quarter was higher than that of the previous quarter.

Table 1.1: Economic growth of select periods in 2010 in comparison to that of the same periods in 2009

Unit:%

Macroeconomic Indicators	Plan	Implement			
		Quarter I	First 6 months	First 9 months	Whole year
Gross Domestic Product (GDP)	6,50	5,84	6,16	6,52	6,78
Added value:					
- Agriculture, forestry & fisheries	2,80	3,45	3,31	2,89	2,78
- Industry and construction	7,00	5,65	6,50	7,29	7,70
- Services	7,50	6,64	7,05	7,24	7,52

Source: Report on the Vietnamese society and economy in 2010 of General Statistics Office (GSO).

Industry and construction: Production value of the industry and construction continues to reach a high pace of growth. In general, the industrial production value, which was counted based on 1994 prices, was estimated at 794.2 trillion VND, and increased by 14% compared to 2009. The same as the pattern of many past years, the foreign invested sector achieved the highest pace of growth (17.2%), the private sector achieved the second highest pace of growth (14.7%) and finally the public sector achieved the lowest one (7.4%). In the structure of industry, processing industry accounted for the largest proportion (89.5% of production value) and is the industry which had got the fastest recovery in the post period of the economic crisis. In 2010, the processing industry reached a higher rate of the growth than average growth rate of the whole industry. It has played a decisive role on the overall growth rate of the entire industry. Its high production growth was due to high levels of the consumption in both domestic and export markets.

In 2010, inspite of being heavily influenced by natural disasters such as drought at the beginning of the year, floods in the last months of the year at the Central; saltwater at the Mekong Delta, production of the agriculture, forestry and fisheries were positive results. The growth rate of value added is 2.78%, nearly reaching its plan of 2.8%. Total output value of the whole industry in 2010, which is based on the comparable prices in 1994, was estimated at 232.7 trillion, an increase by 4.7% over the previous year. That total includes agricultural output value of 168.4 trillion, an increase of 4.2%; forestrial one of 7.4 trillion, an increase of 4.6% and fishery of 56.9 trillion, an increase of 6.1%.

The service also marked a significant development. In 2010, the growth rate of its value added was 7.52%, contributing nearly half to that of the entire economy. Retail sales and consuming services after excluding an increase of 14% in price factors in 2010 was estimated at VND 1561.6 trillion, increasing by 24.5% in comparison to that in 2009. In which the trade reached VND 1,229.3 trillion, accounting for 78.7% and increasing by 25% over last year; hotels and restaurants were VND 172.4 trillion, 4 trillion, accounting for 11% and increasing by 21.8%; services were VND 144.6 trillion, accounting for 9.3% and increasing by 23.8%; and tourism was VND 15.3 trillion, accounting for 0,98% and increasing by 28.5%.

1.2. The export and import

1.2.1. The export

In 2010, total export turnover reached USD 71.6 billion, increasing by 25.5% compared to 2009. That might be considered as a great achievement of the economic growth of Vietnam in the unfavorable context of the international economy. The structure of export commodities are changing positively, which showed an increase in the proportion of manufacturing and high technology products, a decline in raw products. Specifically, the product group of light industry and handicrafts increased from 42.8% to 46%; heavy industry and mineral commodity group decreased from 29.4% to 27.2%; aquatic products group declined from 7,4% to 6.9%; gold and golden products decreased from 4.6% to 4%.

According to data of the General Statistics Office of Vietnam, in 2010, there were

18 items whose export turnover reached more than USD 1 billion and for many key commodities the increase is much higher compared to 2009. For instance, textiles and garments reached USD 11.2 billion, increasing by 23.2%; footwear reached USD 5.1 billion, increasing by 24.9%; fisheries reached USD 4.9 billion, increasing by 16.5%; electronics and computer reached USD 3.6 billion, increasing by 28.8%; wood and wooden products reached USD 3.4 billion, increasing by 31.2%; rice reached USD 3.2 billion, increasing by 20.6%; machinery, equipment, tools and spare parts made USD 3 billion, increasing by 48%; and rubber made USD 2.4 billion, increasing by 93.7%.

The United States was still the largest export market of Vietnam. Within 11 months of 2010 the export turnover to US was estimated at USD 12.8 billion, accounting for 17.9% of the total, increasing by 25.4% compared to the same period of last year. The EU was the second largest export market. The export turnover to the E.U reached USD 10 billion, accounting for 13.9% of the total, increasing by 15.9%. The export turnover to the ASEAN reached USD 9.3 billion, accounting for 19.6%, increasing by 13%; that to Japan reached USD 6.9 billion, accounting for 9.6%, increasing by 23.6%; that to China reached USD 6.3 billion, accounting for 8.8%, increasing by 48.6%.

2.1.2. The import and the trade deficit

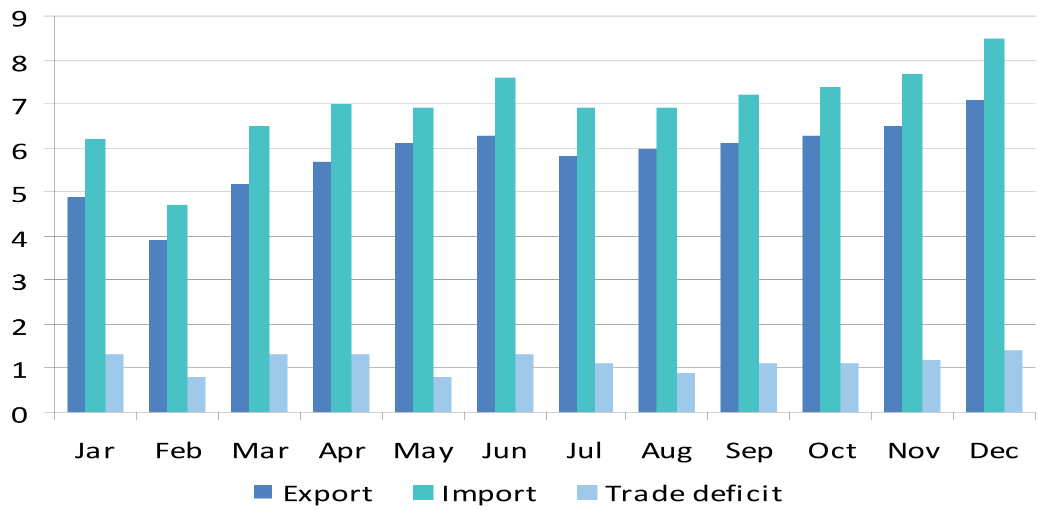
In 2010, the import turnover of Vietnam reached USD 84 billion, increasing by 20.1% compared to 2009, in which the public sector reached USD 47.5 billion, increasing by 8.3% and the foreign capital investment sector reached USD 36.5 billion, increasing by 39.9%. In 2010, the import turnover of some commodities increased compared to the previous year, in which the items for production remain a high rate of growth: wheat rose by 70.4%; other base metals increased by 57.7%; textile and apparel accessories, and footwear rose by 36%; plastic increased by 33.9%; computer and electronic components increased by 30.7%; fabrics increased by 27.2%, fodder and raw materials rose by 22.4%, steel increased by 15%. Car imports decreased by 24.4% in turnover and by 34.1% in volume compared to 2009. The turnover structure of the import goods in 2010 did not significantly change from the previous year, in which materials still accounted for the highest proportion of 90.2%, consumer products decreased from 9,3% to 8.6%; gold and gold products increased from 0.5% to 1.2%.

The import turnover of Vietnam from the primary market within 11 months in 2010 increased compared to the same period in 2009. The import turnover from China reached USD 17.9 billion, increasing by 23.4% compared to 2009; ASEAN reached USD14.5, increasing by 18%; South Korea reached USD 8.7 billion, increasing by 42.4%; Japan reached USD 8.1 billion, increasing by 21.7%; the EU reached USD 5.5 billion, an increase of 9%.

The trade deficit in 2010 is estimated at USD 12.4 billion, the ratio of the trade deficit over export was 17.3%, decreasing by 5.2 points compared to 2009. It is a positive result. However, a huge trade deficit and its continuing appearance for many years, specifically the concentration of excessive deficit on the Chinese market, expressed the instability of macro-economy. Alternatively, some FDI enterprises are changing to importing components and

Figure 1.1: Exports, imports, the trade deficit in 2010

Unit: USD billion



Source: The General Statistics Office of Vietnam

parts for assembly or importing finished products and selling those products in the domestic market. If that becomes a trend, the reduction in the trade deficit will be difficult to achieve.

II. THE FINANCIAL MARKETS AND CHANGING IN PRICES IN VIETNAM IN 2010

2.1. The policies and measures implemented in 2010

Monetary policies were planned and carried out to promote growth and to control inflation. Fundamentally, the monetary policies met the objectives which were set out at the beginning of the year: the total means of payment increased by 20%, outstanding loans increased by approximate 25%. Exchange rates were flexible according to market principles; interest rates were implemented under the agreement between debtors and creditors; supervision of credit institutions was increased to ensure their safe operation; bad debt was controlled below 3%. However, the financial market in 2010 has revealed many destabilizing factors in both the short and long term.

Defects and shortcomings in operating macroeconomy, which have existed for previous years, continued to occur in 2010: lack of coordination in administrative direction for fiscal and monetary policies. While the monetary policies were tightened in the first two quarters of 2010 to contribute to macroeconomic stability, the fiscal policies went in the direction of loosening.

In the early months of 2010, interest rates were often high. In the first quarter, interest rate of borrowing was up to 17-18%, and up to 19-20% in some banks, in the second half of the second quarter the interest rates were mainly 13% per year. With high interest rates, enterprises faced many difficulties in their production operation and business. Under those circumstances, on July 5, 2010, the Government of Vietnam issued Resolution 23/2010/NQ-CP that defines "The State Bank of Vietnam must urgently implement appropriate measures to lower borrowing interest rates to approximately 10%, lending interest rates to about 12% and controlling exchange rates at reasonable levels. There needs to be an increase in liquidity of the Vietnamese economy through increasing the total means of payment and the total outstanding credits. Also needed, a more efficient process structurally, on open and transparent system of commercial banks". Although there was opposition to the Resolution 23/2010/NQ-CP, the regulation of bank interest rates has had a certain impact on the resolving the enterprises' difficulties.

In the interim, the recurrent and capital expenditures from the state budget were continually rising. The increase in public spending coupled with a chronicly inefficient capital use and management bring the potential risk of increasing inflation and consumer prices. While the budget deficit tends to increase both the proportion of GDP and the absolute amount, the increase in budget expenditures also has direct implications on rising national and government debt. According to a report by the Government at the 8th session of the National Assembly XII (October 2010), the outstanding debt of the government was equivalent to approximate 44.5% of GDP; the foreign debt was equivalent to approximate 42,2% of GDP; the public debt was equal to 56.7% of GDP. There are different opinions regarding safe limits of the national debt, and foreign debt. It is important to consider not only the ratio of debt to GDP, but also the annual debt, growth rate debt, annually paid outstanding debt, the ratio of the internal accumulation of economy to total capital of society. All the above indexes are problematic in Vietnam's short, medium and long term.[1]

In the last months of 2010, while inflation tended to rise and there were strong fluctuations in the currency market, (November, 2010) the Government made two important decisions to stabilize the money market and to contribute to macroeconomic stability. The decisions were:

- Intervention in the foreign exchange market by selling foreign currencies to maintain price stability. Although foreign currency reserves were lower at that time than previous years, the Government committed to ensure "sufficient reserves to cool down the fever". Simultaneously, the government did not adjust the exchange rate from July 11, 2010 to the end of 2010.
- Allowing interest rates of VND to follow market mechanisms: Commercial banks are allowed to borrow and lend money depending on the market. After nearly 11 months maintaining the base interest rate of VND at 8%, on November 4, 2010, the State Bank decided to adjust the interest rates to 9%. On November 5, 2010, the Vietnamese Banking Association agreed to increase deposit rates but not exceed the ceiling level of 12% per year.

In the first days after the decision, the exchange rate between VND and USD slightly lowered. However, because of the dramatic variation in gold prices, psychological insecurity of the market, and an increase in demand for foreign currencies at the end of the year, the exchange rate between VND and USD increased[2] which

[1] The outstanding debt of the Government comparing to GDP has increased in 2007: 33.8%; in 2008: 36.7%; in 2009: 41.9% and in 2010 it is estimated 44.5% . Source: www. vietnamnet.Vn. Date May, 7, 2010

[2] November 9, 2010. The price of gold has established a new record over 38.2 million VND per oz. At the same day, the exchange rate at the black market reached 22.000 VND/1 USD

had a direct effect on production operation, business enterprises and rising inflation.

2.2. Inflation

Preventing the return of high inflation and ensuring an increase in the consumer price index (CPI) below 7% per year was one of the tasks which the National Assembly in the 6th Session of the XII agreed. In 2010, there were complex evolutions in CPI. From early 2010 to late August, all macroeconomic indicators registered positive, promising success in achieving planned indicators of economic development in 2010. However, whereas the Gross Domestics Product (GDP), export turnover, budget revenue and investment in economic and social development were increasing, the consumer price index (CPI) began rising again beginning September 2010. CPI in September 2010 increased by 1.28% compared to that of August 2010; October 2010 compared to September 2010 showed an increase of 1,12%; November 2010 increased 1,86% compared to October 2010, and 11.09% compared to November 2009; December 2010 rose by 1.98% compare to November 2010 and 11.75% compared to 12/2009. An increase in CPI of November was the highest level among all months in 2010. The average CPI of 2010 rose by 9.19% compared to that of 2009. While only telecommunication charges decreased by 4.57%, the price of all other commodities increased: the gold price rose by 36.72%; food and beverage prices increased by 10.71%; housing, construction materials and fuel price rose by 14.68%, transport services prices increased by 12.37%... Inflation targets of below 7% planned by the National Assembly and below 8% estimated by the Government at the end of August were not achieved.

The causes of inflation are considered in comprehensive manner from different angles.

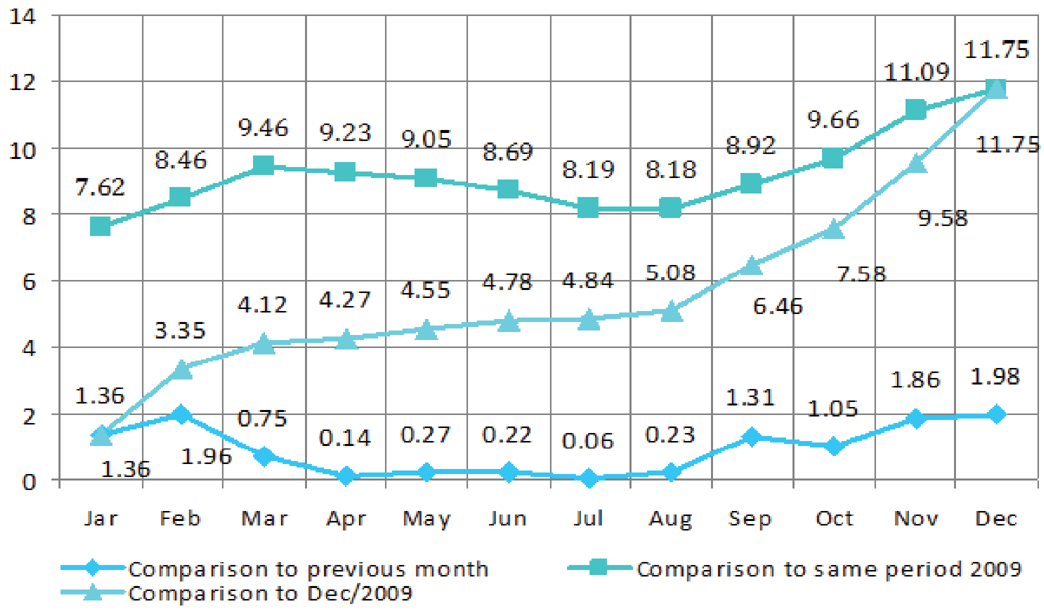
The cause of pulling demand, there were a series of factors that increase commodity prices.

In general, an increase in demand for goods and service pushes up their prices. Normally, there is an increase in demand in the last months of the year. In addition, there are also some factors contributing to the increase in demand for goods. For instance:

- A rise in the price of rice in southern provinces.
- In the last months of the year, there were Chinese market demands for a large amount of agricultural Vietnamese products such as rice, vegetables, fruit, and meat. In addition, the end of year demand for those commodities generally rise. This led to a scarcity of some fresh agricultural products.
- Seasonal changes in the North also have some influence on an increase in commodity prices such as vegetables, fruits, warm clothes, and shoes...
- An increase in demand for gold because of undervaluation of VND against USD and speculative factors pushes gold prices higher.
- To complete rice export contracts, enterprises increase to purchase rice which leads to The cause of the pushing cost, a number of following factors increased the consumer price index:

Figure 1.2: Growth rates of consuming prices in 2010

Unit:%



Source: Monthly reports of the General Statistics Office of Vietnam

- The adjustment by the State Bank on base interest rate from 8% to 9% per year not only drew money from the market- contributing to decrease inflation- it also led to an increase in borrowing interest rates of commercial banks, which in turn increased production costs of enterprises.

- The adjustment by the State Bank on the exchange rate between USD and VND caused the devaluation of VND. This may partly support exports, but it brings disadvantage to imports. Meanwhile, the majority of inputs into the processing industry of Vietnam are imported from other countries.

- Severe flooding occurred throughout the Central and Western Highlands from early October 2010 to mid November 2010 which had a dual impact on the CPI: *on the one hand*, it increased the price of food and construction materials in those areas, *on the other hand*, it disrupted the transportation of goods among regions in the country.

In the last months of 2010, the fluctuation of gold prices and USD prices also impacted negatively on the price of other goods in the domestic market. In the world market, the confidence of many investors and governments in U.S. dollars as a world currency was gradually lost. Many governments adjusted the exchange rate between their currency and USD to protect their national economy, but the trend of purchasing gold to reserve also increased. The gold prices in the world markets continuously increased[(1)]. Because of the depreciation of the local currencies

[(1)] On November 9, 2010, the gold price at the international market reached 1,420 USD/oz.

against USD in the domestic markets and devaluation of USD in the world market the trend of buying gold to stock tended to steadily increase. In that context, speculation was also an important factor increasing gold prices. The fluctuations in prices of those particular commodities have certainly had an impact on the price fluctuation in range of essential consumer goods.

While considering the increase in the consumer price index came from an inefficient structure in the Vietnamese economy, the trade deficit, and a continuous increase in the budget deficit, the macroeconomic operations of the government is still inadequate. That is reflected by the lack of close coordination between fiscal and monetary policies, solving problems for short terms and in inappropriate ways, lack of suitable measures for strong policies, and the weak capacity of forecasting macroeconomy.

III. FOREIGN INVESTMENT

3.1. A reduction in total registered capital - an increase in implemented capital

From the beginning of 2010 to December 21,2010 total registered capital reached USD 18.6 billion, decreasing by 17.8% compared to the same period in 2009, missing USD 22- 25 billion from the planned target of 2010 (before adjustment), in which the registered capital of 969 newly licensed projects reached USD 17.2 billion (decreasing by 16.1% in the number of the projects, increasing by 2.5% in the capital compared to the previous year); the additional registration capital of 269 projects licensed in previous years reached USD 1.4 billion.

The highlight of the foreign investment in Vietnam this year was a rapid rate of disbursement. The foreign direct investment already implemented was estimated at USD 11 billion in 2010, increasing by 10% compared to 2009. Together with remittances from people living oversea (which reached USD 7.2 billion in 2008; USD 6.8 billion in 2009; USD 6.0 billion in 2010 reports the Ministry of Finance), net FDI implemented constituted an important offset source for the trade deficit of Vietnam.

3.2. Investment in sectors: Real estate industry leading

Among sectors of foreign investment capital in Vietnam this year, real estate was in the lead with a total registered capital of USD 6.8 billion, including the new registered capital of USD 6.7 billion and the additional registered capital of USD 0.1 billion. It was the third year the real estate sector continuously maintained a large flow of FDI. Besides the market factors (real estate prices in Vietnam are relatively high compared to that of other countries in the region), the improvement of administrative procedures (delegated to the local authority on land rental prices and procedures for land), together with the law on Real Estate Business and Law No.34/2009/QH12 on amending and supplementing Article 126 of the Housing Law and Article 121 of the Land Law issued by the National Assembly resulted in easier access to land, higher land allocation, more stable duration of projects (an average duration of 50 years, even 70 years if there is permission of the Government). In addition, grace periods of some projects lasted for 15 years. Those results encouraged investors to continue involvement in this field. This year was also marked by the accelerated investment of real estate groups from Singapore (Capitaland Limited, Keppel Land Limited, etc.). These groups might raise more capital to invest in Vietnam real estate in for 3-5 years. Processing and manufacturing industries again has the attention of foreign investors after the sharp decline in FDI in this industry, accounting for only 13.8% of total FDI in 2009 with a registered capital scale of USD 2.97 billion. To foreign investors, these are the traditional investment areas which have comparative advantage in production of export goods. According to the data of the General Statistics Office of Vietnam in 2010 that industry attracted FDI of USD 5 billion, including total new registered capital of USD 4 billion and total additionally registered capital of USD 1 billion.

Manufacturing, Electricity, Gas and Water Industry ranked third in attracting FDI which reached nearly USD 3 billion, in which USD 2.9 billion was the new registered capital.

3.3. Investment by partners: Singapore is the largest investment partner

Among 51 countries and territories which had new Vietnamese investment projects in 2010 Singapore was the largest investor with the total newly registered capital of USD 4350.2 million, accounting for 25.2% of the total. Nam Hoi An Co., Ltd, one of the Singapore companies, had a large project licensed with the total registered capital of USD 4 billion.

In 2010 Holland was surprisingly the second largest investor with its total investment capital into Vietnam of USD 2364 million, accounting for 13.7% of the total more than 300 times higher than in that of 2009 (only USD 6.1 million, according to GSO)[1]. The Dutch enterprises took advantage of Vietnam's commitments on investment to become an official member of the WTO to promote their strengths. The investment tendency of that European country is to decrease ODA projects and to develop other forms of cooperation such as bilateral exchange or private - public investment (PPP), which may increase FDI of the Netherlands in Vietnam in business fields such as real estate, trade, ports and logistics, mining, water resource. For example, they constructed supermarket chains (shopping mall) of Promenade in Binh Duong province and in some provinces of the south.

The next were the traditional Vietnam investors: Japan reached USD 2040.1 million, accounting for 11.8% of the total; Korea reached USD 2038.8 million, accounting for 11.8%; United States reached USD 1833 million, accounting for 10.6%, Taiwan reached USD 1180.6 million, accounting for 6.9%, Virgin Islands reached 726.3 million, accounting for 4.2% (See Table 1.3 in Appendix...)

3.4. Investment in areas: Quang Nam province suddenly attracted the most FDI

In 2010, 50 provinces and cities under direct management of the federal government had foreign capital investment projects with Quang Nam reaching the largest number of newly registered capital of USD 4177.1 million, accounting for 24.2% of the total. That resulted when Quang Nam province attracted the South Hoi An Resort project by a Singapore investor with a total registered capital of USD 4 billion.

[1] This breakthrough of Netherlands was thanks to the Mong Duong Thermal Power Plant 2 in Quang Ninh invested by the AES Power Company Ltd. with a total registered capital of USD 2.1 billion. This the BOT Project of which AES contributes 90% and the Vinacomin contributes 10%. According to Agency for Foreign Investment, AES is an American Group having registered this project from its office in the Netherlands. Thus, this amount of investment is counted as investment by Netherlands.

Ba Ria - Vung Tau province obtained the second largest number of newly registered capital, UDS 2400.6 million, accounting for 13.9% of the total. Ba Ria - Vung Tau has been one of the most successful provinces in foreign capital investment attraction for many years[(1)]. The Convention Center project for International Tourism Exhibition-Vung Tau Sea Dragon at the Chi Linh - Cua Lap (Vung Tau City) invested by the Skybridge Intercontinental Development Corporation (United States) had a total registered capital of more than USD 900 million. It is a project which had the largest amount of registered capital in Ba Ria - Vung Tau. This province has exceptional conditions to develop logistics industry which brings high added value and is becoming more popularly in many developing countries.

Although licensing for only 2 new registered FDI projects, Quang Ninh Province was third in attracting foreign capital investment with a total registered capital of more than USD 2148 million, accounting for 12.5% of the total. Those two projects are Mong Duong Thermal Power Plant 2 in the form of BOT, invested by the AES Power Company Ltd. Mong Duong-Holland with a total registered capital of USD 2.1 billion, and factory of organic fertilizers, inorganic production, invested by a Chinese investor with the rest of total registered capital.

The next localality which obtained a large number of registered capital was Ho Chi Minh City with USD 1895.3 million, accounting for 11%; Nghe An province reached USD 1327.7 million, accounting for 7.7%.

3.5. Investment in term of the form of investment: the form of 100% foreign capital played a key role

In general, the proportion of joint ventures (JV) has fallen from 70% to only about 20%

Table 1.2: FDI in the period from 01/01/2010 to 20/11/2010 in term of form of investment

Unit: Million USD

No	Investment forms	Number of new registered projects	Newly registered capital (A)	Number of capital added projects	Additionally registered capital (B)	Newly registered capital and additionally registered capital (C) = (a) + (b)	The proportion of registered capital
1	100% foreign capital	687	6,653.8	165	783.0	7,436.9	55.9%
2	Investment under BOT, BT, BTO =	6	2,174.8	0	0,0	2,174.8	16.3%
3	Joint Venture	130	3,135.3	35	382.1	3,517.3	26.4%
4	Joint Stock	8	29.6	7	36.4	66.0	0. 5%
5	Business Cooperation Contract	2	107.4	3	1.2	108.5	0.8%
	Total	833	12,100.9	210	1,202.6	13,303.5	100%

Source: Foreign Investment Department (FIA-MPI)

(1) In 2008 Ba Ria Vung- Tau has attracted 12 billion USD; In 2009, despite economic crisis, the FDI flow in Vietnam was reduced, Ba Ria- Vung Tau still attracted 6.8 billion USD and 23,000 billion VND.

within the past 10 years. Meanwhile, that of enterprises with 100% foreign capital has increased to 70%. Specifically in the first 11 months of 2010 (see Table 5), there were 687 projects with 100% foreign capital set up (accounting for 82.5% of the total number of projects), with registered capital of USD 6.65 billion (accounting for 55% of the total registered capital) and 130 JV project started up (accounting for 15.6% of the total number of projects), with newly registered capitals of USD 3.13 billion (accounting for 25.9% of total).

IV. THE MAIN LEGAL REGULATIONS IMPACTING BUSINESS OPERATIONS AND PRODUCTION OF ENTERPRISES IN 2010

In 2010, there were many legal regulations related to business operation and production of enterprises, in which there were three groups of regulations having a huge impact on enterprises. They were:

- Government's Plan 30 on administrative reform
- Documents to guide the implementation of the Enterprise Law
- New laws and regulations related to enterprises

4.1. The implementation of Government's Plan 30 on administrative reform

The process of administrative reform was important to Vietnam in 2010 which most aggressively and broadly implemented Plan 30[(1)] on administrative reform. While in the process of implementing the project, the Prime Minister signed and expressed his directions in 30 different legal documents. On average, there was once per month[(2)].

That project has been divided into 3 phases: Phase 1 was statistics of administrative procedures (from August 2008 to September 2009), Phase 2 was to review the administrative procedures (from September 2009 to the end of May 2010), Phase 3 was to simplify the administrative procedures in 2010.

In phase 1, there was successful implementation in the statistics of administrative procedures and achievement, the open and transparent goals of administrative procedures. In October 2009, the Prime Minister announced the national database on administrative procedures at the four levels of government and on the internet (more than 5700 of administrative procedures, more than 9,000 legal documents and more than 100,000 statistical forms of administrative procedures). This was the first time Vietnam had set up and publicized its national database on administrative procedures in the fields of State management related to Vietnamese citizens and enterprises at: www.thutuchanhchinh.vn.

In phase 2, the Vietnamese government approved giving priority to simplify administrative procedures of 258 (Resolution No. 25/2010/NQ-CP June 2, 2010). According to that resolution, all of above administrative procedures have been simplified, many of them are removed or replaced, many forms and declaration are simplified or all the same cross the country, many requirements and conditions were removed as they are unnecessary, many sequences, processes, and documents have been simplified to the minimum to facilitate the people and businesses.

(1) Plan 30 is the Abbreviation of the "Decision 30/2007/QD-TTg of Prime Minister dated 10/1/2007 approving the Plan on Administrative reform on the fields of State management period 2007-2010.

(2) Sources: Task force of Plan 30

In phase 3 the Government and the ministries urgently amended the legal documents to implement the simplification plans approved. To simplify nearly 5,000 administrative procedures mentioned above, require the amend of 1017 legal documents of federal and local government and ministries, including 44 laws, 12 ordinances and 183 decrees, 37 decisions of the Prime Minister, Circular of 336, 313 and decisions of the ministers and 93 other documents.

Because of the current implementation phase, it needs more time to exactly assess the effect that Plan 30 brings. However, there were initial positive impacts which can be seen in the implementation process of the Plan:

- The statistics and announcement on administrative procedure for all authority levels of a nation was important. This also contributed to the standardization and unification of the administrative procedures at all levels. In particular, it is the first time all administrative procedures have been posted on the Internet.
- State officials working at all levels, especially local levels, understand the current system of administrative procedure, in detail and systematically.
- The statistics and annoucement of available administrative procedure for the first time in history has brought benefits to Vietnamese citizens and the businesses community. It is a useful signal of the government's efforts in building a transparent public administrative foundation.
- At the end of phase 2, there were more than 5500 administrative procedures reviewed, 453 administrative procedures proposed to remove, 3749 administrative procedures proposed to amend and supplement, 288 administrative procedures proposed to replace... That is a good start to implement successfully the next phase of reform.

4.2. The promulgation of documents guiding the implementation of the Enterprise Law

In 2010, there was an important change in the regulations on market entry and corporate administration, the introduction of Decree 43/2010/ND-CP on business registration and Decree 102/2010/ND-CP on guiding the implementation of some articles of the Enterprise Law.

4.2.1. Decree 43/2010/ND-CP issued in April 4,2010

Decree 43/2010/ND-CP issued in April 4, 2010 by the Government replaces Decree 88/2006/ND-CP on business registration issued in 2006. With important changes, the new decree established an approach to procedures for market entry in Vietnam. The Decree has been in effects since June 1, 2010. Some important new points of the Decree as follow:

- *Register new business online via the national portal of business registration*: Instead of having to come in person to the authority agencies and following many cumbersome procedures to register businesses, individuals need only register via the National Portal of Business Registration. Business registration dossiers submitted via the Portal have the same legal value as documents in papers submitted in the authority agencies.
- *Shorten the duration for granting business registration certificates*: Instead of waiting for 10 days to receive the

certificates as before, according to the new decree, within 5 working days after receiving valid dossiers, The Provincial Business Registration Office issues the business registration certificates or certificates of change in business registration, or certificates of split, merge, acquisition and transformation of enterprises, certificates of registration of branches, Representative Office announcement of setting up a business location to the owner of enterprises.

- *Pilot in 5 cities on transformation The Provincial Business Registration Office into the authority agencies with revenues:* The pilot is implemented in Hanoi, Ho Chi Minh City, Hai Phong, Da Nang, and Can Tho, after People's committee of above locals consulted the Ministry of Interior, Ministry of Planning and Investment.

4.2.2. Decree 102/2010/ND-CP

Decree 102/2010/ND-CP (Decree 102) issued October 1, 2010, guiding the implementation of some articles of the Enterprise Law by the Vietnamese government is the replacement of Decree 139/2007/ND-CP, effective, November 15, 2010. It has had a enormous impact on enterprise management. Some major changes in that Decree as follow:

- Unify and understand the concept of capital in joint stock companies in order to limit the phenomenon of "fake capital".
- Define more clearly capital contribution obligations of members of limited liability companies, and shareholders of joint stock companies.
- Supplement some provisions in order to solve conflicts and non collaboration within the company.
- Allow founding shareholders greater freedom in the transfer of their shares.
- Improve the monitoring of managers and leaders through the concretization of the provisions on management action.
- Simplify regulations on the authorization of the legal representative of the enterprises.
- Make clear the procedures for dissolution of the enterprises, especially related to seals and VAT invoices.

4.3. Laws and regulations related to enterprises have come in effects since 2010

Laws on Commercial Arbitration in 2010

On June 17, 2010, the Law on Commercial Arbitration of 54/2010/QHXII (which has been in effect since January 1, 2011) was adopted at 7th session of the XIIth National Assembly. It replaced the Ordinance on Commercial Arbitration issued in 2003. This is an important change for operations of the arbitration institution in Vietnam, expanding the jurisdiction of disputes of the commercial arbitration, and also allowing foreign arbitration organizations to establish their branches, and representative offices in Vietnam.

Laws on the State Bank of Vietnam

There are many changes and amendments to the Laws on the State Bank of Vietnam of 2010 (adopted by the National Assembly in the 7th session) as compared to the same laws in 1997, and the Law amended and supplemented on State Bank of Vietnam in 1997. The law in 2010 focuses on the important content as follows:

- The role of authority agencies in planning and implementing monetary policies.

- Specific competence of the State Bank of Vietnam in implementing monetary policies.
- The role and tasks of the central bank in carrying out its function of monitoring the safety of operations in credit institutions (CIs) and systems of credit institutions
- The conditions required to allow the State Bank of Vietnam to do the tasks within its jurisdiction.

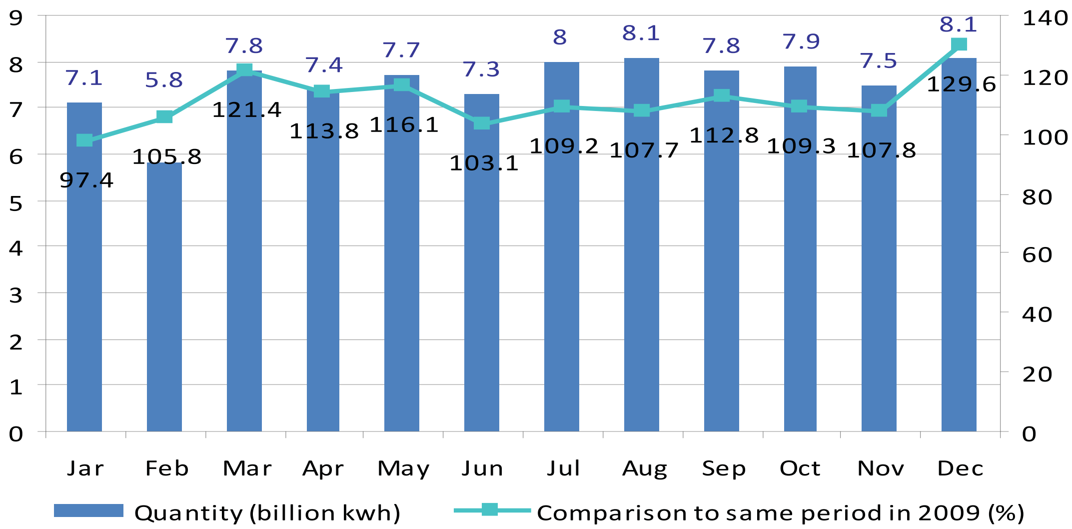
V. INFRASTRUCTURE FOR DEVELOPMENT OF BUSINESS AND PRODUCTION OPERATIONS AND RESTRUCTURE IN VIETNAM IN 2010

5.1. Production and supply of the power

In recent years, the power industry has had rapid development. Every year, capital investment in power in Vietnam accounts for approximately 15% of the total social investment, while in many other developing countries, the highest ratio is just 10%. During the five years from 2006 to 2010, total investments on the part of the Electricity Corporation of Vietnam (EVN) have been more than VND 209,000 billion, and the power output has doubled. In 2010, total electricity output reached kWH 91.6 billion, of which the commercial electricity output reached more than kWH 85 billion. The growth rate of the electricity industry is 14.9% higher than that of the gross domestic product (GDP). Together with the EVN, the National Oil and Gas Corporation of Vietnam (PVN) and the Coal and Mineral Group of Vietnam (TKV) are also involved in manufacturing and supplying electricity. Vietnam is also actively calling for foreign investors to invest in that industry under the form of build - operate - transfer (BOT).

The power industry has made efforts in ensuring the production of existing power plants and promoting the progress of the construction of power plants to increase the supply of electricity to meet the needs of production and living. However, power shortages continue to occur and tended to be more serious in 2010 than in previous years.

Figure 1.3: Electricity production of months in 2010



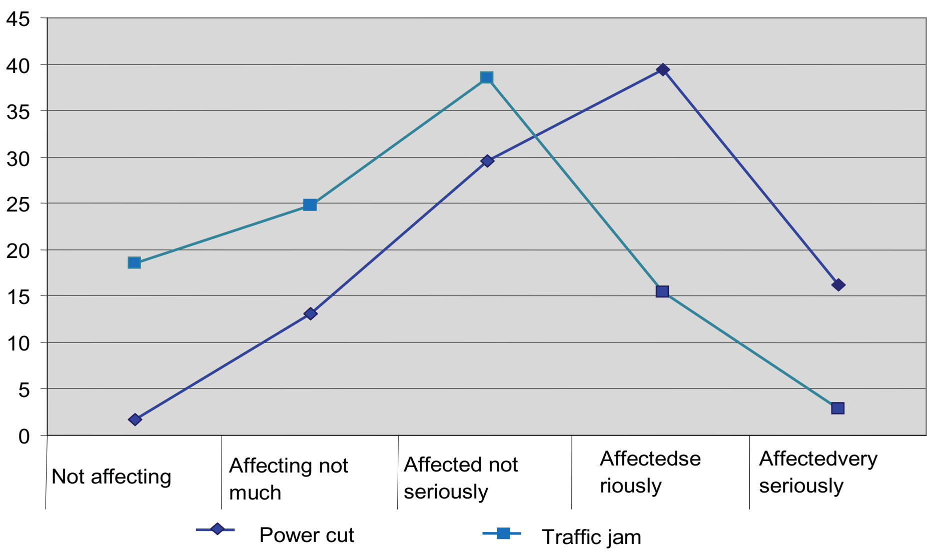
Source: Monthly Social and Economic Reports – the General Statistics Office of Vietnam

During the period from April to July 2010, power shortages were most serious. The power cut which took place last for a long time in many places and impacted production and living. Many enterprises were heavily damaged from not getting enough power for business and production due to unannounced power cuts, or from power cuts not following schedule. To maintain production and provide timely goods to customers under contracts already signed, many enterprises had to use their own generators. That directly increases production costs. It is difficult to calculate accurately the number of enterprises lost due to insufficient power supply for production. Electricity shortage is one of the barriers that deters foreign direct investment.

According to the results of a survey by the Chamber of Commerce and Industry in Vietnam (Figure 1.4), power cuts and traffic congestion in the second quarter of 2010 affected enterprises seriously and very seriously; the percentage of responses that claim to have been affected seriously and very seriously were respectively 55% and 18%; the percentage of responses that claim to have been affected not much and not affected were respectively 15% and 44%. Thus, in the quarter II/2010 power cuts have caused many difficulties for enterprises, which require urgent measures to remove those problems immediately.

Power shortages that have lasted for man years have caused concern for the entire society, including the business community. In the eighth Forum of Session XII National Assembly (November 2010), the Government demonstrated the basic reasons leading to the power shortages. They were: 1/ effects of the global financial crisis lead to difficulties in raising capital to invest in the electricity industry; 2/ Most of the power plant construction projects have encountered problems in the land

Figure 1.4: Effects of power cut and traffic jam on business and production operation of enterprises in the quarter II/2010



Source: www.vbis.vn

clearance process. That has slowed down the progress of construction; 3/ The price of electricity in Vietnam is lower than in other countries in the region. That makes investments in electricity production in Vietnam less attractive; 4/ The power shortages also are caused by the limitations on the capacity of investors and contractors (including some foreign investors); 5/ Lack of water for electricity production leads to a decrease in output of hydroelectric plants; 6/ Technological knowledge of the conservation and use of electricity savings is scarce.

In spite of agreeing with the interpretation of the Government, there needs to find most of the above reasons are subjective. In the coming years, unless there are drastic reformative measures to manage and develop power industry, these bottlenecks will be difficult to be resolve effectively. It means the power shortages will not be solved for the long term.

5.2. Transportations

In 2010, investment in transportation systems was still one of the priorities of the Vietnamese government. Based on the plan, the total capital under different forms invested in transportation in 2010 was VND 22,492 billion; capital from the state budget in 2010 (managed by the Ministry of Transport Management) was VND 6,592 billion; budget capital in advance of 2011 was VND 3,600 billion; and capital from the government bond was VND 12,300 million. According to the results of disbursement, in 2010 the state budget reached VND 8,168 billion, accounting for 122.8% of the yearly plan; budget capital in advance reached 50%; government bonds capital reached 118%. Off-budget capital for investment in the power industry under the form of BOT reached VND 5,726 billion.

The transport system of Vietnam has improved significantly because of a large-scale investment in it. A series of the huge transportation projects, which are national projects, has been being built such as: Ho Chi Minh Trail, Phap Van - Gie highway, Gie - Ninh Binh highway, Ho Chi Minh City - Trung Luong highway, Ha Noi - Hai Phong highway, Lang - Hoa Lac highway, Ha Noi Ring Road 3. In addition, there are some projects of upgrading the road networks, Can Tho Bridge, My Thuan Bridge, Bai Chay Bridge, Pa Oun Bridge, Hang Tom Bridge, Thanh Tri Bridge, Vinh Tuy Bridge, and Nhat Tan Bridge.

Despite of efforts in both investment and construction of transportation, the transportation system in Vietnam is still inadequate compared to the modern requirements of both the quantity and quality. The current transport system of Vietnam can summarize as follows: the road system does not meet technical requirements, there is no standard highways; urban roads and streets are narrow, which causes traffic jams; airports are small, railways are too backward; port system is decentralized. Compared to other advanced countries in the region, the system of transportation in Vietnam is ranked at a level of below average by experts. The investment in developing the transport system of Vietnam is now facing many difficulties.

The weaknesses of the transport system in Vietnam have caused increasingly implications to the morden development process of the society and economy. Although Vietnam is considered an attractive investment area, the barriers of existing transport system has significantly increased investment costs and business expenses of the enterprises. According to research conducted by the Trade Promotion

Organization of Japan (JETRO), transport costs of an 40 feet container from Da Nang to the Yokohama port is approximate USD 1,570, which belongs to the countries of highest costs in the region. According to calculations done by the Chamber of Commerce and Industry of Vietnam, the transport costs of a freight container from Vietnam to America is USD 3,000, 1.5 times higher than that of China (USD 2,000) and 1.2 times higher than that of Thailand (USD 2,500). The weaknesses of the transport system reduce the attractiveness of Vietnam to foreign investors. Poor infrastructure also increases the cost of freight time. According to experts' calculations, Vietnam spends approximate USD 1.7 billion in additional logistics costs every year due to lack of appropriate ports, and goods transit through Hong Kong and Singapore. If Vietnam builds appropriate big ports of 4 or 5 in the south, 2 or 3 in the north and 1 or 2 in the central, it will be more effective than investment in building up to 50-60 of smaller ports which are scattered in different locals. According to the ranking on the national competitiveness annually conducted by the World Economic Forum, the index of transport infrastructure of Vietnam is often very low.

5.3. Telecommunications

In the period of the economic recovery, in 2010, Vietnam's telecommunications industry continues to have positive developments. In 2010, the number of new phone subscribers is estimated at 44.5 million, increasing by 0.6% compared to that in 2009. In which, the number of fixed subscribers reached 793 thousand, down by 49.1% compared to previous year; the number of mobile subscribers reached 43.7 million, up by 2.4%. In December 2010, the total number of telephone subscribers across the country estimated at 170.1 million, up by 35.4% over the same period of last year, including 16.4 million of fixed subscribers, up by 5,1%, and 153.7 million of mobile subscribers, up 39.8%. The number of telephone subscribers of Posts and Telecommunications Corporation (VNPT) reached 88.9 million of subscribers, up by 25.3% over the same period in 2009, including 11.7 million of fixed subscribers, up by 1.3 % and 77.2 million of mobile subscribers, up by 29.9%.

At the end of 2010, Internet subscribers nationwide was estimated at 3.77 million, up by 27.4% over the same period last year, in which VNPT subscribers reached 2.61 million, up by 21.8%. The number of internet users was 27.4 million, up 20.2% compared to last year. Total net sales of postal and telecommunications in 2010 was estimated at VND 138.8 trillion, up 26.5% compared to 2009, in which VNPT accounted for VND 90 trillion, up 26%.

As in recent years, while the price index of most commodities increased, the telecommunication price index continued to fall again. On average, in 2010, that index has decreased by 4.57 % compared to 2009.

The development of telecommunications has contributed to Vietnam's economic development, improving citizen's lives and international economic integration. However, that development has caused a number of issues. *First*, the telecommunications enterprises are attracted by the growth of customers, not on network quality, customer service and internet information security. That industry has shown the inefficiency and non sustainability of its business performance. *Second*, telecom enterprises seem more interested in competing to expand their market share rather than cooperation. The investment of a series of enterprises in infrastructure development of telecommunications networks has raised many implications, such has: capital dispersion and low efficiency. Third, the supply of telecommunications, internet, and broadcast has not yet met the needs in the remote areas due to higher investment costs and lower business effectiveness. This is not the case in urban and lowland areas. Meanwhile, the Government has not produced proper policies to encourage telecommunication enterprises to expand their business in remote areas. Finally, the applications of information technology in the authority agencies are not paid enough attention. Data transmission network exclusively used for the Party, the State and the Governments at all levels is being completing and has not been used effectively.

5.4. Water supply and waste disposal

The supply of water for business and production operations is not as inefficient as that of power. However, management and use of water resources has posed many problems. Vietnam has a tropical climate, a diversified system of rivers, lakes, and canals, and annual rainfall on average from 1,200 to 3,000 mm. With those natural conditions, many people believe that water is an unlimited resource. Therefore, the protection and savings of water was not given attention for a long time. International organizations on water resources have made recommendations on using water threshold of 30% of flow volume. Meanwhile, that threshold in most of the provinces of the Central, Southeast and Central Highlands is over 50%. The over exploitation of water sources has reduced water resources in both quality and quantity in large rivers of Vietnam such as the Red River, Thai Binh River, and Dong Nai River. Some rivers are dead (Nhue River...); some rivers are being killed gradually (Cau River, Ve River...).

Because there are not effective measures to ensure the sustainable development, Vietnam has revealed more clearly the implications of rapid economic growth which leads to increasing environmental pollution. Nearly half of industrial zones are without waste treatment systems. The problem can also happen in traditional villages. Environmental Police, the public and the mass media discovered many enterprises deliberately discharging untreated waste into the environment. It seems the cases discovered are only “the tip of the iceberg.”

Water pollution, pollution from solid waste, emissions, dust and noise also tend to increase. According to calculations of environmental experts, industrial zones and enterprises located outside the industrial zones in Ho Chi Minh release into the Saigon - Dong Nai River approximately 1,740,000 m^3 of wastewater and cause pollution of the water source which supplies water for most city dwellers. Means of transport in Ho Chi Minh City, consumes approximately 210,000 tons of gas and 190,000 tons of diesel fuel per year, in turn they release into the atmosphere 1,100 tons of waste, 25 tons of lead, 4,200 tons of CO_2, 4,500 tons of NO_2, 116,000 tons of CO, 1.2 million tons of CO_2, and 13,200 tons of hydrocarbons... Through 2010, if all the areas of industrial zones in the Southeast area are used up, the enterprises will release a volume of solid waste up to approximate 3,500 tons per day.

Mindful of the increasingly negative impact of environmental pollution on social and economic development, the Vietnamese government introduced several policies and measures to protect the environment, including a provisions using 1% of the government budget for environmental protection. In fact, spending is often higher than planned. Neverthless, the objectives of environmental protection have, thus far, not been achieved. Due to average spread of cost estimates, expenditures items, operation, allocation, inspection and control of budget implementation for environmental tasks between central and local authority agencies. Among industry and local agencies and the lack of communication of the main objectives. According to estimations, the total government budget for environmental protection in 2010 was VND 6,230 billion, in which VND 5,250 billion for provinces, VND 980 billion for ministries and central government agencies. In fact, spending from public budget estimated in 2010 VND 7,645 billion, accounting for 127% of its plan and VND 1,859 billion higher than the spendings in 2009.

VI. DOMESTIC CONSUMING MARKET

6.1. Characterstics of consumers across country in 2009-2010

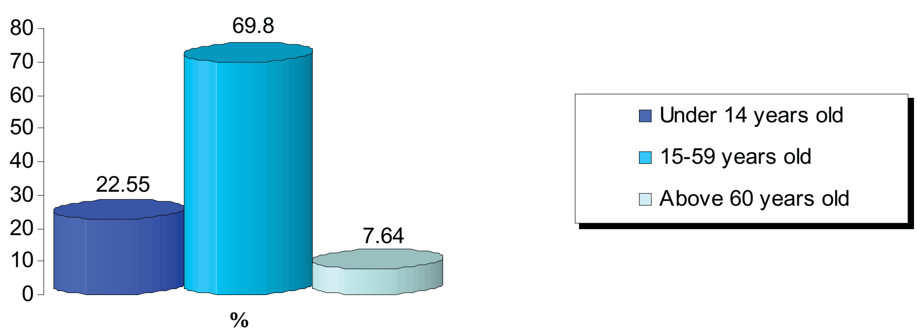
In 2009 and the first months in 2010, the Ministry of Industry and Trade conducted a survey regarding market demand to assist enterprises in filling gaps in the market, providing market information, assisting business and production planning and marketing and sales strategies. Three main findings about consumers in this study should be noted:

- Female consumers from 40 to 55 have the greatest impact on the tastes and habits of food consumption in the households.
- Roles as family cook tend to shift to older or retired people.
- Younger groups increasingly tend to determine the trend of purchases of textiles and garments, footwear products and household utensils. However the young group still plays an important role in spending decisions for the family meal for two reasons: first, they tend to make more money in their respective families; second they are regular customers of modern types of distribution such as: supermarkets, and shopping centers.

6.1.1. Customers by age

Researches show the number of people at the working age almost doubles that at the dependent age in Vietnam now. The people in the working age are a main labour resource both to create wealth such as goods and services in order to supply to the market. They also have demand for food, accommodation, clothing, travel and

Figure 1.5: Structure of consumers' age



Source: The General Statistics Office of Vietnam other things. That promotes development of the social consumption.

Moreover, the group of young people, who are under 35 years old and account for more than half of the population, have a higher demand for goods and services than older people. They are a relatively large group of customers in the domestic market. Therefore, that manufactures and distributors need to recognise their interests and demand when making strategies of the marketshare development.

6.1.2. Customers by gender

Although women are mainly incharged in shopping for foods and other small stuff, the proportion of men involved in the decision to purchase durable items is very large. In the survey sample of an interview on the sex of customers, male customers account for 51.7% while female customers account for only 48.3%.

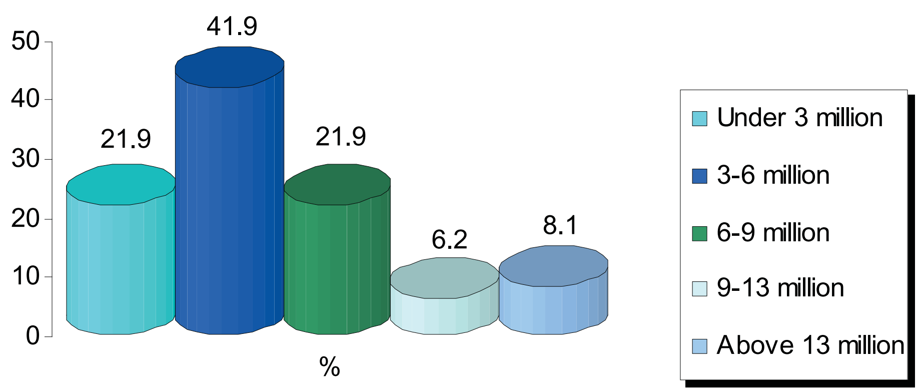
6.1.3. Customers by job

Consumers working in agriculture and forestry accounted for the highest percentage of 50.8%, those working in industry and construction accounted for 20.3% and trade, those working in transport and services accounted for 14.3%, those working in the handicraft sector accounts for the lowest rate of 5%. Consumers working in government agencies account for only 2.8%.

6.1.4. Customers by income

On average, the total income of a household per month in the survey sample is VND 4.1 million, of which the average income of a household in urban areas is VND 6.53 million; and that in rural areas is VND 3.15 million per month. The group of households which has an average income per month of less than VND 3 million accounts for 21.9%; the group with an average income from VND 3 million to under VND 6 million per month accounts for 41.9%; the group from VND 6 million to under VND 9 million per month accounts for 21.9%; the group from VND 9 million to under VND 13 million per month accounts for 6.2%; and the group more than VND 13 million per month accounts for 8.1%.

Figure 1.6: Structure of households by income



Source: Calculation of the survey data (The Ministry Industry and Trade)

6.2. Forecasts of the development trend of the consumption demand

6.2.1. Trends in consumption structure of goods of households

Cereals

According to the Ministry of Agriculture and Rural Development, to ensure national food security and keep pace with population growth, total output of rice production in the country increased from 35.9 million tons in 2007 to 37.58 million tons in 2010, and will reach 39.63 million tons in 2020. The total output of corn production will increase from 4.7 million tons in 2010 to 7.5 million tons in 2020.

According to forecasts, the average rice consumption per capita will decline from now until 2015 and continue to decrease more sharply until 2020, while the demand for rice for will grow. Processing and reserves will tend to increase during the same period. Meanwhile, the forecasts show demand for corn will increase from 6.0 million tons in 2010 to 8.0 million tons in 2015 and to 9.0 million tons in 2020. Because of an increase in demand for corn, especially demand for feeding and processing, from 2010 to 2020, on average our country might have a shortage of around 1.6 million tones of corn.

Consumption of food products continues to decline, accounting for only about 55.6%. Consumption of unprocessed food has tended to decline, while consumption of processed food tends to rise.

Food

Food spending in urban households will increase significantly even in a period of high food prices. From 2009 to 2020, the average growth rate of Vietnam's economy is predicted to be slower than the period from 2001 to 2009 (6.9% per year compared to 7.6% per year). It means the growth rate of income, and the improved standard of living rates, may decrease. In turn, the restructuring rate of food consumption in households may also decrease. Moreover, the process of restructuring in food consumption will also be influenced by factors other than income such as the urbanization process, the international economic integration, etc. Consumption of meat and eggs will account for the second largest proportion, with 17.9% of total consumption in households, followed by the consumption of vegetables and fruits with 16.4%; other foods such as fat and cooking oil or milk might still account for a low proportion of 4.5%; consumption of seafood products may increase from 4.9% in the 2001 to 2009 period to 5.6% in the 2009 to 2020 period if its plan production is followed and demand for seafood in the domestic market does not fluctuate greatly; consumption of vegetables and fruits may increase from 15.8% in the 2001 to 2009 period to 16.4% in the 2009 to 2020 period.

Textiles and garments

Monthly spending on clothes and other trendy items may account for 18% of the total spending of people ages 20-45 in Ho Chi Minh City who have a steady income. 60% of consumers will spend between VND 150,000 to VND 500,000 per month for their clothing needs. Currently, 70% of consumers purchase clothing or other trendy items once every month or once every 2 - 3 months. The majority of consumers under 25 go shopping at least once per month, while others do it once every 2-3 months.

Leather shoes

Leather shoe production is one of the leading industries of the Vietnamese economy. It used to be solely of interest to export markets, but recently it has returned to the domestic market. Each year, Vietnam produces more than 800 million of pairs of shoes, of which it sells 130 million of pairs on the domestic market; the rest are for export markets. According to the Vietnam Leather and Footwear Association, on average each Vietnamese person currently owns 1.5 to 3 pairs of shoes per year, including 80% of leather and fake leather products; 70% of imported shoes, the majority being Chinese products; and only 30% of Vietnamese footwear. There has recently been a huge change in the consumption structure of footwear in Vietnam. Many consumers will purchase imported items which are of good quality and durable. However, in big cites most customers with a higher income will seldom change their mind about purchasing imported goods.

Household goods

Electronic and refrigeration products: Consumers are showing a trend toward the use of electronic and refrigeration products which are not simply everyday items such as televisions, refrigerators, washing machines and vacuum cleaners, but also digital products. That trend will increase faster in the future. For example, e-albums have replaced paper ones; even e-books have replaced paper books; green products, energy saving products, and low pollution, health-conscious safe products have increased in production and consumption. That is considered to be a positive trend because it may help a family to live a more comfortable life, and new technology products were initially accepted by the Vietnamese customers. That trend first appeared in large cities such as Hanoi and Ho Chi Minh City with a rate of about 45%, and will expand to other urban and rural areas later.

Wooden products: Consumption demand of mosaic furniture with a floral design is high in the Vietnamese market. However, it will decrease in the future because of changing consumers' tastes from stylish to simple products. All furniture must come together practically as a set of beds, wardrobes, medicine cabinets, shower lockers, cabinet rugs, dressing tables, and mirror frames.

6.2.2. Trends in using distribution channels of goods

The traditional type of distribution channel such as rental stores, groceries at home, and the retail stalls at the market still play a major role in the distribution network of wholesale and retail in recent years in Vietnam, especially in the rural areas. However, the modern distribution patterns have currently appeared due to the involvement of the multinational wholesale and retail distributors in Vietnam such as Metro Cash & Carry, Bourbon (Big C), Parkson, Lotte, etc. Their participation in Vietnam is a new factor which has a positive impact on the development of modern distribution channels in Vietnam. That new channel of distribution has had a significant impact on the purchasing habits of the Vietnamese customers. The customers began to shop at supermarkets, shopping centers, and specialized shops where the number of customers increased from 9% in 2005 to 14% in 2007 and to 24% in 2010.

Consumers will increasingly shop at modern distribution centers including systems of wholesale; warehouses; logistics and marketing; hypermarkets; wholesale supermarket; supermarkets down price; supermarket systems, shopping centers; specialized supermarkets; retail stores; specialized stores; convenience stores; and other types of franchises and agencies. Most consumers choose to buy processed foods such as canned meat, spring rolls, hot dogs and tinned fish at supermarkets (40%) where there are the best conditions of food storage temperatures and other matters related to management of food hygiene and safety. The traditional channels of food distribution continue to play a key role, especially in rural areas. Most daily essential foods such as meat, poultry, vegetables, roots, fruits, and seafood are delivered to consumers through the markets which have many different scales, including the wholesale markets. Therefore, traditional markets are still important channels of food distribution in spite of the tense competition amongst modern retail channels. More than 80% of housewives still buy foods, especially fresh foods such as meat and seafood.

Electrical commerce is a new distribution channel which has been increasingly developed during the explosion of information technology. New retail methods such as selling goods via the Internet, television, and mobile telephones have appeared. Customers are eagerly using these new forms of commerce to buy goods, especially clothing, footwear, and health care products. This new form of distribution is getting an enormous attention from both consumers and commercial enterprises because of the convenience of easy search, diversity in type of goods, more competitive enterprises, and competitive prices.

As the shopping trend develops through modern forms of trade such as supermarkets and shopping centers, the shopping trend of franchise will gain even more popularity in the future. The chains of convenient stores and franchises are considered a quite effective model of distribution. Modern forms of retail will help share the burden and financial risk; increasing brand values, increasing sales, investing safely, having assistance of the franchisor, and especially, consistency and stability. Therefore, it will be a distribution channel which many customers choose in the future.

6.3. The campaign of "The Vietnamese people give priority to use the Vietnamese products"

The campaign of "*The Vietnamese people gives priority to Vietnamese products*" was launched by the Politburo in August 2009 to build a style of consumer culture and to encourage producing Vietnamese products of high quality and competitive capacities. It is a conditioned response to the challenges of international economy integration. More than a year after the campaign started lessons learned showed that to conduct a successful campaign, long-term efforts of stakeholders is required. Government assistance and support of consumers are vital. However, the campaign's initial results have been positive creating a solid foundation going forward.

To enterprises: The campaign has created favorable conditions for domestic production, operation and development of Vietnam enterprises. Therefore, enterprises generally have recognized the significance of the campaign. They consider the campaign a "golden opportunity" to raise their brands name to consumers offering business opportunities in the domestic market. Vietnamese products have now been significantly improved in design and quality through application of modern technology, following international standards of quality. Enterprises are also constantly changing the distribution methods of goods, and deploying new distribution forms which are suitable to the domestic market, such as combinations of modern distribution methods with traditional ones, deploying "sales" and promotion programs to increase purchasing power. In turn, it is gradually changing the customers' behavior and driving them toward Vietnamese products.

To consumers: The campaign has produced initial changes in awareness of the Vietnamese consumers. Consumers have gradually recognised both manufacturing and trading capacity of Vietnamese enterprises and the quality of Vietnamese goods and services. According to survey results of TV Plus, more than 58% of consumers were interested in Vietnamese products after one year since the Politburo launched the campaign while there were previously only approximately 23%.

To the State management agencies: All recognise the importance of domestic markets which offers consistency in the process of making and implementing policies and mechanisms on controlling imported products., developing domestic markets, and controlling markets to protect the domestic products.

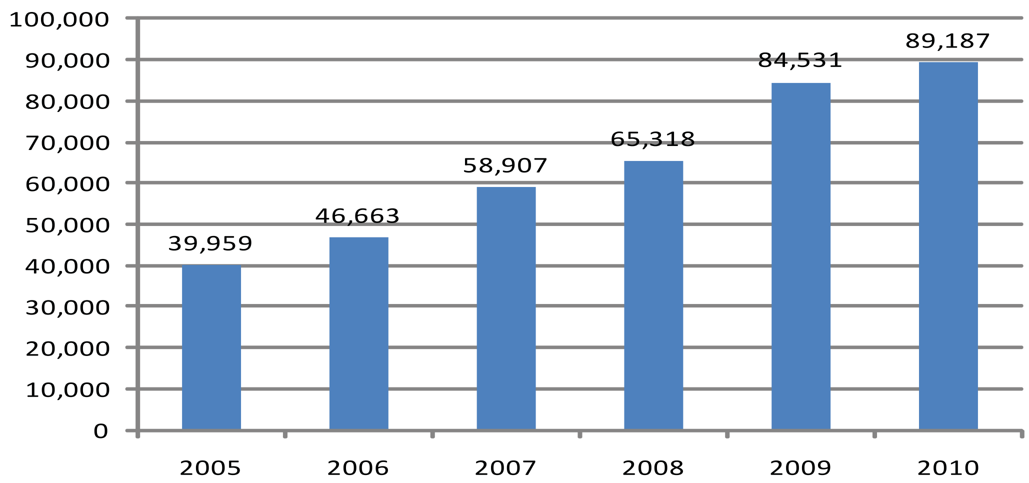
VII. ENTERPRISE DEVELOPMENT

Year 2010 is the first year implementing mechanisms of simultaneously with business and tax registration. This has created a good precedent for cooperation among the State authorities in handling the administrative procedures for citizens and enterprises, shortening the duration of enterprises' market entry to less than 5 days. The resulting business registration reforms have contributed to improving the business environment in Vietnam. According to Doing Business Report of the World Bank in 2011, the reform measures in business registration helped Vietnam (rise by 14 spots in the ranking) of the convenient procedures for business registration. The improvement in business registration procedures have significantly contributed in increasing the overall index of business environment of Vietnam by 10 levels compared to 2009. Vietnam is ranked 78/183 countries, above China 01 level and 4th out of 10 economies which have reformed the most in favorable level of business environment in 2011.

Thanks to the improvement in business environment, the number of newly registered enterprises continues to increase. According to data provided by the Business Registration Management Department,

Figure 1.7: Number of enterprises registering business from 2005 to 2010

Unit: enterprise



Source: Business Registration Management Department which was newly established under Ministry of Planning and Investment, the number of enterprises established in Vietnam in 2010 was 89,187, increasing by 5.5% compared to the same period in 2009. Total registered capital was VND 545 trillion, increasing by 5.57% compared to 2009. On average each enterprise has a registered capital of VND 6 billion, an important factor which will contribute to business development and job creation.

There were 89 thousand businesses enterprises registered in 2010, including 59,079 limited liability enterprises, accounting for 66%, 21,859 joint stock enterprises, accounting for 25% and finally 8,231 in the private sector. No partnership company was established in 2010. According to statistical data, there are 33 partnership companies out of 544,394 enterprises across the country so far. Hence, the number of partnership companies is very small compared to other types of enterprises. The operational model of partnerships has not been of particular interest to investors, due to limitations like partnership members must be individuals and they have to be responsible for obligations of the company with all their assets.

Table 1.3 shows the number of private companies has decreased for the past years while the number of limited liability companies has quickly increased. That is the inevitable trend of the market economy as business owners want separation between their own property and the company's assets. Therefore, since the Enterprise Law issued in 2005 allows individuals to set up one member limited liability companies, have increased, the number of private sectors fell substantially. The number of the new joint stock companies increased by 15.16% in 2010 compared to 2009. That shows investors are more interested in that type of enterprises. Year 2010 has also marked the transformation of SOEs into one-member limited liability companies since July 1, 2010.

At the end of 2010, the total number of business registered enterprises under the Enterprise Law has reached more than 544,394, exceeding 500,000 enterprises in the government plan.

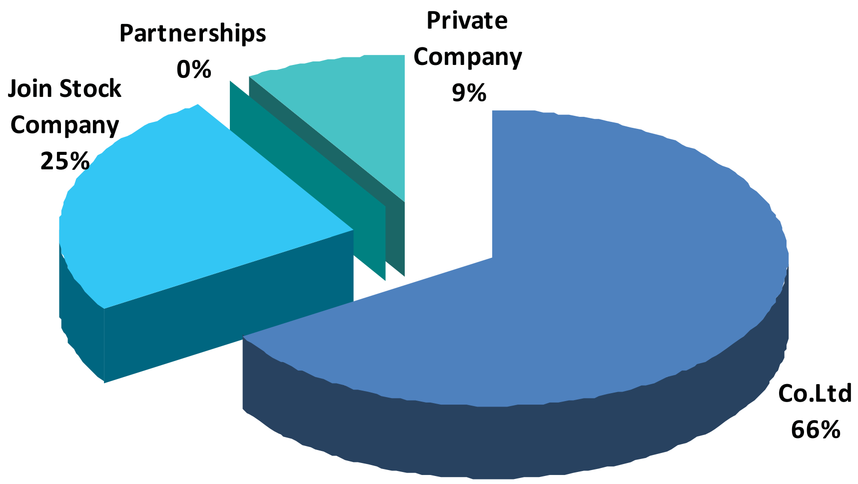
Table 1.3: Number of enterprises increased from 2005 to 2010

Unit: enterprise

Year	SOE	Private	Co., Ltd.	Joint Stock Company	artnership Companies	Total
By 2004	6,993	65,239	72,188	15,395	14	159,829
2005	8	9,295	22,633	8,010	13	39,959
2006	7	10,320	26,664	9,669	3	46,663
2007	-	10,013	34,160	14,733	1	58,907
2008	4	8,895	39,748	16,670	1	65,318
2009	-	9,891	55,658	18,981	1	84,531
2010	-	8,231	59,097	21,859	-	89,187
Total	**-**	**121,884**	**317,160**	**105,317**	**33**	**544,394**

Source: Ministry of Planning and Investment

Figure 1.8: Structure of the types of enterprises established in 2010



VIII. WORLD MARKETS, FLUCTUATIONS IN PRICES, SUPPLY AND DEMAND IMPORTANT ITEMS FOR VIETNAM IN 2010

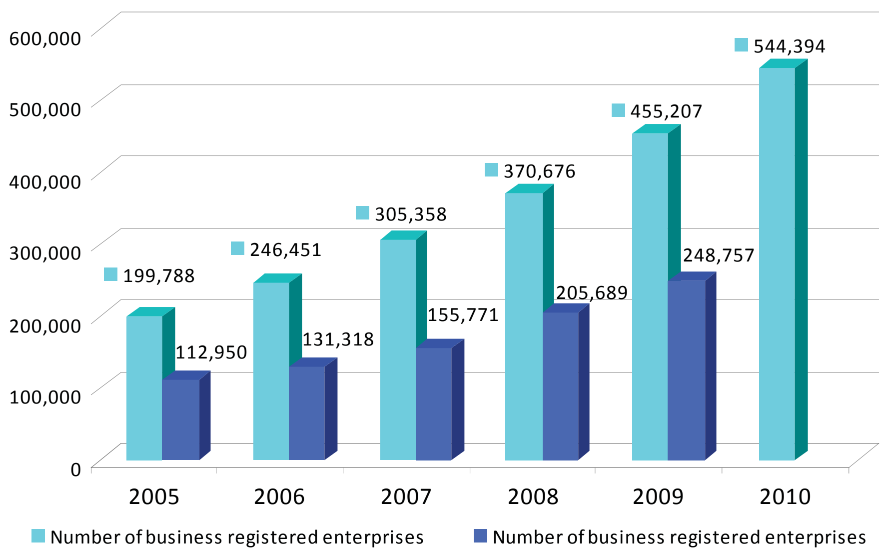
8.1. Fluctuations in prices, supply and demand in the world market

In 2010 the world commodity price index increased in the first quarter, declining in the second quarter, increasing again in the last months of the year. In 2010 the food prices recovered the most; energy product prices stabilized; the price of metal products temporarily increased because of seasonal demand before stabilizing in the first weeks of a new year.

Signals in the world commodity markets are said to closely relate with the instability

Figure 1.9: Total number of registered and operating enterprises at 31 December of the years 2005 - 2010

Unit: enterprise



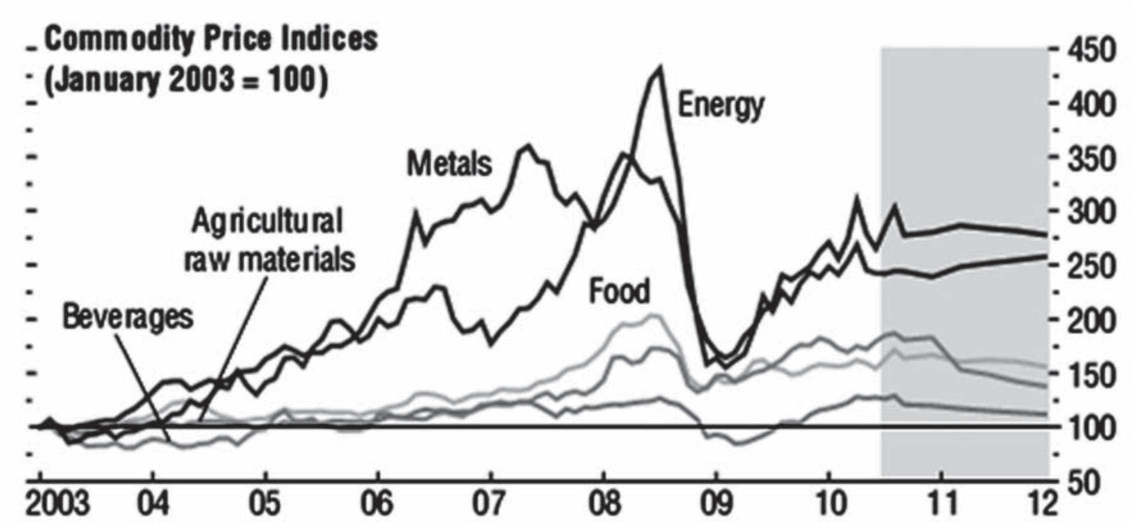
Source: The General Statistics Office of Vietnam of world financial markets, also related to the intensity of the exchange rate policies among countries. Therefore, the stability of prices in the world commodity market is only achieved when those factors are resolved.

In general, the demand for most commodities tends to rise with steady recovery of the world economy. In addition, recognizing the growing role of China as a market with massive demand for goods and rapid growth in world trade is important. While the demand for commodities in leading economies such as the USA, E.U., Japan is falling, a rapid increase in the demand for commodities in emerging economies led by China will ensure stable growth of commodity trade over the world.

Specifically, the market development of the base metal commodities currently depends largely on the demands of the Chinese market. Demands for base metal goods from China have grown strongly since 2009due to the impact of policies stimulating macroeconomy and the demand of basic construction. However, there are two factors that might reduce the demand for metal products going forward, while reducing the world demand for metals. Factors include (i) China's termination of the economic stimulus and slowing credit growth to cool the economy which shows signs of overheating growth, and (ii) the Chinese investors had stored a huge volume of metal products for the some time, they might use that reserve volume and stop buying the metals from the world market. In contrast, the price of Chinese Yuan has recently risen to help Chinese manufacturers to increase strength in world commodity markets. Therefore, they might continue the purchase of base metal in the near future. In general, though there will be a drop in demand for the metals of China, the slight recovery of major economies and the increasing demand of other emerging economies will slightly increase the base metal prices until at the end of 2011.

Food prices increased in 2010, because for the following reasons, (i) consumer

Figure 1.10: Commodity price index in the world market from 2003 to 2010 and its forecast from 2011 to 2012



Source: IMF, World Economic Outlook 2010, October, 2010 demand in the world market has rebounded, (ii) severe weather in many agricultural producing countries caused a decrease in supply of agricultural products in the last months of the year, with wheat production showing the biggest decline in output. Weather conditions caused poor harvests in the fields of Russia, Ukraina, and parts of North America. However, a domino effect was avoided due to large reserves of the wheat in most countries. In addition, the La Nina phenomenon also caused negative effects on crops in at least three Asian countries. It can be said, the threat of a world food crisis is possible. Climate change not only creates natural disasters which destroy agricultural crops but also narrows the area of agriculturally viable land throughout the world. The European Commission in 2010 also had to take into account the use of 10% of agricultural land reserves to cope with food shortages which may occur in the future.

8.2. Price fluctuations on the world market of import and export items of Vietnam

8.2.1. Rice

Demand for rice[(1)]: Demand for global rice consumption in 2010 is projected to reach about 445 million tons, with an increase in demand from India, Asian countries and a significant portion of the fast growing market in the African region. World demand for rice is expected to continuing to increase and reach 457 million tons in 2012-2013.

Supply of rice[(2)]: After a decline in production, world rice production is anticipated to increase again in 2010-2011 and is expected to reach 448 million tons, up 1.9% over the previous year. In the next two years, due to better weather conditions, an increase in rice production in India, and China will push world rice production to 459 million tons in the period 2012-2013.

Prices: World rice prices tended to decline in 2010, reaching the lowest value in two years in July 2010. However, in the last monthsof 2010, rice prices have recovered. The price listed in September in Thailand (FOB Bangkok for type 2) is about 495 USD per ton, increasing 10% compared with the price at the end of July. The price increase can be explained by the fear of rice exports following the flood disaster in Pakistan, along with increased demand for rice from countries such as Bangladesh, Cuba and Nigeria. It is anticipated that the demand will continue to increase in 2011 and 2012. So the trend in price increases in following years may depend on Thailand's government plan to reduce their rice reserves for export. If they do, price could drop 483 USD per ton in 2011, and go further to 475 USD/ton in 2012.

8.2.2. Crude oil

Demand for crude oil[(3)]: The amount of world oil consumption in 2010 increased by 2.1% due to an increase in demand from China, the Middle East, the countries of the former Soviet Union, and partly from America. In the first half of 2010, emerging economies such as China, and Brazil (with their high economic growth) as well as the recovery of industrial sectors in the U.S. and Japan has led to the steady increase in world demand for oil. In the second half of 2010, oil consumption will decline

(1) The Economist Intelligence Unit. 2010. Commodities Rice. Global Forecasting Service.October, 2010

(2) The Economist Intelligence Unit. 2010. Commodities Rice. Global Forecasting Service.October, 2010

(3) The Economist Intelligence Unit. 2010. Commodities ,Oil. Global Forecasting Service.October, 2010

due to the effects from discontinuation of demands stimulation policies. The demand remains stable in emerging countries like China, India, Middle East countries in 2011; however, the oil demand of other developing countries of the OECD group is expected to decrease leading to the amount of consumption only about 1.5%. This reduction resulted from the policies of energy saving and environmental protection that OECD countries are implementing. In 2012, world oil consumption is predicted to increase 1.8% due to increased demand for non-OECD countries.

Supply of crude oil[1]: Global crude oil production decreased by 1.4 million barrels per day (equivalent to 1.6%) in 2009 due to production reduction policies of OPEC countries. Meanwhile the non- OPEC countries increased their production capacity about 3.8%. In the period 2010-2011, OPEC countries will continue to monitor their production policy, reducing their production capacity in order to avoid a fall in oil prices within the context of world oil consumption has not yet recovered as before. Non-OPEC countries continue to increase their production steadily; the total of world oil production output is expected to rise to 2.4% in 2010 and to reach 86.9 million barrels a day.

OPEC is expected to increase its production output by 2.7% in 2011. Non-OPEC countries such as Brazil, Canada and Russia will also expand their production in 2011, but not as considerably. Total world oil production is expected to increase 1.7% in 2011 to reach 88.4 million barrels a day. In 2012, if the world economic recovery occurs as expected, the OPEC countries will expand production and world oil production could reach 90.2 million barrels per day (2.1%)

Prices: World oil prices in 2010 showed a clear upward trend due to increased demand in Asia, especially China. However, when the stimulus policies around the world end in 2011, the demand from OECD (countries decline, average oil price in 2011 is about USD 76.4 per barrel compared with 78 per barrels in 2010). In 2012, world oil demand is forecasted to increase pushing oil prices to about USD 81.25 per barrel.

8.2.3. Rubber

Demand for rubber[2]: Demand for natural rubber consumption worldwide has recovered after falling steeply in 2009. In the first half of 2010, according to the International Rubber Research (International Rubber Study Group-IRSG), rubber consumption has increased 18% compared to 2009. The increase by the year 2010 is projected to be 10%, reaching 10.35 million tons. The rise in natural rubber price this year is creating a trend of synthetic rubber replacing natural rubber. So in years 2011 and 2012, the projected demand of natural rubber only grew an average of 3.5% per year.

Supply of rubber[3]**:** The production of rubber in Southeast Asia, the main source of rubber of the world, has been greatly affected this year by the La Nina phenomenon. The world rubber output this year is estimated to increase 4% to about 10.1 million tons. In subsequent years, barring serious incidents related to weather, the world's rubber output may reach 10.6 million tons in 2011 (up 5%) and 10.9 million tons in 2012 (3.4%).

(1) The Economist Intelligence Unit. 2010. Commodities Oil. Global Forecasting Service.October, 2010

(2) The Economist Intelligence Unit. 2010. Commodities Rubber. Global Forecasting Service.October, 2010

(3) The Economist Intelligence Unit. 2010. Commodities Rubber. Global Forecasting Service.October, 2010

Price: Estimated average price of SMR20 rubber on the Kuala Lumpur market reached about 9657 (ringgit per ton rubber) RSS1 also reached about USD 3,605 per ton on the New York market. Overall, demand for rubber remains high in the short term, notably natural rubber demand will be subject to competition from synthetic rubber. EIU forecasts RSS1 rubber prices in 2011 will be approximately USD 3,823 per ton in 2012 to be USD 3,920 per ton.

8.2.4. Coffee

Demand for coffee[(1)]: EIU forecast the wholesale price of coffee in the 2011-2012 period will be reduced, thereby increasing speed for coffee in the future will return to the previous recession (at about 2% year in the period 2003-2007). World demand for coffee products will increase by 1.2% in 2010 and 1.8% in 2011. This assessment is based on the belief that twin crises do not happen while the debt crisis in the EU was controlled effectively. Regaining demand for products in the street (out-of-home), which were affected most severely during the crisis, will become a key driver of demand for coffee. In addition, the development of equipment and technology to enjoy coffee at home, along with promoting programs advertising new products also contributed to increased coffee demand.

Supply of coffee[(2)]: EIU estimated that the output of world exports in 2010 will reach 2.5% and 4.6% in 2011, with the largest supplies (coming from Brazil and Colombia.) In addition, many other coffee producing countries who were affected and reduced their output will recover their production capacity in 2011. The world coffee supply for export in 2011 is projected to reach 97.6 million bags (60kg category). Assuming severe weather conditions do not occur; the production will increase in 2012 by 3.3% to 100.8 million bags.

Price: Not to mention the speculation and hoarding products mutation, coffee prices are expected to fall slightly in the near future, mainly due to a steadyand increasing supply. Specifically, the price of medium-quality arabica coffee will increase 29.1% in 2010 and reach USD 1.857 per pound, (will fall 3.1% to USD 1.8 per pound in 2011), decrease to 10.5% to USD 1.611 per pound in 2012. Robusta coffee price is forecasted to remain stable during the period 2010-2011, however, when supply increases in 2012, prices will drop 11% to USD 0.656 per pound in 2012.

8.2.5. Steel

Demand for steel[(3)]: World steel demand increased sharply in the first half of 2010 but gradually decreased during the last months. According to the EIU, the world's steel demand will increase by 9.3% in 2010, about 1.8% in 2011 and then decrease slightly by 0.9% in 2012.

China is still the world's largest steel consumer, with consumption increasing by 20% in the first half of 2010. It is expected beginning late 2010 through 2011, China's steel demand will reduce gradually becouse of China's government tightening monetary policy to prevent the overheating economy (especially in the field of construction).

The consumption of other countries increased sharply in the first half of 2010, in which a small amount is used as reserves. In the last months of the year, because of the reduction in usage demand and no demand for reserves, the steel demand of major economies is estimated to drop

(1) The Economist Intelligence Unit. 2010. Commodities Coffee. Global Forecasting Service.October, 2010
(2) The Economist Intelligence Unit. 2010. Commodities, Coffee. Global Forecasting Service.October, 2010
(3) The Economist Intelligence Unit. 2010. Commodities, Coffee. Global Forecasting Service.October, 2010

dramatically. With the exception of China, the rate of world steel consumption increased an average of 11.3% in 2010, of while the EU increased by 15%, and North America by 20%. In the years 2011 and 2012, consumption is expected to increase only 7.4% respectively and 3.5%.

Supply of steel[1]: After a decline of 8.4% in 2009, the world's steel output this year rose to 30.1% in the first quarter and 27.1% in the second quarter. However, the expected excess supply has led to a decrease in output in the third quarter. The world crude steel production is expected to increase by about 11% in 2010. In 2011, production of China's steel is expected to decrease 4.5% due to declining domestic demand, while crude steel production of areas in the EU and North America remained at high levels. It is expected global steel output will rise 2.2% in 2011.

Prices: As estimated, the world price of rolled steel would be about 600-800 USD per ton this year, prices in the developed markets may be higher. The increase resulted from production cost increases 150 USD/ton. In the short term until the end of 2010, steel prices could continue to rise because the consumers have used up the amount of steel purchased in the summer. However, in the fourth quarter last year, steel prices may fall somewhat due to Chinese smaller demand for steel. This trend may continue in 2011 and for a number of years demand slightly decreases and supply is maintained, so steel prices will be kept stable.

8.3. Influence of price fluctuations and the world economy to Vietnam economy

From the analysis of fluctuations in commodity prices on world market and the activities of the major economies, the following implications for Vietnam's economy can be inferred:

First, world commodity prices have trended to rise in the short term. The fundamental commodities, raw material, metals, crude oil and food are generally trending upward through 2012. Vietnam, in exporting these products gained certain benefits. Food export business should focus more on the world market in coming years. There is a risk of a food crisis in some regions and countries around the world, and may present opportunities for exporters in Vietnam.

Second, the major economies of the world will hardly recover the impressive growth in the short term. The problem of fiscal policy, monetary policy, along with unemployment at high levels is the key obstacle to economic growth in these countries. Because these countries are export markets of Vietnam, it cannot be denied that Vietnam will face certain difficulties when entering the U.S. and EU markets in the future. Vietnam businesses need to be active in searching for solutions as well as export opportunities in new markets to maintain production capacity.

Third, China is becoming a consumer of new products. China's economy is gradually moving to a new stage with pressure from increased production costs and the rise of the Yuan, with pressure from increased production cost and the rise of the Yuan plus the flow of Chinese investment to outside and capicity of domestic consumprion increaseds. All these things are beneficial to Vietnam's economy, manifested in two main points: (i) international investors tend to move production and business operations to Vietnam in order to take advantage of cheap labour and (ii) Vietnam enterprises have a consuming market. The problem here is how the Vietnam government and Vietnam enterprises take advantage of opportunities like this.

(1) The Economist Intelligence Unit. 2010. Commodities, Steel. Forecasting Service.October, 2010

Fourth, the emerging of African countries as a region which attracts new investment with abundant raw materials and promising consumer markets. Investors from around the world are rushing to enter and dominate the mineral resources of Africa in the belief that the continent will become a hot spot in the coming years. Vietnam businesses need to pay attention to African countries as a promising market in the future, and competitors in attracting foreign capital from international investors.

In short, the world economy in 2010 and subsequent years witnessed a slowdown in the domination of the large U.S. economy, EU, and Japan and the rise of powerful emerging BRIC countries and the developing countries. Vietnam has an opportunity to take advantage of the objective conditions (increased economic costs of China) and subjective (cheaper labour compared to many countries in the region) when participating in production both regional and global. To be able to grasp these opportunities, enterprises need better reforms in their performance, and a better understanding of standards of the world, with a more favourable business environment offered from the government. In this way, we can improve domestic production, better integrate into the international economy, and provide a foundation for sustainable growth and long-term stability.

IX. VIETNAM ECONOMIC STRUCTURE TRANSITION PROCESS

9.1. Current Economic Structure of Vietnam

9.1.1. Economic structure

Economic structure in recent years has shown positive changes. The ratio of agriculture, forestry and fisheries in GDP decreased from 24.53% of GDP in 2000 to 20.58% in 2010, shares of industry and construction increased from 36.73% to 41.09% of GDP, while the share of services fell slightly from 38.74% to 38.33% of GDP during the same period. Thus, overall economic structure of Vietnam's transition towards industrialization and modernization and construction industry has become the locomotive of economic growth in Vietnam.

Labour structure also showed positive changes. Labour increasingly shifted more to the industry which is with higher labour productivity. In 10 years (2000-2009), agriculture, forestry and fishery workers declined 13.9 percentage points, from about 65% labour force in 2000 to about 51.9% in 2009, in which individual workers agriculture and forestry has declined 14.3 percentage points, from about 62.5% to 48.2% during the same period. Meanwhile, the share of industry - construction workers in total employment increased from 14% to nearly 21.4%, the corresponding proportion of the service sector has increased from 22% to more than approximately 26.7%. Correlation between labour movements and economic restructuring has not yet justified. Agriculture - forestry - fishery has the highest proportion of workers with jobs, but had the smallest proportion of Vietnam's GDP, accounting for 20.58% against 41.09% of the public sector construction industry and 38.33% of the service sector (2010). Low productivity in agricultural and rural areas and the significant gap of the labour working in this field, and lower income compared with labour in the manufacturing industry and services shows that the shift of labour from agriculture to industry and services is an indispensable requirement and objective.

9.1.2. The structure by economic sectors

Recent years have witnessed the growth of all economic sectors. The economic structure has changed positively, adjusted with the market mechanisms. Non-state sector and regional investment abroad has increased rapidly. The proportion of state sector in GDP has fallen from about 38.5% in 2000 to more than 33% in 2010[1]; non-state economy is relatively stable, approximately 48% of GDP and the sector is capital foreign investment has increased from more than 13% to nearly 19% during the same period. In term of value of industrial production, the proportion of state sector has declined rapidly, from more than 34% in 2000 to more than 22.14% in 2010, the proportion of non-state sector increased from 24.5% to about 35.88% than the region's capital and foreign investment increased slightly from 41.3% to 41.98% during the same period.

Investment in economic sectors also gives similar changes. Specifically, the investment ratio of state sector in the total social investment has fallen rapidly, from about 59% in 2000 to 38.1% in 2010, the proportion of invested non-state sector increased from about 23% to 36.1% and the proportion of foreign investment sector increased from about 18% to 25.8% during the same period.

9.1.3. Structure of export and import

Vietnam is a country with the demand depending heavily on export demand and investment. In 2010, the percentage of the export/GDP of our country is 70.5%, the rate of investment/GDP of our country is 41,9%, this is a very high rate compared to other countries in the region.

The export structure of our country continue to change with the trend of reducing exporting raw materials or processing, while increasing of processed or refined products, however, this change is not very dramatic. The export structure depends on a number of commodity groups. The major export products are mainly raw or prepared products. Despite this shift, the main export market is not changing much (see Section 1.1.2 in Part I).

Structure of service exports in total exports of goods and services is low (9.4%) and focusing on a few services: tourism (accounting for 59.65% of the total export value services), transportation (30.91%).

The structure of imports does not change significantly and remains essentially production materials, especially fuels and raw materials. Proportion of material goods production accounted for approximately 90.2% of total imports in 2010. Proportion of imported consumer goods fell from 9.3% in 2009 to 8.6% in 2010 while the gold and gold products increased from 0.5% to 1.2%

Imported goods are increasingly dependent on goods from China. Proportion of imports from China increased continuously, from 9% in 2000 to 24.9% in 2010, becoming the largest source of imports in our country. Followed by ASEAN, accounting for 20.3% Korea 12.2% and Japan accounted for 11.3%. EU imports account for only 7.7% share of imported goods.

The import of services in total value of imports of goods and services does not have any major changes and depends on a few services. In the 2005-2010 period, the ratio of imported services in total

(1) The data of the year 2010 is estimated

value imported goods and services were relatively stable in the range 9-10% (in 2010 is 9.01%). In 2010, turnovers in service imports were estimated at 8,320 million USD, up 20.6% compared to 2009. This includes transportation services reaching 5,009 million USD, accounting for 60.2%; tourism service was at 1,470 million USD, up 17.67%.

9.1.4. Investment structure

Capital mobilization for nearly two decades has achieved impressive results. The proportion of social investment/GDP increased continuously and reached a high of around 34% in 2000, and increased 41.9% over 2010. From 2003-2010, this percentage has constantly been higher than 40%, and the highest was 44% in 2007. This is a primary factor of high economic growth in Vietnam in recent years. Capital structure by economic sectors has had positive changes in line with policy reform towards diversifying sources of investment capital, promoting the development of a multi-property, multi-ownership International market economy. State investment ratio has declined rapidly from about 59% in 2000 to nearly 38.1% in 2010; investment ratio in the non-state sector increased from about 23% in 2000 to 36.1% and foreign direct investment has increased from 18% to 25.8% over the same period. In other words, the total social investment has shifted from a clear and strong public sector to a state sector and a foreign-invested sector abroad.

9.2. Proposed objectives and principles of the economic restructuring process in Vietnam until 2020

The overall objectives of the innovation and economic restructuring process in Vietnam in 10 years is as follows: By 2010 our economy achieved an economic structure which is equivalent to the average economic growth with the income per capita of USD 3000-3200; establishing an open economy with modern market mechanisms and infrastructure. High competition and economic growth are mainly based on improvements in productivity and effectiveness, and macro-economic and socio-political stability.

The overall objectives above will be achieved by implementing a number of specific objectives and targets for each period as follows:

- Gradually decrease, narrow and equal the balance of current account payments and budget revenues and expenditures. Specifically, by 2015, the deficit of the balance of current account payments will be less than 5% of GDP. By 2020 there will be no deficit on the balance of current account payments and the budget deficit will not exceed 3% of GDP.
- Gradually and continuously improve the effective use of all resources, improve productivity and growth quality by 2020; (1) the proportion of the added value of the total output of the economy should reach a of minimum 50% (i.e. an annual increase of one percentage point); (2) the proportion of added value of the total output of the processing industry should reach about 40% (annual increase of one percentage point); and (3) Contribution of complex factors of productivity in general economic growth should reach at least 35% (annual increase of one percentage point).
- By 2020, agriculture, forestry and fishery outputs should account for no more than 15% of GDP; industry, construction and services constitute at least 85% of GDP; the structure of the economy will be diversified, sophisticated and complex

within each industry; the service and high technology industry with high added value will mainly contribute to GDP; and exports of high tech accounts for about 25-35% of export turnover.

- The state-owned corporations and economic groups that have been equitized, will become the joint stock companies managed and operated under the market rules and practices; they will continue to maintain and strengthen the leading roles in the key economic sectors by improving productivity and competitiveness as the leading and larger groups of the economy; and they will play a leading role in innovation and technology transfer to promote transformation of economic structure toward modernization. The domestic private sector will grow in both quantity and quality, becoming one of the driving forces of economic growth. Economic investment focuses on industries with a comparative advantage based on capital-intensive high technology, and will spread to affect innovation and technology transfer of other economic sectors, mostly in the domestic private sector.

- The economic zones have to be formed distinctively, based on the competitive advantages of each region and local stakeholders, in which there are three major economic regions connected to each other through regions and provinces the creation of a unified economy, open and effective connections with the outside world.

9.2.2. Principles of innovation and economic restructuring

Innovation and economic restructuring should be done by the following principles:

First, innovation and economic restructuring is a continuous, regular and long-term process. Sequential steps are needed based on exploiting the existing competitive advantage and a speed up is required to build the competitive advantage in some high-tech industries. Service industries have the potential.

Second, there should be more balanced growth to mobilize the maximum possible number of investment capital and other resources, combined with technologies of all level to have a total employment; at the same time, continuous improvement and raising the efficiency of resource use that to get higher growth, stability and continuity. High growth, averaging from 7.5 to 8.5% per year, shall be continuous and sustainable combined with maintaining a stable macroeconomic and political stability-a stable society.

Third, policies should be implemented to promote all regions of the country's development. Forming regions of dynamic growth area should be large enough scale to make a spin-off effect on the economic developement of other relevant areas and the overall economy.

Fourth, the economic sectors should be equal in development with no discrimination. The State shall create favorable business environments for businesses regardless of their sectoral economic status. Business development should not be limited in scope to the industry that the law does not prohibit or restrict, encouraging the advantages of each economic sector in the process of economic restructuring.

Fifth, economic restructuring shall move toward an integrated and export-oriented connection with the country's economy and regional economic globalization, improving the status of each enterprise and branch of the background economy, paying reasonable attention to the demand of the domestic market.

Sixth, the harmonizing role of the state and the market in resource allocation will promote economic restructuring. Resources will be distributed and transferred by the market mechanism, from industries having fewer product advantages to the industries which have products with more competitive advantages, promoting the unique advantages of each locality and region. The State role is to be in leading, promoting, and accelerating breakthrough development of a number of priority sectors, a number of dynamic regions of growth, and with the objective of enhancing a competitive advantage, with growth dynamics for the entire economy.

X. CONCLUSION

Vietnam has had essential improvements in the business environment, moving forward 10 levels as compared to 2009, ranked 78/183 countries and fourth out of ten economies which have reformed the most in making favorable business environments. A notable achievement is the economic growth with GDP at 6.78% higher than the plan set up by the Government (6.5%).

In 2010, total export turnover reached USD 71.6 billion, increasing by 25.5% compared to 2009. This may be viewed as a great achievement in the economic growth of Vietnam in the unfavorable context of the international economy. The structure of export commodities is changing positively, which shows an increase in the proportion of manufacturing and high technology products, and a decline in raw products. The import turnover of Vietnam reached USD 84 billion, increasing by 20.1% compared to 2009. The ratio of the trade deficit over export was 17.3%, decreasing by 5.2 points compared to 2009. This is a positive result.

The process of administrative reform that was most important to Vietnam in 2010 was the fiercely and widely implemented Project 30. In addition, there were important changes in the regulations on market entry and corporate administration, including the introduction of Decree 43/2010/ND-CP on business registration and Decree 102/2010/ND-CP on guiding the implementation of some articles of the Enterprise Law .

Thanks to the improvements in business environments, the number of newly registered enterprises continues to increase. The number of enterprises established in Vietnam in 2010 was 89,187 increasing by 5.5% compared to the same period in 2009. At the end of 2010, the total number of business-registered enterprises under the Enterprise Law has reached more than 544,394 exceeding the 500,000 enterprises outlined in the Government plan.

However, there were factors creating unfavorable conditions for firms doing business in 2010. The interest rates were often high: in the first quarter the interest rates of borrowing were up to 17-18% in addition to high inflation. CPI was at 11.75% in comparison to December 2009: much higher than the target of the National Assembly.

While considering that the increase in the consumer price index came from the inefficient structure of the Vietnamese economy, the trade deficit, and a continuous increase in the budget deficit, it must be seen that the macroeconomic operations of the government are still inadequate. This is reflected by the lack of close coordination between fiscal and monetary policies;

solving problems only in the short term and in inappropriate ways; lack of appropriate implementing measures for strong policies; and the weakness of the capacity of forecasting macroeconomy.

In 2010, Vietnam could not reach the planned goal of attracting FDI. The FDI registered in real estate businesses still took a high portion. The issues of "price transfer" at FDI enterprises have not been resolved. The main achievement in this area is that the implementation of capital has increased.

Infrastructure for business is still poor. Power shortages continue to occur and tended to be more serious in 2010 than in previous years. Long-lasting power cuts, impacted production and living. Despite efforts in both investment and construction, the transportation system in Vietnam is still inadequate compared to the modern requirements in both the quantity and quality. The weaknesses of the transport system in Vietnam have caused continual impediments to the development process of modern society and economy. The outdated water supply and drainage systems also cause pollution and reduction of water resources.

Besides internal factors, the Vietnam business environment is affected by other outside influences. The world economy in 2010 and subsequent years witnessed a downturn in the domination of the large economies of the USA, EU, and Japan and the emergence of powerful BRIC and developing countries. Vietnam has the opportunity to take advantage of the objective conditions (increased economic costs of China) and subjective ones (cheaper labour compared to many countries in the region) when participating the regional and global value chain. In order to take these opportunities, enterprises need better reform in their performance, and to understand the general international standards for restructuring their businesses. In that way, firms can improve their domestic production, integrate better into the international economy, and provide a foundation for sustainable growth and long-term stability.

PART II

VIETNAMESE BUSINESSES CAPACITY

I. SELECTION OF ECONOMIC INDUSTRIES FOR ANALYSIS

1.1. Rationale

The 2010 Vietnam Business Annual Report will select a number of typical economic industries relevant to the theme of the year of business capacity for rigorous analysis. Under Decision No.10/2007QĐ-TTg of the Prime Minister, Vietnam's economic activities are divided into 88 industries coded at Level 2. The data used for analysis are abstracted from the GSO Annual Enterprises Survey 2006-2010. With the theme of the year for the Vietnam Business Annual Report being "Trends of Corporate Restructuring", the selection of industries for analysis will be based on the following criteria:

- Significance of the economic activities

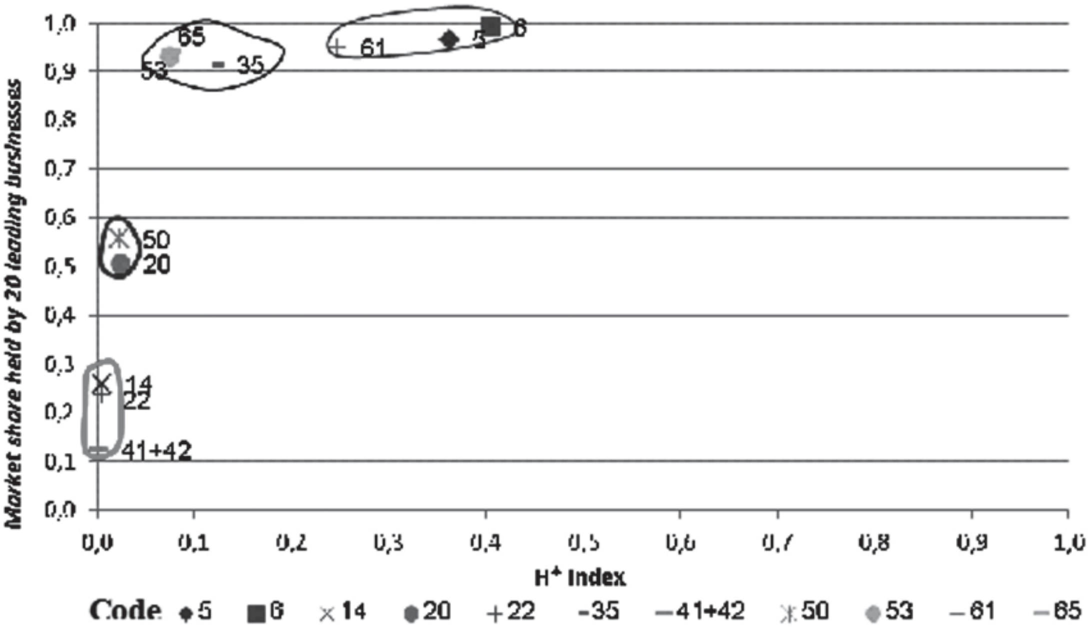
The economic activities selected for analysis are considered as ones of significance for the economy, whose strong development

Table 2.1: Economic Divisions with SEGs

Groups	Business area	Code
Coal and Mineral Group - Vinacomin	Mining of coal and lignite	05
Petroleum and Gas - Petro Vietnam	Extraction of crude petroleum and natural gas	06
Textile and Garments - Vinatex	Manufacture of wearing apparel	14
Vietnam Chemicals Group - Vinachem	Manufacture of chemicals and chemical products	20
Vietnam Rubber Group - VRG[1]	Manufacture of rubber and plastic products	22
Vietnam Electricity Group - EVN	Generation and distribution of electricity and gaseous fuels	35
Vietnam Housing and Urban Development Group - HUD Holdings	Construction	41+42
Construction		
Shipbuilding - Vinashin	Water Transport	50
Post and Telecommunication - VNPT	Postal and courier activities, Telecommunication	53 + 61
Military Telecommunication - Viettel		
Finance - Insurance - Bao Viet	Insurance, reinsurance and social insurance	65

[1] VRG core business is growing rubber trees

Figure 2.1: Concentration of industries with SEGs



is sought by the State by investments in major state owned enterprises, namely State Economic Groups (SEGs) and general corporations. Using this criterion, the research team identified 11 economic divisions (industries) with 12 SEGs. In particular, for Vietnam Rubber Group (VRG), the research team selected Division 22 - manufacture of rubber and plastic products instead of Growing of Rubber Tree - 01250 (Under Division 01 - Agriculture and Related Service Activities). In fact, agricultural division (Division 01) consists of many activities, including growing of rubber tree; therefore selection of this division would fail to reflect the purpose of this report. Moreover, Division 22 - Manufacture of rubber and plastic products represents the market for VRG and other businesses involved in growing rubber trees.

- Concentration of economic activities

For small businesses, restructuring mainly occurs through transition of whole business operation from one activity to another. This transition shall be analysed in Part III of the Report in the analysis of private sector restructuring. For medium and large businesses, restructuring - diversification of business activities - only happens when they reach certain level of development/ scale, which is reflected in the market (or asset) concentration of the industry. This is also the physical foundation and necessary conditions for formation of major businesses/groups which can bring their subsidiaries together in a vertical or horizontal business linkage. To measure the concentration of economic activities, the Report uses two criteria: Herfindahl-Hirschman Index (HHI) and market shares of 20 leading businesses (See the definition in the Appendix).

Based on these two criteria, an analysis of concentration of 11 selected industries has been conducted in accordance with the first criterion. Figure 2.1 allows a classification of concentration of 11 industries by revenue in 2009 into 4 groups, as illustrated in Table 2.2.

Group I (including “Mining of coal and lignite - code 05”, “Extraction of crude petroleum

Table 2.2: Classification of Industries by Revenue Concentration

Code	Industries	H*	Market share of 20 leading companies
Group 1 - Industries with high revenue concentration			
06	Extraction of crude petroleum and natural gas	0.40	0.99
05	Mining of coal and lignite	0.36	0.97
61	Telecommunication	0.25	0.95
Group 2 - Industries with medium concentration			
65	Insurance, re-insurance and social insurance	0.08	0.94
53	Postal and courier services	0.07	0.93
35	Generation and distribution of electricity and gaseous fuels	0.12	0.91
Group 3 - Industries with average concentration			
50	Water transport	0.02	0.56
20	Manufacture of chemicals and chemical products	0.02	0.51
Group 4 - Industries with low concentration			
14	Manufacture of wearing apparel	0.01	0.26
22	Manufacture of rubber and plastic products	0.00	0.24
41+42	Construction	0.00	0.13

and natural gas - code 61) and Group II (including Postal and courier activities - code 53; Insurance, re-insurance and social insurance - code 65 and Generation and distribution of electricity and gaseous fuels - code 35) are those with the high and highest concentration, which serve as precondition for formation of EGs. The presence of SEGs in these industries seems to justify the leading role of state economy. These are important fields, which play a decisive role and serve as foundation for development of other economic activities. However, these activities also require significant long-term investments, which prevent the sector from being able to enhance development, but requiring the state support instead, through EGs. In these industries, the leading companies, especially SEGs account for a significant share of capital and revenue.

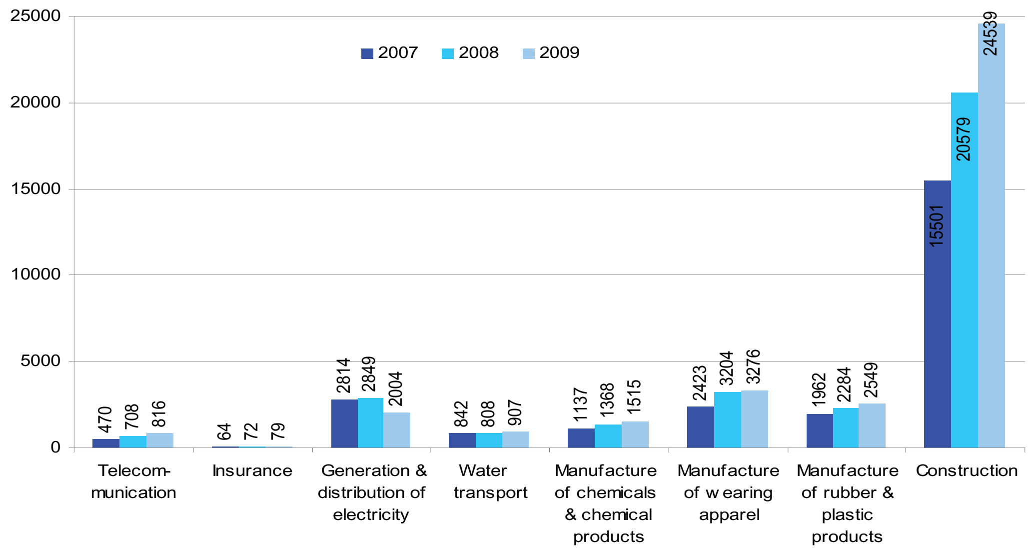
On the contrary, the industries in group III (Water transport - code 50, Manufacture of chemicals and chemical products - code 20) and group IV (Manufacture of wearing apparel - code 14, Manufacture of rubber and plastic products - code 22, Construction - code 41 and 42) have relatively low concentration. It suggests that the SEGs operating in these industries have a lot to do to be able to 'lead' the industry development. Particular attention should be paid to group III, as shown by the facts of 2010 and the Vinashin incidence. Unlike group III, the role of SEGs in the industries of group IV, where private businesses have grown strong enough to assume the role of development leader, seems to be insignificant, reflected by small market share.

For a more thorough analysis of firm's capacities, the Annual Report 2010 selects industries in the four above mentioned groups for analysis and comparison. For the 3 industries of Mining coal and lignite - 05, Extraction of crude petroleum and natural gas - 06 and Postal and courier activities - 53, as the number of businesses in operation as of 31 December, 2009 remained limited (209, 12 and 131, respectively) they will be not studied further. Therefore only 8 industries are selected, namely:

- Manufacture of wearing apparel
- Manufacture of chemicals and chemical products
- Manufacture of rubber and plastic products
- Generation and distribution of electricity and gaseous fuels[1]
- Construction
- Water transport
- Telecommunication
- Insurance, reinsurance and social insurance (except mandatory social insurance)[2]

Figure 2.2: Number of businesses by economic activities

Unit: Business



1.2. Backgrounds of industries in research

1.2.1. Number of businesses between 2005-2009

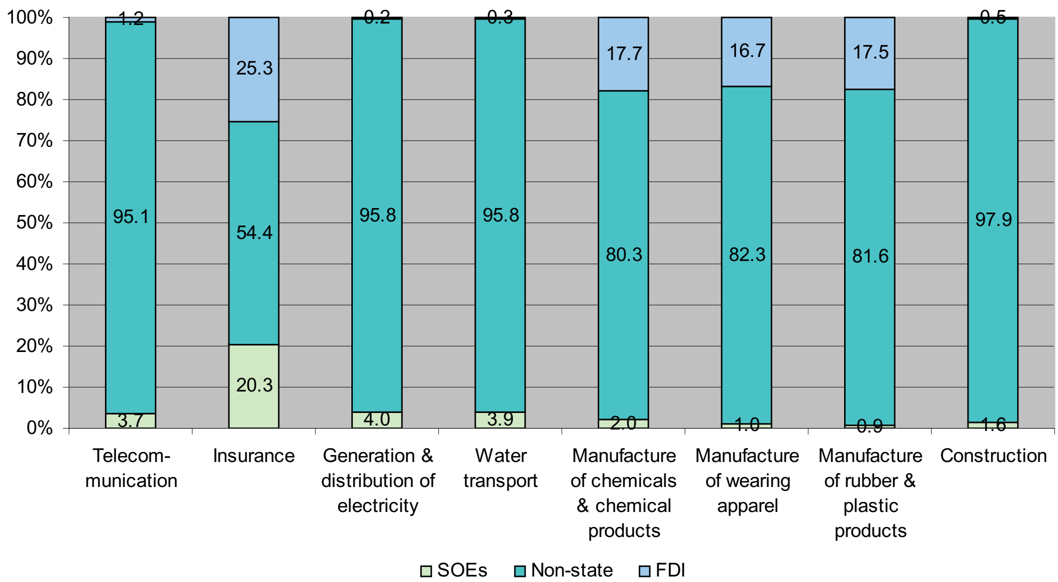
Construction has the highest number of businesses - over 24,500 in 2009, followed by manufacturing industries. Service industries have the lowest number of businesses, for example Insurance with less than 100 businesses. Apart from Generation and distribution of electricity, the number of businesses in other industries has all been growing between 2007-2009, each at a different pace.

(1) For the purpose of this analysis, this industry will be refered to as "Generation and distribution of electricity"
(2) For the purpose of this analysis, this industry will be refered to as "Insurance"

By ownership, non-state businesses still account for a larger share. In 2009, except for insurance with only 54.4% of businesses being non-state, the remaining industries are all characterized by large percentage of non-state enterprises - over 80%, or even 95% in some cases, namely telecommunication, generation and distribution of electricity, water transport and construction. These industries are not only characterized by high share of non-state businesses, but also by higher average growth rate as compared to the other two economic sectors. Of the (Telecommunication, Insurance and Generation and distribution of electricity) demonstrate fairly strong growth in the number of SOEs. In all others, the number of SOEs has fallen significantly.

FDI businesses are (mostly) concentrated in Insurance and manufacturing industries, such as Chemical, Wearing apparel and Rubber products. Generally, except for Water transport, the number of FDI businesses in the remaining 7 industries has increased from 2007-2009. (See figure 2.3)

Figure 2.3: Business classification by types of ownership, 2009



8 industries in this research, reduction in number of non-state businesses is only observed in Generation and distribution of electricity, while the others have all seen an increase, even strong one in Construction and Telecommunication.

State-owned businesses usually account for a minor share, less than 4% in all studied industries, except for Insurance (20.3%). Moreover, the share of SOEs tends to decline in many industries. Only 3 industries in the groups with high and medium concentration

1.2.2. Labour

The total workforce of the 8 studied industries in research in 2009 is over 2.3 million. Construction continues to be the one attracting most employment, with a workforce of around 1 million in 2009. Apparel manufacturing followed with over 760,000 workers in 2009. Rubber products, Generation and distribution of electricity and Telecommunication followed as capital-intensive industry, Water transport and Insurance attract the least number of

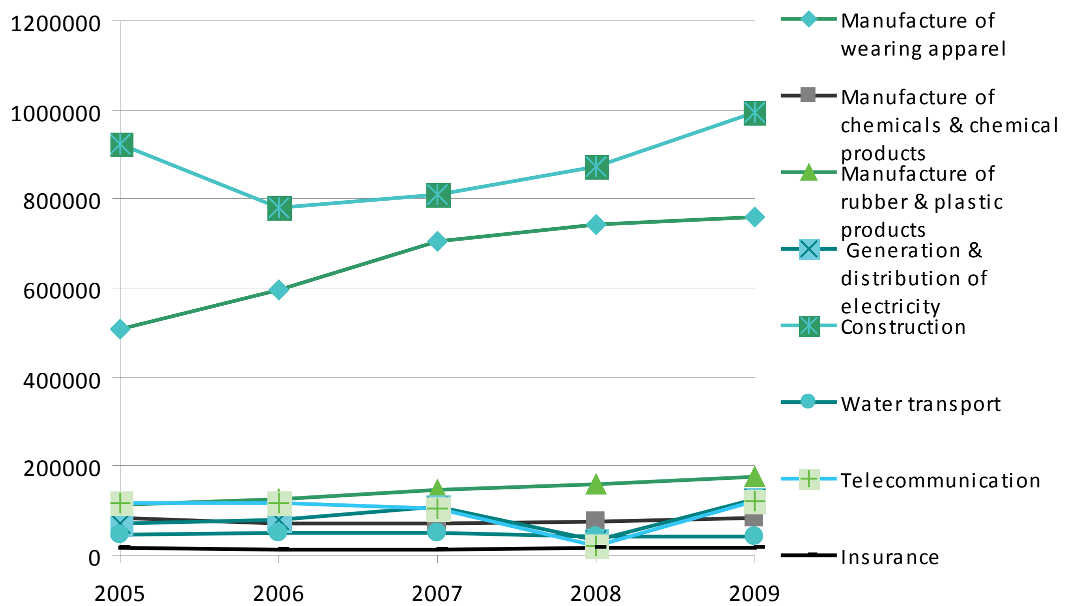
Table 2.3: Average growth rate of number of businesses by types of ownership, 2007-2009 period

Unit: %

Industries	SOEs	Non-state	FDI	Total
Telecommunication	53.41	33.50	17.46	33.27
Insurance	17.33	4.44	18.98	9.63
Generation and distribution of electricity	100.06	-9.89	3.89	-9.32
Water transport	-4.58	8.02	-10.00	7.28
Manufacture of chemicals and chemical products	-4.93	15.67	10.10	13.92
Manufacture of wearing apparel	-6.92	19.17	14.90	17.77
Manufacture of rubber and plastic products	0.20	16.63	15.13	16.15
Construction	-7.10	22.03	41.57	21.29

Figure 2.4: Number of employees by industries

Unit: person



employees, 41,800 and 17,600 in 2009, respectively.

Industries with larger a share of workforce employed in the non-state sector include construction (80.9%) and water transport (64.4%), followed by rubber products manufacturing (47.3%) and chemical manufacturing (45.0%). SOEs provide the most employment in industries with high concentration, namely telecommunication (94.3%), generation and distribution of electricity (82.7%) and insurance (60%). This suggests that despite the small number of SOEs in these three industries (3.7, 4.0 and 20.3%, respectively), these are large businesses in terms of labour scale. Finally, FDI businesses also account for a significant share of workforce in clothing manufacturing (56.2%) and manufacturing of rubber products (46.1%). (See figure 2.5).

Between 2007 - 2009, except for water transport, with decreasing employment, the industry does not seem to be affected by the global financial crisis. However the growth rate of information technology suggests that there is room for expansion of labour in Telecommunication (see Table 2.4).

Figure 2.5: Share of workforce by business ownership, 2009

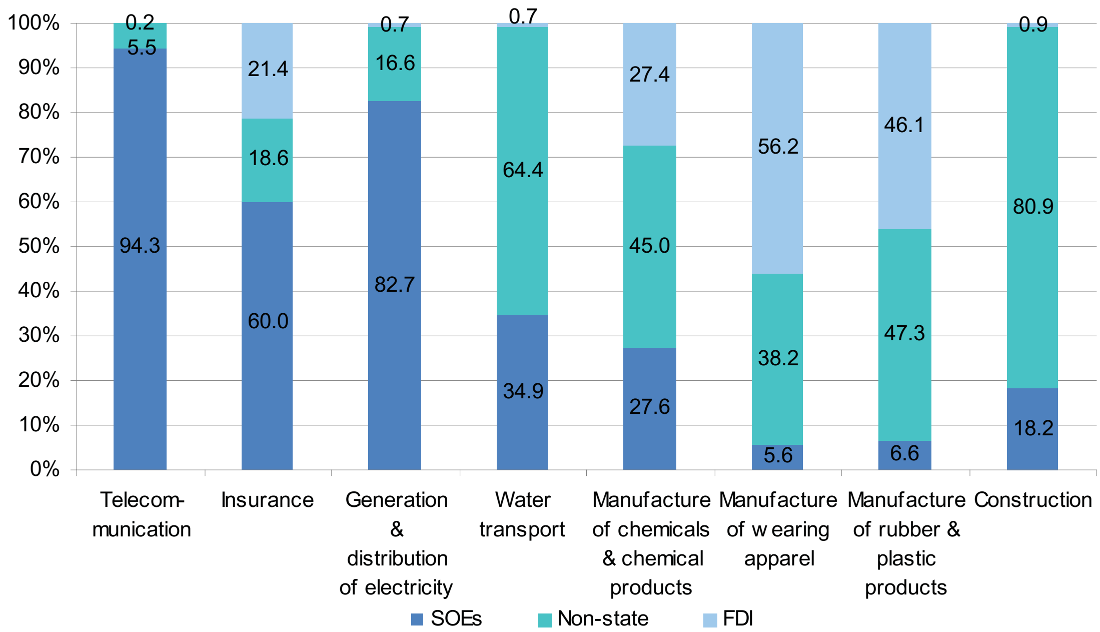


Table 2.4: Avarage growth rate of labour by ownership during 2007-2009 period

Unit: %

Economic division	SOEs	Non-state sector	FDI	Total
Telecommunication	200.6	49.4	26.1	119.1
Insurance	2.8	35.6	15.1	8.8
Generation and distribution of electricity	712.1	-2.6	3.4	78.3
Water transport	-14.2	4.2	15.8	-4.8
Manufacture of chemicals and chemical products	-1.6	7.9	8.7	5.0
Manufacture of wearing apparel	-17.3	8.0	14.9	8.7
Manufacture of rubber and plastic products	-2.2	12.5	12.7	11.2
Construction	-10.6	15.4	32.9	8.4

remaining 7 industries experienced growth in workforce. Telecommunication had the highest average growth of labour (more than double) compared to the others. This

1.2.3. Assets

Eight selected industries have the total assets of over VND1,600 trillion, of which the Construction and the Generation and distribution of electricity contribute the highest figures, 551 trillion and 508 trillion, respectively. While construction has always maintained the largest assets and steady growth during 2005-2009, the Generation and distribution of electricity experienced a dramatic growth in assets in 2009, after a reduction in 2008, gaining the second place. This reflects efforts of the Government and businesses in the electricity industry in development of sustainable energy infrastructure in the last 2 years. Of the 6 remaining industries, except for Telecommunication with the total assets of over VND150 trillion in 2009, the others all have assets below VND100 trillion. Generally, total assets of all industries tend to build up, with strongest growth recorded by Generation and distribution of electricity and Telecommunication (see Table 2.5).

Figure 2.6: Total assets of businesses by industries

Unit: billion dong

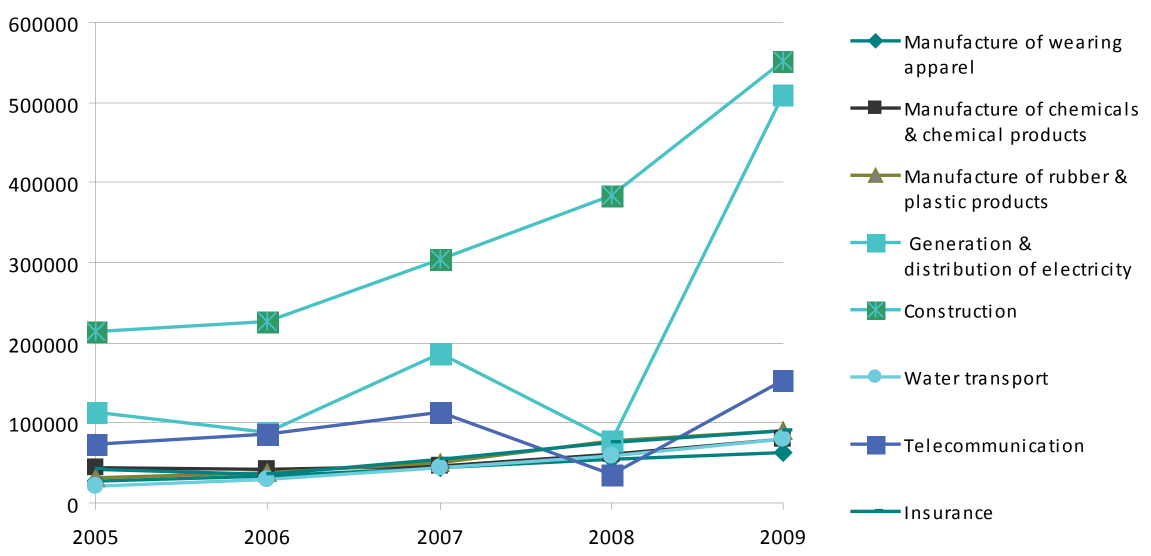


Table 2.5: Average growth of assets by types of ownership, 2007-2009 period

Unit: %

Industry	SOEs	Non-state	FDI	Total
Telecommunication	128.4	326.0	55.4	96.7
Insurance	29.0	144.6	39.7	36.8
Generation and distribution of electricity	377.2	145.1	3.3	204.6
Water transport	26.3	53.7	2,105.3	41.3
Manufacture of chemicals and chemical products	16.7	38.6	24.0	23.0
Manufacture of wearing apparel	-9.9	35.5	26.5	24.2
Manufacture of rubber and plastic products	10.8	40.8	36.0	34.3
Construction	12.0	51.9	51.4	34.9

The share of assets by ownership tends to resemble one of labour. SOEs account for a large percentage of assets in Generation and distribution of electricity (95.2%) and Telecommunication (89.9%). In two other industries, Water transport and Insurance, the shares of assets owned by SOEs also account for about 50%, followed by Manufacture of chemicals and chemical products (30.3%) and Construction (26.9%). This suggests that SOEs still account for a large percentage and play a significant role among businesses in Vietnam. Private businesses only account for a larger share

Figure 2.7 : Share of assets by types of ownership in 2009

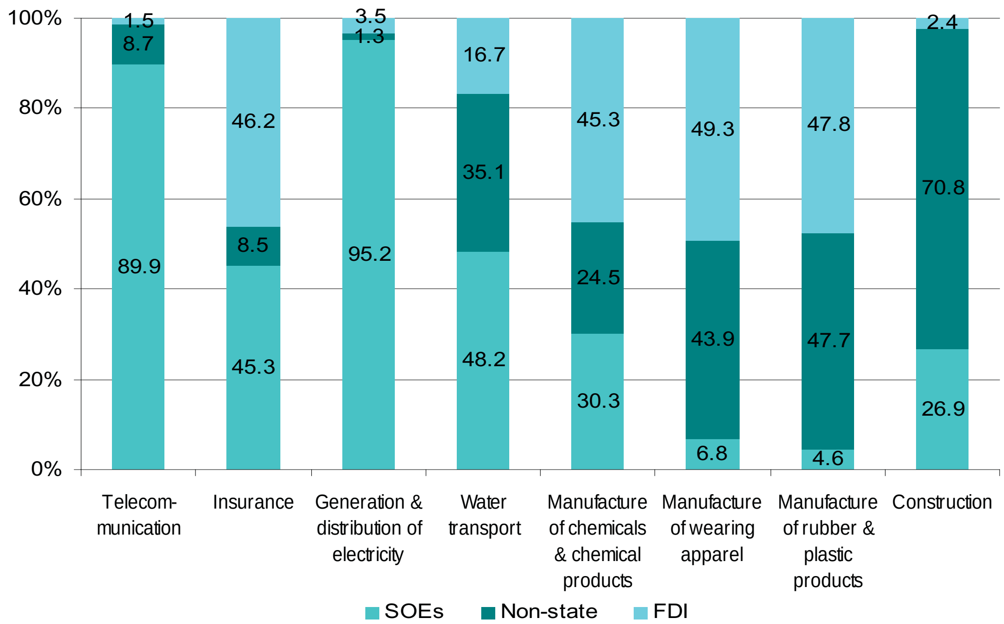
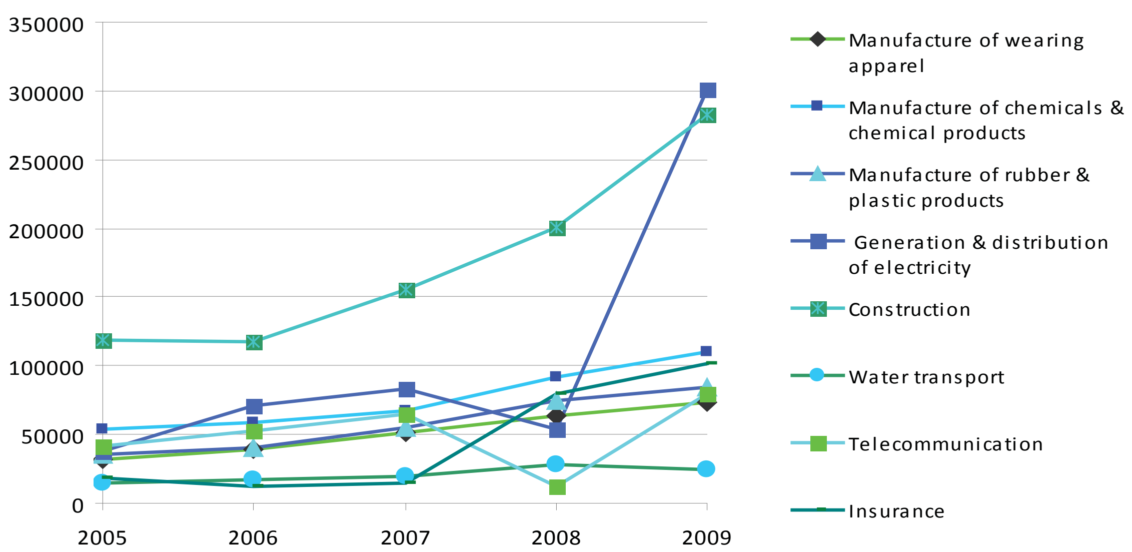


Figure 2.8: Total revenues of businesses by industries

Unit: billion dong



of assets in Construction (70.8%), while in other industries, assets owned by private businesses are either equal (Manufacture of rubber products and Wearing apparel) or less than the other two types of businesses (SOEs and FDI). Finally, FDI also account for a large percentage of assets in insurance (46.2%) and three manufacturing industries - Wearing apparel (49.3%), Rubber products (47.8%) and Chemicals (45.3%). Obviously, FDI businesses are putting efforts in the areas where they have advantages, and taking advantage of low input costs in Vietnam.

In terms of assets growth, between 2007 - 2009, reduction in assets only occurred among SOEs in Manufacture of wearing apparel, while the other businesses in other industries all experienced high and steady growth, especially non-state and FDI businesses.

1.2.4. Revenue

In 2009, total revenues of all 8 industries reached over VND1,000 trillion, led by Generation and distribution of electricity and Construction (nearly VND300 trillion), which are the two with largest total assets. Other industries recorded the total revenues ranging between 73-110 trillion, with Water transport being the last, with VND25 trillion. Notably, this is also the only division experiencing reduced revenue in 2009 against 2008, and the one with the lowest revenue growth between 2007-2009 (see Table 2.6).

Figure 2.9 suggests that the share of revenue of the three types of ownership corresponds to level of concentration of the industry. While the share of revenue of SOEs reduces relatively to concentration level of the industries, the share of revenue of non-state businesses goes in reverse direction. FDI businesses account for higher revenues in Manufacture of Chemicals, Wearing apparel and Rubber products, which is not the case in Water transport industries.

Figure 2.9: Shares of revenue by types of ownership in 2009

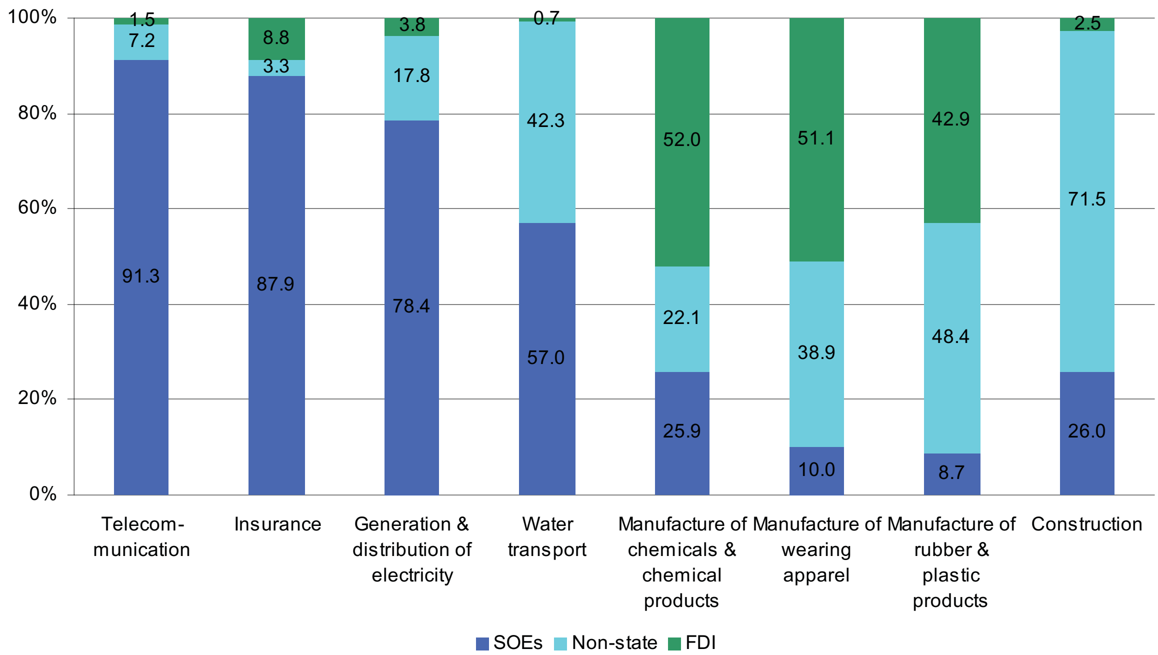


Table 2.6: Average growth of revenues by types of ownership, 2007-2009 period

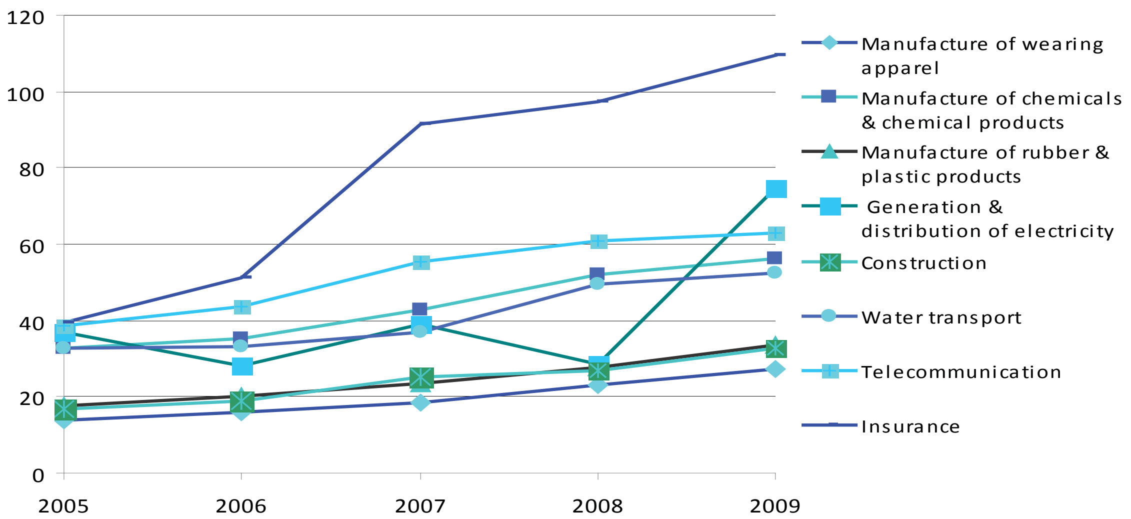
Unit: %

Industry	SOEs	Non-state sector	FDI	Total
Telecommunication	205.0	148.1	108.9	165.1
Insurance	206.4	186.3	72.6	167.0
Generation and distribution of electricity	173.0	308.3	11.5	146.6
Water transport	9.5	32.8	-31.4	13.9
Manufacture of chemicals and chemical products	21.5	24.6	23.9	23.2
Manufacture of wearing apparel	-8.2	33.6	28.5	23.1
Manufacture of rubber and plastic products	18.0	29.9	29.6	28.3
Construction	16.1	45.0	43.1	33.9

Analysis suggests that concentration of revenues across industries mainly rests with SOEs, especially EGs and corporations. Industries with high concentration are those with larger share of SOEs (in terms of revenues, assets and workforce).

Figure 2.10: Worker average income

Unit: million dong



II. ANALYSIS OF FIRM'S CAPACITIES IN THE SELECTED INDUSTRIES

2.1. Capacity of labour use

Labour is one of the most important inputs, therefore efficient use of this factor will have significant impact on business performance. In the Vietnam Business Annual Report, capacity of labour use is measured through 3 criteria:

- Employee average income
- Revenue per employee
- Efficiency of labour use

2.1.1. Employee's average income

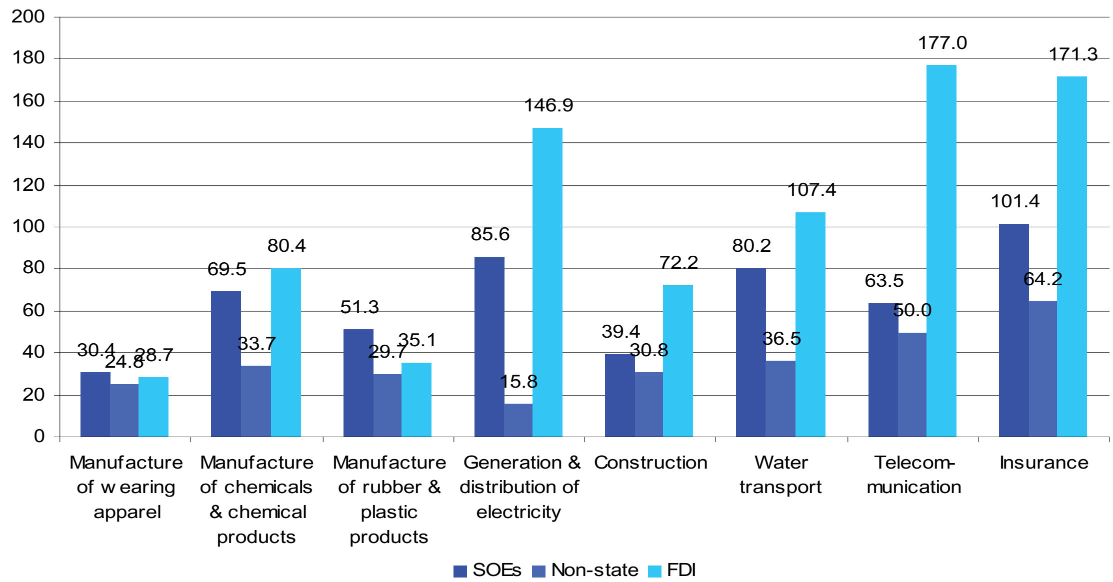
Average income on the one hand reflects living standards of the worker, and on the other hand indicates quality of labour, because this indicator is typically proportionate to worker qualifications in the business. The positive fact is that workwer average income - though varied across industries - has improved significantly - over 13% annualy. Of the 8 industries selected, workers in Insurance earn the highest income - over VND109 million/year in 2009 and enjoyed a good growth of 31.7%/year during 2005-2009 period, ranking second among the 8 industries, followed by Telecommunication, Manufacture of chemicals, Water transport and distribution of electricity, with the average income of workers ranging from VND50 to 70 million/year in 2009. Last come three industries - Rubber products, Construction and Wearing apparel, where average income in 2009 was VND34 million, 33 million and 27 million, respectively. These are also the three industries with the lowest concentration indices.

Workers in the Wearing apparel industry have always earned the least among the 8 industries, which has resulted in movement of labour from one industry to another, a reason for shortage and difficulties in recruiting employees of garment factories. This situation is more serious for businesses in southern provinces. The shortage of labour in businesses in Ho Chi Minh City is so serious that Vietnam Textile and Garment Association had to ask the Department of Labour, Invalids and Social Affairs to help with identifying labour resources. According to data from HCMC DOLISA, in the first quarter of 2010 alone, the city lacked about 100,000 workers, mostly in Wearing apparel, footwear, agroproducts and seafood processing[1].

Figure 2.8 shows that employees in FDI business are most well-paid, followed by SOEs and last are non-state businesses. Except for manufacture of Wearing apparel and Rubber products, employees in FDI businesses in the other industries are paid twice, even three times (in

Figure 2.11: Employee average income by types of business, 2009

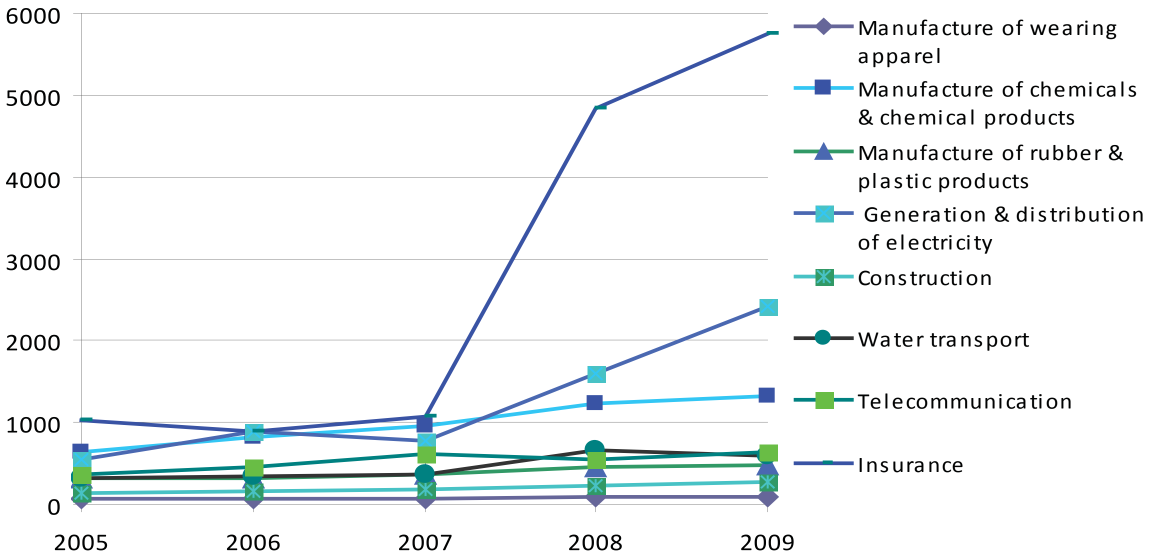
Unit: million dong



[1] Source: http://www.baobariavungtau.com.vn/vn/chinhtrixahoi/70874/index.brvt
http://mayhoguom.com.vn/Tin-Nganh/Khan-hiem-lao-dong-nganh-may-mac_vi.html

Figure 2.12: Average revenue per employee

Unit: million



Telecommunication) or ten times (in Generation and distribution of electricity) as much as those in private sector. This demonstrates the robust and different wage policy of FDI businesses to attract qualified labour.

Employee's wages also tend to be proportionate to business scale. Employees in large businesses (in terms of capital or labour) receive highest wages, followed by medium businesses and finally small ones. This trend suggests an issue of labour quality in small and micro enterprises, currently representing the majority of enterprises in Vietnam.

2.1.2. Revenue per employee

As a capital-intensive industry, the Insurance businesses generate much higher average revenue per employee compared to the other seven industries. In the manufacturing industries, average revenue per employee is one of the indicators of productivity. Of the four selected manufacturing industries, Generation and distribution of electricity and Manufacture of chemicals register significantly higher revenues per employee compare to the other two, VND 2,423 and 1,334 million, respectively (ranked behind only the Insurance with VND5,745 million). The manufacture of Rubber products earns an average number for revenue per employee, similar to service industries of Water transport and Telecommunication. The manufacture of Wearing apparel registered the lowest revenue per employee, just below VND100 million/year. It is also the industry with the slowest growth with an average revenue of merely 11.1%/year, while other industries recorded growth of about 20%/year. Being a labour-intensive industry, compounded by slow growth of revenue, the manufacture of Wearing apparel is now facing a challenge of "moving up" the global value chain. Geographical diversification - towards domestic markets therefore deserves special attention of businesses in Manufacturing of wearing apparel.

Businesses in the three industries with the lowest concentration - manufacture of Wearing apparel, Construction and

Figure 2.13: Average revenue per employee by types of business, 2009

Unit: million dong

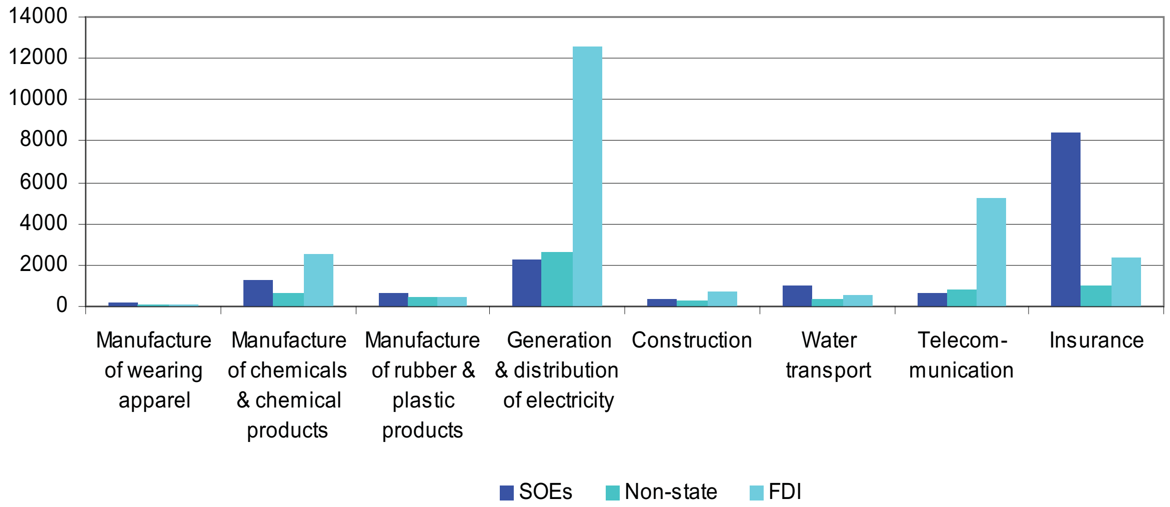
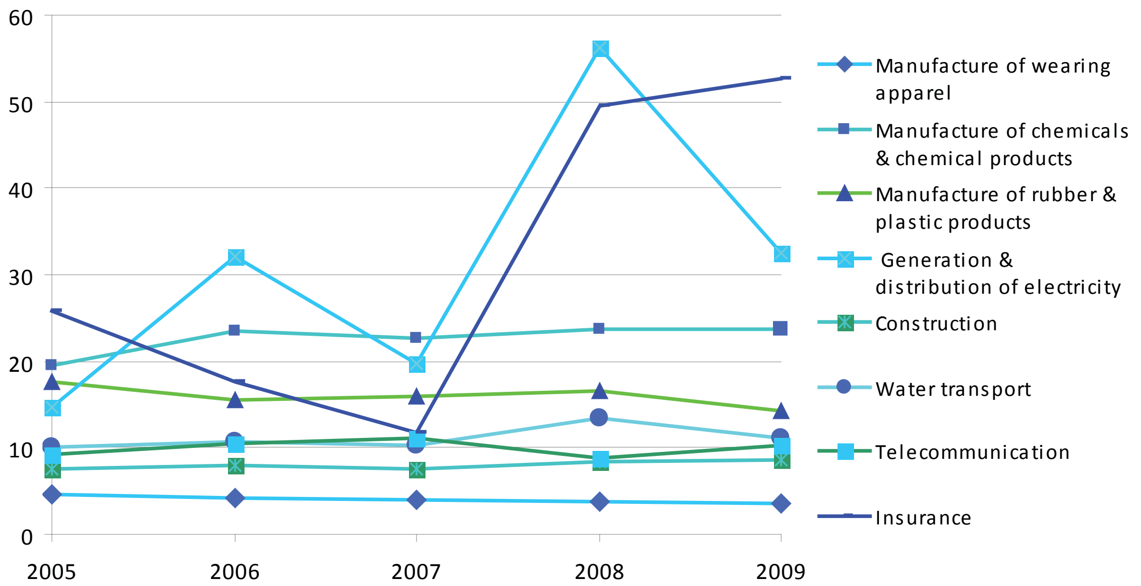


Figure 2.14: Labour use efficiency

Unit: time



manufacture of Rubber products are also the ones with the lowest average revenue per employee.

However, while average revenue per employee is compared by types of business, FDI enterprises no longer have the edge as they do with employee's income. In insurance, Manufacture of Rubber products and Wearing apparel, average revenues per employee of SOEs are higher than those of FDI counterparts. Even in the non-state sector, which is considered disadvantaged compared to the other two, some industries such as manufacture of Wearing apparel and Rubber products still recorded higher average revenue per employee than their FDI counterparts. Again, this gives a 'warning' about price transfer problem in FDI businesses, and suggests the need for measures to prevent FDI businesses from 'circumventing' the law, and reporting false losses.

2.1.3. Labour use efficiency

$$\text{Labour efficiency} = \frac{\text{Average revenue per employee}}{\text{Employee average income}}$$

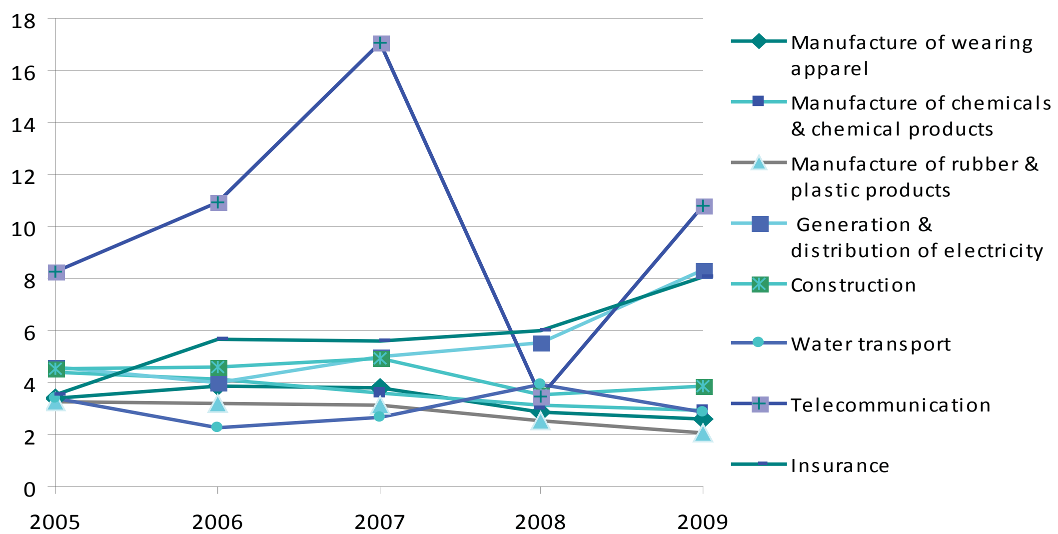
Assuming other factors being equal, this indicator being high (e.g. higher revenue from one unit of labour cost) means higher labour use efficiency. As such, during 2005-2009, of the four manufacturing industries, labour efficiency of Generation and distribution of electricity was the highest (31), followed by the Manufacture of chemicals (23), the Manufacture of rubber products (16) and finally the manufacture of wearing apparel (4). Labour efficiency in the last two industries tends to decline, 4.6% and -6.5% respectively. Despite being labour-intensive, the Construction industry registered low labour efficiency (8), ranking only above the Manufacture of wearing apparel, and has a very slow improvement rate (3,6%/year). This suggests a need for restructuring businesses in these three industries - the ones with low concentration.

The labour efficiency of the service industries - Insurance, Water transport and Telecommunication is 26, 11 and 10, respectively. Their improvement during 2005-2009 period partly reflects the improved quality of labour utilization in these businesses.

In summary, it is clear to observe low labour efficiency in three industries with low concentration: Manufacture of wearing apparel, Manufacture of rubber products and Construction. Particularly, Manufacture of wearing apparel with the lowest labour efficiency among the eight also experiences labour shortage, including low-skilled labour. Restructuring would depend a lot on improving labour productivity, or labour use efficiency of the business. Without improvement of labour indicators,

Figure 2.15: Current ratio

Unit: time



breakthroughs would be hard to be made by these industries in the coming time.

2.2. Financial capacity

2.2.1. Liquidity ratios

Liquidity ratios reflect capacity to pay current liabilities of business. Three liquidity ratios used in this report are: current ratio, quick ratio and interest coverage ratio.

- Current ratio

Current ratio reflects the business ability to pay current liabilities by using current assets. This ratio is measured by the following formula:

$$\textbf{Current ratio} = \frac{\textbf{Total current assets}}{\textbf{Total current liabilities}}$$

The higher the ratio, the better is the business ability to pay its current liabilities, and vice versa. The standard expected value of this ratio varies from industry to industry:

≥ 2: for manufacturing and construction

≥ 1: for services and trade

Figure 2.15 shows that current ratios of the researched industries are all over 2, meeting the expected standard value. The current ratios of three industries with highest concentrations - Telecommunication, Generation and distribution of electricity and Insurance - reached over 8 in 2009. These are also three industries with significant increase of current ratio during 2005-2009 period, 54.5%, 18.2% and 25.1%/year respectively. Other industries have seen reduced ratio during the same period, except for Water transport with minor improvement of 2%/year.

Non-state businesses typically have the highest current ratios, meeting the expected standard level, which is not always the case in FDI and especially state-owned enterprises. In all industries except Insurance the average current ratio of SOEs is below 2, and even below 1 in Telecommunication (0.93), Generation and

Figure 2.16: Current ratios of state-owned enterprises

Unit: time

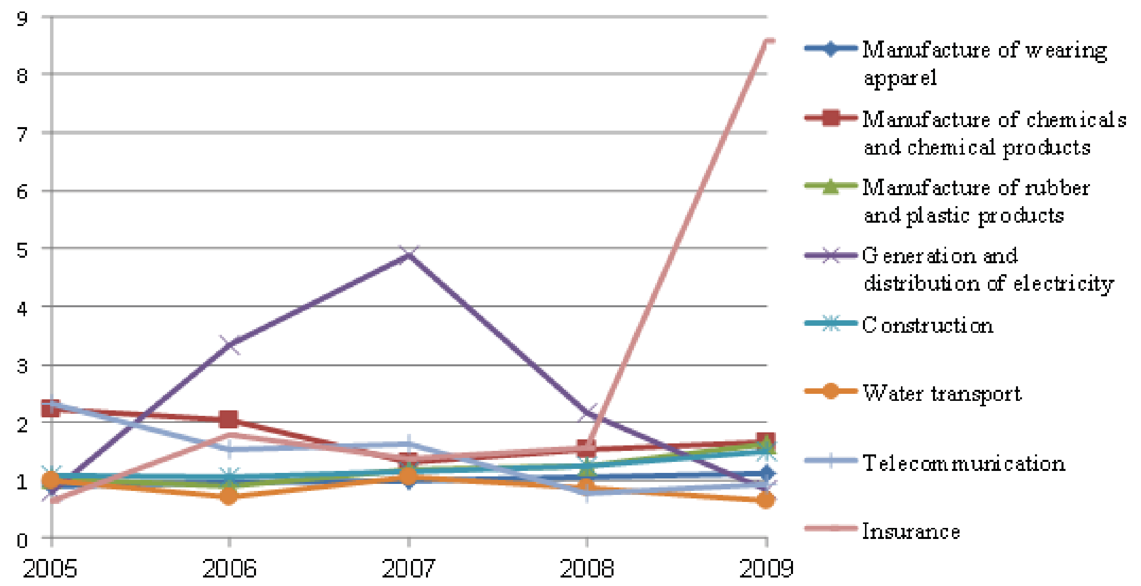


Figure 2.17: Quick ratio

Unit: time

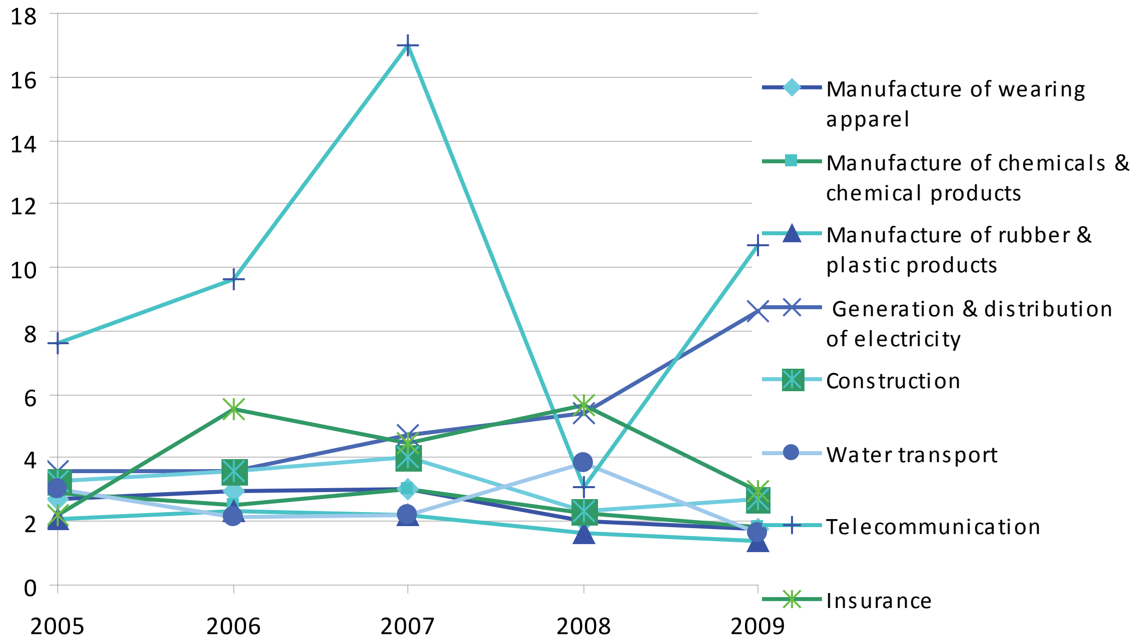
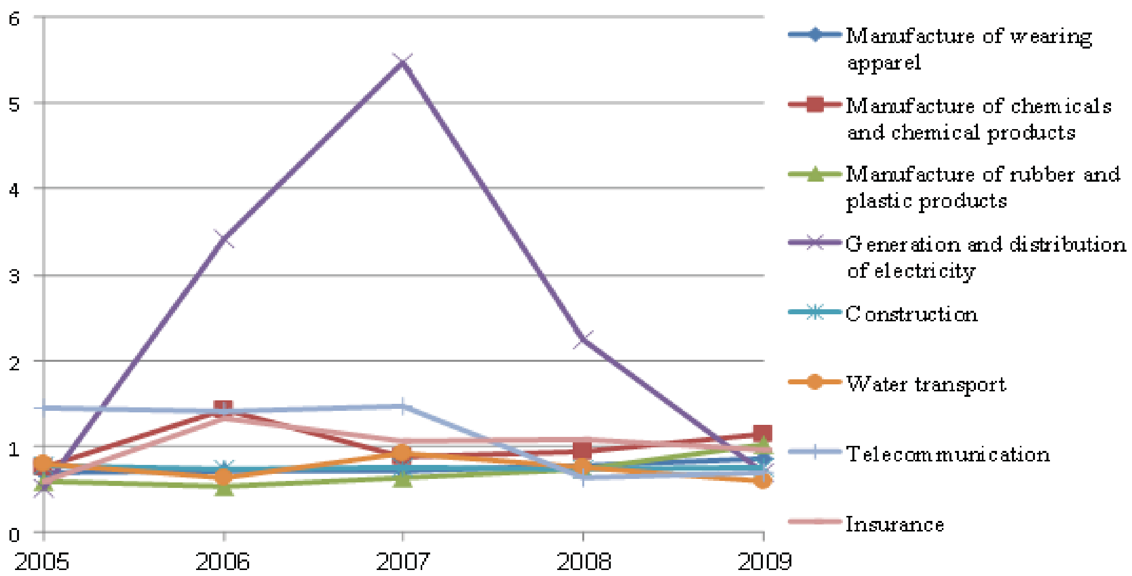


Figure 2.18: Quick ratio in State-owned enterprises

Unit: time



distribution of electricity (0.85) and Water transport (0.65). This partially suggests financial risks faced by SOEs.

- Quick Ratio

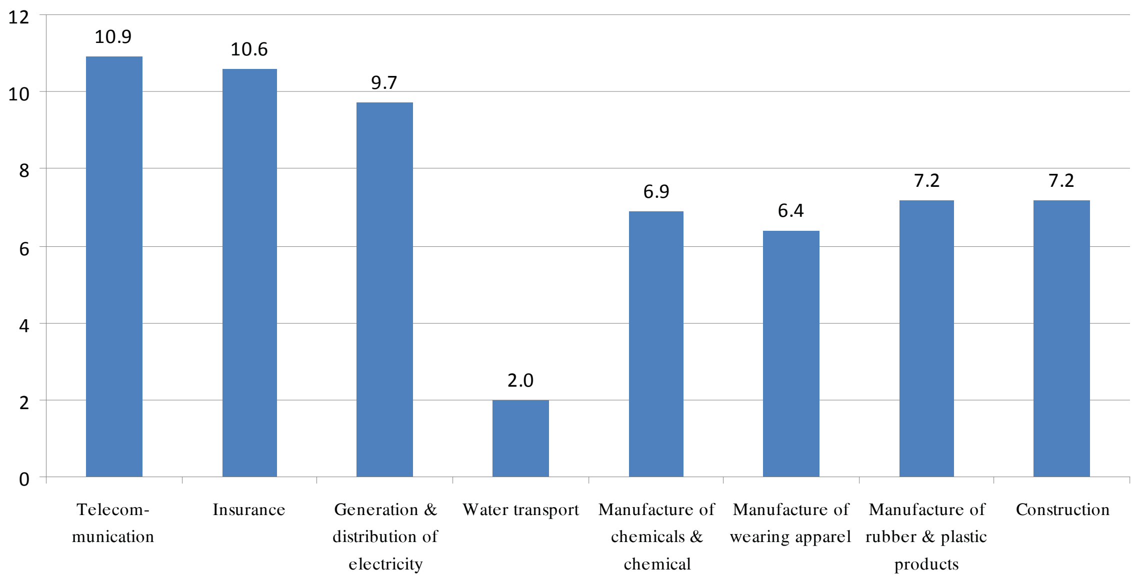
$$\textbf{Quick ratio} = \frac{\textbf{Total current assets} - \textbf{Inventory}}{\textbf{Total current liabilities}}$$

Similar to current ratio, quick ratio reflects the business's ability to pay its current liabilities by using current assets except inventory. The higher the ratio, the better the financial capacity of the business is. In business, enterprises always try to maintain a minimum quick ratio of 1.

Generally, quick ratios of businesses in the 8 selected industries all meet the expected standard level, with the manufacture of Rubber products registering the lowest figure of 1.4. Similar to the case of current ratios, three industries with the highest concentration in 2009 were also the ones with the highest quick ratios, namely Telecommunication (10.7), Generation and distribution of electricity (8.6) and Insurance (3.0). They are also the only industries experiencing improvement of quick ratios during 2005-2009 period.

Figure 2.19: Interest coverage ratio by industry in 2009

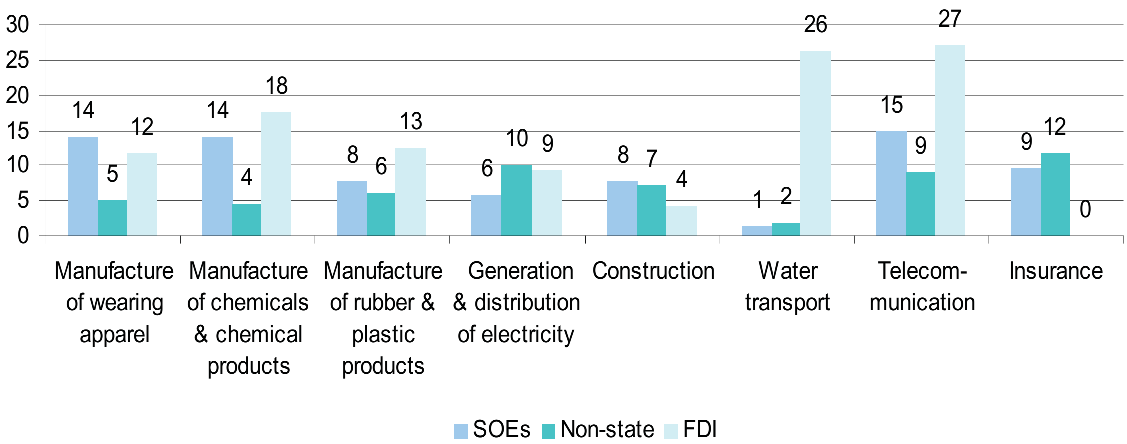
Unit: time



While all private sectors have quick ratios

Figure 2.20: Interest coverage ratio by types of ownership in 2009

Unit: time



meeting the expected standard value, this is not the case for the SOEs. Except for Manufacture of chemicals (1.15) and manufacture of Rubber products (1.02) that meet the expected value, the remaining 6 industries registered quick ratios less than 1, with Water transport being the one with the lowest figure (0.59).

- Interest coverage ratio

In recent years, an issue, that is raising business's concern and demanding their close attention, is interest rate. High interest rates in recent years have significantly affected business operation of enterprises. Vietnam Annual Business Report 2010 introduces a new indicator to assess the impact of interest rates - interest coverage ratio. This ratio assesses the business ability to generate sufficient income to cover its interest. It is measured by dividing profit (before tax and interest - EBIT) by interest expense. Interest represents the costs that the business must cover to prevent itself from going bankrupt.

Figure 2.19 shows that the interest coverage ratio is highest among businesses in the industries with high concentration, namely Telecommunication (10.9), Insurance (10.6) and Generation and distribution of electricity (9.7). In the remaining industries, this ratio ranges between 6-7. In Water transport, interest coverage ratio was merely 2, which suggests an alarming situation of business ability to pay interests for their debts, and warning businesses in this industry of difficulties they will face in seeking future financing.

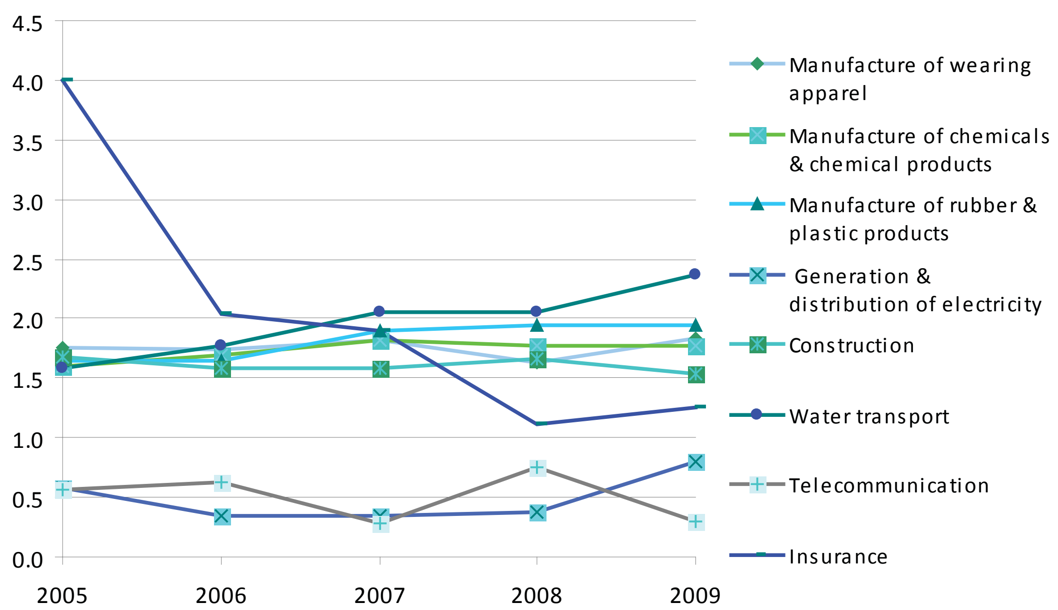
Water transport demonstrates a diversity of interest coverage ratio among business by types of ownership. While the ratio is 2 among private sector, SOEs, on the contrary, have EBIT only enough to pay interest, and FDI businesses record the ratio of 26.

2.2.2. Debt ratios

Debt ratios on the one hand provide information on the ability to pay of businesses, and on the other hand demonstrate their

Figure 2.21: Debt ratios by industry

Unit: ratio



capacity to access external financing to meet their investment and development needs. Debt ratio can be measured by dividing total debts by total equity.

This ratio reflects the ability of the business to use its equity to pay its debts. The smaller the ratio, the stronger the business's financial health. The formula is as follows:

$$\textbf{Debt ratio} = \frac{\textbf{Total debts}}{\textbf{Total equity}}$$

Figure 2.22: Debt ratios of state-owned enterprises

Unit: time

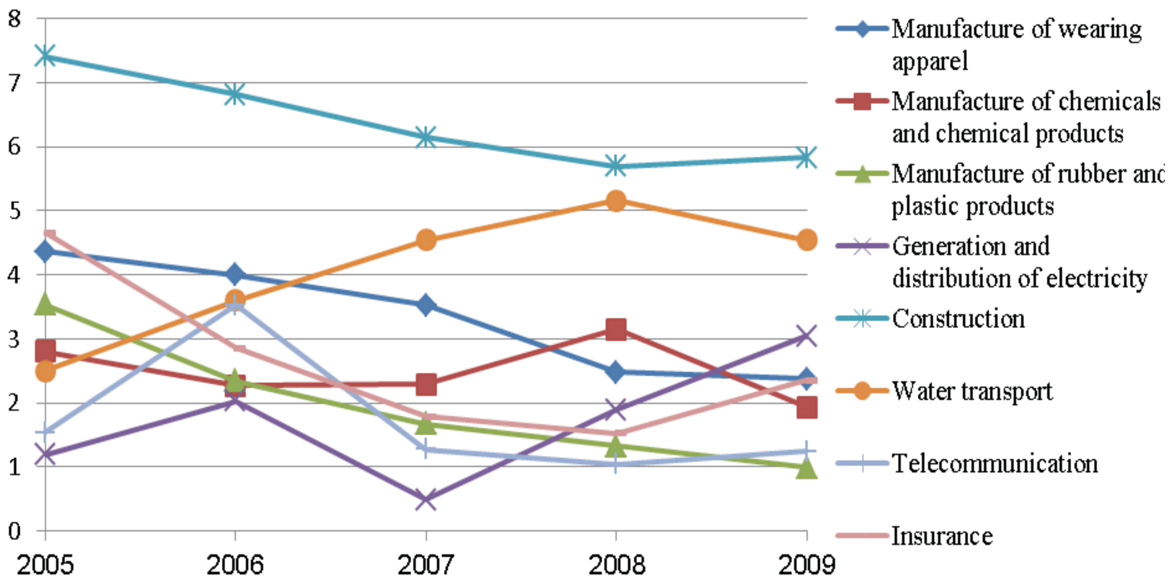
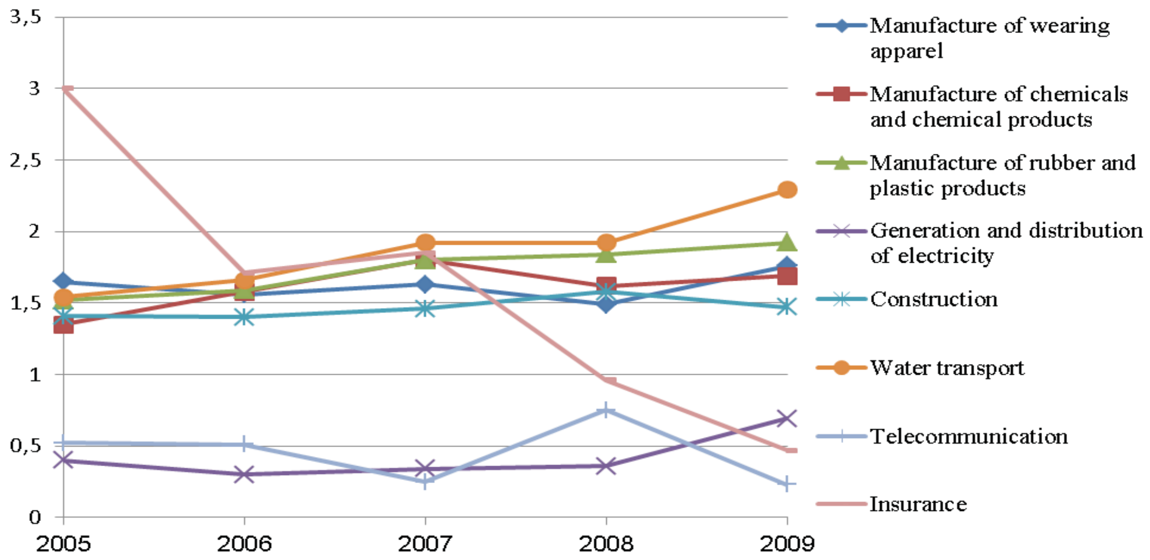


Figure 2.23: Debt ratio of non-state enterprises

Unit: time



Of the 8 industries in the study, only Telecommunication and electricity generation recorded the expected value of less than 1. In all other industries, the ratio ranged between 1.2 and 2.4. Water transport registered the highest debt ratio, which has tended to increased and reached 2.4 times in 2009. This suggests that businesses in Water transport rely heavily on debts.

SOEs in the 8 selected industries usually have the highest debt ratios, compared to those in the private and FDI sectors. In Telecommunication and Manufacture of rubber products, SOEs register debt ratios close to the expected level. 0.99 and 1.25 respectively. In other industries, debt ratios of SOEs range between 2-3, or even higher in Water transport (4.54) and Construction (5.83). In the private sector, despite being highest in Water transport, debt ratio of this industry only reached 2.29 times in 2009. See figures 2.22 and 2.23.

2.3. Capital use capacity

In businesses, capital use capacity represents important indicators used to assess the ability to generate revenue by using various sources of capital. Two indicators are used to assess this capacity, namely:

- Capital turnover

- Equity turnover

2.3.1. Capital turnover

Capital turnover is a ratio used to measure the business ability to use capital to generate revenue. It is calculated by the following formula:

$$\textbf{Capital turnover} = \frac{\textbf{Total revenues}}{\textbf{Total capital}}$$

This ratio helps the business see how much revenue is generated from one unit of capital. The higher the ratio, the better the use of capital of the business. Figure

Figure 2.24: Capital turnover ratios

Unit: time

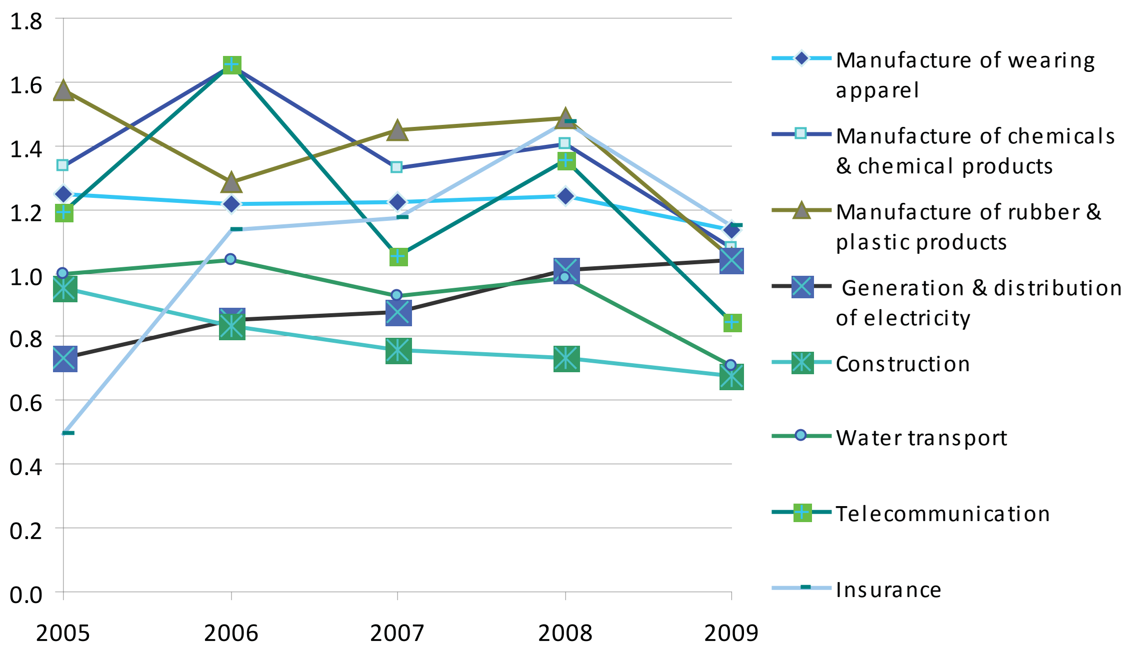
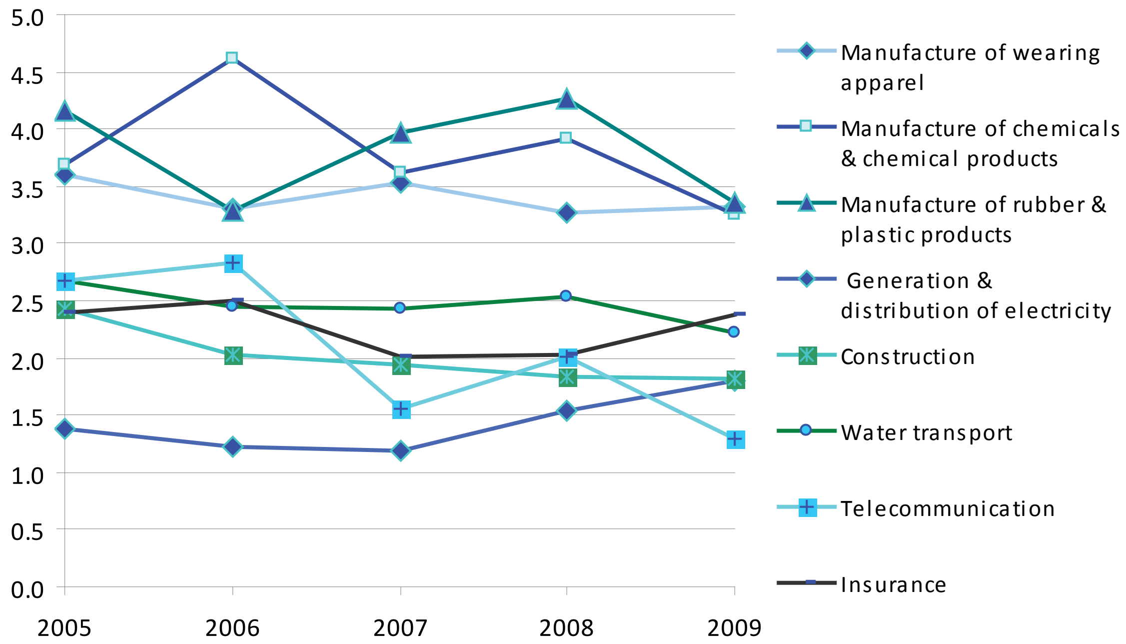


Figure 2.25: Equity Turnover

Unit: Time



2.24 suggests that the Construction, Water transport and Telecommunication industries register the lowest capacity of capital use, merely 0.7-0.8, or in other words the capital use efficiency in these industries is limited, partly caused by the nature of the industries that require large investments in fixed assets. In the remaining five industries, the capital turnover ratio ranges between 1-1.2. Also note that this ratio tends to decline in almost all 8 industries, except for the electricity generation industry and Insurance industry, which suggest worsening capital use efficiency among businesses compared to the other six industries. There is no significant difference of capital turnover ratios among businesses by types of ownership.

2.3.2. Equity turnover

Efficiency of businesses in using capital can also be measured in more detail by equity turnover ratio. This is an indicator to measure the business ability to generate revenue by its equity. It is calculated by the following formula:

$$\textbf{Equity turnover} = \frac{\textbf{Total revenues}}{\textbf{Equity}}$$

This ratio helps businesses see how much revenue is earned from one unit of equity. The higher the ratio is, the better the business ability to use its equity is. Figure 2.25 suggests that equity turnover ratios are the highest in three industries - manufacture of Rubber products, Wearing apparel and chemicals, around 3.3 in 2009. They are followed by the Insurance and Water transport industry with equity turnover ratios of 2.4 and 2.2 respectively in 2009. The industries with the lowest equity turnover ratios are the Construction industry (1.8), the Generation and distribution of electricity industry (1.8) and the Telecommunication industry (1.3). The trend of equity turnover ratio during 2005-2009 period resembles one of capital turnovers, which is downward one (except for Generation and distribution of electricity and Insurance).

As such, of the 8 studied industries, capital use capacity of communication, electricity Generation and distribution, and Construction is the lowest. Generally, capital use capacity of businesses in all industries tends to decline.

2.4. Profitability

The ultimate goal of any business is profit; therefore, in analyzing business profitability

Figure 2.26: Loss-making ratio

Unit: %

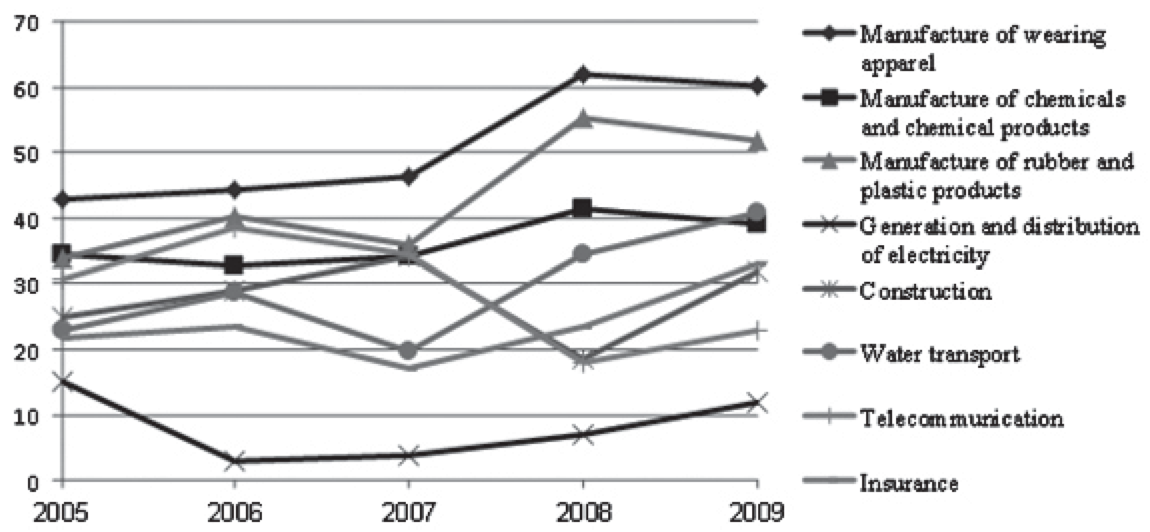
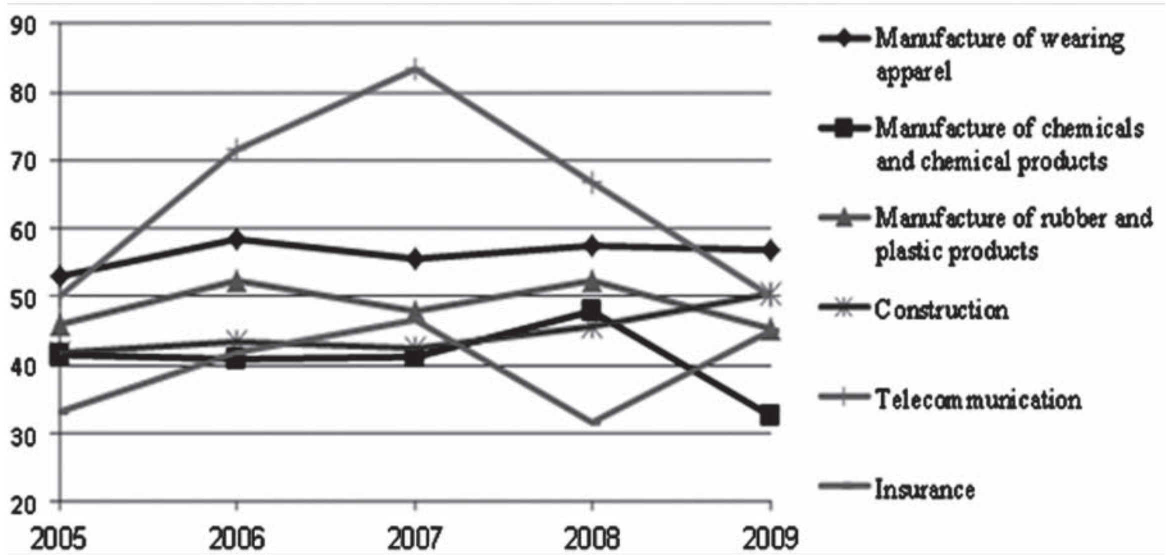


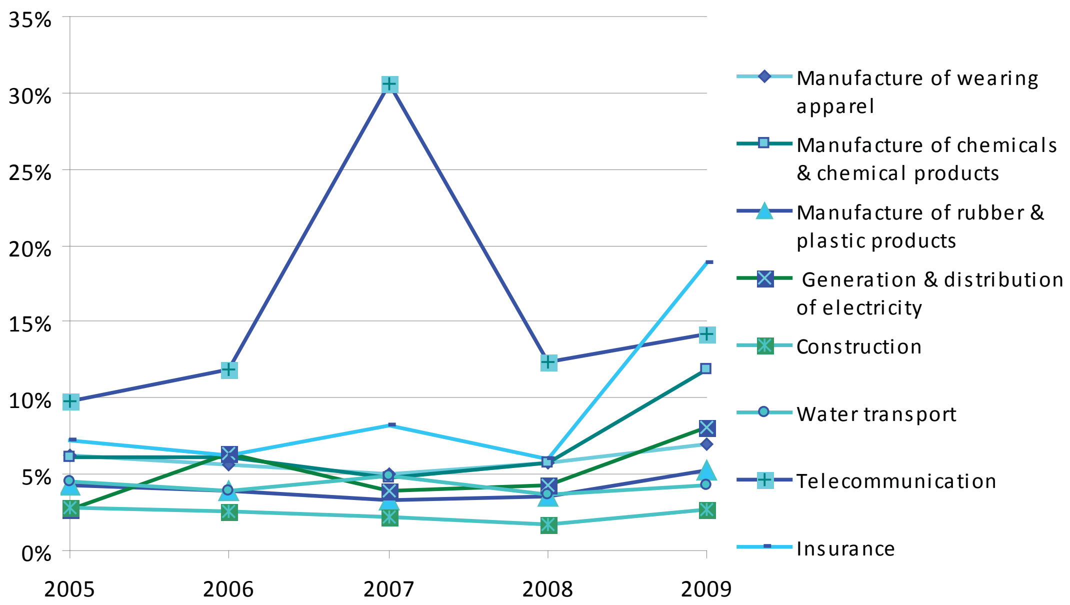
Figure 2.27: Rate of loss-making FDI enterprises[1]

Unit: %



[1] Generation of electricity and water transport were not included in this particular analysis for the limited number of FDI firms in these two industries (5 and 3, respectively).

Figure 2.28: Return on Assets



it is imperative to measure profitability ratios: return on assets (ROA), return on equity (ROE) and return on sales (ROS). First, general performance of all 8 industries will be analyzed through the rate of loss-making businesses.

Of the eight studied industries, the manufacture of Wearing apparel and Rubber products are the two with the highest loss-making rate, over 50% in 2009. These are the two industries with the lowest concentration. They are followed by the two other industries with average concentration - Water transport and Manufacture of chemicals, with the loss-making enterprises accounted for 40.9% and 39.2% in 2009, respectively. Industries with medium and high concentration registered the least number of loss making enterprises: Insurance at 32.9%, Telecommunication at 23% and Generation and distribution of electricity at 12% in 2009. Loss-making can be partly explained by impacts of global economic crisis. However, the increasing rate of loss-making enterprises suggests that the need for business restructuring has become more urgent than ever.

By ownership, the FDI sector has the highest rate of loss-making. Figure 2.27 shows that over 30% of FDI enterprises made loss among all the industries. Three industries with over 50% of FDI businesses reporting loss are the Manufacture of wearing apparel, Telecommunication and Construction. Especially, the rate of FDI businesses reporting loss in Telecommunication in 2007 was as high as over 80%. Unlike SOEs or domestic private firms, losses in FDI businesses in many cases are not the result of poor business performance, but of their price transfer policy. This issue has long been a concern among researchers as well as policy makers, who have been looking for a solution.

2.4.1. Return on Assets: ROA

Return on Assets (ROA) ratio reflects profitability of assets and measured by the following formula:

$$\mathbf{ROA} = \frac{\textbf{Net profit before tax}}{\textbf{Total assets}} \times \mathbf{100}$$

Figure 2.29: Return on Equity - ROE

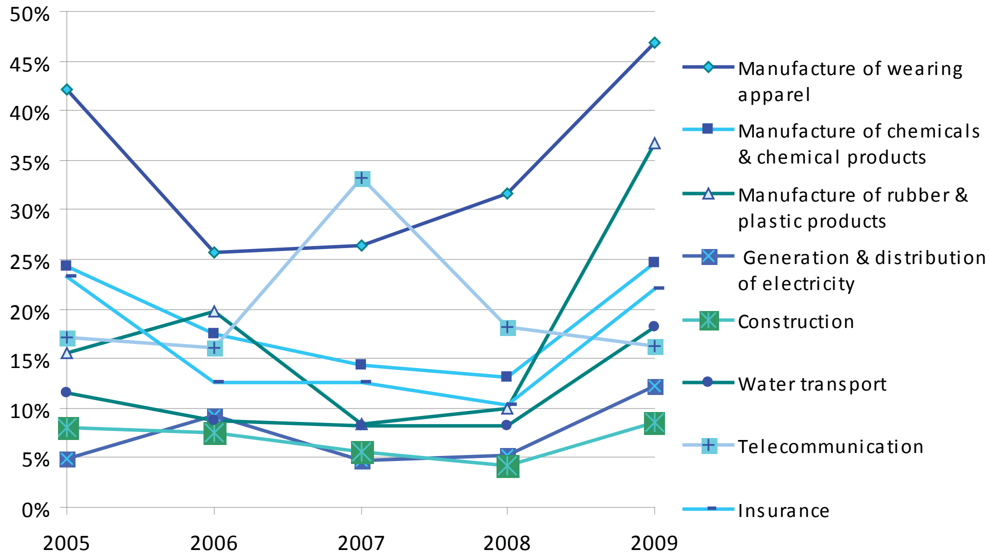


Figure 2.30: Return on Sales - ROS

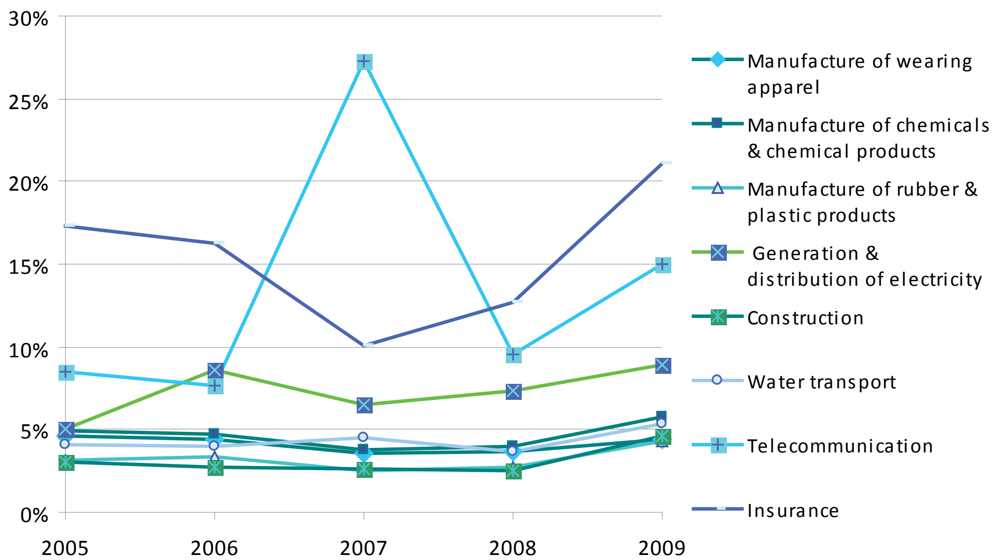


Figure 2.28 shows the highest ROA in three industries - Telecommunication, Insurance and Manufacture of chemicals. While Telecommunication and Insurance are the two with high concentration, the Manufacture of chemicals has emerged as a manufacturing industry with high ROA, 11.9% in 2009. In the meantime, this ratio is 8.1% in the electricity generation industry, 7.0% in the manufacture of Wearing apparel industry, and 5.2% in the manufacture of Rubber products industry. Two industries with the lowest ROA are the Water transport industry - 4.3% and the Construction industry - 2.7%. Generally, after a decline in 2008, ROA of all industries increased in 2009, marking the economy's recovery from the global crisis in 2008.

Among the three types of ownership, FDI enterprises register the highest rate of loss making; however, ROA of the profitable FDI businesses is usually the highest, while the rate among private sector is the lowest.

2.4.2. Return on Equity: ROE

Return on equity (ROE) reflects profitability of equity and is measured by the formula:

$$\text{ROE} = \frac{\textbf{Net profit before tax}}{\textbf{Total Equity}} \times 100$$

Unlike ROA, ROE is recorded at the highest level in three manufacturing industries: Wearing apparel (46.8%), Rubber products (36.6%) and chemicals (24.6%). ROE of service industries such as Insurance, Water transport and Telecommunication closely follow the previous three, at 22.1%, 18.1% and 16.2% respectively. Lowest ROE is registered to the Generation and distribution of electricity industry (12.3%) and the Construction industry (8.6%). The majority of industries share the same trend of strong improvement in 2009 after reduction in previous years.

2.4.3. Return on Sales: ROS

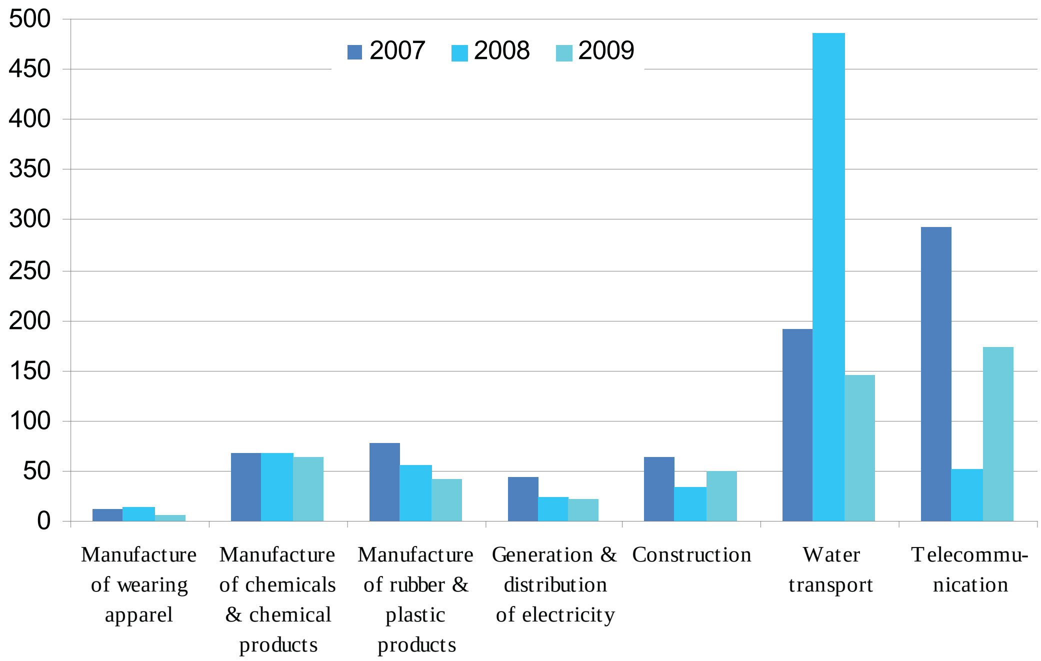
Return on Sales (ROS) reflects profitability from one unit of sales and is measured by the formula:

$$\text{ROS} = \frac{\textbf{Net profit before tax}}{\textbf{Total sales}} \times 100$$

Apart from the Insurance industry, the Telecommunication industry and the Generation and distribution of electricity industry with high ROS in 2009 - 21.1%, 15% and 9% respectively, the remaining industries have similar ROS of around 5%. Like the ROA case, FDI enterprises typically have the highest ROS, in contrary to private firms.

As such, it is obvious that even though FDI sector has the highest loss making rate as compared to the state-owned and private sectors, its profitability is the highest among all three ratios - return on assets (ROA), return on equity (ROE) and return on sales

Figure 2.31: The share of scientific staff in businesses per 1000 employees



(ROS). There are gaps, not so much with regard to tax management policy, but FDI attraction policy, where incentives for FDI businesses not only fail to attract investments in high value-added industries, but in effect encouraged FDI enterprises to invest in processing industries with intensive use of imported inputs. This is also the reason for Vietnam's continuing trade deficit so far, as FDI businesses have to import inputs for production.

2.5. Technology capacity

In development of economic restructuring policies (see Chapter 8, Section 1) science and technology is regarded as an important resource to serve the purpose of industrialization and modernization. Science and technology is also the key to restructuring the private sector, hence the importance of assessing the technological capacity as demonstrated through resources that businesses use to improve their technological qualifications.

2.5.1. Ratio of scientific staff in businesses

Human resources devoted to scientific and technological activities are an important indicator to reflect the technological capacity of a business. Of the studied industries, except for Water transport and Telecommunication with a large share of scientific and technical staffs due to their business nature, all other industries have a fairly low share of technical staff at below 50 per 1,000 employees. Another worrying sign is the downward trend of this indicator (see Figure 2.31). In a comparison between manufacturing industries, the share of scientific and technical staffs is the highest and most stable in the Chemical industries, while significantly lower in others.

Of the scientific staff, the majority hold higher education degrees. Aside from the Water transport industry and the Telecommunication industry (due to their professional nature), the share of scientific staffs with higher education degrees of the remaining industries ranges between 64-87%, with the highest figure registered to the Generation and distribution of electricity industry, and lowest in the manufacture of Wearing apparel industry. The rate of staffs with a Master or a PhD is still very low, only 2-6% in the manufacturing industries.

Figure 2.32: Scientific and technological research expenditure/total investment

Unit: %

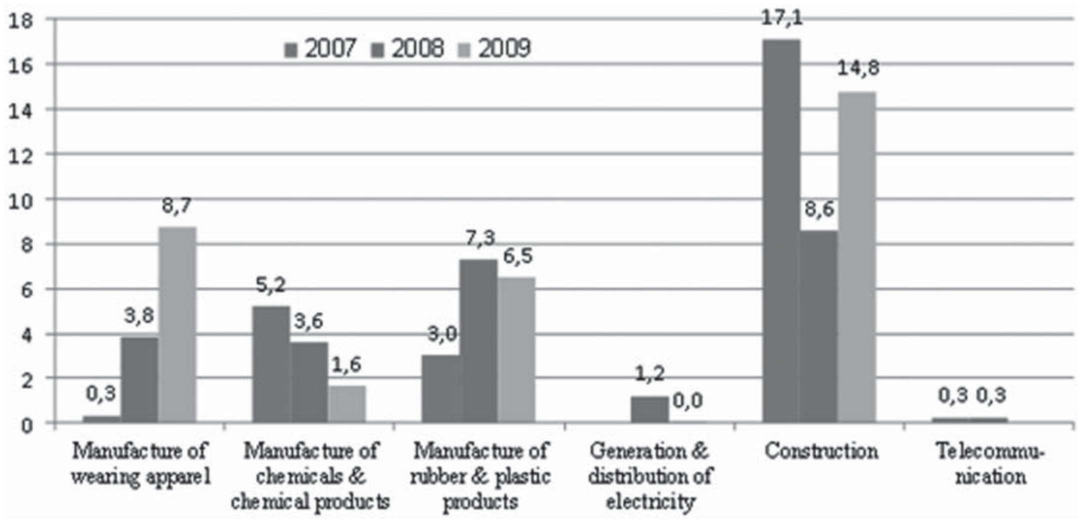


Figure 2.33: Expenditure for R&D/total expenditure for scientific and technological research

Unit: %

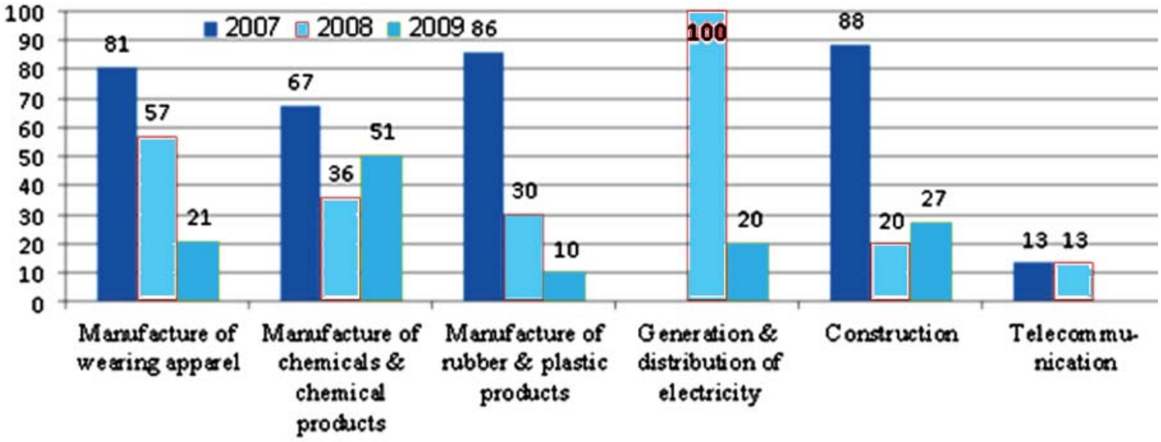
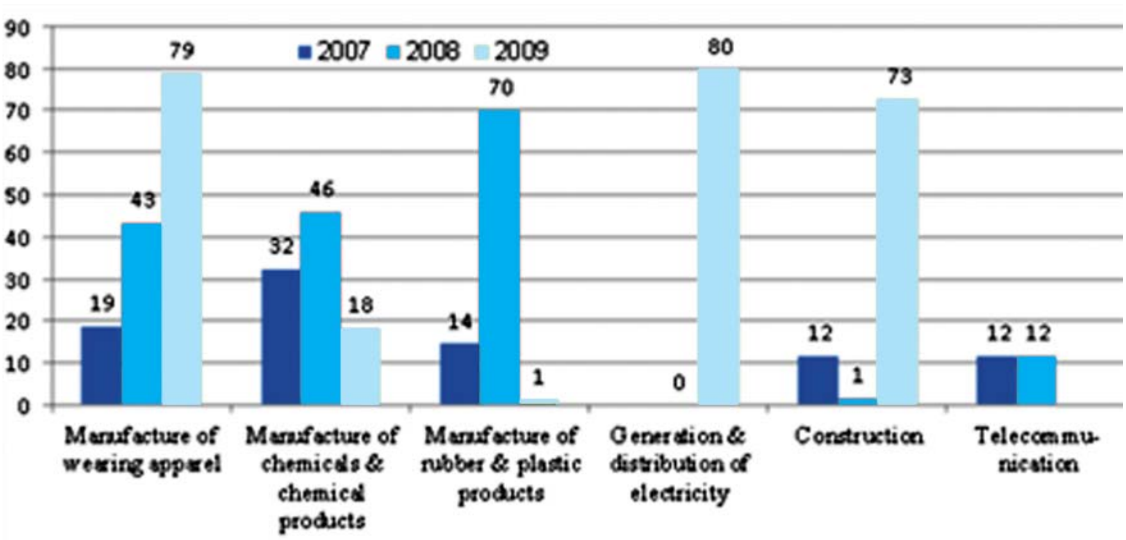


Figure 2.34: Expenditure for technology innovation/total expenditure for scientific and technological research

Unit: %

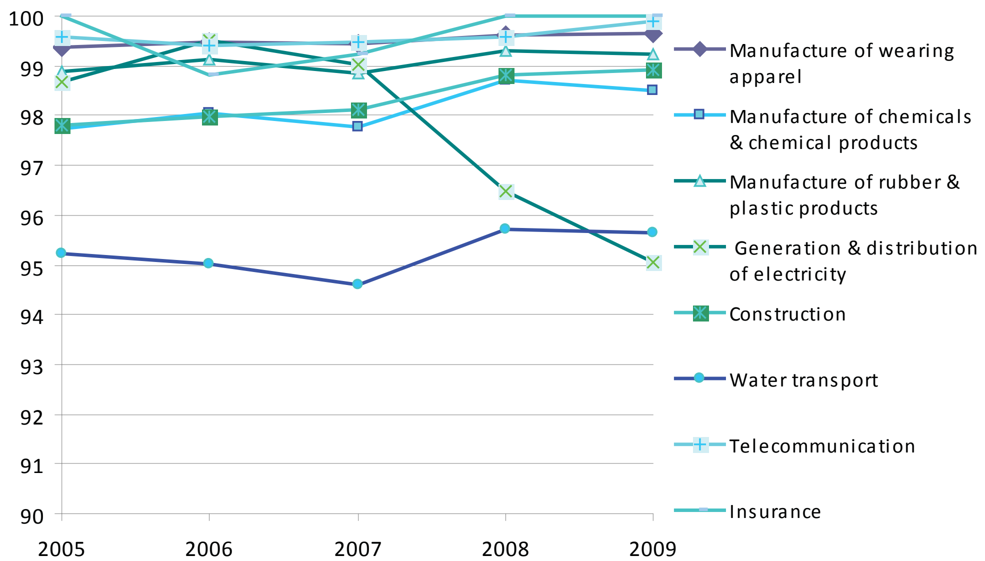


2.5.2. Scientific and Technological Research Expenditure

Apart from human resources, the budget that businesses invest in scientific and technological research is another important indicator to reflect their technological capacity. This indicator is even more important for the manufacturing industries. For all three manufacturing industries selected for this study - manufacture of Wearing apparel, Chemicals and Rubber products, expenditure for scientific and technological research is low, below 10% of the total investment. While the share tends to increase in the manufacture of Wearing

Figure 2.35: The share of workforce engaged in core business

Unit: %



apparel industry, it goes in reverse in the Manufacture of chemicals industry (Figure 2.32).

Of the costs for scientific and technological operation, research and development (R&D) and technological innovation expenses are the most important, contributing to improving technological capacity of the business. Among the three manufacturing industries mentioned above, R&D expenses remain high and most stable in the Manufacture of chemicals. Expenditure for R&D in the manufacture of Wearing apparel and Rubber products was very high in 2007, but reduced sharply in the next two years. The opposite is observed for expenditure for technological innovation, which has gone up in the manufacture of Wearing apparel industry in recent years.

In fact, technology innovation/process renovation also takes place in the service industries. The Construction industry and the electricity Generation and distribution industry, in 2009, recorded a sharp increase in the share of expenditure for technology innovation compared to the total scientific and technology budget. This is a promising sign, showing the dynamics of these industries in updating technology, catching up with the pace of the world's advanced businesses.

2.6. Core business operation capacity

One of the measures of business restructuring is to expand business operations horizontally, to other business areas which are not the core business of the firm. This could be an effective restructuring method provided that this does not affect the core business in the firm's strategy. Given the available data, the assessment of core business capacity of businesses is conducted through two indicators: core business workforce and core business revenues.

2.6.1. Core Business Workforce

Core business workforce is measured by the percentage of workforce working in the core business to the total workforce of the business. By this calculation, the majority of industries have a high and increasing concentration of workforce in the core business, over 98%, except for the Water transport industry and the electricity Generation and distribution industry. While in the Water transport industry, the share of workforce engaged in the core business is around 94%-96% and tends to increase during 2005-2009 period, the figure in the electricity Generation and distribution industry started to decline from around 99% during 2005-2007 to 96.5% in 2008 and even 95.1% in 2009, the lowest among the eight industries.

A more detailed analysis of businesses by types of ownership suggests that in the electricity Generation and distribution industry, the share of core business workforce in SOEs started to decline in 2006, to around 93%. On the other hand, this indicator in the private sector started to decline in 2008 to about 95% in 2009. The change of core business workforce in FDI firms is not stable; however, it has been on the increase in the last two years.

In the Water transport industry, the share of core business workforce differs clearly among the types of ownership. This share is very low among SOEs, between 70-80%, while it has been stable around 96% in the non-state businesses. Core business workforce records the highest level in the FDI firms, close to 100%.

It is clear to see the trend of scattering investment and expansion to other business operations - very obvious in SOEs as compared to non-state counterparts, and almost non-existent in FDI businesses. The question then is: with such expansion of investment, can the SOEs play the leading role in fulfilling their tasks in the core business areas? An analysis of revenues from core business in these businesses will help shed a light on this question.

2.6.2. Core business revenues

Similar to the case of core business workforce, the share of revenues from the core business is measured by the percentage of revenues gained from the core business of the firm compared to the total revenues. Generally, the core business revenues of six out of eight industries have been high and on the increase (see Figure 2.38). This signals a trend of concentration in the core business of these six industries.

Figure 2.36: The share of core business workforce in Generation and distribution of electricity

Unit: %

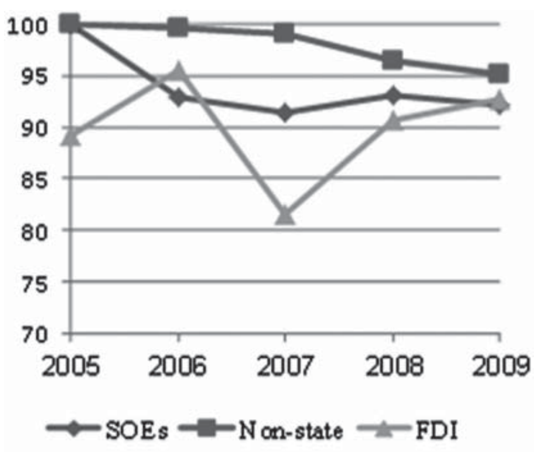


Figure 2.37: The share of core business workforce in Water transport

Unit: %

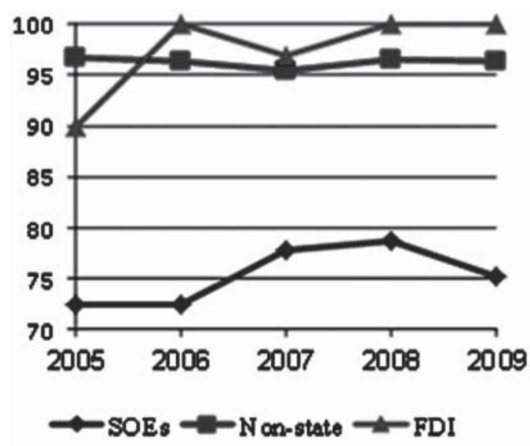


Figure 2.38: The share of revenues from core business

Unit: %

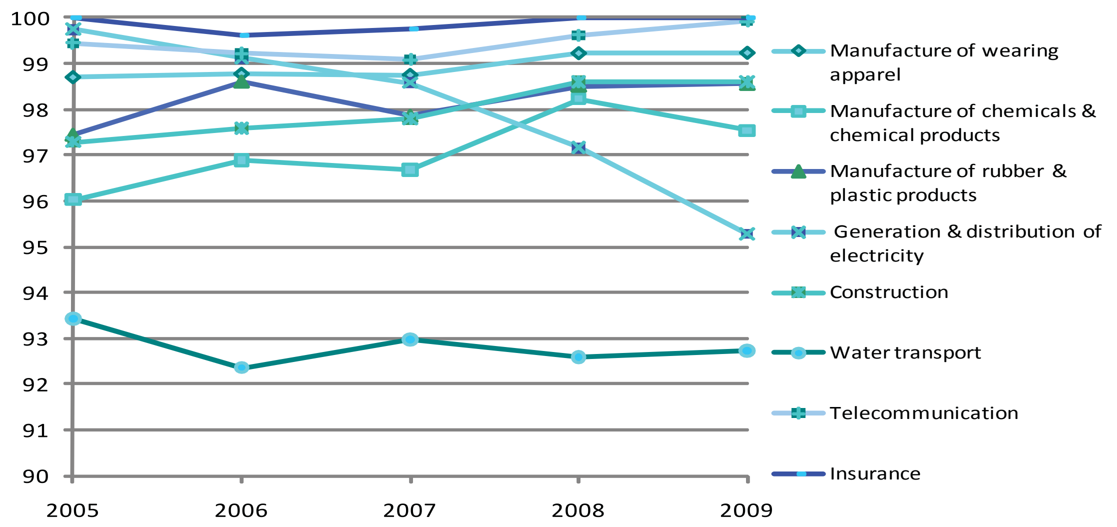


Figure 2.39: The share of core business revenues in industry of Generation and distribution of electricity

Unit: %

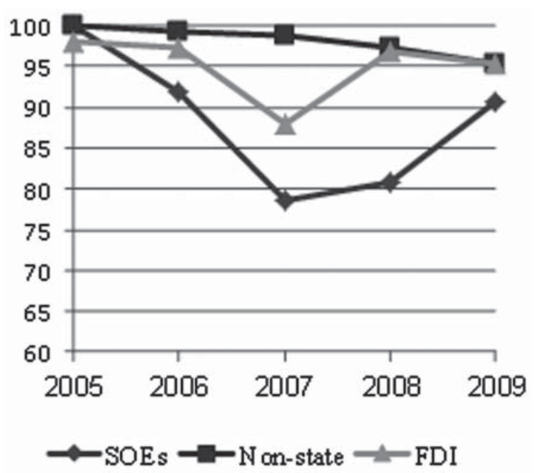
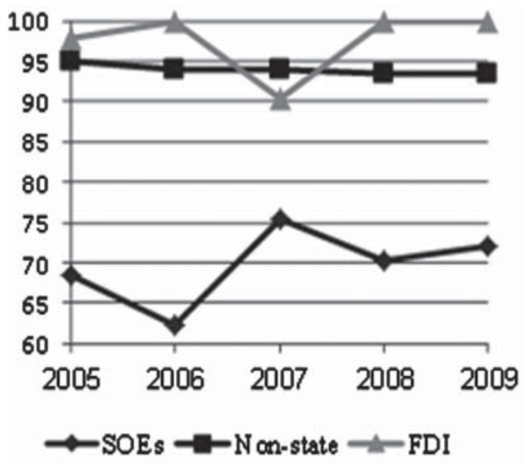


Figure 2.40: The share of core business revenues in Water transport industry

Unit: %



The two industries with low core business revenues continue to be the industry of Water transport and the industry of Generation and distribution electricity.

In the industry of Generation and distribution electricity, the core business revenues tended to decline between 2005-2009, from 99.8% in 2005 down to 98.6% in 2007 and only 95.3% in 2009. SOEs have always recorded the lowest figures (Figure 2.39 and 2.40), which went down to 78.6% after sharp declines in 2006 and 2007 and started to increase in the last two years, reaching 90.1% in 2009. Despite being the highest, the share of core business revenues in private firms have been on a gradual decline over the years, from 100% in 2005 to 98.7% in 2007, and only 95.5% in 2009.

The Water transport industry has always registered the lowest share of revenues from core business at about 93%, with SOEs recording the lowest level of less than 75% (as low as 62.3% in 2006). Meanwhile, the figure in the non-state businesses has been on a high level of about 94%.

As such, six of the eight studied industries have secure capacity of core business operation with high levels of workforce and revenues. The two industries with low and declining core business capacity are the Water transport industry and the industry of Generation and distribution of electricity. In these two industries, special attention needs to be paid to SOEs, which have a pretty low capacity of core business operation.

III. CAPACITIES OF WOMEN LED ENTERPRISES

The World Bank report "Doing Business 2011" has indicated an important role of women in economic development. The participation of women in business will help the economy become diversified and "Smart". Unfortunately, features of business environment have not made yet an essential impact on the women to support them in making the decision of becoming an entrepreneur and in improving their business performance.

In Vietnam, an assessment on business performance of women entrepreneurs has been carried out by some organizations recently, such as IFC- World Bank, VCCI, International Labor Organization (ILO), The Industrial Development Organization of United Nation (UNIDO). However, most of the studies were carried out based on a small sample size and there is rarely a comparison between men and women led enterprises. Though the "Ratio of women entrepreneurs" has to be considered as an important indicator of the implementation of "Comprehenshion Poverty Reduction and Growth Strategy" (CPRGS) since 2002, so far there is no large census to overview and to give an assessment on this indicator. The Vietnam Annual Business Report 2010, therefore, will provide with some assessments based on the GSO survey of 109,648 enterprises at 31/12/2009, including those having more than 10 employees (accounting about ½ number of enterprises operating at that time).

The ratio of Women Led Enterprises (WLEs) from above mentioned sample takes about 21%. Most of the WLEs came from private sector, taking 97%. The State sector has only 5% of its enterprises led by women, accounting for 1% of the total number of WLEs. These ratios in the FDI sector are 8% and 2% respectively.

In the sector of SMEs the ratio of WLEs is much higher in comparison to the larger enterprises. While in the micro and small enterprises sector, the ratio of WLE may reach 26%, it takes only 17% among large enterprises . This shows an evidence that it is not easy for women to lead and expand their businesses.

Indeed, though women are seen as "sharp" and "flexible" in running their businesses, the average employment size of WLE is only 41 workers, much lower than that of Man Led Enterprises (MLEs) - 78 workers. The average earning and average turnover per labor at WLEs are also not as high as MLEs. However, it is important to note that the ratio of women employed at WLEs is much higher and the productivity of labor use at WLEs is also better. While the Gender Equality Law is encouraging use of more women workers at enterprises, it makes sense on the necessity of promotion

Table 2.7: Capacities of using labor force at WLEs

	At WLE	At MLE
Average employment	41	78
The ratio of women workers (%)	49.2	42.3
Average earning per worker (Mill. VND)	33	40
Average Turnover per worker (Mill. VND)	600	670
Average Turnover /Average earning	18	17

and attention on the development of WLE. (See Table 2.7)

Similarly, in term of financial capacities, the WLEs have certain constraints in comparison to MLEs, especially on Return on Equity and Profitability. The portion of enterprises having loss among WLEs is 25.7%, while this rate among MLEs is only 22.7%. However, MLEs have the higher Debt Ratio on of 1.83 times while this ratio at WLEs is 1.75. This proves that women likely not tend to take a risk as men, but it also may be because those capacities of women in accessing financial resources are limited

In term of industries, it can be seen that WLEs operate mainly in certain areas. The highest ratio of WLEs is in the Services, Caterings, Hotels, Retails and Whole sale industries. In these sectors, the "interest coverage ratio" of WLEs is very high in comparison to MLEs, it shows the capacities of women in capital recovering. In the meantime, doing business in the man dominated sectors is not always appropriate to women, though there are a few successful cases of WLEs. The heavy and complicated works are challenging for women if they operated in men dominated areas. See table 2.8.

In general, the capacities of WLEs are limited compared to MLE, nonetheless, from gender respects it can be said that Vietnamese women are competent at mobilizing their gender potentials. They can make an important contribution to creating

Table 2.8: Comparison of business performances on MLEs and WLEs in some men dominated industries.

	Ratio of enterprises (%)		Enterprises having loss (%)		Fixed assets to total revenue ratio (%)	
	WLEs	MLE	WLEs	MLE	WLEs	MLE
Total	21	79	25.7	22.8	n/a	n/a
Agriculture	7.6	92.4	13	8	11	8
Generation and Distribution of Electricity	6.5	93.5	15	11	1.8	10
Water exploitation and supply	11.9	88.1	31	18	11	17.8
Construction	10	90	22	19	19.6	30.5

jobs for other women. They tend to operate businesses in the areas closed to their families and lifestyles (services, catering, hotel, retails and whole sale) and they can be successful in these areas. Women have the capacities and advantages in integrating their family activities and business. Therefore, it is important to create an enabling business environment to encourage women to use their gender potentials and to support them to overcome the constraints in managing their business. The priority should be given to those measures, which aim at improving the financing management capacities at WLEs and supporting them in expanding their businesses.

PART III

TRENDS OF CORPORATE RESTRUCTURING

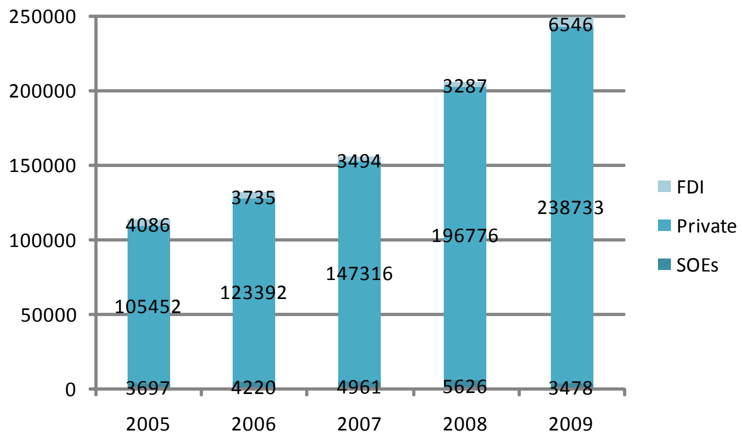
I. ORIENTATIONS OF CORPORATE RESTRUCTURING IN SUPPORT FOR THE IMPLEMENTATION OF ECONOMIC STRUCTURE TRANSFORMATION STRATEGY IN VIETNAM

1.1. An overview of the current status of enterprises by forms of ownership in recent years

1.1.1. Rapid increase in the number of private sectors

Statistics from the GSO Enterprises Survey of 2010 presented in the figure below show that the number of private companies has increased rapidly, while the number of companies with Foreign Direct Investment (FDI) has increased slightly. The number of state-owned enterprises (SOEs) has decreased over the years. After 5 years, both SOEs and FDI companies have reduced their shares in the total number of enterprises; the number of FDI companies has increased from 3,697 to 6,543, yet its share reduced 3.3% to 2.8%; and SOEs reduced in both absolute and relative sense. Its number has fallen from 4,086 to 3,342 (3.6% down to 1.4%) through equitization processes taking place at both central and local levels. SOEs consist of enterprises where the government holds 100% equity (not yet equitized) and those that are already equitized but where the government still holds more than 50% equity. By contrast, the private sector has experienced a rapid growth in the number of new companies entering the market which makes the presence of this sector in the economy more expansive (its share increased from 93.1% to 95.8%).

Figure 3.1: The number of active enterprises by forms of ownership (2005-2009)



In general, the private sector will further expand in the future. However, what is more important to note here is that the contribution of the private sector to the economy does not correspond to its horizontal growth mentioned above, except in employment creation.

1.1.2. Employment by private sector is high

Figure 3.2 indicates that the number of workers in private sector enterprises has continually increased in the last five years, from 2.7 million to 4.8 million, especially during the 2006-2007 period of rapid economic growth. But it did not decrease even in the periods of high inflation and economic recession afterward. Similarly, the number of workers in FDI companies has increased steadily; yet while the number of FDI companies has not increased significantly, the number of additional workers employed by FDI companies has increased by a little more than 760,000. By contrast, the number of workers in SOEs has fallen over the years, from over 2 million down to 1.5 million.

Figure 3.2: The number of workers employed by enterprise ownership

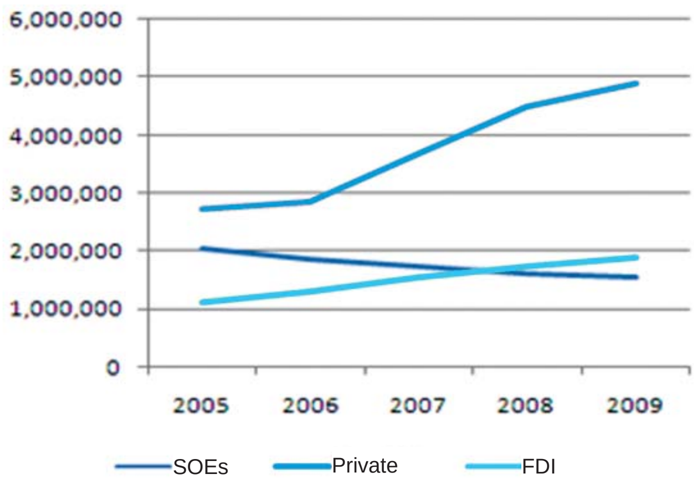
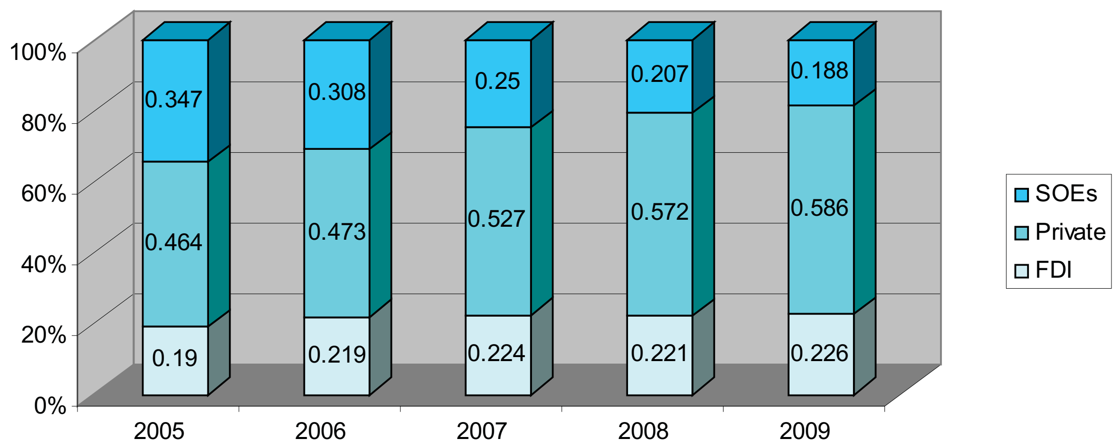


Figure 3.3: The share of workers by enterprise ownership



It can be seen that while SOEs and FDI companies altogether created 280,000 new jobs, private sector companies created 2.1 million more new jobs (7 times higher) in the same five-year period. Evidently, the private sector has played a more important role in the generation of employment.

While the share of workers employed by SOEs has fallen from 34.7% to 18.8% and he share of workers in FDI companies have increased very slowly, from 19% to 22.6%, the share of the workers in the private sector has gone up from 46.4% to 58.6%. On an annual basis, the average growth in the number of workers employed by the entire corporate sector is 9.1%. The figures for SOEs, private sectors, and FDI companies are -6.5%, 16% and 13.9% respectively. Because of those figures, the SOE sector is in the process of restructuring and transforming operational models subject to the equitization agenda in which many enterprises have changed their equity structure. Additionally, the number of new hires into the SOE sector is smaller than the number of workers moving out from this sector into others.

The expansion of the private sector in terms of labour size is not necessarily good news, as the majority of private sectors are usually small or medium; moreover, they mostly operate in labour-intensive industries.

1.1.3. Labour and asset size of companies in the private sector remains small

Among companies employing five to fifty workers, those from private sectors account for 96.3 - 99.4%. This means almost all small and medium enterprises (SMEs) in Vietnam are privately owned while SOEs and FDI companies typically employ at least 200 workers. The shares of private sectors in the bigger company groups throughout the country reduce along the spectrum of company size. In the group of companies employing 500-1,000 workers, the private sector represents 42.7%. In the group of companies hiring 1,000 to 5,000 workers, the presence of three sectors is equally distributed. However, among the group of big companies hiring at least 5,000 workers, the private sector accounts for only 17.3% while SOEs and FDI companies account for 43.2% and 39.5% respectively.

Figure 3.4: Labour size by enterprise ownership

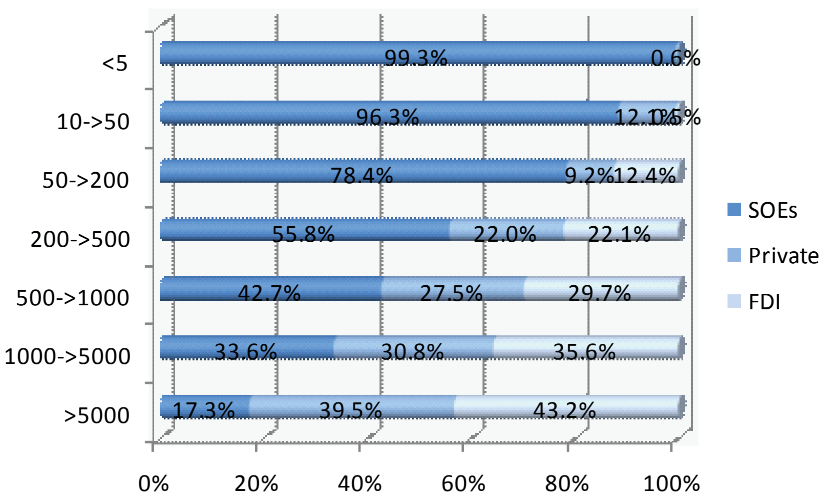
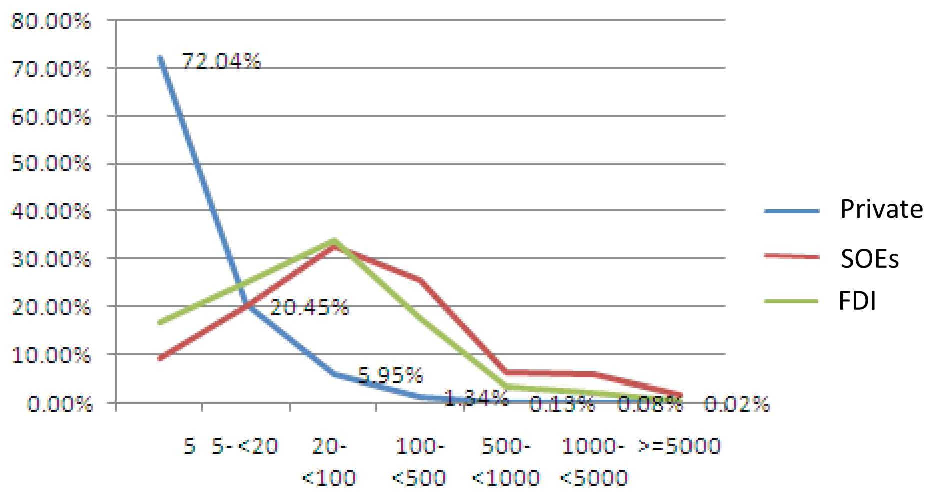


Figure 3.5: The share of enterprises by ownership by asset size



The share of enterprises by different ownership forms by asset size is similar to the share of enterprises by ownership by labour size presented above.

In Figure 3.5, as many as 98.4% of private sector companies have total assets of less than VND100 billion, of which 72% have total assets of under VND5 billion. Thus, it can be said that the majority of private companies are small, and micro if classified by the international standard.(1)

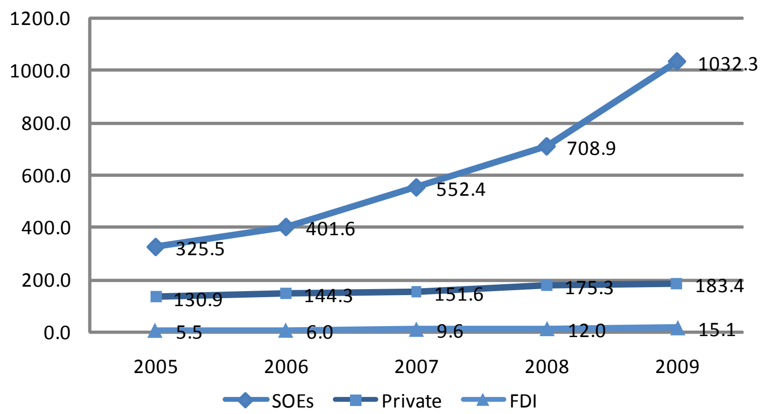
1.1.4. Growth in size: positive outlook

It can be clearly seen that the average size of the private sector is modest compared to SOEs and FDI companies. Figure 3.6 illustrates the change in average asset sizes of enterprises by ownership. Enterprises of all three sectors experienced significant improvement in size. Average assets per company in the private sector increased from VND5.7 billion in 2005 to VND15.1 billion in 2009; in FDI companies assets increased from VND130.9 billion to VND183.4 billion; and in SOEs they increased from VND325.5 billion to VND1,032.3 billion. Evidently, company sizes differ. However, we should not rely too much on these statistics to make a conclusion about their competitiveness, because beside the difference in size, it is important to consider other historical advantages and mechanisms that show SOEs in a more favourable environment than others. FDI companies are backed up by capital, technology, managerial expertise and brand names from parent companies. Private companies do not have such advantages and are thus at a disadvantage. Yet, being small, they have specific advantages that economies of scale do not; for example, flexibility and sensitivity are two advantages that are important for improving enterprise competitiveness.

(1) For example, in EU firms having assets worth under Euro5 million (VND120 billion) would be classified as small, while firms with assets under Euro27 million (VND648 billion) are considered medium size.

Figure 3.6: Average asset of enterprises

Unit: billion VND

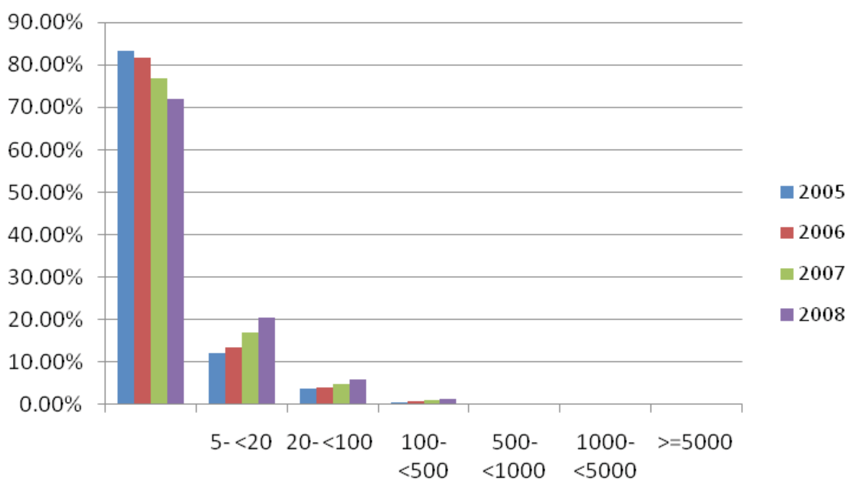


The fact is that capital accumulation in the long term is the target of every business. However, in terms of asset size, the private sector is experiencing an encouraging improvement.

It may be a good sign that the share of microenterprises in the private sector has decreased from over 83.4% in 2005 to 72% in 2008, while the share of the adjacent bigger enterprise group has increased from 12.2% in 2005 to 20.5% in 2008. The next adjacent group has also seen improvements, though at a slower pace. So there has been a movement, or to be more precise, a growth in the private sector in the recent five years. Capital accumulation has been established and will be on track. In fact, the private sector has been developing for only ten years since the Enterprise Law of 1999 was effected (prior to 2000, there were close to 50,000 private sectors in Vietnam). Therefore, it is easy to understand the modesty of the assets of private businesses in comparison with SOEs and FDI companies at present. What matters right now is how to enhance the competitiveness of these businesses, and to completely utilize the flexibility

Figure 3.7: Movement in the structure of private setor by asset size

Unit: billion VND



and endurance of SMEs. In so doing, the government needs to have strategies and policies to create an equal, open, and favourable environment for businesses to improve their performance. In addition, policies need to guide and encourage private sector investment toward highly productive industries. Better return on investment will help private businesses to accumulate capital and even attract investment from enterprises in other sectors through forms of joint-venture, capital pool, merger and acquisition, etc., which in turn would help them to increase asset size, capital and share for capitalizing on economies of scale.

1.1.5. Financial and business performance in the private sector: less debt and higher performance

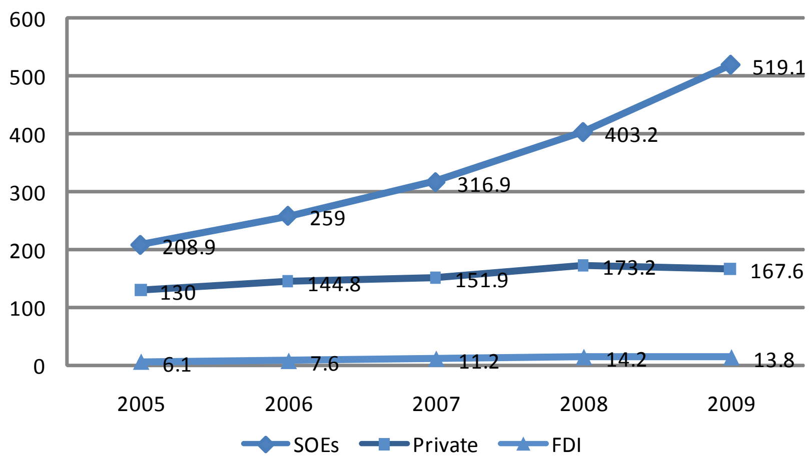
Statistics show that SOEs use financial leverage more than enterprises from other sectors. Even though the debt to equity ratio and assets of the private sector are on an increasing trend. The fact is that private businesses clearly have less advantage over SOEs in accessing credit and capital.

Table 3.1: Debt ratio and financial leverage

	Debt/Equity			Debt/Total asset		
	2007	2008	2009	2007	2008	2009
SOE	339.4%	327.8%	252.6%	77.2%	76.8%	71.6%
Private	178.9%	181.4%	187.2%	63.9%	64.1%	65.0%
FICN	142.9%	151.9%	138.8%	58.9%	60.2%	58.2%

Figure 3.8: Enterprise's average turnover

Unit: billion VND



Average turnover of businesses in all economic sectors have had a fairly steady increase in the past five years.

Though the average turnover of private businesses is many times smaller than SOEs, their asset utilisation efficiency is much higher. In 2007, while VND100 worth of assets of SOEs rendered VND57.4 as turnover, that VND100 asset could bring about VND116.3 and VND100.2 as turnover by businesses of private sector and FDI respectively. In 2009, due to the impact of global economic recession, the turnover to

Table 3.2: Operational performance

	Net turnover/Total asset			ROE		
	2007	2008	2009	2007	2008	2009
SOEs	57.4%	56.9%	50.3%	17.4%	11.3%	22.9%
Private	116.3%	118.0%	91.4%	9.2%	9.0%	5.0%
FDI	100.2%	98.8%	91.4%	32.1%	27.7%	22.4%

asset ratio reduced significantly. Yet, private businesses continue to be more efficient, with a turnover to total asset ratio of 91.4%, equaling that of FDI companies while the number for SOEs is just 50.3%.

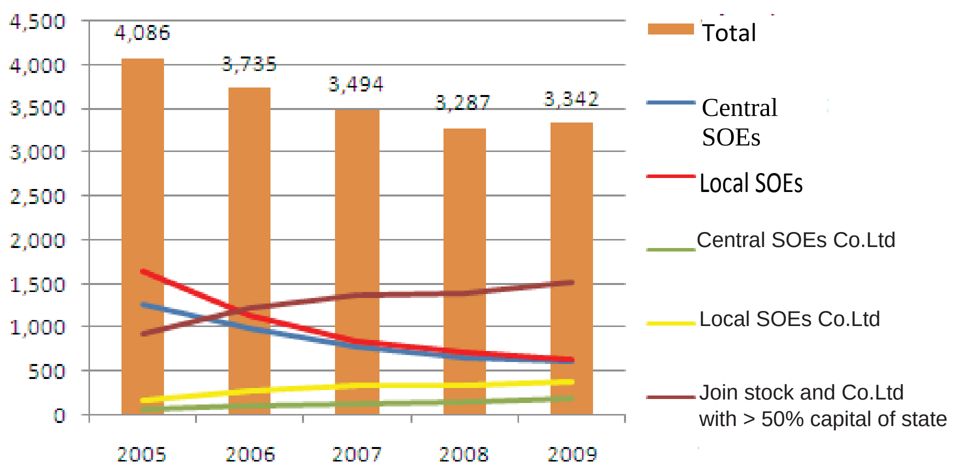
1.1.6. Governance system and organisational form

❖ *State-owned enterprise (SOE)*

According to Article 166 of the Enterprise Law of 2005, SOEs should be transformed to limited liability or joint-stock companies within 4 years, i.e. prior to July 1st, 2010. There has been a sharp decrease in the number of centrally and locally managed SOEs. By the end of 2009, as many as 1,256 SOEs remained unchanged, accounting for 38% of SOEs. Prior to July 1 2010, approximately 1,000 SOEs remain unchanged. In fact, the actual equitization process has been negatively impacted by the global financial crisis, high inflation, and recession in Vietnam that have delayed a number of equitization and public offering plans.

It is notable that joint-stock companies seem to be considered an attractive organisation model due to their openess and flexibility during the SOE transformation process. The number of SOEs transferring to joint-stock or limited liability companies in which the government holds more than 50% equity has increased over last five years. This in turn has increased the shares of this company type to 45.3% in total number of SOEs, while the number of one-member limited-liability companies managed by both local and central Government accounts for a small share, only 17.1%. (See Figure 3.9)

Figure 3.9: SOEs by legal form and management authority



❖ *Private sector*

In the private sector, limited-liability companies accounted for 58.6% companies in this sector until 2009. This share has increased from 53% in 2005. In contrast, the share of the private sector has steadily decreased, from 35.2% in 2005 to 22.2% in 2009. (See Figure 3.10)

Clearly, the model of limited liability company is more modern and apparently superior to private companies in its scientific governance, transparency, capital contribution, benefit and responsibility sharing, transferability, etc. This encouraging trend indicates that Vietnamese entrepreneurs are changing their routine from the family and habit-based governance model that has been traditionally inefficient in the long term.

The joint-stock company is also a modern governance model that can help to expand opportunities for attracting outside investment and allow the company to grow infinitely. The share of joint-stock companies increased from 10.6% in 2005 to 18.3% in 2009, ranking it third among ownership types. This share is low because the joint-stock company model requires more time and resources for management processes, thus small businesses that are not looking to expand their business in the short term find that the joint-stock model is unnecessary. Moreover, the share of joint-stock companies, wherein state capital is below 50%, remains very low. In late 2009, there were only 1,754 companies of this type, including subsidiaries jointly established by equitized SOEs and the private sector. The number of partnerships by 2009 was 68 and the majority of them were in the career services sector such as law consultancy.

❖ *Foreign-invested companies*

In the foreign investment sector, completely foreign-owned enterprises account for a dominant share and are becoming a more favored model. In 2005 there were only 2,852 with 100% foreign-owned enterprises, accounting for 77.1% total enterprises in the sector. In 2009 the number reached 5,405, making up 82.6% of total enterprises in the sector.

Figure 3.10: Private sector by ownership structure

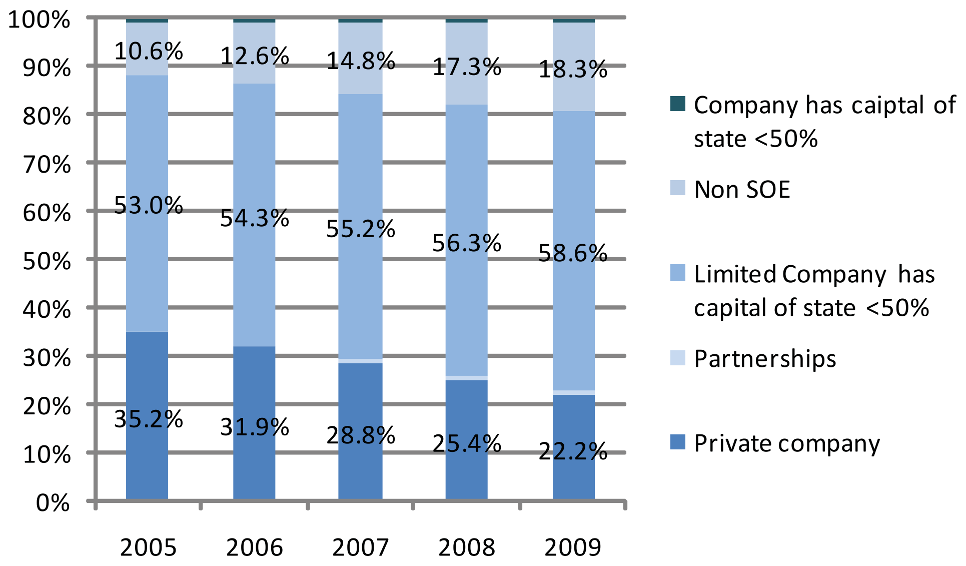
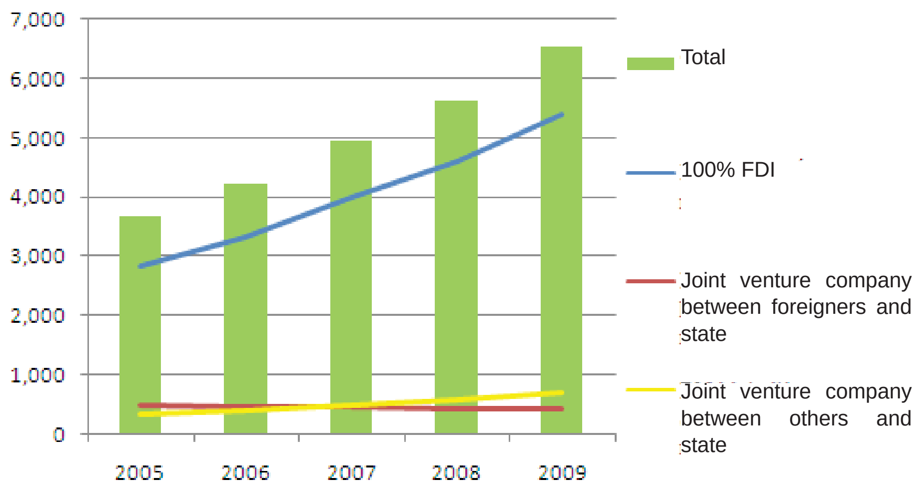


Figure 3.11: Foreign-invested enterprises by ownership structure

Unit: Entesprise



However, the fact that there is only a small number of joint-ventures between domestic companies and foreign ones indicates technology, management skills, financial resource and goodwill of domestic companies are far from compatible with foreign partners. Foreign investors typically enter into a joint-venture with domestic companies just in short term in order to penetrate into local markets easier by avoiding property and resources ownership barriers or adapting to local custom that may affect business performance. Once their feet are firmly in the market, foreign investors often seek to hold 100% equity to get all management power and profit as the business cycle reaches the stage of high profitability.

1.2. Restructuring private sector enterprises

1.2.1. Status of private sector performance

There are many different ways to assess business performance. In this report, the study team only uses data of GSO Enterprises Survey that are considered to beconsistent and reliable after processed. Here data used for analysis by the study team include capital adequacy ratio, financial leverage, and asset utilisation efficiency.

Table 3.3 indicates the dynamics and efficiency of the wholesale and retail sectors (including cars and motorcycles). Enterprises in these sectors often use financial leverage equivalent to the average level of the private sector (65%), which does not have the advantage in capital and credit access. However, along with debt leverage, assetutilisationefficiencyamongenterprises in these sectors is the highest (from 191.4% to 314%), followed by Processing-Manufacturing, Mining, Agriculture-Forestry-Fishery, Electricity, Gas and steam, Transportation and Warehouse. Information and communication are also highly efficient sectors. In contrast, such sectors as Construction, Accommodation and catering, Professional services & Science and Technology need to improve further asset utilisation efficiency and business flexibility. Notably, 2009 was a very difficult year for businesses in finance,

Table 3.3: Some indicators reflecting performance of private sector in 2009

	Debt/ Equity (%)	Debt/Total asset (%)	Turnover/ Total asset (%)
Agriculture, forestry, fishery	55.0	35.3	91.8
Mining	90.7	47.4	133.2
Processing, Manufacturing	152.3	60.3	129.2
Electricity and gas	70.2	41.1	89.6
Waste water	99.0	49.7	48.7
Construction	128.3	56.2	55.4
Car & motorcycle selling and repair	188.2	65.2	314.0
Wholesaling (excluding cars and motorcycles)	201.8	66.7	214.4
Retailing (excluding cars and motorcycles)	87.2	46.4	191.4
Transportation, warehouse	109.6	52.1	81.0
Accommodation and catering	59.6	37.3	26.3
Information, communication	31.9	24.1	65.3
Finance, insurance, banking	560.2	84.6	12.1
Property	118.0	54.1	25.3
Professional services, Science & Technology	62.4	38.4	54.7
Administrative and business support services	254.6	71.8	44.8
Education & Training	33.4	25.0	68.0
Healthcare and social assistance	43.5	30.3	56.0
Arts, entertainment	94.3	48.4	26.5
Other personal services	40.9	29.0	215.5
Household services	99.6	49.8	62.2

banking and property industries. They are capital-intensive, but the performance in that year falls into the lowest performing group.

1.2.2. Investment and labour movement

In this report, data concerning enterprises in manufacturing and service industries are used to evaluate investment structure movement in addition to capital, business determination, and start-up or entry or market expansion decisions. The data demonstrates the ups and downs as well as the business environment of industries.

According to statistics, sectors such as Information & communication, Professional services & Science and Technology, Education & Training, Administrative & business support services, Property, Retailing, Agriculture-Forestry-Fishery, and Household services have the highest annual growth rate. In contrast, sectors like Finance-Insurance-Banking, Electricity & gas, Mining, Processing-Manufacturing, Accommodation and Catering, Transportation & Warehouse are the lowest growth industries, mainly because of the impacts of economic downturn and high inflation during 2008-2009.

Table 3.4: Annual average growth rate in private sector

	Number of enterprises		Workers		Investment per enterprise (million VND)
	CAGR (2006-09) (%)	Share (2009) (%)	CAGR (2006-09) (%)	Share (2009) (%)	
Agriculture, forestry, fishery	199	3.45	194	2.99	83.8
Mining	130	0.88	106	1.18	185.5
Processing, Manufacturing	130	16.56	110	39.07	129.9
Electricity and gas	137	0.92	122	0.45	174.0
Waste water	170	0.29	132	0.25	213.4
Construction	142	13.92	117	18.74	218.4
Car & motorcycle selling and repair	164	3.03	131	1.53	331.8
Wholesaling (excluding cars and motorcycles)	173	23.31	130	12.27	296.5
Retailing (excluding cars and motorcycles)	196	14.46	143	5.47	265.7
Transportation, warehouse	139	4.12	115	5.12	186.3
Accommodation and catering	126	3.73	125	2.48	421.9
Information, communication	373	1.67	285	0.85	475.5
Finance, Insurance, banking	132	0.83	145	1.59	1947.3
Property	221	1.31	178	0.86	2848.3
Professional services, Science & Technology	271	6.69	205	3.29	282.2
Administrative and business support services	231	2.90	145	2.51	167.2
Education & Training	254	0.67	271	0.44	199.7
Healthcare and social assistance	163	0.26	138	0.32	241.9
Arts, entertainment	165	0.30	129	0.28	380.0
Other personal services	184	0.72	141	0.29	107.3
Household services	195	0.01	539	0.01	42.6

Nevertheless, the majority of private companies operate within distribution (wholesale and retail), Processing-Manufacturing, Construction, Agriculture-Forestry-Fishery, Transportation & Warehouse, Accommodation & Catering, Science and Technology professional services. The final group consists of enterprises providing legal counselling, accounting, auditing, management consulting, architecture, science and technology research services.

As far as labour movement is concerned, sectors that have a high annual growth rate and attract more new workers are Household services, Information and Communication, Education and Training, Science and Technology services, Finance and banking, Property, Agriculture-Forestry-Fishery, and Retailing. However, most of these sectors are small or new and make up a small share of the labour structure of private companies. Traditional sectors such as Processing-Manufacturing, Construction, Wholesaling and Retailing, dominate labour structures, along with, Transportation & Warehouse, Agriculture-Forestry-Fishery, Science & Technology professional services, Administrative & Business Support services, Accommodation & Catering.

In terms of investment per business, Finance & banking and Property are capital-intensive sectors, followed by Information & Communication, Accommodation & Catering, Art & Entertainment, Wholesaling & Retailing. The most labour-intensive industries remain Manufacturing, Agriculture-Forestry-Fishery, Personal and Household services, etc.

Thus, some sectors are now 'saturated'. Unfortunately, this is not market saturation as a product reaches saturation stage in its life cycle. Precisely, this can be called a 'bottleneck' in the development process of those sectors. Attractiveness profit has moved out of traditional sectors such as Manufacturing, Mining, Construction, Transportation & Warehouse and Accommodation & Catering. 'Attractiveness' here means high profitability which can be affected when enterprises cannot withstand price competition pressure. Though Vietnam's market is small, its openess is large and domestic enterprises cannot compete with foreign ones even in local market, thus the number of local private businesses retreating or not entering the market will certainly increase. Therefore, the real problem here is technological bottle-neck. Private businesses are unable to improve technology to satisfy market demand and to reduce production cost to compete with imported goods. Thus, growth in other sectors does not necessarily indicate a positive movement in private sector.

1.2.3. The growth of private businesses in some sub-sectors

Some industrial classifications (VSIC 2007) are selected to analyse industrial structure of private businesses.

❖ *Processing, Manufacturing:*

In the manufacturing sector, sub-sectors that have fast increased in number of enterprises are Printing, Beverages, Garment, Metal production, Electronics, Computer, Chemicals, and rubber products.

In the meantime, sub-sectors that have seen rapid growth in the number of workers include; transportation vehicle manufacturing, printing, metal production, medicine and pharmaceutical products. In contrast, there has been a decrease in the number of workers in leather, and others including electronics, computer, furniture, paper, textile and tobacco. It is likely that the reduction in workers employed by those sub-sectors is attributable to improved productivity which is resulted from improved technology as total assets owned by these enterprises have increased.

Table 3.5: Annual growth rate in 2006-2009 period of the manufacturing sector

	Number of enterprises (%)	Number of workers (%)	Total assets (%)
Food production & processing	123	112	149
Beverage production	149	111	139
Cigarette production	121	106	110
Textile	127	108	127
Garment	131	111	141
Leather and leather products	124	99	122
Wood processing, furniture and bamboo products	129	105	152
Paper and paper products production	121	109	142
Printing, copying and reproducing	161	129	152
Coke and refined oil products	117	114	195
Chemicals and products	129	117	143
Medicine, pharmaceutical chemistry and drugs	117	120	148
Rubber and plastic products	129	114	142
Other non-metal mineral products	117	108	142
Metal production	121	124	171
Prefabricated metal products (excluding machineries and equipment)	141	118	144
Electronics, computer and optical products	140	107	126
Electricity equipment	125	111	139
Motor vehicles	112	117	183
Other transportation vehicles	119	124	164
Bed, wardrobe, table, desk, chair	130	106	141
Other processing and manufacturing industries	162	115	153

❖ *Information and Communication:*

In Information and Communication sectors, telecommunication has the highest number of new entries, followed by information service, informatics, cinematography and music. However, job creation increases most significantly among businesses dealing in television and radio broadcasting and information services. Publishing is not as developed as others in the sector. In terms of total asset, Telecommunication and Information services remain the highest growth sub-sectors.

Table 3.6: Annual growth rate in 2006-2009 period of the Information and Communication sector

	Number of enterprises (%)	Number of workers (%)	Total assets (%)
Publishing	198	145	200
Cinematography, producing television programmes, recording and music	202	168	247
Radio and television broadcasting	166	243	316
Telecommunication	257	200	582
Computer programming, computer-related consultancy services	205	144	217
Information services	222	240	631

❖ *Science, technology and professional services:*

In Science, technology and professional service sectors, legal consulting, accounting, management consulting services remain appealing to new businesses. Notably, R&D (Research & Development) has had encouraging progress. All grow fairly rapidly in terms of new business entry, employment creation and total asset. Clearly, they will remain potential sub-sectors in Vietnam.

❖ *Administrative and business support services:*

Similar to Science, technology and professional services, these services play an important role in promoting specialization by creating conditions for the establishment of an outsourcing market for enterprises, helping them improve performance and competitiveness in their core competition areas.

Table 3.7: Annual growth rate in 2006-2009 period of the Science, technology and professional services sector

	Number of enterprises (%)	Number of workers (%)	Total assets (%)
Legal, accounting and auditing services	261	175	133
Head office operation; management consultancy	256	180	430
Architecture; technical examination and analysis	177	131	196
Research and Development	243	187	252
Advertising and market research	205	155	190
Other science, technology and professional services	190	145	246

Table 3.8: Annual growth rate in 2006-2009 period of the Administrative and business support services

	Number of enterprises (%)	Number of workers (%)	Total assets (%)
Leasing machineries and equipment (not including operators); leasing personal and household utensils, non-financial intangible assets	198	155	432
Labour and employment services	241	136	225
Travel agent, tourism business and supporting services relating to tour promotion and organisation	127	115	142
Security investigation	156	134	231
House and public work cleaning services and landscaping	170	137	127
Administrative, office support and other business support services	246	175	194

In this sector, Labour and employment services and Administrative and office support services are the highest growth areas. However, Leasing machineries and equipment; and personal and household utensils are found to have the highest growth rate in total assets.

❖ *Arts and entertainment*

In the Arts and Entertainment sector, new areas such as library, museum, gambling, betting and the lottery all grow very quickly as they are growing from low starting points. In general, though having different growth rates, these sectors keep on growth rates higher than the average of the private sector, specificall they keep on rates higher than the average of the private sector, specifically of traditional sectors such as Processing and manufacturing. It is worth noting that the growth in the number of enterprises within one sector occurs at the same time with the growth in asset and this indicates huge potentials for further growth of the cited sub-sectors.

Table 3.9: Annual growth rate in 2006-2009 period of the Arts and entertainment sector

	Number of enterprises (%)	Number of workers (%)	Total assets (%)
Arts and entertainment creation	209	133	243
Library, museum and other cultural activities	217	400	1197
Lottery, betting and gambling	121	712	2750
Sports, games and entertainment	149	123	173

II. RESTRUCTURING AND REFORMING STATE OWNED ENTERPRISES AND OWNER REPRESENTATIVES IN 2010

2.1. The number of state owned enterprises in 2010: by type, business sector and size

As of 31 December 2009, there are 1,471 enterprises with 100% state capital of which 355 are public utility enterprises, 95 are national security and defense enterprises, and 1,021 are business enterprises. In terms of ownership type, there are 392 one member limited liability companies; 38 state-owned agriculture and forestry farms; 214 agriculture and forestry companies and 827 other state-owned companies. They operate in most sectors, focusing primarily on 12 EGs and 85 state-owned corporations of which 90 EGs and corporations have transformed its organisation structure and operation to the parent (holding) company - subsidiary model. These enterprises mainly engage in areas of state monopoly, public utility, security, defense, agriculture and forestry and other sectors that ensure macro-economic balance or provide basic services essential to society and economy; contributing significantly to the building of economic and social infrastructure, key projects of the State, price stabilization, anti-inflation and economic recession. (See Table 3.10)

Table 3.10: The number of independent enterprises with 100% capital owned by government as of 31 December 2009

	Total	By business line			By enterprise type			
		Public utility	Security & defense	Busi-ness	State-owned agri-forestry farm	Agri-forestry com-pany	One member lim-ited liability-company	Other SOEs
Nationwide	**1471**	**347**	**95**	**1029**	**38**	**214**	**392**	**827**
In which								
Ministries and central agencies	413	48	95	270	0	9	95	309
Groups and General Corporations 91	238	0	0	238	0	51	63	124
Local	**820**	**299**	**0**	**521**	**26**	**154**	**234**	**394**

Source: Report of the inspection group on the implementation of Party Resolution 3-9 (IX Plenum), April 2010

SOE reform has been carried out on a gradual and continuous basis since 2001 till now and strengthened since the introduction of the Central Party Resolutions 3 and 9 (IX Plenum). SOE restructuring and reform master plan sets forth a direction that SOEs must be medium and large scale, and the focus is on key industries and sectors and vital areas that make up a sufficiently large market share of important products and services; only a small part of small scale SOEs dealing in essential products and services, especially SOEs in rural, mountainous and remote areas; would have to be equitized. However, influenced by a decline in the stock market equitization schedule has been extended (as equitized enterprises are mainly medium and large scale, and not a small number of enterprises having abundant land and being based in prime locations of big cities).

SOEs restructuring plan 2010 approved includes 1,117 enterprises of which 901 enterprises shall be transformed to one member limited liability companies (accounting for nearly 81%), 148 go for equitization (over 13%), and the rest is other forms of restructuring (more than 6%).

Decree No.25/2010/ND-CP issued on 19 March 2010 provides the transformation of state-owned companies to one member limited liability companies and management of the latter. Specifically, it provides:

- Expanding the list of SOEs subject to transformation including EGs, general corporations, holding companies in the holding-subsidiary model, forestry companies, agricultural companies, state-owned agriculture and forestry farms;
- Stipulating on organisation and management of one member limited liability companies owned by the State;
- Ensuring sufficient management and oversight of the State as owner over the one member limited liability company as the mother company under the SEG or in those mother - subsidiary groups which are controlling key industries in the economy;
- Minimum capital requirement; and issues related to capital, assets, budget, labour and land, etc.

The Decree No.25/2010/ND-CP provides with notes about management of one member limited liability companies with 100% capital owned by the State;

- Specifying clearly which enterprises are required to apply the Members' Council - General Director - Controllers model. The owner decides whether the Members' Council or the Chairman model is

Table 3.11: SOE restructuring plan 2010

	Total	One member Ltd.	Equitized	Assigned, sold	Contracted, taxed	Merger& acquisition	Dissolutio, bankruptcy	Public service	Changing managementnt authority
Nationwide	1117	901	148	16	2	15	28	4	3
Ministries	372	286	66	9	0	6	3	2	3
EGs, General corporation 91	158	135	19	0	1	2	1	0	0
Local	587	480	63	7	1	7	24	2	3

Source: Report of the Department of Enterprise Reform - Government Office, October 2010.

appropriate depending on the company's size, business location and number of business lines. The Prime Minister decides the type of organisational structure of the holding company operating in specific/ special industries;

- Chairman of the Members' Council of the EG's or general corporation selected by the Prime Minister should not hold the General Director position at the same time. However, subject to specific situations and upon decision by the owner that a person may hold two positions concurrently;

- Leaders or managers working in government agencies or in political, socio-political organisations should not be members of the Members' Council;

- Members of the Members' Council and controllers should not concurrently hold leadership or management positions in member companies;

- Stipulating remuneration and benefits of management positions in the company.

In 2010, State governance over SOEs focus was reformed in the following aspects: developing and completing a legal framework, issuing policy mechanisms for SOE governance; developing succession plans and training key managers for SOEs; conducting inspections and examination of government law and regulation compliance in SOEs; reducing significantly government administrative agencies' intervention in SOEs' production and business activities; clarifying public administration power and the right to manage production and business activities of SOEs. As a result, government effectiveness on SOEs has improved. Government management agencies have based their statutory mandates and requirements through the issuing of legal documents on state management over enterprises of all ownership types including SOEs.

Implementation of ownership functions over SOEs has essentially progressed. The organisation and operation of SCIC (State Capital Investment Corporation) has been consolidated step by step and linked to SOEs restructuring and equitization processes as well as changes in state capital investment mechanism. Through SCIC, government's policies and plans in state capital investment and management have been implemented in a consistent and timely manner.

SOEs restructuring and development process has gone through the following forms: merger, acquisition, equitization, assignment, sale, contracting, leasing, transforming to public service units or one member limited liability companies. with the main focus on equitization. Inefficient enterprises or those that are not required will be dissolved. Results of SOE restructuring so far indicate that:

- Among the above-mentioned forms, equitization is the most effective restructuring form;

- The number of small, unprofitable SOEs and SOEs chiefly dealing in business activities which are not in industries that the government needs to hold 100% charter capital has reduced considerably;

- SOEs are now mainly medium and large scale, with average advanced technology level, management staff capacity is more stronger and workers are being provided with more technical training;

- Equity capital increases mainly because of increased profit after tax, asset reevaluation and equitization premium. As Government financing is limited and fails to meet requirements, EGs and General Corporations have proactively mobilized different funding sources, diversified ownership structure of member companies and initiated investment cooperation, leading to investor engagement from various sectors in large projects;

- The holding company - subsidiary model has made enterprises more proactive in production and business activities and provided legal and economic foundation for changing administrative-based relations between EGs, General Corporations and their member companies to a relation based on investment capital structure, improvements of capital utilisation efficiency, production and business performance of enterprises.

Thus, some healthy state-owned General Corporations operating in profitable industries, have potential to become very competitive when they go global and so, have been reorganized into 12 SEGs which is a key to specialization. There must also be involvement of different economic sectors, large capital resources, elevated technology level and must be managed in an innovative way with a close association between science, technology, training, R&D and production, business activities.

- Economic groups, General corporations and SOEs have basically concentrated resources to dominate key sectors and industries of the economy; their production capacity, performance and competitiveness have improved; they continue to play a central role in the economy and have basically met essential needs of national defense and security as well as produced various public goods and services; and are important instruments for the Government to regulate the macroeconomy;

- Implementing consistent policies regarding labor were rendered unnecessary by SOEs restructuring to create condition for enterprises to restructure their labor force; in the meantime, workers go about their lives and pursue new jobs when their former ones become redundant;

- The majority of SOEs have actively innovated, enhanced corporate governance capacity and are becoming more suited to market mechanisms and global economic integration. SOEs' management is becoming more professional and qualified. A number of new organizational structures and management models have been piloted successfully. The government has stipulated remuneration for and responsibilities of SOEs management as well as penalties applied for poor performance SOE manager/leaders.

2.2. Limitations of SOE restructuring and reform in the past time

Though specific results have been achieved, SOE restructuring and reform in the past,and especially in 2010, disclosed certain limitations, they are:

- The number of state enterprises operating in sectors where the State does not need to hold 100% of capital or hold dominant capital is by no means small; their business performance is not high and their technological level is modestly advanced with low productivity. The innovation process in organization and management of SOEs remains slow. Corporate size is generally small, yet competitiveness fails to meet the requirements of international economic integration and is not commensurate with the investment of the State;

- In many SOEs there still exists situations of wastefulness and loss of resources, especially in industries such as mining, processing, exporting of natural resources, minerals, and infrastructure development investment. Along with low labor productivity, this has resulted in increases in unit cost of SOEs products and services, reduced SOEs efficiency and competitiveness, created poor public opinion and affected prestige of the SOEs sector;

- Reorganization of state general corporations, especially the equitization of state corporations that government does not need to hold 100% of charter capital is generally slow. EGs and state corporations invested heavily in industries which are well outside the assigned main tasks; many corporations are still small, some have suffered continuous losses for an extended period and there have been no solutions thus far. Some state corporations have not yet displayed their dominant role in the industry or business line. In some corporations the Chairman of the Board of Directors and the General Director do not share a common consensus in managing their business. The participation of different economic sectors in EGs is still limited and equity of some EGs remains small, etc.

- There are still many limitations in the implementation of the rights and obligations of state owners over SOEs and state capital in other enterprises; owners' supervision, responsibilities and obligations in many places are infrequent and strict or sometimes loose, especially in overseeing business line, performance and corporate governance. State management and oversight of enterprises post equitization is not strict;

- State management over enterprises' business line continues to display shortcomings. The line ministries, provincial and municipal line authorities only perform state management functions on enterprises to which they are assigned as owners, while insufficient attention is paid to others;

- The restructuring and reform progress that focuses on equalization of state enterprises have recently slowed down; the handling of debts and assets is still confusing, slow collection of state assets, determining liabilities and dealing with violations remain ineffective; state-owned agri-forestry farm reorganisation and reform fail to deliver clear results, land use in forestry farms seem to be complicated, land inventory is conducted inefficiently for quick and effective solutions; a large number of SOE fails to meet requirements of corporate governance as the economy is moving to a market type, and international integration. Some officers still violate laws and are corrupt.

2.3. Issues of SOEs after restructuring and transformation and solutions

Continuing with reforms of state management and state ownership's management over SOEs to give them accountability and allow them compete on an equal basis with enterprises of other ownership types while also strengthening owners' oversight functions is a pressing requirement nowadays. However, proposed measures are still under discussion and not yet settled with specific policy measures. Some proposed measures worth noting are:

- Continue to institutionalise and revise legislation, policies and mechanism in a full and consistent manner so SOEs operate in a level playing field with enterprises of other economic sectors; accelerate restructuring and equitization of enterprises that the government does not need to hold; reform state management, corporate governance and operation;

- Comprehensively assess business performance of EGs and state general corporations; complete reevaluation of state capital and assets in EGs and state general corporations; introduce coordinating mechanism between EGs, state general corporations and enterprises of other ownership types in implementing large investment projects;

- Continuing to implement management restructuring within EGs; Define industries and sectors that need to have SEGs or state general corporations and develop plans for implementation of the SEG model in the next 5 to 10 years while clearlyidentifying industries and sectors the government holds 100% capital or dominant share of capital in the holding company by 2015, there should be 5 to 10 regionally powerful EGs and state general corporations and by 2020 the number would be about 20. The rest of the SOEs should be reorganised into 30 to 50 state general corporations and parts of SOEs should be suitable for production and trading of key products and services, particularly in rural, mountainous and remote areas;

- It is important to have appropriate regulations and methods to equitize effectively EGs and state general corporations and to attract foreign strategic partners who have management experience and financial resources in the management of the joint-stock company;

- Early separation of the state ownership exercising functions and rights from state governance functions carried out by government administrative agencies;

- Conducting preliminary review and assessment of the organisational structure and operation of SCIC; accomplishing the state capital representative mechanism by clarifying legal status, relation with the capital management agency, government management agency; identifying the principal human resource management point for SCIC staff;

- Reviewing resolution of debt in SOE sector and introducing effective measures to resolve bad debts; Reviewing operation of the Debt and Asset Trading Corporation (DATC) and using this instrument effectively;

- Concentrating resources to reform the implementation of the owner of state capital's functions in enterprises: Forming a specialised organisation to perform rights and obligations of state capital owners in joint-stock companies and limited liability companies (here after called "Specialised Organization"). This organization is under the control of the Government and on behalf of shall perform rights and obligations of state capital owner in holding companies of SEGs, general corporations and large, important SOEs, including SCIC. It has a professional team who possesses technical expertise capable of monitoring, gathering and consolidating information and assessing the exercise of basic rights by the owner; making proposals and recommendations to the Government and Prime Minister in order that they may make important decisions under their mandate and power;

- Developing staff standards, job descriptions; selection and appointment of staff in charge of performing state ownership rights in enterprises, and of managers working in 100% state-owned companies or companies that the government holds shares or dominant shares;

- Setting up an information system for the management of state capital in enterprises that link the Central Steering Board, ministries, provincial People's Committees, units in charge and enterprises that have state capital or shares;

- Accomplish monitoring and evaluation systems for performance of state ownership functions in business; making sure the way state owners influence SOEs' decision making is similar to other shareholders and in compliance with Enterprise Law and company charter; public administration decisions should not be used to convey decisions of state owner;

- Making transparent on an annual basis information of state capital investment in enterprises including data regarding the number of state capital enterprises, investment level and return on investment; the agency, institution or individual representing the government as owner of state capital in each enterprise; major decisions made and implemented by the owner in the year, etc.

Completing on a gradual basis the financial management mechanism for SOE with the following specific solutions:

- Revising financial management mechanisms for SOE and State investment capital in other enterprises (revising Decree 09), focusing on the main points as follows:

+ Borrowing: Enterprises should be given autonomy in raising capital for investment but should use capital raised efficiently. The Board of Directors of SOE is allowed to make decisions on borrowing an amount three times higher than charter capital; the borrowed amount must not exceed what is reported to the state owner;

+ Investment capital: SOE must use a large part of its financial resources for core business activities and is allowed to invest outside an amount equal to charter capital at maximum provided this investment will support its main production and business activities; SOEs are not allowed to buy shares of venture capital funds and stock investment funds. As far as banks, insurance and security companies are concerned, it is important to assess all activities to make sure they comply with laws; in the meantime, it is necessary to review plans of establishing banks, insurance and security companies in SEGs.

- Undertaking profit sharing mechanisms of SOE which are based on business performance and corporate ranking. Enterprises which are not involved in corporate ranking must not reward their Management Board from their reward and remuneration fund;

- Adding more policies to strengthen corporate finance monitoring in conjunction with improved responsibilities of the owner representative and government financial management agency;

- Continuing with equitization mechanisms, especially in evaluation of land use right and brand values; using market measures to deal with financial matters of equitized enterprises such as debt restructuring and subrogation. In the event enterprises are not eligible for equitization, drastic actions like forcing bankruptcy or implementing other restructuring measures should be taken;

- Income from equitization must be collected for EGs and general corporations (if it is equitization of member companies) or transferred to the Central Equitization Fund (if it is equitization of General Corporations) to invest in viable key projects of the economy;

- Reviewing and adjusting IPO (initial public offering) mechanisms including offerings to strategic partners to promote capital raising and innovate corporate governance practice;

- Revising and accomplishing financial management mechanism for SOEs after being transformed to joint-stock companies, especially the sale of a part of state capital in enterprises, issuing more shares to increase charter capital (including issuance of common shares, paying dividend by shares);

- Continue to implement market price schedules for essential goods of the economy such as electricity, coal, petroleum, etc. in order to create a new market-based price level. SOEs make full economic accounting for input costs and output price; in addition, they need to supply goods and services to the economy, contributing to market price stabilisation. Key products of the economy remain on the list of commodities whose prices are controlled by government;

- Apply accounting system that common for enterprises of all ownership types; issuing accounting standards up to international standards and matched with Vietnam's conditions; in the meantime, strengthening the mechanism for making corporate information transparent;

- Accomplish state capital owner representation mechanisms in SOE and other enterprises.

III. DEBT SUBROGATION IN SOEs[1]

Corporate restructuring through debt subrogation is a new activity in Vietnam that the Debt and Asset Trading Company (DATC) Ministry of Finance has implementedOne of the main activities of the company is to contribute to the consolidation of the financial strength of enterprises and to promote restructuring processes and ownership transformation of SOEs. Through this, a number of SOEs that are losing money all state capital and

[1] Source: Debt and Asset Trading Company (DATC) - Ministry of Finance

Box 3.1. A model on separating public administration function from state capital owner representation function in Vietnam - note for discussion

When the government carries out both public administration function and state capital owner function, there may be confusion and bias in fulfilling governance functions. Thus, it is necessary to have a separate entity performing state capital owner function in order to create consistent and fair policies toward enterprises. To perform state capital owner representation function in SOEs, ministries and provincial People's Committees should not be assigned as owner representative. Instead, a specialised government agency should be established to monitor and manage state capital in enterprises. The model for fulfilling state capital owner representation function should consist of two levels.

At corporate level, the state capital owner representation function is performed mainly through state-owned financial investment corporations which are similar to SCIC and SEGs (established and operate under Decree No.101/2009/ND-CP). Along with consolidation of SCIC, subject to actual demand, it is important to establish some more state-owned financial investment corporations to be focal agencies in performing state capital owner representation in all General Corporations and independent SOEs. At this level, the management of state capital is fulfilled mainly through capital investment method; parent companies of EG/General Corporations invest in subsidiary companies and manage them as representative of state capital owner in that subsidiary company.

At the public administration level, state capital owner representation is centrally implemented by a government agency in charge of overseeing and managing state capital in enterprises (most likely a Ministry or State Commission). This agency is directly in charge of SEGs and SCICs, has specialised functions, and consistently demonstrates state owner rights in enterprises as shareholder, member or owner in compliance with Enterprise Law. The agency specialising in managing state capital like this does not have public administration functions and is not involved in policy-making (except for policies applied solely in the SOE sector).

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are not eligible for equitization have been restructured and transformed into joint-stock companies by DATC. Listing is a final step in the corporate restructuring process through debt subrogation. Through listing, DATC provides opportunities for external investors to make investments in managing enterprises that have been successfully restructured by DATC, thereby helping these enterprises develop satisfactorily. The year 2010 marked the seventh year DATC operated in this new business. The performance of enterprises restructured by DATC can be summarised as follows:

3.1. Performance of enterprises restructured by DATC

By December 31, 2010, DATC formed 34 enterprises by transforming debt into capital contribution in association with restructuring. After the transformation to joint-stock companies, the total charter capital of the 34 enterprises was VND925,300 million, so on average it is VND27,156 million per enterprise. DATC contributes VND399,300 million (43% charter capital) by transforming debts into capital contribution, of which:

- The majority share in 11 joint-stock companies (over 51%) is VND253,500 million;
- The 20% to 50% share in 19 joint-stock companies is VND129,800 million;
- Less than 20% share in 4 joint-stock companies is VND16,000 million.

The above enterprises operate mainly in food, fishery processing, construction material, leather footwear, and transportation infrastructure industries, etc. These are labour-intensive industries requiring high investment costs, and business performance is intensively influenced by chaos in the market and economy. Therefore, after transforming debts into capital contributions along with the formation of joint-stock companies, corporate restructuring should be continued in order to improve the performance of the business.

According to reports from 24 out of the 34 above enterprises, by September 30, 2010, fourteen have had stable and efficient business activities as they have completed the restructuring process, eight of them are losing money, one break even, and one has not yet come into operation. Specifically:

- Total revenue as of September 30 was VND2,588.825 billion, reaching 95% of the year's target (VND2,723.901 billion);
- Total profit after tax for the first 9 months of 2010 was VND77,255 million (after calculating profits and losses of all enterprises in question), of which profits of three enterprises accounted for 81% total profit (VND90,141 million) of entepríses making profit;
- Revenue of enterprises making profit alone reached VND2,345,346 million, accounting for 90.6% total revenue of 24 restructured enterprises; their total profit after tax stood at VND90,141 million and five out of fourteen planned to pay out dividend for 2010; one intends to pay a dividend of 33%/year. Some businesses had a successful bid for their share offerings in early November 2010, a time when the stock market was fairly quiet;
- As of September 30, 2010, eight enterprises stood at a loss reduction point and did not make any profit. Total loss was VND12,886 million, of which four have undergone restructuring for over one year (and still remain in the restructuring process and production and business activity recovery) and continued to accrue losses; three are losing money and have undergone restructuring for less than one year; the final losing enterprise has undergone restructuring since the first six months of 2010. In general, compared to performance prior to restructuring, the business performance of financially unstable enterprises as of September 30,2010 has changed notably;
- In addition to financial performance results, enterprises undergoing restructuring with the involvement of DATC have created employment and

stable income for thousands of direct and indirect workers such as farmers supplying input material to enterprises.

The business performance of enterprises completing restructuring in the first 9 months of 2010 demonstrates the right direction in dealing with debts and transforming debts to capital contribution in association with corporate restructuring. Though affected by global economic downturn and natural disasters, these enterprises have been able to secure their business plans, maintain growth rates and make profit. Their positive business performance has contributed significantly to political and social stabilisation, socio-economic development in the area, improved income and job creation for workers, making sure workers' rights are protected during the process of corporate restructuring and transformation, and helping to promote SOEs restructuring and equitization process.

As for SOEs undergoing restructuring, in the initial stage after transformation to joint-stock companies, they face a shortage of working capital for most of their assets, which are mortgaged or collateral to secure debt servicing. They have limited access to bank credit. Therefore, DATC's lending to or guarantees for bank credit extended to SOEs at this stage would be very important to the success of corporate restructuring, helping them sustain financial resources for maintaining and repairing machinery, equipment and production lines, or to purchase input material and pay expenses directly related to production and business activities. The positive performance of these enterprises creates financial sources for DATC debt servicing and ensures livelihood for workers.

Enterprises that have DATC capital all operate under share holding company form. DATC plans to list all enterprises eligible for public companies on Hanoi stock exchange (HNX and Upcom). Currently, DATC has successfully divested in two enterprises with total transferred capital of VND47.4 billion.

Moreover, as DATC holds the majority share, it is easy for DATC to take part in the management of enterprises to help them develop production and business activities. Therefore, DATC only divests when the restructured enterprises operate efficiently and are listed on Hanoi Stock Exchange. Compared with enterprises in the same business line and with the same P/E and EPS listed on Hanoi Stock Exchange, the transaction price is always 1.5 to three times higher than the enterprise's book value. If DATC divests through Hanoi Stock Exchange, the return on investment and profits brought to DATC from capital transfer would be substantial.

3.2. Debt purchase in unrestructured enterprises

As of September 30, 2010, there were 22 debt purchase schemes on unrestructured enterprises; total face value of debts in the 22 schemes was VND1,822.689 million; total debt purchase capital was VND467,415 million; total amount collected of 22 schemes was VND203,377 million; amortization rate was 43.5%.

Upon reviewing 22 schemes remained unrestructured prior to 30 September 2010, DATC concluded that:

- Fifteen schemes, including mainly enterprises in the transportation sector and Ministry of Transport and those based in Hanoi and Ho Chi Minh city, are faced with difficulties in corporate evaluation. Though difficulties and challenges remain in the restructuring process of these enterprises, some schemes have demonstrated high economic efficiency. It is assessed that the probability of collecting debts to secure debt purchase capital for these fifteen enterprises is high.

- Seven enterprises are facing challenges in mechanism and difficulties in production and business activities and servicing debts to DATC. The main causes relate to difficulties in determining location and land advantages in the calculation

Box 3.2. Restructuring results via debt purcchase in some selected companies in 2010

The SADICO joint-stock company *used to be a top SOE in Can Tho city. However, due to heavy investment financed by borrowings and poor management capacity that existed for a long time, the Company owed an amount of over VND214 billion and had accumulative loss of VND76 billion, and was seriously on the verge of bankruptcy. The Sadico joint-stock company is the first company restructured successfully by DATC via debt purchase. Since its transformation, SADICO has continuously made profit; profit in the following year has been always higher than the immediate previous year, production has kept increasing and brought various benefits to its shareholders, society and local budget. On December 22, 2009, Can Tho SADICO Joint-stock Company was officially listed on the Hanoi Stock Exchange.*

Huu Nghi Production and Trade Joint-stock Company (Danang city) *is another company that DATC involved in its restructuring process. Although, in June 2010, the company's headquarters caught fire and had damages worth more than VND12 billion which directly affects its business performance in the period though, it still realised a profit after tax of VND1,045 million for the first 9 months of 2010. On 5 November 2010, DATC successfully sold 2,355,827 shares for this joint-stock company at the average price of VND16,770 per share, realising VND39.9 billion.*

Though restructuring has been underway for less than one year, in the first nine months of 2010 five out of thirteen enterprises made profit and improved profits immediately after DATC contributed capital and involved the governance of DATC, in which: Bridge Joint-stock Company realised a turnover of VND287,198 million and VND4,308 million as profit; Construction Joint-stock Company realised a turnover of VND11,300 million and VND1,350 million profit; Construction, Material and Transport Company realised a turnover of VND32,528 million and VND1,109 million as profit, etc.

By September 30,2010, two enterprises have made investments in other enterprises with an amount of VND61.6 billion, in which Sadico Joint-stock Company (Can Tho city) have invested in five enterprises with an amount of VND55.6 billion and Son La Sugarcane Joint-stock Company invested in one enterprise with investment value of VND2.9 billion. These enterprises have mainly invested in industries or sectors which are their major line of business or supporting industries to their main business activities.

of enterprise value or failure to reach an agreement with other creditors on debt purchase price. DATC accepts the collection of debts via corporate bankruptcy procedure; enterprises faced with financial imbalance, with a shortage of working capital and investment capital for production and business activities; difficulties in seeking strategic partners to raise capital for the business; the long interval in production has caused damages to equipment and machinery; or market losses and difficulties in recovering production activities.

To accelerate the restructuring progress of the above-mentioned 22 enterprises, DATC has proactively worked with ministries, central government agencies and local authorities who are line authorities or have other jobs related to transformation mechanisms and policies of SOEs that no longer have equity. However, the majority of the 22 enterprises are under the management of the Ministry of Transport, the Ho Chi Minh City People's Committee and the Hanoi People's Committee. Approval of corporate value and restructuring plans of these enterprises would take a long time and many challenges would remain, which have affected the restructuring progress and debt collection of DATC. Yet, DATC affirms it will collect debts to ensure reimbursement of capital spent on purchasing debts in these 22 unrestructured enterprises.

In addition to purchasing debts and transforming debts into capital contribution in association with corporate restructuring, DATC starts to acquire enterprises or buy the majority share of state shareholders in enterprises at a token price to conduct restructuring steps. For the immediate time, DATC is focusing resources on supporting joint-stock companies created as a result of SOE equitization but facing poor business performance and continuous losses to play the dominant role of state shareholders in assisting entepprises to recover and grow. So far, DATC has completed the transfer at nomination's price of state capital in two joint-stock companies, namely: buying state capital of Kien Giang Irrigation Transport and Construction company and of Ninh Thuan Transport Joint-stock Company at nomination's value of VND1 million/each, together with DACT's capital contribution, DATC purchased debts from banks to settle all remaining financial matters.

Despite positive results achieved, this does not mean that SOE restructuring with the involvement of DATC faces no difficulties. Besides objective events happening in the economy, to a certain extent, challenges arising from government policies have impacted business performance of enterprises. For example, the DATC charter provides that the interest rate ceiling should not be lower than the interest rate applied to investment credit used to purchase debts; and limits guarantee and lending to enterprises in shortage of finance, etc.

To radically solve the above-mentioned challenges and remaining policy issues, the government (Ministry of Finance) should soon issue the Charter of Operation and Financial Management Regulations for DATC and enhance DATC's autonomy and accountability so as to improve its performance and the business performance of enterprises that DATC shares in capital.

IV. THE TREND OF MERGERS AND ACQUISITIONS IN 2010

Mergers and acquisitions (M&A) are a part of corporate restructuring. M&A market in 2010 continued to witness a growth in the quantity and value of transactions that had become popular in 2009, such as foreign companies acquisition of domestic companies and domestic companies acquiring other domestic companies. When classifying M&A market by industry, M&A transactions occurred mainly in industry, financial services, telecommunication and mining. According to Pricewaterhouse Coopers, the total number of M&A agreements in Vietnam in the first 6 months of 2010 was 172, with a value of USD584 million compared with 112 agreements worth USD232 million in the previous year.

2010 would be considered a prospective year for M&As in the financial services sector. According to the regulation of the State Bank of Vietnam, by 2010 a commercial bank must have had minimum charter capital of VND3,000 billion which creates pressure on local credit institutions and promotes issuance of shares to raise charter capital .From this respective, some M&A scenarios in the banking sector have been developed as follows:

- Small-scale banks that are unable to withstand competition and voluntarily undergo M&A as per submitted feasibility plan would be approved so that they could form bigger, more efficient banks;

- Small-scale banks that are unable to withstand competition would be forced to M&A as instructed by competent authorities to form bigger, more efficient banks;

- Banks that are insolvent and cannot exist and healthy financial institutions would agree to M&A;

In reality, however, there have been no M&A deals taking place with small banks. The "exit strategy" via M&A for banks to meet minimum charter capital requirement is not chosen by banks. By December 16, 2010, there were about 17 out of the total of 40 banks and credit institutions that fail to meet the charter capital requirement under Decree No.141. It is estimated that these banks had to raise approximately VND10,000 billion more to meet the requirement. In the face of market pressure, the government has extended the deadline to one more year, from December 31/2010 to December 31/2011, to reduce pressure of capital raising for credit institutions who were unable to raise charter capital up to the required level by December 31,2010.

Yet, M&A in general still faces certain barriers which make this activity progress slower than expected:

- *First,* Vietnam has not had a separate legal framework for M&A. Currently, one can find provisions on M&A in a number of different legal documents such as Enterprise Law 2005 and Competition Law 2004, etc. However, no single legislation framework has been introduced for M&A and this has caused difficulties for administration authorities, enterprises as well as financial consulting organisations.

- *Second*, Seller is not motivated when the enterprise is under-evaluated and its current value is also low.

- *Third,* Liquidation conditions are fairly strict and thus fail to create a breakthrough in M&A in local and international markets after the global economic downturn forecasted by experts.

- *Fourth,* in the face of new and complicated M&A, involved organisations such as enterprises, investment institutions and consulting firms, etc., have demonstrated their weaknesses. Enterprises lack experience as well as knowledge of M&A, which leads to difficulties in, for example, evaluation and document preparation (pre-M&A), or the integration and management organisation (post-M&A). The involvement of consulting firms is just in paperwork and legal procedure. The extent to which they provide consultancy services prior to and post-M&A remains limited.

Remarkable progresses made in 2009-2010 and the trend of local enterprises becoming increasingly proactive in M&A indicate that they began to pay attention to accumulating knowledge and seeking opportunities for M&A in order to get power and momentum for growth. Forecasts by Vietnam Competition Authority indicate that M&A in Vietnam will increase by 30-40% on an annual basis in the coming years. SOE equitization is partly driven by increasing demand for streamlining corporate activities to improve competitiveness.

Nevertheless, one thing that few enterprises know is that only 25% of M&A deals in the world realise their intended objectives, 60% produce unclear results and 15% do not meet their objectives. Therefore, though M&A is the shortest way to find new energy for growth and restructuring, it is not the way that Vietnamese enterprises have to go through at any price.

Box 3.3. Some major M&A deals in Vietnam in 2010

1. *Vinaconex sold part of its shares in Cam Pha Cement Joint-stock Company, a company currently possessing, managing and running Cam Pha cement factory in Quang Ninh and Cam Pha cement grinding station in Ba Ria-Vung Tau province.*

2. *Sapporo reveals that it will buy 65% shares of Kronenbourg VN (KVL), a 50-50 joint-venture between Carlsberg Brewery A/S (a Dannish beer company) and Vinataba (Vietnam Tobacco Corporation) at the price of USD25.35 million; thereby Carlsberg will transfer all 50% and Vinataba will transfer 15% of their KVL shares to Sapporo. After the deal, Vinataba will hold 35% shares of the joint-venture. Sapporo intends to change the name Kronenbourg VN into Sapporo VN.*

3. *In 2010, the telecommunication group Viettel disclosed that it would move to acquire or contribute capital to telephone networks in Asian, African and Latin American markets by attempting to complete two big deals: (1) buying 60% shares of Teletalk (a mobile phone network in Bangladesh) with about USD300 million, and (2) buying 70% shares of Teleco (a telecommunication company in Haiti) with USD59 million.*

4. *Vietinbank (CTG) sold 10% charter capital to IFC (International Finance Company) and 15% to Nova Scotia Bank (Canada).*

5. *Hung Vuong Fishery Joint-stock Company (HVG) publicly offered to buy 3.75 million shares of An Giang Fishery Export Import Joint-stock Company.*

6. *Commonwealth of Australia (CBA) will buy 15% shares and become foreign strategic investor in VIB (Vietnam International Bank).*

Box 3.3. Some major M&A deals in Vietnam in 2010 (*continue*)

7. *CMC Technology Group has just announced it will become the strategic shareholder of NetNam as it will hold 43.8% shares of the company and will be the only strategic investor in this company.*

8. *Lilama Joint-stock Company Hanoi and VNSTEEL (Vietnam Steel Corporation) have reached an agreement on M&A with a value amounting to USD30 million. In this M&A deal, VNSTEEL will, via a new legal entity (Thang Long VNSTEEL Plated Iron Joint-stock Company), own 85% majority shares of Lilama Hanoi's Zinced and Ferrous Steel Factory in Quang Minh Industrial Zone (in Me Linh district, Hanoi). With VND579 billion (nearly USD30 million) this transaction is one of typical M&A deals in Vietnam in 2010.*

9. *On December 7, 2010, Gia Quyen Security Company (EPS) announced it had issued successfully 12,864,600 shares to Korea's Security and Investment Ltd. Company. As the deal is completed, Korea's Security and Investment Ltd. Company now possesses nearly 49% shares of EPS, the amount of shares almost equalling the ceiling ratio that a foreign investor is entitled to hold.*

10. *In 2010, The Prime Minister approved EVN Telecom (EVN Telecommunication and Information Company) to choose local strategic partners: FPT Joint-stock Company and FPT Telecom (a subsidiary of FPT); thereby, FPT "parent-subsidiary" companies will together hold more than 50% charter capital of EVN Telecom.*

Source: Newspapers.

IV. CONCLUSION

In term of the structure of Vietnamese businesses, the share of the number of non-state enterprises accounts for more than 95% and continues to increase, however their contribution has not corresponded to this share, except number of workers of this sector is at 60%. The size of non-state enterprises in labour and capital are both smaller than two other economic sectors (SOEs and FDI). However, non-state enterprises are moving positively toward the growth of assets and their business effectiveness is higher than that of SOEs.

The restructuring of non-state enterprises therefore becomes an issue for its important role in the economy Due to the economic crisis, the non- state enterprises have had a movement toward industries requiring high quality of labor such as Information & communication, Professional services & Science and Technology, Education & Training, Administrative & business support services, Real estate, etc. In contrast, sectors like Finance-Insurance-Banking, Electricity & gas, Mining, Processing-Manufacturing, Accommodation and Catering, and Transportation & Warehouse have had a slowdown growth, mainly because of the impacts of economic downturn and high inflation during 2008-2009. In the labor movement, industries like Information & communication, Professional services & Science and Technology, Education & Training, Administrative & business support services, and Real Estate have had the fastest growth. This shows new industries taking just a small portion of the employment structure of non-state enterprises.

SOEs reform has been carried out on a gradual and continuous basis since 2001 up to now, and has accelerated since the introduction of the Central Party Resolutions 3 and 9 (IX Plenum). SOEs restructuring plan 2010 approved by the Government for ministries, central government agencies, groups, General Corporation 91 and localities includes 1,117 enterprises of which 901 enterprises transformed to one-member limited-liability companies (accounting for nearly 81%), 148 went for equitization (over 13%), and the rest went through other forms of restructuring (more than 6%).

Corporate restructuring through debt subrogation is a new activity in Vietnam implemented through the Debt and Asset Trading Company (DATC) - of the Ministry of Finance. This is one of the main activities of the company to contribute to the consolidation of enterprises' financial strength and to promote the restructuring process and ownership transformation of SOEs. Through this process, a number of SOEs who are not profitable, have lost all state capital, and are not eligible for equitization have been restructured and transformed to joint-stock companies by DATC. Listing is a final step in the corporate restructuring process through debt subrogation. By December 31, 2010, DATC had 34 enterprises formed by transforming debt into capital contribution in association with restructuring.

The M&A activities in 2010 tended to not be as active as in 2009, however there were some big deals by the end of the year. In fact, the legal environment of Vietnam has not accommodated for this kind of business activity yet.

In general, corporate restruturing in Vietnam has had some progress, especially in the private sector, where the restructuring is their primary motivation. Regarding SOEs reform, the need of separate state ownership and state management functions becomes a very important requirement. This emphasizes the rules of market economy, which all stakeholders have to follow. The role of the State is to create a condition to allow SOEs that have had good business performances to play a leading role, but now against the market rules.

PART IV

THE FORMULATION AND DEVELOPMENT OF ECONOMIC GROUPS IN VIETNAM

I. THE FORMULATION OF ECONOMIC GROUPS IN VIETNAM[(1)]

1.1. The formulation of economic groups in Vietnam

Economic group (EG) is a concept that has been used in the legal documents and for some groups, have been established in practice[(2)]. The year 2010 witnessed a special attention paid to issues relating to the development of EGs. Over the past few years, most of the EGs have been established recently with insufficient conditions, but certain premises are in place for the achievement of the country's economic development objectives and policies. Therefore, it is necessary to ensure a clear and common understanding of EGs, the roles and establishment of SEG (SEGs) as well as PEG (PEGs).

There are two basic forms for the establishment of groups: First, through the establishment of more divisions and companies operating in the new markets by one company in line with its growth; and second, through mergers and acquisitions of established and operating companies. However[(3)], these forms are only the results of one of the following processes:

1. Results of the process of capital accumulation and concentration (according to the results of the production and business and the income growth in the market mechanism, like most of groups in U.S and Europe, and some other countries)

2. Starting from the potential companies (mainly family companies) selected by the government and enjoyed preferential treatment, to implement the Government's industry policy (like South Korea's Cheabols)

3. From the majority State-owned enterprises established in the centrally-command economy, or the mergers of some companies of the same businesses or related businesses to the establishment of the State owned EGs (such as in China, Vietnam). In addition, PEGs have also been established (following form 1)

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(1) With the contribution of Mr. Pham Tuan Anh M.A. - Deputy Director General, Department of Enterprise Renovation, the Office of the Government and lawyer Nguyen Ngoc Bich; Pham Van Nha - economist, Nguyen Duc Hieu - Ha Noi Young Business Association. M.S Le Duy Binh - Economica; M.A Nguyen Duc Nhat - Depocen.

(2) Decree no 101/2008/ND-CP on state-run economic corporations. Enterprise Law 2005 defines the economic corporation to be a group of companies.

(3) In Korea, Huyndai and Deawoo are typical cases that have been established in the second way.

From a theoretical point of view, in comparison with developed economy market countries, Vietnam current socio-economic environment seems to not have all the necessary conditions for the establishment of EGs in a natural manner. Part 2 of this Report clearly indicated the trends of capital accumulation and concentration in some industries. Accordingly, the high degree of accumulation is seen mainly in some sectors, namely: (1) Exploitation of crude oil and natural gas; (2) Exploitation of hard coal and soft coal; (3) Telecommunication; (4) Production and distribution of power, gas, hot water, and steam. Sectors such as Insurance, reinsurance and social insurance or postal and express are only sectors with relatively high degrees of accumulation in comparison with other sectors in Vietnam.

The country's economic development in reality over the past years has facilitated the emergence of some basic and enable conditions and premises for the establishment of EGs, i.e: Vietnam has some economic sectors with favourable conditions, strengths, and competitiveness for effective international economic integration; some sectors have gained in certain extents levels of accumulation and concentration and achieved relatively fast growth. There is one step forward in regards to the level of economic linkage and cooperation, assignment in the production and business, contributing to building the important infrastructure system for the national economy.

Vietnam has been accelerating its processes of industrialization, modernization and proactively integrating further and further into the international economy. For increasing growth, besides actively extending foreign economic relationships, it is necessary to proactively create and promote the comparative advantages for gaining the proactive position in the competition in the international economic integration, and creating economic breakthroughs, escaping from risks of lagging behind other countries in the region and the world. The establishment of strong EGs in some key sectors of the economy is one of the solutions to implement the requirements of the economic development.

In Vietnam, two categories of EGs have been existing, including SEGs and PEGs. There are currently 12 SEGs and there is unknown exact figure on the number of PEGs[(1)].

SEGs have some noteworthy characteristics as follows:

- Groups were established by the Prime Minister's Decision.
- State-owned groups include one enterprise named "group". This enterprise operates in the form of a single member limited liability Company following the model of a council of members. This enterprise under the name of Group is 100% state owned company acting as a parent company, exercising state ownership in the member enterprises.

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(1) 12 state-run economic corporations include: Post - Telecommunication (VNPT), Coal - Mineral industries (Vinacomin), Oil and gas (Petro Vietnam), Electricity (EVN), Shipping industry (Vinashin), Textiles (Vinatex), Rubber (VRG), Finance - Insurance (Bao Viet); Military telecommunication (Viettel); Viet Nam Chemistry (Vinachem); Viet Nam Housing and Urban development (HUD Holdings) and and Construction Group. Private economic corporations such as Hoa Phat Group, FPT Group, Phu Thai Group, T&T Group, Kinhdo Corporation; Hoang Anh Gia lai Group; Viet A Group, HousingGroup; OCEAN Group, Dong Tam Group, etc.

- Members in a group are usually classified into two types: members being an enterprise with the contributed capital from the group and affiliated members. Members with the contributed capital from the group are classified into three types: enterprises with 100%, > 50%, and < 50% of the capital owned by the group. The concept of affiliated member in all cases is not clear. These member enterprises usually operate in the form of Limited Liability Company and Joint Stock Company. Besides, the groups also include non-business entities.

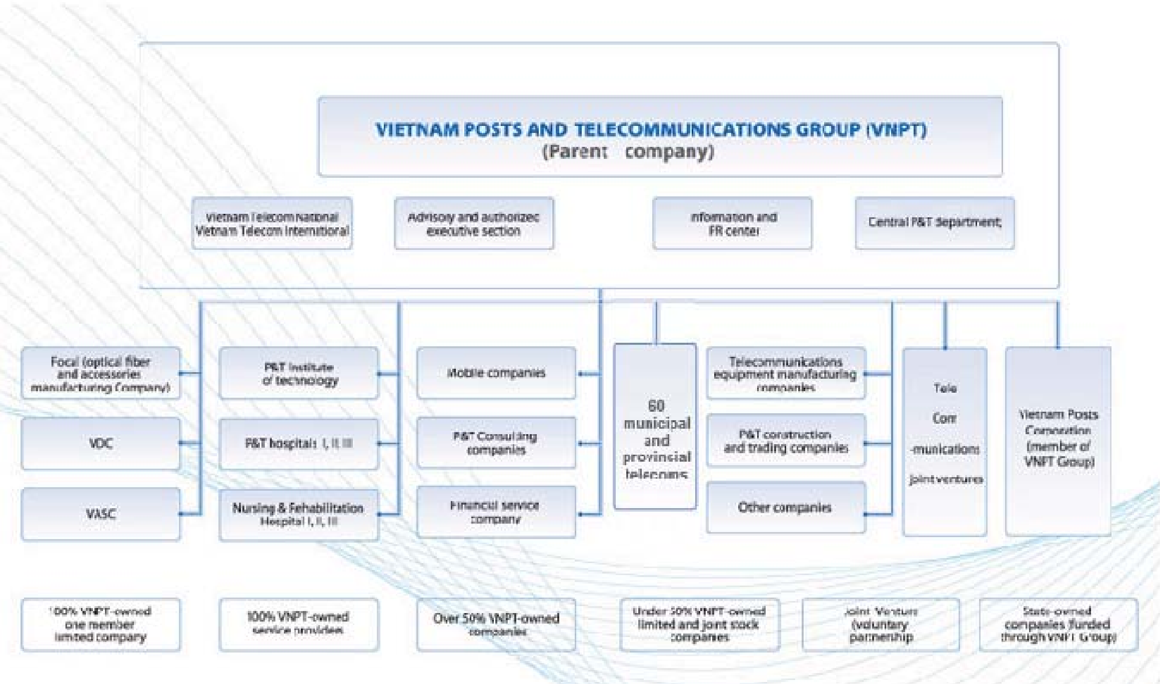
- Groups usually operate in one dominant sector or, field that is reflected in the name of the groups. For example, VNPT Group mainly operates in the postal and telecommunication sector. In practice, the groups have many other business activities in addition to key businesses, including banking, Insurance, etc.

Different from the SEGs, the establishment of PEG is not under the decision of any competent agency; the establishment of these groups is decided by the enterprises themselves. Because of this characteristic, the PEGs have existed but without official recognition.

The establishment and development of PEG have been made through the progressive expansion and development of business from one enterprise.

The model of organization and linkages of most of PEGs have similarities with the SEGs. In the group, one company will act as a parent company. This company will operate the businesses and assume ownership of the capital of the member companies. This parent company will be named as “group”. Different from the parent company in the SEGs, this parent company of the PEGs may operate in the forms of Joint Stock company and two member Limited Liability

Figure 4.1: Vietnam Post and Telecommunication Group (VNPT)



Source: VNPT website

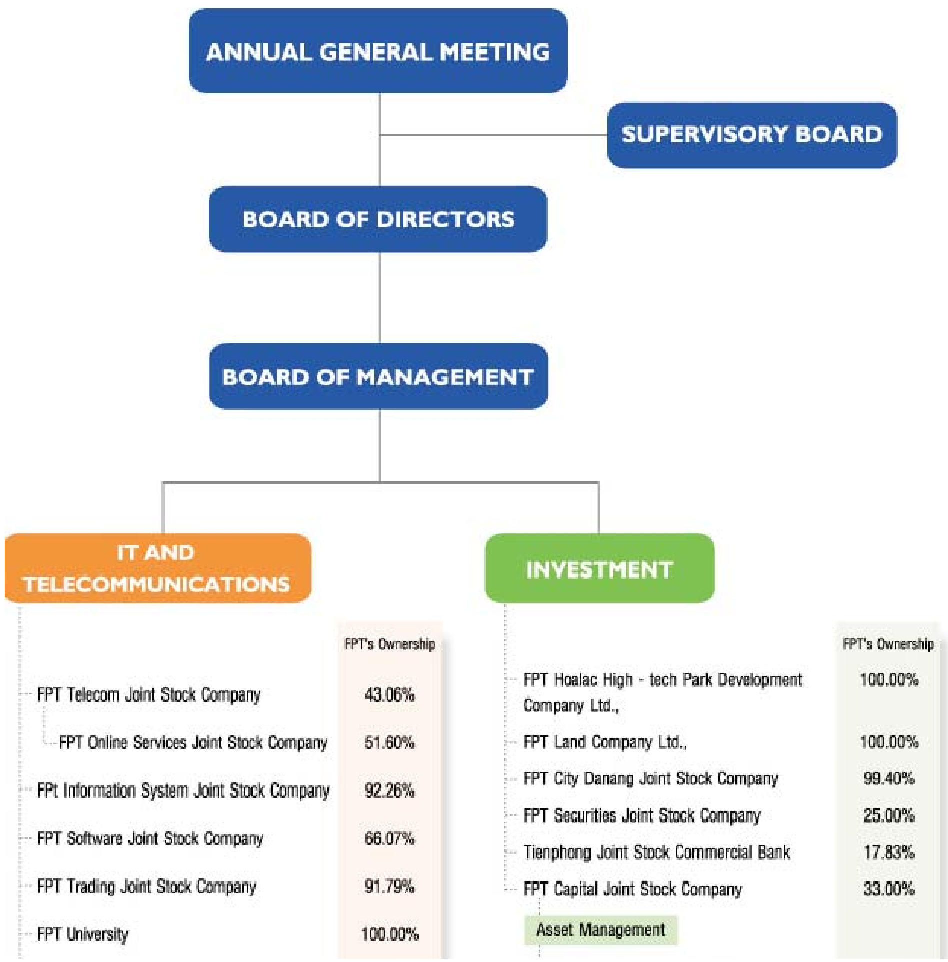
Companies. Members of this group would own the capital of the parent company or other companies per negotiation basis. The member companies would organize in the form of Limited Liability Companies or Joint Stock Companies. In the private group economic group, the relationship between the parent company and the member companies and among member companies is mainly on the basis of ownership among the companies.

Besides, as it is shown, PEGs have a different model of organization in comparison with the SEGs and the above model of the PEG. The biggest difference of this model is the management of the general operation of the group is not centralised at the parent company. The word “Group” is not used in the name of the parent company. In stead, this group establishes the intermediary institutions to regulate, cooperate and assist the operations among the corporate members.

1.2. Drivers of growth of groups and level of business management

It is shown that the model of EG is in the process of formulation and there is no universal model in the business operations in Vietnam. However, the

Figure 4.2: Structure of organization of FPT Group



development of EG in each country is an inevitable trend. According to the experts' analysis[1], to promote the role of the EGs for the development of the country, first, it is necessary to consider the drivers of growth of the infrastructure and the management skills supporting that growth.

The drivers of growth should take the root from the enterprise itself and originates from two internal economic factors of each enterprise: increasing demand for products and abundant capital. These two factors interact with each other for the development of the enterprise to become a group. In regards to the financial factor, the enterprise should follow three phases of growth defined by sources of capital mobilized. In the phase I, the enterprise mobilizes capital from its own capital, retaining profits and banking loans. In phase II, capital is mobilized from selling shares and then listed in the stock market. After the listing - moving to phase III - the enterprise will become a group. In this phase, the main issue of interest to the enterprise is that the capital mobilized from various sources must bring about profitability; therefore, the enterprises must change the technology and be innovative because the competition will become acute and its products will reach the saturation point. In parallel with the above process, the enterprise also has to build the infrastructure during phase I through effective businesses that lay the foundation for moving to phase II, so that it can merge with and/or acquire other enterprises for vertical or horizontal integration. After completing phase II, the enterprise will become a group. Whether the group will survive or not will depend on its ability to innovate unceasingly.

Based on that "rule", the State of Vietnam's policy is to "establish some major economic groups with high degrees of capital accumulation and concentration, capable of competing in the international market". It means that the State has seen the strengths of the model of EG. When the Government makes the decision on the establishment of the SEG, there was vertical grouping (like PetroVietnam) and horizontal grouping too (e.g. Housing and Urban Development Group). However, in term of capability of capital mobilization, neither of the above completed phase I - "High degree of capital accumulation and concentration". In other words, the pilot policy of SEG mainly originates from the subjective demand rather than the power of accumulation of the enterprises. More problems can be seen through the starting point of the organization of the SEG by administrative measures, i.e. combing all the enterprises of the same sector into one organization. That is a mechanical combination rather than an organic one. The right process is the accumulation of capital by the enterprises, and then gradual development to the concentration stage by competition among enterprises.

The EG must have an "organic connection" among the enterprises on the basis of mutual capital holdings from the legal perspective. Yet, in reality, each company must have the capacities for managing and running its own businesses in order that all of them can develop at the same rate and pace. The aim here is that the companies can borrow from one another when they need the capital, not that the weak companies request the stronger companies to provide them with subsidies because of they were making losses. The "organic connection" dictates the need for each company under the group to be managed

[1] Nguyen Ngoc Bich Lawyer

in accordance with scientific management, because scientific management will help each company to control itself; accordingly, the parent company will closely control the business effectiveness and efficiency of the subsidiaries. This is an essential condition for the real existence of EG.

Scientific management (SM) begun to be developed in the 1910s and was finalized by the end of the 1970s. So far scientific management has developed through 4 levels: level 1 (SM1) - it helps the enterprise to produce in mass with cheaper price. Since 1970s, it has still been evolving to a higher level. In beginning of 1980s, scientific management was brought to level 2 (SM2) with its effects of helping to maintain the quality even if production takes place at different times - usually referred to as ISO, or SM2. In the early 1990s, scientific management progressed to level 3 (SM3) with its effects of helping to control operations of many companies in large scope. - i.e. Enterprise Resources Planning (ERP). For some recent years, knowledge based management has been mentioned. In additions, a new standard also appears, i.e "Corporate governance". This standard together with SM1 laid the foundation for the control of board of directors to protect the shareholders and other stakeholders of the company. SM will be certainly upgraded to a higher level.

Currently in Vietnam, mentioning SM means SM 2 and SM3. It seems that few Vietnamese enterprises are aware of SM1. In fact, when the state owned enterprises developed into groups in 1990s and even during the phase of a pilot group, they are still managed through convenience-based management. Such ways of management tend to be influenced by intuition, and therefore it fails to enable the enterprises to expand infrastructure because the management/leaders of the enterprise do not have enough people in whom they have the confidence to entrust the management of many business establishments, and hence the more they expand, the higher the likelihood of loss of assets becomes. On the other hand, if assets are controlled (similar to private sector), and the manager makes decisions on his own will, it will lead to the situation of loosing staffs, and the state owned enterprises will not be able to manage the human resource development planning. In fact, in recent years, enterprises know only SM2, not SM1, while SM2 focuses only on the quality, not mass production like SM1. Therefore, it is difficult to make a short-cut by applying SM2 or SM3 on the existing convenience-based management in the members of the group because one is more about intuition, and the other is about rationality. One of the reasons Vietnamese enterprises have little understanding about SM1 but only SM2 because since 1990s, we have started our own economic restructure, paying special attention on importing scientific management, and it is also during that time that SM2 and SM3 are popular in Western countries. For them, SM1 is too old, and hence was not taught to their students.

It can be said that, during the process of establishing their group, the SEGs have both horizontal and vertical concentration; but in each enterprise there is no SM1; no enterprises have moved to phase II with regard to finance. In SEG, there is no natural vertical or horizontal concentration in terms of capital or market infrastructure; in each enterprises, there is no SM1 - if they have SM, it is either SM2 or SM3. In both types of corporations, enterprises have no SM1- the core element constituting the health of each EG. When becoming a group, if the member company lacks health, the EG suffers from a "body breakdown", or "premature ripening"[1].

The analysis of the formation of EGs as mentioned above is aimed at nothing else than working out policy solutions to promote the development of EGs.

1.3. Some legal issues of EG

1.3.1. Current legal framework applicable for EGs

In our country, group is a concept that is mainly subject to following regulations:

- Enterprise Law No. 60/2005/QH11
- Government Decree No. 102/2010/ND-CP dated 1/10/2010 guiding the implementation of the Enterprise Law
- Government Decree No 101/2009/ND-CP dated 5/11/2009 on piloting the establishment, organisation, operation and management of SEGs.

Hence, it can be said that in Vietnam, currently there is no regulation for all EGs in all economic sectors but only regulations for piloting SEGs. For the period of 2005 to 2009, these regulations have been issued in the forms of Prime Minister Decision for each EG, including: Decision on the approval of scheme on piloting the establishment of EGs, Decision on the establishment of a parent company for the EGs (parent company), Decision on the approval of organizational and operational charter, Decision of the parent company on the appointment of members of Board of directors (later the Board of Members when the Parent company is converted into single member limited liability company according to the regulations of the Enterprise Law); The Prime Minister authorizes the Ministry of Finance to work with Board of directors of EGs to issue Regulations on financial management of parent company.

Since November 2009, on the basis of research, preliminary wrap-up, experiences from the facts, the legal framework for the organization and operation of economic cooperation is issued in the form of Government Decree (Decree No. 101/2009/ND-CP on the pilot establishment, organization, operation and management of SEGs). The EGs of other economic sectors may apply the relevant regulations of this Decree for their organization and operation.

Basically, in both phases, the legal framework for the organization and operation of the EGs have been built on the basis of the regulations of existing legislations. Particularly, the parent company of the EG is organized in the form of state owned company, operating according to the regulations of Enterprise Law and implementing guidelines (especially those relating to the investment; state management and implementation of rights, obligations of the state owners over the state owned company; financial management and management of the state capital investment in other enterprises; the personnel organization); member companies are enterprises organized in the forms of Limited Liability Companies and Joint Stock Companies, operating according to the regulations of the Enterprise Law; the relationship between the parent company and member entities shall be governed by the regulations of Decree No.111/2007/ND-CP dated 26 June

[1] http://www.tinkinhte.com/kien-thuc/nghien-cuu-ly-luan/tap-doan-kinh-te-tu-nhan-lieu-co-chin-ep.nd5-dt.70319.163318.html

2007 of the Government on organization and management of SEGs, State owned independent companies; parent companies are State owned companies under forms of parent - subsidiary companies operating under the Enterprise Law and other relevant regulations.

Besides, in consideration of the special characteristics of the main activities of some groups, the Prime Minister also allows piloting five mechanisms different from the current regulations, particularly:

- For EGs specialized in major and important mineral resources mining business, the parent company shall be assigned to fulfill the function of a mineral resources management entity (mine owner) according to the Prime Minister Decision, i.e. organization of mining by the member enterprises is consistent with the group's general strategy and planning.

- For EGs to whom the State allocate land for industrial perennial crop production, the parent companies shall performs uniformed land management in the group to allocate land to member enterprises for production purposes in accordance with the land use plan approved by the Government. The parent company is subject to the state management of the state land management agency and obliged to ensure the rights of the member companies to do business, exploit and use land in accordance with the provisions of the legislations on land.

- Pilot the inclusion of representatives of the Ministry of Industry and Trade and Ministry of Finance in the Board of directors of the Parent company of Vietnam Petrol Group.

- The parent company of the EG and subsidiaries are allowed to apply the competitive offering for procurement of goods that are outputs of this enterprise but inputs of another enterprise in the group. Subsidiaries of the parent company is allowed to participate in bidding to implement the projects under the main businesses of the parent company and other subsidiaries in the EG.

- Members of the Board of Directors/ Board of Members, the Director General enjoy salaries on an annual basis and bonuses determined on the basis of results and effectiveness of production and business operations of the enterprise in the year and management and administration results throughout their term of office; are entitled to an advance equal to 70% of the total annual salary amount, the remaining 30% of their salaries shall be accounted and paid upon the expiry of their term of office. In case results of enterprise ranking and assessment of the management and administration by the Board of Directors/ Board of Members, the Director General fail to meet the requirements according to the regulations, they are not entitled to the remaining 30% of their salaries and bonuses for the year. This regulation is aimed at linking the economic interests with responsibility and effectiveness of the management of Board of Directors/ Board of Members, the Director General of the EG.

Associated with the process of piloting models of SEG is the issue of building models of PEG, which is currently being researched by the Vietnam Association of Young Entrepreneurs. For SEGs, the existing regulations are the Enterprise Law and Decree No. 102/2010/ND-CP.

According to these regulations, the SEG will have following legal identity and subject to the following bindings:

- A group is defined as a specific form of a group of companies[1]. Besides, a group of companies takes another form, namely parent company - subsidiaries.
- A group consists of large-sized companies; a business complex with enterprises organized at two or more levels in the form of parent company - subsidiaries.
- Legal identity: an EG has no legal identity; the companies of the EG have independent legal identities.
- The association among the companies of the EG are formed through combination, association through investment, capital contribution, merger, acquisition, reorganization or other forms of association; such companies are bound together on a long-term basis in terms of economic interests, technology, market and other business services.
- The establishment, organization of operations of the companies of the group, including the parent company may be in the forms of a joint-stock company or a limited liability company; this does not include partnerships and private sectors.
- For parent company in the group, the word "group" may be used as a component of the name of a parent company. However, this is not compulsory but subject to decisions made by the enterprise.
- A parent company is identified as a company falling under one of the following categories: (1) owning more than 50% of the chartered capital or total common shareholding issued by that company; (2) Having the power to directly or indirectly appoint the majority or all members of the Board of Directors, Director or General Director of that company; (3) Having the power to decide on amendment and supplementation of the Charter of that company.
- The parent company in the group has the obligations and responsibilities to be liable for the damage to the subsidiaries in cases where the parent company interferes beyond its authority as the owner, as the member of shareholder and forces the subsidiaries to carry out business activities that are not consistent with the normal business practices or to conduct unprofitable activities without proper compensatation in the fiscal year. In cases where the intervention brings benefits to another subsidiary of the same parent company, such benefiting subsidiary shall have to bear joint responsibility with the parent company for returning profits to the subsidiaries suffering from losses.

1.3.2. Regulations governing the organization and operations of the EG

Currently, there are three views on the necessity of the issuance of separate legal provisions to govern the organization and operations of EGs as follows:

(1) There is no need to issue separate laws for governing the organization and operation of EGs. Enterprise Law and existing relevant laws are sufficient for the governing purposes;

(2) It is necessary to issue laws for governing the organization and operation of EGs of all economic sectors because this is a new form of organization of association against the available forms of enterprises so far;

[1] Article 146, Enterprise Law

(3) It is necessary to issue separate laws for governing the organization and operation of SEGs only, covering the issues relating to the exercise of rights and fullfilment of obligations of the state owner toward the capital investment in the EGs; for the organization and operation of EGs, the regulations of the Enterprise Law and relevant laws shall be followed.

It is realized, however, that the implications of the above proposal mainly relates to the issues of: scale of capital, legal framework; and for SEGs, the issue of separation of the state management from the management of the owner.

The arising problem is whether the establishment of a legal framework for the development of EGs is really necessary, while there are also other issues of more concern such as a consistent policy on EGs development, with no discrimination on economic sectors to assist these EGs , to overcome the phase of "breakdown of the body" and grow, serving for the orientation of development and economic restructure policy of the country.

For SEGs, in term of the real basic infrastructure, the SEGs have horizontal and vertical concentration, even though such concentration is not really organic. To enhance this organicness, it needs to apply appropriate business management mode for parent company to control and direct the subsidiaries. Because of the nature of ownership of the SEG, there will be some arising legal issues: separation the state management and management of the owner; the instrument for control and the codes of conduct.

- *State management and ownership management*

Separation of state management with the owner's management in a state owned enterprise is a pressing requirement (see Part 2, section 2). The overlap of these two authorities for SEG takes roots from the use of the power by the executing agency. This issue becomes especially complicated when the enterprise transforms itself to a SEG. First, the SEG has the power structure similar to that of a Joint Stock Company, but because of the old method of appointment, there is always a conflict between the chairman of Board of Directors and the General Director. This is a conflict arising from the method of appointment of personnel by the executing agency in the capacity of a owner. Secondly, the state owned enterprises receive preferential treatment in terms of credit, land, and debt payment. When the enterprise enjoys such a preferential treatment, the executing agency uses the authority of a state agency, which means the authority orders the interventions of many other agencies and entities outside the enterprise.

To eliminate such an overlap, the executing agencies must differentiate their statue when they use their power over each enterprise: to use the administrative order to order the intervention of many other agencies, or to act as an owner, and apply voting.

As a state management agency, the executing agency should treat the state owned enterprise as an enterprise like other economic sectors. This is to create a level playing field as set out many times by the National Congress of the Communist Party of Vietnam[1].

[1] Documents presented at the tenth National Party Congress

- *Instrument for control*

The reason for application of state management assisting some SOE by executing agency is to strengthen the key role it plays in the economy, but also may be the failure of close control over the SOEs from the ownership management perspective. Therefore, an instrument for control is necessary to improve the role of the ownership management, i.e scientific management. Because if there is no instrument for control, it is impossible to separate the state management and the ownership management, inspection, examination, and inspection-examination!

- *Exercising the rights of the owner*

Once the operations of the enterprise are controlled by scientific management, the ownership management will remain to decision making in the subsidiaries and dividend collection.

For voting rights, the executing agency sends its representative to the powerful centers of the enterprises so that this representative will vote pro rata the proportion of capital hold by the owner. Decisions on who to be selected to be the representative and how many persons are based on the charter of the enterprise. The executing agency (it may be a Committee, Ministry or a "specilized organization", etc) should chose representatives and identify their voting proportion, and we will have a Board of Members or Board of Directors. The remaining issue is whether the representative makes the right decision and care for the interests of whom she or he represents. This person should have professional ethics.

- *Set code of ethics for the representative of the owner*

The legislation refers to the representative of the owner as authorized representatives. They have clear legal status. Professional ethics should be applied for these persons and not for the group. As such, it is not necessary to provide a separate regulation on group, like what is being piloted. The line management agency only needs to issue a regulation on the professional ethics of the authorized representatives in boards of the EG's member companies. The corporate governance should be approved to set up a set of codes to ensure the effective direction, administration and control over the enterprises, for the interests of the shareholders and other stakeholders of the company. Corporate governance is a set of standards on practices and professional ethics of members of Board of Directors, Board of Management, Board of Controllers and manager of the enterprises. This governance is a system of instruments to control and balance between the Board of Directors, Board of Management and investors, facilitating the enterprise's effective and ideally consistent operations, for long-lasting values.

- *One law for the EG?*

Refferring Enterprise Law, article 119 and 120 have set the obligations for the manager and directors of the company. As such, each company of the group has been regulated. Besides, each group has mechanism to control the enterprises together with code of ethics, enough for a group to develop naturally.

For SEG, in term of legal aspects, each member company of the group has been recognized in accordance with the Enterprise Law. It is important that the parent company has a role of directing its subsidiaries as it has a representative seat in the boards of subsidiaries. As such, each EG will be strong and have its direction. The appropriate model of business governance will help PEGs to deal with these issues.

Out of five legal aspects of the SEGs, except for the issues of state management and ownership management, the remaining are applicable to PEGs. The definition of EG is found in Decree No. 139/2007/ND-CP, however, a definition does not reflect how it would assist the development of EGs.

1.4. Role of the State on formulation and development of EGs

There are many state policies that may have impacts on the formation and development of groups[(1)]. EG development plan (including both public and private sector) in some sectors, areas will step up the development of groups into new sectors and areas. In fact, regulations on bank, state enterprises or equitization have significant impacts on the formation and development of group. In addition, policy on open door and foreign investment also has long-term impacts on the strategies of groups. The Government may have some clear impacts on the formation of groups through its programs as well as specific policies. Not only the Enterprise Law but different legislations have different and direct impacts on formation and development of groups.

With the above approach, the central roles of the State relating to the development of EGs in Vietnam will be formulating Government's programs and policies to orient the development of EGs towards the Government structure policy in the current period. A policy for the state-own EG is certainly required. But a policy to ensure the equal development among EGs is more important. The next step will be a policy in favour of development, concentration of resources for strong and key-focussed state - run EG in the areas that the PEG will not be able to cover. And finally, a policy is needed for development of some EGs (regardless of state or private), to assist them in strongly contribution to the improvement of the national branding in the context of current globalization.

1.4.1. Policy for SEG

Piloting the development of SEG is considered one of the policies on development of EG in our country. The objectives of the policy are "the Formation of some strong EGs" on basis of state corporations with participation of economic sectors, multi-sector business, including main business sectors. These groups are highly professional and assume a dominant role in the national economy, with very large size of capital, operating at home and abroad with high technology and modern management, directly and closely linking

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(1) For example, in Turkey, the decision on investment in a new sector sometimes does not take root from the information on market potential but the requirements or guidelines of the Government agencies (Bugra 1994, 187). In 1970, Park administration had a plan on further stepping up the development of chemistry and heavy industries and called Chaebol, a driving force of development in new area at that time. The Government selected Hyundai and Daewoo to build energy plant: selected Hyundai, Samsung, and Daewoo for shipping (Chang 2003, 54). In Latin America, in 1990s, the Government privatized series of large size state enterprises and only groups and multinational companies have enough financial resources to buy these enterprises and the Government expected the domestic enterprise to participate in this process (Manzetti 1999). Other case is in Taiwan where the preferential tariff policy in 1960s encouraged the enterprises to expand their activities through establishment of new enterprises, resulting in formulation of group in following decades. The groups formulated partly by policy impact will be different from those formulated by economic reasons. The economic reason for the fỏmation of group is mainly to expand the business scale and risk migitation.

between science technology, training, research and production and business"[1].

Vietnam policy on development of SEGs has been implemented in pilots. SEGs are established according to the Prime Minister decisions, mainly in recent four years, and most of them are in process of "learning by doing". However, piloting all twelve SEGs at the same time with the same mechanism will pose a risk of "trial and error" in many EGs. And regretfully, it happens to Vinashin - a huge SEG, that is a precious lesson. (See box 4.2: Restructuring in Vinashin).

Decree No. 101/2009/ND-CP deals with some issues of state-run EGs through a policy in a higher level of legislation, particularly: Identification of legal status and name of the EG; Organization for implementation of regulations on controller applicable for SEGs; Performance of the state management function and exercise of the rights of state owner over EGs; On multi-sector business to ensure SEGs focus on main business tasks as assigned by the State; participation of the economic sectors on SEGs; the EG invest, establish and control some banks, and use those banks to finance their expansion plans; On reverse investment in EG.

After one year of implementation, the Decree has revealed many irrationalities. Iniital observation has shown that, Decree No. 101/2009/ND-CP tends to intervene deeply in the internal affairs of a group[2]. There are many ambiguities that lead to failure of achievement of expected objectives, such as:

- The decree still fails to clarify the business function and policy function of the SEG, which will hinder the business operations as well as lead to a lack of transparency.
- The state management over the SEG is, in essence, not much different from the state management over the state owned enterprises in general. The main difference is that in addition to the state agencies, the representatives of the ministries and the agencies, the Prime Minister's involvement in the main decisions is necessary.
- Unclear policy implications of the provisions set out in the Decree relating to the structure of the SEG, as well as the relation ship between a parent company and its subsidiaries.

There are a series of issues related to the "management" of SEG that have not been touched upon thoroughly, while little attention is paid to ethical standards as well as management principles of leaders of SEGs. For example, information on the business and financial situations of SEGs is not made available to the highest-level competent people by the executives of the EG and government officials in a timely and accurate manner; or the people with the highest level of competence do not receive the needed assistance of a group of experts who have the sufficient capacity, expertise and enjoy sufficient incentives to analyse information about the SEGs as well as the constant changes in such economic sectors in order to come up with different policy options and identify the impacts of each policy options, from which the best option needs to be selected and ultimately, a timely decision is made.

[1] Central Resolution No. 3 and No. 9 (Session IX).

[2] According to Il Chong Nam - Public policy and management school (Korea)-KDI and Le Manh Hung - Development Strategy Institute, Ministry of Planning and Investment.

Decree No. 101/2009/ND/CP puts the "insolvency" of the SEG as "fait accompliance"; in other words, it is not until incidents occur that the leaders of SEG are made to pay compensation. This will lead to the asymmetry of information about financial situation between the group and the management agency. Some other issues are raised:

- It will be difficult for the existing policies to be successful in ensuring that power is given to the right person with the right capacity and that appropriate incentives are provided for them, and the difficulty is reflected in the following points: (i) Are important decisions made by the businessperson who have professional knowledge on business management or related industries? (ii) Are incentives big enough for the manager of SEG to willingly share important information with the highest-level decision maker in the government? (iii) Do they have the motivation to take actions that lead to the maximisation of the long-term value of SEG(1)? (iv) Who will be appointed as the executive director, members of Board of Director, the chairman and the state representatives in the SEG? Are they entitled to make timely important decisions? (v) How will the officers experienced in business of other ministries and government agencies participate in making important decisions for SEGs?

- The issues of evaluation of performance of SEGs are yet to be considered. There is almost no comparison of the performance and level of group development against the criteria for performance of enterprises operating in the same industries in other countries and in the world.

The public policy is an integration of all views, thoughts, solutions and instruments of the State to deal with the policy issues, implementing certain targets towards overall objectives of the society. If Decree No. 101/2009/ND-CP fails to promote its role in assisting the Government of Vietnam to achieve the objectives set out in the SEGs' development policy, is it right time to consider, reidentify the policy issues, and provide appropriate solutions, including the issues of origin, nature and "maturity" on the drivers of growth of the SEGs. The establishment of SEGs in our country is made by administrative decisions, i.e the state authority is used for the establishment of groups from member companies. These member companies have limited internal drivers, and were born from the centrally command economy for not-for-benefit purposes and implementation the state plan. In that context, the State policy for the development of the SEGs should orient the SEGs to become organic entities that gradually develop themselves. The State policy is aimed at accelerating this progressive development process.

1.4.2. Policy for PEG

One characteristic of the EG is multiple ownerships. Most of pilot SEGs established in Vietnam in recent time operate in key sectors, ensuring the major balances of the economy; therefore, the State owns 100% chartered capital of the parent company. Currently, the SEGs are expanding their

(1) It is noticed that the thinking of "terms of office" is not only found in senior management (CEOs) of state-owned economic group but also those of listed PEGs and those with IPO, and in market economy countries. Because of the thought of "from father to son", family economic group/enterprise always pay attention on long term values of the enterprise.

investments with broad participation of economic sectors in the forms of equitization of most of subsidiaries in the group and parent company of the group that participate in investing and contributing capital together with other economic sectors to establish more member companies with the aim to develop multi-sector business and at the same time mobilize additional capital from other economic sectors for the investment, development, and reformation of corporate governance.

In fact, the regulations specified in Decree No. 101/2009/ND-CP still fail to effectively deal with issues relating to the legal interests of the enterprises affiliated to the SEGs in general and incentives to attract them to the SEGs. For example: is it possible for some enterprise to volunteerly link itself with the SEGs by signing a association agreement? procedures, standards, precedents, etc). Supposing that the parent company is obliged to act as a focal point for the “admission” of other company to the group, what will be incentives for the parent company? If there is no linkages by ownership, the control will not be on ownership basis, and if control is on contractual basis, what is the content of the contract?; It is also not clear about how to identify an enterprise that becomes a subsidiary of a parent company of a SEG. In other words, opportunities for the other economic sectors to participate in the SEGs remain rare.

Currently, a policy for PEGs is an issue under discussion and research. A policy for groups in private sector will contribute an important part in the promotion of the internal capacity and the combined strength of Vietnam economy. This will also help the PEGs to align their development directions with the policies on development priorities of the State of Vietnam.

It is shown from Korean experiences, the State’s preferential policies for the development of PEGs - Chaebols - have helped transform the Korean economy into an export-oriented in the period of industrialisation and modernization. Thanks to this support together with the human resource advantages, Chaebols have been implementing strategies for accessing new technologies effectively. Chaebols’operations are oriented by the Government towards the national targets, but not bound by other non-business social targets such as job generation or combating unemployment.

However, the lessons of the failure of Cheabols in Korea are still valid for formulation of State policies for EGs development in Vietnam in general and PEGs in particular (if any). The first and foremost causes of such failure is the prolonged preferential policies and the structures of organization of management of Chaebols themselves. From the failures of the PEGs in Korea, it is noticed that poor business performance of the state owned enterprises is not first and foremost attributed to the state ownership over that enterprise, but to the failure to hire a qualified business manager by the state owner, and the lack of an effective and regular performance evaluation and monitoring mechanism[1].

II. TRENDS IN RESTRUCTURING OF SEGs IN 2010

Further reform of state-owned enterprises, in which restructuring of state-owned

[1] See Vu Tuan Anh, PhD. From Chaebol – South Korea, thoughts about some lessons for development and restructuring of Vietnam’s economic Corporations. The Communist magazine, Issue No. 815, September 2010.

economic organisations is an inevitable trend, forming part of the economic restructuring process and is considered an important element contributing to the improvement of the institutions for the socialist-oriented market economy in Vietnam in the current period. The main trends in restructuring of state-owned economic organisations in 2010 are:

- To focus on the core business areas, to avoid internal competition, and to ensure that the requirements for corporate development are met and ensure alignment with the country's socio-economic development strategy.

- To speed up equitisation of state-owned enterprises, to reduce the sizes of State's capital in enterprises for which the State's control is not necessary, to improve the performance of joint-stock companies so that they are eligible to be listed on regional and international stock exchanges; to have more joint-capital projects, joint-ventures, and links with domestic and overseas partners with a view to pool and accumulate capital, thus enhancing competitiveness. To make stronger efforts to reorganise and renovate through, for example, mergers and establishment of specialised groups.

- To make all the necessary preparations for equitisation of holding companies and groups in order to diversify ownership forms while ensuring the key roles of the holding companies and groups in the economy.

- To recompose investment portfolios by converging resources to ensure progress and quality of key investment projects to be put into operation; of projects investing in tapping natural resources overseas in order to ensure energy security for the country; of projects with high levels of economic benefits, and the like, and at the same time to postpone progress of projects that are not yet necessary; to withdraw budgets from projects without high levels of economic benefits; to make more acquisitions of overseas enterprises operating in mining if there are economic benefits; to make indirect investments in order to recompose the investment portfolios, especially in the financial sector.

- To increase the chartered capital of the groups through re-valuation of assets on the basis of market prices and with additional investments by the State so that the sizes of the groups become big enough, hence creating their positions in the region and getting rid of the problem of reliance on loans for investments as it has been the case recently.

- To structure the human resource in parallel with step-by-step modernisation of corporate governance, with particular emphasis on standardising accounting and statistical practices, accounting production and business results, and risk contingencies etc.

- To play the role of leading the development of different economic sectors in line with the market mechanism; to take the lead in bringing about economic structure shift aimed at achieving increased proportions of industry and services in disadvantaged areas.

- Each group is to issue a "governance system" that ensures effectiveness, equity, transparency, accountability,

Box 4.1. Case study of VNPT Restructuring[1]

Vietnam Post and Telecommunications Group (VNPT) was established in June 2006 in replacement of the former Corporation model in line with the Decision No. 06/2006/ QĐ-TTg of the Prime Minister. The Decision is designed to execute the strategy of business development along the direction of Viet Nam's key EG model, in which the groups operate in multiple businesses and sectors and have varied forms of ownership. Among these businesses, Postal and Telecommunications and Information Technology play the core roles. On 24 June 2010, the parent company - Vietnam Postal and Telecommunications Group was transformed to a one-member State-owned limited liability Company as stipulated in Decision No. 955/ QD-TTg of the Prime Minister. In period 2006-2010, VNPT made various capital investments to modernize its network. The respective invested values per year for period 2006-2009 were VND 9.785 trillion, VND 17.525 trillion, VND 15 trillion, and VND 21.5 trillion. The business objective of the group is to become one of the 10 biggest telecommunications service providers in Asia with the turnover of roughly USD 14-15 billion by 2015 and USD 28-30 billion by 2020.

Started as a monopolist in telecommunications, and now faced with more severe competition from both domestic and foreign businesses, VNPT was forced to reform its operation via its restructuring.

Restructuring Strategy

In view of its goal to focus on its core business area – postal and telecommunications services, VNPT only invests 4% of its resources or VND2600 billion on non-core areas even though the permitted proportion (prescibed by the Government) is 30%. Out of the aforementioned 4%, 2.7% of the investments are made in information technologies, and the remaining 1.3% is made in areas irrelevant to its core operation. For instance, VNPT initially owned 19.9% of shares of Maritime Bank but later when the Bank increased its chartered capital, its share in the Bank remained unchanged. The proportion of its investment in real estate to tap on the unused, sizable and ideally-located landlots makes up only 0.2% of its total investment capital. Almost all the capital investments of VNPT are managed by its financial controllers who own holding shares in the business and are eligible to run for membership of the Controller Committee. The business mostly makes direct capital investment with an appropriate proportion of fund to get membership in the Board.

Product diversification, particularly the telecommunications services is VNPT's strategic direction in its restructuring. The current prevailing practice in this business area is combining telecommunications - information and added value services, using some existing utilities. An example of this is the launch of the MyTV service on the existing Internet cable systems. VNPT will continue to develop the fixed telecom service as a fundamental and indispensable telecommunications product thanks to

(1) The case was studied by DEPOCEN

Box 4.1. Case study of VNPT Restructuring *(continue)*

its state-of-the-art functions, low charges and its role to guarantee stable national communications. In the future, it will further promote this service in the project to develop door-to-door fiber optic cable transmission network so that its customers can use multiple services on the fixed fiber optic cable network.

With a strategy for geographical diversification, VNPT strives to increase the share of foreign sales in its total turnover from current 5% to 20% by 2015. VNPT's key export item is value-added services such as phone card 1718 or VNPT-network phones. The group owns eight joint ventures that manufacture products for use in the postal and telecommunication industry, for export to some developing regional countries like Laos and Myanmar. These joint ventures, however, are in their terminal operational phase, and thus the machinery and technology are relatively outdated, and the product quality is modest. The group has submitted a proposal to restructure these joint ventures and establish a sizable Postal and Telecommunication Technology and Manufacturing Joint Stock Company that manufactures products and equipment for the postal and telecommunication industry in Viet Nam. The company will also work in joint venture with other firms to manufacture products for exports.

In the process of its restructuring, VNPT faces with problems related to the institutional framework that governs corporate operations as the SEGs model is now under pilot implementation. The group is currently under the oversight and management of the Government, the Prime Minister, related Ministries, People's Committee, and the Board. The lack of clarity in the Group's ownership leads to the fact that every decision has to be consulted among the foregoing parties before being taken. In case there are conflicts in their ideas, the Group does not know from whom to take the instructions. As a state-owned enterprise and a key pillar of the national economy, VNPT is obliged to shoulder many other tasks such as to ensure a certain level of turnover and profits, to take social responsibility and to serve the Communist Party and the State. These tasks, however, are sometimes in conflicts, and thus create obstacles to the business operations of the Group.

VNPT is frequently elected among the country's top five biggest enterprises in the VNR500 rating of Viet Nam Evaluation Report Joint Stock Company (Vietnam report). The most recent business turnover of the Group is VND 105 trillion, second to that of the Viet Nam Petroleum Group, and it contributes the third largest share in the State Budget revenues, after that of Viet Nam Petroleum Group and the Electricity of Viet Nam Group (EVN). VNPT is holding the dominant position in its core business area – post and telecommunications, and maintains its leading stand in fixed telecommunications. Its telecommunication coverage makes up 93% of the whole country's fixed telephone network, 60% of the national mobile phone network, 75% of the national internet market share. All the communication in the country are using VNPT fixed telephone network.

and liability; this refers to the system of internal documents the issuance of which falls under the authority of the group (consisting of Holding company and subsidiaries).

- To address heads-on the problem of closed production systems in EG, and to ensure that the financial reports are the most transparent.

At present, there remain a lot of problems related to the control of the operations of SEGs such as transparency and publicity of their information, the identification of their key business areas and their public assignments. These problems cause obstacles to the analysis of the restructuring trend of SEGs, which needs specific data for illustration.

The transparency gap in the SOEs stands out when the Central Institute of Economic Management (CIEM) released the survey results of corporate administration in SOEs in November 2010(1). Many SOEs never publicize its business information, especially the legally-bound information for oversight in any means. Such a fact is shown in the different “ratios” found, i.e. only 27% of all SOEs publicize the sales and purchases of its shares, 28% of all SOEs release their contracted transactions to the public, 35% announce the payroll of the Board members, 42% make public the bonuses to the Board members and only 26% publicize their risk policy.

The state owners’ dominant tool for oversight is reports, which are hardly adequate and accountable. Consequently, the internal oversight is inefficient, and external oversight must be counted.

Only a few surveyed SOEs report that the state owners conduct oversight of their important business activities. For instance, only 28.9% of state owners oversee the establishment of their subsidiaries, 21.1% oversee the performance of their investments in financial, banking, real estate and securities, 28.9% oversee the unhealthy competition, and 31.6% oversee their non-sector business activities and risks.

Another cause of the lack of oversight is the wide operational scope of the SEGs, which not only operate in business sectors but also perform socio-political functions and public tasks. Therefore, when the goals set for the SEGs are unclear, the criteria for oversight are correspondingly unclear or insufficient. The results of the oversight of business efficiency of SEGs will be mixed up with the results of the oversight of the performance of social targets. The separation of the state management functions and ownership functions of SEGs remains vague. Up to 21% of the surveyed SOEs revealed that state owners perform more as an administrator than a business investor, and 6% of fully SOEs report that their state owners are loose in their business management strategy.

As a result, the state fund when allocated to the Corporations and EGs as solely economic institutions, fail to be treated as their owner capital but rather generally as state capital, which makes it difficult to identify its true owner(s).

(1) Results of a survey on state business administration and oversight of business performance of SOEs at 390 SOEs (within the framework of the project “Reform in business administration in SOEs and business performance oversight of SEGs in line with the commitments of Viet Nam’s admission to the WTO and market economy practices”)

Box 4.2. Restructuring in VINASHIN

In 2010, the whole world faced with the global economic crisis, and in such a context, Viet Nam Shipping Industry Group (Vinashin) fell in a severe business downturn, with a huge debt amounted to roughly VND 86 trillion. This is the first time a SEG was forced to restructure at the Decision of the Prime Minister. This is a profound lesson for more prudent pace and appropriate management approaches of the EG model, which is currently under pilot implementation.

The key cause to such an incident is the thinly-spread investments, poor management and loose control of projects, liabilities, cash flows, and questionable capacity, competence and deteriorated ethics of the in-charge staffs.

Thinly-spread investments. *Established in1996 with a chartered capital of over VND 100 billion, and outdated technology that allows for building only small scale ships of some thousand tones, the Viet Nam Shipping Industry Corporation, now Vinashin EG has been growing fast in its capacity to build new ships and ship repair. Such growth has turned Viet Nam into one of the world top five ship builders that can build huge cargo ships of over 100,000 tones, auto carriers that can load 4,900 cars, crude oil tankers with a load capacity of 100,000 - 300,000 tones, and emerging oil store tankers of 150,000 tones. In a short period of time, the Group has formed over 200 subsidiaries and made investments in a wide range of non-core business areas, which is beyond its financial capacity. Some of these investment projects are not really necessary and receive almost only half of its overall investment fund. Given the Group's limited chartered capital and low level of owner capital of projects, some of these projects ran complete on loans. This led to the fact that almost all the Group's investment projects are only implemented half way through. Examples are the project for site clearance are for industrial zones and the project for exported ship building, which have not yet been in use but payments of the interest of their loans are still due. Another example is the investment in the fleet of ships, some of which were imported, being too old and hardly efficient. The Group undertook fast growth of subsidiaries and fast pace of investment in a wide range of non-'core business areas. It also lent and guaranteed the borrowings of affiliates, many of which experienced inefficient business performance and failed to pay their debts, and turned uncontrollable. In 2009, Vinashin was forced to hold and shelve 49 unnecessary projects that involve a total fund of VND 6,500 billion to curb the inflation at the instruction of the Prime Minister.*

The next trigger is the ***limited business administration and forecast capacity****. The management capacity of the group's leaders is unsatisfactory to the real needs. The execution of the group's business and investment plans is too fast and heated, which is not matched with its available financial resources, management capacity, or the approved plans by the authorities involved. The business investment and financial management of group remains loose and ineffective. Many of their business decisions go against the law. The business expansion through subsidiaries is too widespread and human resource management stays loose.*

Box 4.2. Restructuring in VINASHIN *(continue)*

Strategic Problem *- Vinashin failed to take ship building as a comprehensive industry, in which the building of a ship involves thousands of pieces of equipment, sophisticated components and advanced technology. Moreover, Vinashin's production modality is a closed cycle with a modest degree of local content of the ship industry of 18-20%, whereas the development of the supporting services and industries for it is a real challenge and beyond the group's capacity and competency. According to some economic administrators, if Vinashin had focused on market research and given priority to the production of some ship components and accessories, which are recognized by the international registration authorities so that it would become a global supplier of such components and accessories, it would have been a real global supply chain and a sustainable measure to increase the local content in its ship products.*

The 2008 global financial crisis squeezed much of the power of the global economy, and as a chain effect, Vinashin's business performance was severely affected, especially its markets and finances. In addition, the global sea transportation industry suffered from a downturn, and the ship owners cancelled contracts for ship buildings worth over USD 8 billion with the Group. In 2010 alone, the total value of cancelled ship building contracts reached over USD 700 million.

Vinashin's "heated" growth in such a context, plus some other constraints for example, the legal framework is not consistent with international practices, the under-developed infrastructure and financial system, have caused problems to the Group in terms of finances, technology, facilities, infrastructure and human resources. Consequently, the Group has been operating at a loss since 2009. By June 2010, the total value of Vinashin's assets was roughly VND 104 trillion while its total debt amount was VND 86 trillion. The fact that the Group's chartered capital was small but thinly spread has resulted in a high liabilities/owner capital ratio of 11 folds. The Group was drowned in a deep financial imbalance and on the brink of bankruptcy. It also faced with production slowdown, and high worker turnover. It is reported that 17,000 workers have resigned and 5,000 have lost their jobs in the Group.

Vinashin Restructuring

In the period from 1996 to 2007, Vinashin achieved an annual growth rate of 35%-40%, and gained profits. Its 2008 net sales were approximately VND 29 trillion. By the end of 2009, the Group contributed a total of over VND 3.3 trillion to the State Budget revenues. From the starting owner capital of over VND 100 billion and building capacity of small ships of 1,000 - 3,000 tones, Vinashin has increased owner capital to VND 8 trillion, and total assets of VND 104 trillion. Now it can build cargo ships with loading capacity of 53,000 tones, crude oil tankers with loading capacity of 105,000 tones, auto carriers of 6,900 cars and oil floating stores…

Box 4.2. Restructuring in VINASHIN *(continue)*

By March 2009, the Group had received orders and ship building contracts at the total value of roughly USD 12 billion. It has built and handed over 279 ships worth over USD 1.8 billion, including 59 ships of 6,500 tones, and 15,000 tones, 9 ships of 22,500 - 34,000 tones, 9 ships of 53,000 tones, 6 containers, 1 auto carrier of 4,900 cars, an oil floating store of 150,000 tones and other kinds of ships. Among the foregoing ships and containers, the Group exported 155 ships worth over USD 1.1 billion, and sold to domestic ship owners 124 ships worth USD 700 million. It has also built many other means of maritime transportation to meet the various demands of the national economy, national defense and security.

Faced with such a huge obstacle, the pressing requirement set for Vinashin EG is to promptly and radically restructure its production and financial investment activities to sustain and further develop the ship building industry and deliver more effective projects to avoid casting adverse effects on the operations of credit institutions.

To implement such strategy, the Prime Minister promulgated Decision No. 926/QD-TTg on 18 June 2010 on the restructuring of Vinashin EG with important issues. In the Decision, it is required that the Group: conduct some structural review to cut down or delay the hand-over of projects and retain only essential and efficient projects in ship building and repair; proactively seek new ship owners to sell those ships under construction of cancelled contracts; cease the investment in ship building and repair transactions for which funds are not available; hold the signing of new ship building contracts; review and tighten control over the more efficient and targeted use of different sources of finances; restructure the Group's subsidiaries in combination with the revision of their business plans; strengthen its business administration capacity and financial management; transfer the paid-in capital, reduce the size of capital or dissolve those subsidiaries whose business areas are not linked to the Group's core business, and those inefficient and unnecessary subsidiaries in the business strategy of the Group; transfer 12 units and 5 projects to Vietnam Petroleum Group and Vietnam Maritime Corporation.

In this period, it is essential that Vinashin build a new business strategy that focuses on ship building, mechanical manufacturing, and localization of some of its products to implement effectively Viet Nam Maritime Strategy towards 2020. In fact, most of Vinashin's debts have been transformed to its assets. The Group will drastically review all of its projects and assets to leave out those unnecessary for transfers and debt payments, and production recovery. It is anticipated that the Group will be able to reduce its debts after the restructuring by 15 - 18%. The Board of Vinashin has initially developed new business and production plan, with a forecast that the Group will still make a loss in period 2010-2012, and start to make profits by 2013 or 2014, and will turn to stable growth by 2015.

Apart from Vinashin's own initiative in dealing with its financial problems, the Government will provide it with sufficient chartered capital from the Corporate Restructuring Fund. It will also provide the Group with finances from the appropriate

Box 4.2. Restructuring in VINASHIN *(continue)*

sources to repay due foreign debts, to restructure its credit liabilities, to complete on-going projects and under-construction ships to put them in use or for sale and repay their loans from its own business performance.

In addition, the Government will establish a Steering Committee headed by a Deputy Prime Minister, and composed of officials from Ministries and agencies involved to provide effective guidelines for the implementation of Vinashin restructuring measures.

By the end of 2010, the Group has handed over 64 ships with the total contract value of USD 577 million, of which 28 are exported at the value of USD 278 million and 36 are sold at home at the total value of USD 299 million. For unpaid salary and social insurance, Vinashin has provided three times the salary and social insurance support with the total amount of VND 288.8 billion. The Group has completed the first and second stages of fund allocation to its members with the respective total amount of VND 1,769 billion and VND 519 billion.

It can be seen that Vinashin restructuring is a tremendous effort of the Group itself and the goal could not have been achieved without the timely guidelines and drastic support and intervention of the Government. Such a process, however, took place due to the external pressure rather to the internal insight of the Group itself. Plenty of lessons have been learnt from the case of Vinashin, in which the clear separation and strengthening of the oversight function of the Representative of the State Owner and the state administrative functions must be highlighted. In fact, none of the state institutions involved have stood out to assume the key responsibility, even in the restructuring, which forced the Government to take the leading and steering role. Even among the applied measures to restructure Vinashin, many are administrative tools, which are hard to replicate in the restructuring of other SEGs in Vietnam.

Source: **Notice of the Office of the Government on the performance, direction and measures to stabilize and develop Viet Nam Ship Industry EG.**

III. RESTRUCTURING IN THE PEG IN VIETNAM

3.1. Differentiating Elements in the restructuring of Private and SEGs

The number of enterprises that operate in Viet Nam has increased dramatically over the past five years from 113,000 in 2005 up to roughly 233,000 in 2009. In terms of the size of capital, small-sized enterprises make up a dominant share of over 80% in the total number of operating enterprises in the country. In recent years, however, the share of medium and large enterprises has been on the rise. The process of establishing PEGs is different in a number of ways compare to that of SEGs (see Part 4, Chapter 1), which directly affect their restructuring process. The characteristics below are considered to influence the practice of restructuring of economic groups.

Ownership and source of financing: This characteristic is considered the basic difference between private and SEGs. In this regard, not only the present structure of ownership is considered, but the initial origin of the business units is also taken into account. PEGs are mostly formed from family-owned private firms. Some of the private firms started their business from traditional business areas such as silk, timber, fine arts, garment and textile, restaurant and hotel services that can bear stable sources of finance and profits for their family. Others started their business from investing in “strategic” business areas based on their inherited business vision from their predecessors and accumulated finances (from remittances and exports, etc.).

The active participation in the “strategic” businesses such as real estate, monetary and financial services, securities, etc is one of the key foundation for the formulation of PEGs. It is hard to take one so-called successful PEG in Viet Nam without seeing their footprint in “strategic” businesses like real estate.

Whereas, SEGs, mostly originated from SOEs have the comparative advantage of economies of scale right from the beginning in the form of General Corporation 90 and 91, which were established as “ economic groups” in accordance with the Decision of the Prime Minister. These EGs were transformed during the privatization or after the State-owned Corporate Law ceased to be in effect on 1st July 2010. These EGs are identified to operate in multiple business areas and sectors, but, in fact, they all enjoy certain special treatments. On the other hand, these SEGs are obliged to perform specific “political and social” fucntions, rather than being treated as sole business apparatuses. At present, there still exist a series of one-member limited liability companies in parallel with joint stock companies, over half of whose shares are owned by the State.

PEGs are incomparably large as state-owned groups. Owners of PEGs have to experience the accumulation of finances from small scale, individual or family mobilization rather than being allocated with capital like their state-owned counterparts. The formulation of a capital market is an important impetus for the private firms to increase its financial scales via investors, the increase of their corporate values and initial public offering.

Resources and Management Capacity: This has become the widening gap between private and SEGs.

While PEGs can freely adjust their human resource and compensation strategies, and optimize their human resources, even at the managerial levels, SEGs, including those privatized have to take over the labour, whose quantity and quality was formed and developed in the command administration.

In those EGs, where the state owns over 50% of the capital, the level of compensation and other benefits is less flexible or attractive compared to the market rate. The initiative to restructure the labour based on their capacity and efficiency, particularly at the management level is curbed by the regulations and rules of the competent institution. These have become the obstacles to the possible radical reforms in many SEGs as the private groups are more advantageous in attracting and developing highly competent managers. However, as for opportunities for promotion and political motives, those SEGs are more attractive to a certain portion of experienced and high-profile executives. In this regard, it is hardly possible for PEGs to compete with their state-owned counterparts.

In addition, private sector has hardly exercised real empowerment and decentralization from capital owners, who have the habits of making individual decisions for all the issues. These enterprises also scarcely delegate the business control and administration power while such a mechanism is established in SOEs with relatively clear assignments and positions even though it is not really ideal.

Flexibility and Activeness for reforms: In comparison with SOEs, private sector fails to develop a clear and documented strategy before exercising restructuring. The business owners - who are also the business administrators, have good sense of the business opportunities and can work out their corporate development strategy in an informal manner. The private sectors, however, are more responsive and flexible when faced with changes in the market conditions while their state-owned counterparts are largely bound by the regulations and instructions from different levels of management.

With the objective to maximize their profits, PEGs tend to focus on changes to reduce the costs and to maximize their turnover. When the opportunities for overnight profits are gone, these enterprises will turn to more tightened control of their business and more efficient activities.

In short, it can be seen that the most distinctive difference between private and SEGs is the compulsion and the nature of the need for restructuring. For PEG, restructuring is vital and intrinsic, and thus is exercised radically at a fast pace. Whereas in SEGs, even though restructuring is "compulsory", it remains superficial and is hardly implemented radically and quickly.

3.2. Corporate restructuring - the growth tendency of PEGs in Viet Nam

The root cause and driving forces for corporate restructuring:

Development stages and scale/strategy: EGs and enterprises in different industries will have to undergo various stages of development of their own and in their industries, which are closely linked to the growth of the economy. An enterprise normally experiences stages such as establishment, growth, development to maturity and saturation. To sustain their existence and efficiency of their business performance, private enterprises and EGs will have to change themselves to adapt to their new stages of development, taking into account the typical features of their industry and the status of the economy.

For instance, when at a small scale and having the opportunity for "heated" growth, private enterprises often focus on making use of and grasp the business opportunities to maximize their market shares and profits. When their markets approach the level of saturation or stability, such opportunities become limited or less attractive, and the enterprises have achieved a certain scale of business or are on the growth. There will appear a gap between the scale and pace of business development and the form of corporate structure and management structure. In other words, the corporate structure, including the manangement apparatus can not catch up with the enterprise's pace of growth. The economic issue set to the enterprise is its continued existence, and guaranteed growth rate or sustainable growth. Private enterprise, especially EGs are forced to review their business and management structure to optimize the power of the available resources and advantages, and to ensure compatibility between the outlook and the inner content of their business management modality and mechanism. It is obvious that such needs will lead to compulsory corporate restructuring in one form or the other.

Capital mobilization and business expansion: Many private enterprises can approach business opportunities very well but face with constraints in their financial resources or managing and executing capacity of related business areas, particularly those new areas. To keep these opportunities, private enterprises need to restructure their ownership and managing apparatus to ensure their financing capacity and capacity to implement new business activities/ areas. These enterprises have to be proactive in their restructuring strategy and activities.

For instance, when a private enterprise have fully mobilized its own finances and can not access credit fund, one of the most feasible alternative for it is to approach the capital market in the form of privatization and initial public offering (IPO) or call for strategic partners. The issue that needs consideration is the proportion and forms of shared ownership with new investors in conducting ownership restructuring. To attract investors, apart from sharing the information of potential business opportunities (via financial forecasts), private enterprises are required to provide evidence of their financial capacity, managerial and administrative capacity as a reliable partner. It is obvious that these enterprises will make the move to restructure their business management/ administration or restructure their business units and assets before IPO approve their corporate and financial restructuring.

Competition and the needs for improvement: In many cases, even in those well-performed and controlled private enterprises, with their vision, the enterprises are proactive in improving their business performance via either partial or radical restructuring to adapt to the increased competition and growth of other enterprises.

Most of the restructuring strategies target to improve corporate administration/ management, and increase operational efficiency, or to ensure favourable conditions for the implementation of the strategies of business owners. Compared to the capital or partner-driven restructuring, corporate competitiveness and performance-driven restructuring are more profound and intrinsic rather than solely "polishing".

Expected benefits from corporate restructuring

With the foregoing driving forces, a private enterprise normally wants to achieve some expected outcome from the restructuring:

Compatibility with the corporate strategy and scale/growth: This is one of the important and overarching benefits that a PEG expects to achieve. The enterprises will be reorganized and restructured along the strategic orientation of the whole EG and for each business areas that suit the comparative advantage, operational scale, pace of growth and conditions of the market. These are the preconditions for the sustainable and stable development of the enterprises.

Efficiency in business management and operations: The restructuring, either implemented partly or radically, will bring corresponding effects. Comprehensive restructuring will create an optimal ownership structure, and an appropriate business structure that links member enterprises in different business segments along a chain of values to promote the resonant effect and reduce internal competition. Management procedures and activities are designed properly to achieve the expected outputs with controlled risks. The quality of management information is improved to help the business leaders oversee the business performance more effectively for proper decision making.

Maximized corporate values and increased attractiveness: An enterprise can maximize its corporate values via the reorganization of its business units and assets, using restructuring steps. The values of the assets, both tangible and intangible, will be reflected in the financial statements and are determined via the evaluation in the asset transfers. Even the capital withdrawals or the transfers of inefficient business units or non-profitable assets will strengthen the corporate values of the EGs to the investors or the public. In parallel with the financial values, non-financial values such as the quality of management, corporate administration capacity, etc. also create attractiveness of the enterprises.

Best practices and the degree of being secured of business owners: Many owners of private sector always want to assert their leading role and head forward the best practices in corporate restructuring. The best practices, however, have to be considered in the conditions that suit the scale, business areas and the features of the business operation of each enterprise. In addition, many business owners and managers will gain an appropriate corporate structure, effective management and administration procedures, and suitable human resources after the restructuring. When everything is in "the right cycle", the business owners will feel more secured and can focus more on those activities that can bring more added values to their business.

3.3. The practice of corporate restructuring in PEGs in Vietnam

3.3.1. The implemented and on-going focal issues of corporate restructuring

Corporate restructuring can be exercised through different means such as IPO/ selection of strategic partners, corporate reforms or reorganization, acquisition and merger, innovation of the management and business procedures and often focuses on one or more focal issues listed below:

Ownership Restructuring targets the transformation of the form and structure of ownership, the change of investment owners, including those strategic investors, etc. at the group or group member level. The business owners, either natural persons or legal entities, will determine how to keep their ownership and the degree of their ownership in the group's affiliates. This depends on the degree of priority, the orientation for business control and the focal business areas of the enterprise, which are identified in line with the business strategies defined by their owners.

Corporate Restructuring targets the changes in the core business areas. The changes include either the expansion or contraction of their business activities both vertically and horizontally, and reorganization of the member enterprises by business areas. The leaders of the enterprises, also the owners in private sector need to refer to their business strategies and direction to determine their core businesses and conduct appropriate reorganization of their member enterprises.

Normally, corporate restructuring will be combined with ownership restructuring via the reduction or increase in the ratio of ownership in these enterprises to achieve the targeted degree of control in the core business areas and withdraw funds from those non-core ones.

Operational Restructuring is often considered part of the corporate restructuring so that the operational efficiency can be improved via the standardization of the core business procedures. In many cases, however, the operational restructuring can be exercised separately.

Management and Organization Restructuring involves the strategic management planning, organizational restructuring, delegation of power, standardization of management policies, defining intervention and/or control regulations, and the performance of appraisal procedures. Management and organization restructuring is often accompanied by the development of corporate policies, internal procedures, management tools and the information technology systems. To achieve the expected restructuring results, it is necessary that organizational and human resource changes be created to implement the new policies and processes.

Financial Restructuring: aims to restructure the scale of capital, financial leverage, structure of assets, to make the financial situation healthier, and to comply with tax management regulations, etc. Financial restructuring does not only target at better quality of information, reflection of financial situation and better financial index but also takes into accounts the requirements for standardization of financial policies, maximization of financial functions and financial management instruments.

3.3.2. Some practical issues and main tendencies in restructuring activities in some PEGs in Vietnam

Self-demands for corporate restructuring: In the past few years, especially when being affected by global crisis and recession, a lot of well growing private corporates have had to develop plans to restructure themselves. Some enterprises focused too much on taking business opportunities in the market, which led to the fact that the investments were too thinly spread and too many projects and member companies were set up while little attention was paid to capacity building and improvement of existing management structure. Once developed to a certain scale or the market is no longer favourable, the owners and PEGs will face difficulties in management of business activities of the whole group and its member companies as well as functional units. This fact pressed these enterprises to either completely or partly restructure themselves as a self-demand. In fact, there are some private enterprises that proactively plan to restructure themselves without being pressed by the market or before difficulties in management emerge. With a clear “vision” and strategic directions, these groups actively rearrange themselves, standardize management and business procedures, publicize their financial information, etc, so as to improve their status and competitive capacities and at the same time to operate in a more effective manner. The self-demand, whether active or reactive, has been the driving factor leading to restructuring of the majority of enterprises in the private sector.

Linking to equitization strategies or IPO: Another practical issue is the linkage between the restructuring process and initial public offering or equitization strategies of PEGs. Restructuring steps can be taken before or after equitization/IPO process. For PEGs, steps to restructure or to rearrange enterprises are normally taken to maximize their values as well as to create attractiveness both in terms of form and content. Restructuring steps taken after an equitization/IPO process often go in-depth and aimed at achieving conformity to best practices or compliance with requirements of management and/or control agencies.

Box 4.3. FPT Group: Restructuring without ceasing to always be number one[1]

In 1988, eighteen scientists with dreams of changing their own lives and contributing to the country's prosperity founded the Food Processing Technology Company trading in food technologies. The period of the first three years was considered as a groping stage. In 1990, after signing some contracts to supply computers to the Soviet Union Academy of Sciences and setting up business relationship with Olivetti Computer Company in 1989, the Company officially identified informatics as its key area of operation and its name was changed to the Technology Development and Investment Company. Over more than 20 years, FPT has become a leading technology company in Viet Nam with average growth rate of 30-40% per annum and annual tax payment to the state budget of the same size as that of a big city in Vietnam. The total revenue of the Group stood at VND 18,741 thousand billion with earnings before tax of VND 1,697 billion in 2009. There are over 11 thousand people currently working for the Group.

Equitization - becoming a public company - significant milestones in the company's restructuring process

Starting as a state-owned enterprise, the equitization initiated in 2002 was considered an important step taken by FPT. Following the model of an equitized company has formed a good basis for FPT to apply modern and healthy governance principles for its operation. In this stage of growth and prosperity after equitization, FPT has established a number of limited liability companies and converted its centres to limited liability companies in such a way that the parent company owns the entire or majority of its subsidiaries' share. The parent company undertakes its ownership and controls these subsidiaries via its representatives.

After becoming a public company and being listed at Ho Chi Minh City Stock Exchange in 2007, FPT has been continuously renovating its management and investment so as to fit in well with the model of a big group, and at the same time to motivate the development of its subsidiaries. In 2009, in parallel with the separation of roles and functions of Board of Directors and Board of Management, the role of Supervisory Board has also been enhanced. The most outstanding feature of Group is that a number of its competent and eligible limited liability companies have been converted to joint-stock companies. Each of these companies is owned by over

[1] Case is developed by Le Duy Binh (MA).

Box 4.3. FPT Group: Restructuring without ceasing... *(continue)*

100 shareholders and offers its stock to the public (mostly to its staff). Thus, the responsibilities to supervise and ensure effective utilization of investment capital have been shared with the public, which reduces burdens exerted on the board of leaders and related units under the Group. The parent company mainly focuses on controlling and management of production and business affairs, investment of capital, management of high-level personnel as well as development of trade-mark and a favourable working environment with typical culture of FPT. The restructuring is being and will be continuously undertaken in 2011 and in the following years.

The core principle for the Group's development is changing unceasingly but in close connection with core business competencies

Under the impacts of the blooming development of the stock market in 2007 and 2008, FPT started to expand its investments into new areas of business such as real estate, finance, banking, training, retail by setting up subsidiaries and associate companies. However, facing with concerns about unrelated diversification, in 2009, FPT quickly consolidated the model of the information technology and telecommunications group.

In May 2009, to provide the basis for identifying directions for the FPT Group's development in the future, FPT's Board of Directors once again confirmed the Group's key areas of businesses, namely telecommunications, content industry and information technology services and asserted that FPT was the Information Technology and Telecommunications Group. FPT changed and restructured itself in two main directions including corporate governance and financial governance, aiming towards an international standard governance system. FPT pays special attention to M&A. The Prime Minister has agreed in principle to allow EVN Telecom to select FPT Group and FPT Telecommunications Company as its strategic investors when it is equitized.

Restructuring through geographical diversification

The Group's global expansion programme is a vivid example of restructuring through geographical diversification. The Group proactively introduced its traditional information technology services and products to the whole world through establishment of representative offices in foreign countries by its subsidiaries. Key positions such as General Directors, Business Managers in overseas FPT companies are taken by senior indigenous personnel. The Group's long-term investment in its global expansion is also done through its investment in FPT University. In 2010, FPT will receive the first batch of students graduating from this University. These students have been provided with appropriate training which is relevant to the requirements of the Group and have English or Japanese language competencies to be able to participate in the

Box 4.3. FPT Group: Restructuring without ceasing... *(continue)*

globalization process. All of these make up the Group's competitive advantage, which is important for the sustainable development of the Group.

"FPT Way" – The Group's unique way in restructuring process

From FPT's perspective, it is not a matter of fact that a large scale group is a strong one. A group is strong only when it can mobilize resources from its constituting units in an optimal manner and make efforts to provide better services to its customers.

With its creativeness and unique features, FPT has always been creating its own principles to apply for restructuring process. For example, three-cycle theory is applied for every decision it makes to invest in any industries or sectors. To defend its decisions or projects to invest in a new industry or sector, the business manager in charge of such projects has to be able to answer three questions which are: (i) are you interested in it or not?; (ii) is it relevant to the core competencies or not?; and (iii) will you be able to become the number one or not? This simple principle has been consistently implemented and considered as one of the most successful principles of the Group.

Based on practical experience learnt from big groups in the world such as HP and Microsoft, the Group's board of leaders has set up some separate sets of operational procedures for the Group which have been used in the whole process of operation. These sets of procedures have been regularly modified and edited to be relevant to the changes and structures of the Group. An appropriate part of the sets of procedures mentions corporate governance issues. Experience in governance and management has been frequently learnt and updated in the sets of procedures.

FPT is audited on annual basis with public disclosure of audit reports. One of the FPT's criteria to select audit companies is that the selected company has to be in the list of 4 leading auditing agencies (big fours). Disclosure of information without hesitation and learning and continuously setting up relationships with its shareholders can be considered as another important principle of FPT.

The above unique ways have formed important foundation for FPT to set up such a strong corporate structure as of now.

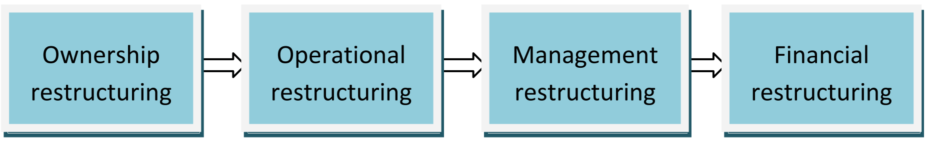
Pressures and requests from strategic partners (via M&A): The PEGs participate in the capital market so as to mobilize capital from investors including investment funds and multi-national groups. Most of these investors' investment strategies are based on risk mitigation principles. The fact that private enterprises have committed to take steps to restructure themselves will attract more professional investors. The continuation of steps to restructure the enterprise management and administration to reach international standards or to achieve higher operation efficiency will be set as one of the terms in the agreements for mergers and acquisitions or in the enterprises' regulations and rules.

Roadmap and timeframe for restructuring: Defining a clear roadmap and timeframe for restructuring is of great importance to an enterprise. A lot of enterprises are not really aware that restructuring is a process which consists of various stages and takes time. Restructuring is not just limited to equitization, mergers and acquisitions or rearrangement of enterprises but the integrated and systematic deployment and implementation with an aim to achieve expected results. Comprehensive restructuring of an enterprise often undergoes the following stages:

The entire stages of comprehensive restructuring including review, assessment, design and implementation, etc, often take from 12 to 36 months. A roadmap for IPO or equitization can be integrated and considered as a part of enterprise restructuring as mentioned above.

Ways and methodologies for implementation: Depending on the market situation and their own goals, many enterprises opt to implement comprehensive and absolute restructuring or just pick up some components or sectors to restructure. Because of limited resources or priorities to solve burning issues or immediate goals, many private enterprises just restructure some single parts such as the reorganisation of labour force, the standardization of ineffective operational procedures, etc. Lack of integration in planning and implementation of restructuring strategies may lead to low efficiency, waste of resources and failure to achieve expected results. However, priorities given to different stages or steps of restructuring can be taken into account in the overall roadmap for renovation of the enterprise to ensure the achievement of expected results. Setting up a specialized team to formulate and implement a restructuring project has not yet been paid close attention by many enterprises.

Figure 4.3: Typical stages of restructuring



Box 4.4. Viet A Group: Setting up a governance model in a systematic manner to form a sustainable enterprise structure[1]

Modest start but stable growth

Viet A Investment Commercial Industrial Group Holdings Company formerly known as Viet A Trading Company Limited was formed on 20/10/1995 in Ha Noi. The company originally operated in the field of trading as an exclusive distributor for 3M, Seoul Cable and ABB SACE Italy, and later extended its market and developed trading

[1] Case developed by Le Duy Binh (MA)

Box 4.4. Viet A Group: Setting up a governance model in... *(continue)*

products such as medium and low voltage devices, accessories for electric lines and substations up to 110kV and began supplying turn-key substations. With only 5 employees at the beginning, Viet A expanded the number of employees to 150 in only 5 years. At its 10th anniversary, the number of employees stood at 870, and by the end of 2009, the number went up to 2,000. The group's turnover has been growing very fast, from VND 20 billion in 1999 to VND 200 billion and over VND 1,500 billion in 2002 and 2008 respectively.

In 1999, Viet A established its first subsidiary specializing in construction of electrical and industrial projects and began to export its products to foreign countries. In 2004 and 2005, Viet A established 5 more subsidiaries and factories and achieved an annual turnover of over VND 5 billion. In 2006, in addition to setting up more subsidiaries, Viet A established Viet A Research and Development Centre and Viet A Engineering and Consultancy Centre. The establishment of these subsidiaries helped ensuring the company's independence and self-reliance as well as enhancing its specialization, as such Viet A can better perform big contracts which normally require the participation of a number of different agencies with in-depth and specialized expertise and knowle dge.

Viet A's growth and restructuring process can be seen as a typical model for many medium-scale companies in Vietnam

The growth of Viet A Group has been quite sequential and consistent with the common rules of development of an enterprise: starting from regional market to national market, first operating in the North, then expanding to the Central Region and the South and finally exporting; starting with trading as original business, then expanding to production in linkage with trading, and then penetrating into financial investment, share holding, agro-product processing, real estate; starting from highly competitive products and then expanding to a group of related products; starting as an exclusive supplier of famous brand name products and then expanding to become a supplier of turn-key products, implementation of turn-key, Engineering-Procurement-Construction (EPC) and Build-Operate-Transfer (BOT) projects; starting from single production and business and then establishing a research and development centres and an engineering and consultancy centre. Besides, along with its growth, the firm has been focusing on other values such as establishment of Businessman Culture Fund, participating in social activities, and contribution to development of education.

Successfully converting from a family based enterprise model with convenience-based management to a joint stock company *can be seen as a significant milestone and a determinant for Viet A's vigorous growth from a small and medium scale firm. The Board of Directors has been re-organised. A number of key positions formerly held by family members have been taken over by senior staff recruited from outside or selected among existing competent staff. Procedures for operation and internal*

Box 4.4. Viet A Group: Setting up a governance model in... *(continue)*

governance have been set up to ensure that the business and investment decisions are made in a transparent manner and to avoid cases of indulgences which are commonly found in family based firms or to avoid centralization of too much power into the hands of one or two individuals. Family members no longer hold key positions in the firm. A "check-and-balance" mechanism has been set up where family ties do not affect business decisions. A mechanism to supervise performance of Board of Management and Board of Directors has also been set up.

Gradually reaching modern governance level to prepare for the next development stage

In order to support to setting up new enterprise structure based on application of modern and advanced governance standards, Viet A started to apply ISO 9000:1994 in 2002. In 2003, it changed to apply quality control system following ISO 9001:2000. Three years later, in 2005, it applied ISO 14001: 2004. By applying ISO standards, management decisions have been made based on the set standards but not on casual basis like a family. In 2006, Viet A Group set up and applied Enterprise Resource Planning (ERP). Application of ERP is regarded as a special support instrument to convert the Group to a modern governance model.

Sticking on core competencies is one of the leading principles in Viet A's restructuring process

However, in 2007 only, because of being "attracted" by the blooming growth of the stock market and the vigorous development of enterprises, Viet A started to expand to businesses which are more unrelated to its core businesses such as real estate, electronics and stone production. The number of the firm's businesses quickly went up to 9. The firm has aimed towards fast growth and horizontal expansion with an objective to earn an annual increase of 30% of total turnover and 30% of employees. Luckily, Viet A has timely recognized the risk and possible failure of fast horizontal expansion, deviation from its core competencies and non-systematic support to its main businesses. Viet A once again acknowledged the necessity of restructuring. Some businesses which were introduced or invested earlier such as agro-product processing, information technology, education and communication have been taken out. Business plans in such areas such as securities and banking are no longer discussed. In terms of real estate, the group's goal is to focus on the construction of schemes which serve the production and business activities of the group itself such as factories and offices. The objective of increasing the turnover and number of employees have been replaced by those related to performance quality and business efficiency.

Viet A is now aiming to become a listed company by 2012.

Lessons learnt and recommendations

The restructuring steps taken by the PEGs in Vietnam have raised some issues which led to the following lessons:

Lack of strategic linkages

Many enterprises take restructuring steps in a spontaneous manner so as to solve their immediate burning issues without in-depth analysis of the relationship between the enterprise's strategies and the restructuring. The nature of restructuring is to help the enterprise achieve its strategic objectives. Thus, prior to the implementation of the restructuring, the enterprise owner has to redetermine his enterprise's strategic objectives, visions, missions, values and business plans. This helps to set up necessary principles for restructuring. However, most of the PEGs in Viet Nam face with constraints right in this very first step of redetermining their official strategies, which leads to restructuring heading in the wrong direction, making it impossible to solve the roots of problems.

Lack of a master plan

Most of restructuring projects are of long-term in nature. Keeping in mind the aspiration to make fast changes in order to concentrate on business activities, many enterprises forget to prepare a master plan and proceed to solve only immediate issues. In the restructuring process, outputs of some activities can serve as inputs to other ones or some activities may be implemented for multi-purposes. The lack of a master plan may lead to such risks as failure to foresee issues that need to be solved or unability to combine different purposes of some activities. This may result in restructuring being implemented in an unsystematic, overlapped and/or repeated manner, wasting the enterprise's resources.

A master plan describing the necessary steps from short, medium and long term perspectives will help the enterprise implement required activities in a proper order so as to make full use of achievements made at various stages as well as maximize the enterprise's time and resources.

Relying too much on enterprise resource planning software as a perfect solution in the restructuring process

In the process of looking for an effective operation model through restructuring, some enterprise owners decide to invest in and utilize enterprise resource planning (ERP) softwares as they think that the ERP will help them overcome shortcomings of their existing models. Each enterprise has its own approaches to ERPs. Some enterprises tend to change themselves to match with the available standards in the designed softwares. This process of change requires great efforts made by enterprises given limited available resources. Though these softwares were developed based on the best practices, they cannot take into account all the individual features in each enterprise. The ERP software needs to be modified to a certain extent to make sure that the enterprise can utilize them in its practical operation. It is rather difficult to identify to which extent the ERP software should be modified. From a consultancy point of view, a software should be just considered as a computerized instrument to help users undertake their tasks as per their desires. Lack of appropriate requirements based on procedures reflecting effective method of operation in close connection with existing human resource may result in failure in utilizing the ERP software in enterprise restructuring. As mentioned ealier in Chapter 1, Part 4, many Vietnamese enterprises have skipped the first stage of systematic governance and proceed to use EPRs. This has resulted in the "mismatch" between development level and management procedures of enterprises.

Lack of instruments for management and assessment of implementation

Like any other activities undertaken by an enterprise, restructuring requires the setting up of instruments for management and assessment so as to assess the implementation efficiency. These instruments include governance reports, Key Performance Indicators ("KPI") and well prepared budget report covering estimated costs for contingencies. While the restructuring governance reports provide timely information which helps the enterprise leaders supervise, monitor and make dicisions to modify the restructuring process to be more relevant, KPI helps the enterprise answer the question of "how is the success of restructuring recognized?". Examples of possible KPI include growth in turnover, rate of return, total saved costs, quit rate, brand awareness, etc, which can be measured after finishing the restructuring process and help the enterprise see the impacts of restructuring. In addition, preparation of reasonable capital resources also makes determinant contribution to ensure smooth operation of the restructuring process without any interruption.

Lack of project management and management of changes

In addition to the long-term features as mentioned above, the restructuring also has impacts on the performance and the benefits of various stakeholders inside or even outside the enterprise. The restructuring project requires changes from a lower level like a group of staff to a higher level like the entire organization. Requirements for these changes normally face resistance to a certain extent depending on level and nature of their impacts. Keeping those features in mind, in order to successfully implement the restructuring process, it is necessary for an enterprise to conduct project management and management of changes to ensure the achievement of the set targets of the project.

Project management is implemented starting from defining the objectives and the scopes of the project, based on which specific tasks to achieve the goal of the project are appropriately determined and assigned to the teams, taking into account time constraint, independence of tasks, personnel and financial resources. Preparation of a clear roadmap for specifc tasks and formulation of a project implementing team and estimated costs helps make a detailed plan for an enterprise to manage the project and its outputs in the next stages.

Change management is conducted via development of plans for effective exchange and provision of information to main target groups and those who are affected by the project, understanding their demands and ways to respond to the needs arising from the project related issues.

Lack of appropriate resources

To formulate a project team, the enterprise has to select members with relevant competencies and skills. The team may consist of members from both inside and outside the enterprise.

Outside members include restructuring experts with adequate experience and competence to evaluate and provide suggestions and consultancies or alternatives based on multi-dimensional analysis so as to assist the enterprise owner to make sound decisions related to restructuring and to help inside members implement the project.

Inside members including the project manager are normally those who have in-depth understanding of the enterprise's activities and ability to coordinate the inside units to jointly work with outside members. To ensure smooth implementation of restructuring, the project manager should be delegated with adequate power and authorities to make decisions. The inside members are responsible for taking over what is transferred in by the outside members for continuing the implementation in the enterprise. Therefore, they may be potential personnel who are planned to hold key positions in the enterprise after the completion of restructuring project.

In the course of vigorous business development, most of the enterprises face the problem of lacking competent personnel to conduct business activities. Thus, the arrangement of personnel to participate in the restructuring project becomes a very difficult question in situations where day-to-day activities take most of both leaders' and staff's time. Some enterprises entrust the entire restructuring project to outside consultants, hoping that they have not only the proper approaches and experiences but also the appropriate resources to undertake the restructuring process. However, this will make the post-restructuring transitional period more difficult.

Lack of commitments from various levels

Since restructuring may affect various people and units, it is necessary to have strong commitments from various levels in the enterprise. However, in fact, it is quite common for an enterprise to give up halfway because of the lack of consensus from various units and management levels in the enterprise. Thus, when restructuring, first and foremost, the project leader, i.e. the enterprise owner has to assert his determination to implement the restructuring project and look for the same commitments from different levels of management and employees in the enterprise, especially from those who are directly related to the project.

Issues related to centralisation and division of powers

The restructuring process will provide the enterprise owners with options for centralisation and division of powers. Because of the features of the development process and the loose regulations on enterprise governance in Viet Nam, the enterprise owners who sit in either the Board of Directors/Board of Members or in the Board of Management tend to hold the power to make decisions on most of the enterprise's issues. Moreover, the model of PEG is still unprofessional with a lack of high quality personnel. Many enterprise owners are not confident enough to delegate powers to lower level staffs. This causes heavier management pressure and makes it difficult for the recommendations on redefining the roles and functions of high level enterprise leaders to be implemented. Thus, the enterprise owners should take into account various possibilities as well as the areas and tasks of the enterprise that require centralisation and division of powers and prepare for such important changes.

V. CONCLUSION

In Viet Nam, two categories of EGs have been existing - SEGs and PEGs. There are currently 12 SEGs and there is an unknown number of PEGs. Groups were established by the Prime Minister's Decision and operate in the form of single-member limited liability Company following the model of council of members. Different from the SEGs, the establishment of PEG is not under the decision of any competent agency; the establishment of these groups is decided by the enterprises themselves. The establishment and development of PEG have been made through the progressive expansion and development of business from one enterprise.

Part II of the Report shows the natural concentration process of industries where 12 SEGs are operating. From this, it can be seen that the SEGs have both horizontal or vertical concentration but their have not yet reached the correspondent development level. The funds mobilising at the first stage "Capital Concentration" has not been completed. The SEG have not had basic science managment skills of the level 1- the 1st level of 4 level of Business managment- and essential factor of health of each EG.

The main trends in the restructuring of state-owned economic organisations in 2010 are: (1) To focus on the core business areas; (2) To speed up equitisation of state-owned enterprises, to reduce the sizes of State's capital in enterprises for which the State's control is not necessary; and to improve the performance of joint-stock companies in order for them to be eligible to be listed on regional and international stock exchanges; to have more joint-capital projects, joint-ventures, and links with domestic and overseas partners; (3) To make all the necessary preparations for the equitisation of holding companies and groups in order to diversify ownership forms while ensuring the key roles of the holding companies and groups in the economy; (4) To recompose investment portfolios by converging resources to ensure progress and quality of key investment projects to be put into operation; (5) To increase the chartered capital of groups through re-valuation of assets on the basis of market prices and with additional investments by the State so that the sizes of the groups become big enough; (6) To structure the human resource in parallel with step-by-step modernisation of corporate governance, with particular emphasis on standardising accounting and statistical practices, accounting production and business results, and risk contingencies,....

For PEGs, restructuring is self-demanded, especially when being affected by global crisis and recession. Once developed to a certain scale or the market is no longer favourable, the owners and PEGs will face difficulties in the management of business activities of the whole group and its member companies as well as functional units. This fact pressed these enterprises to either completely or partly restructure themselves as a self-demand. Another practical issue is the linkage between the restructuring process and initial public offering or equitization strategies of PEGs.

In Viet Nam, currently there are no regulations for all EGs in all economic sectors but only regulations for piloting SEGs. A more important matter however is creating a policy for EGs development, not to disturb the market and not to repeat the mistakes experienced by some other countries. Due to the limited natural concentration and lack of organic linkage between members of EGs, especially in the SOEs, the special policy shall therefore accelerate the natural concentration process; while at the same time allow EGs select a management scheme, which is appropriate to their level of development and ownership features.

PART V

RECOMMENDATIONS

Overcoming the changes of business environment in both international and domestic, Vietnam enterprises will start in 2011 with new business capacity in which economic structure will have a big changing. To continue maintaining development speed of the economy and enterprises according to quality growth and implement of socio-economic development strategy, some suggestions are introduced as follow:

I. RECOMMENTDATIONS TO GOVERNMENTAL AGENCIES

1. The most important task is to stabilize macro economy in order to ensure the general development of economy and implement of long-term business strategy of enterprises. This action aims to reduce consumer price index, trade balance deficit and budget overspending enhancing capacities of economics forecast. It also aims at to improve the capacities of policies making, overcoming the situation of promulgating policies based on circumstances. It requires an integration and close coordination of fiscal and monetary policies. Further, there is a need of building the operation mechanism and supervision of policies implementation to ensure all policies measures implemented as promulgated and to limit cases such a an extension period of policies implementation or the existence of two exchange rates, that brings high unofficial cost to businesses.

2. The Government should have measures to improve structure of export products towards step by step increasing a portion of manufacturing industry group with high- tech content, decreasing raw material export. Especially, being interested and having measure to limit the excess of imports over export which tends to depends on China. It is advisable to establish a special organization which will be responsible for in depth studying, monitoring the Chinese market and giving just in time recommendations to support enterprise to be flexible with the change in the China's market and to strategically resolve emerging problems in trade balance between Vietnam to China as well as other important markets. The State also need to speed up infrastructure for domestic trading to support enterprise in serving domestic consumers that takes full advantages of market which has nearly 90 million citizens with income per capita above 1000 USD.

3. Continuing a reform of administration procedure in Vietnam and to ensure the implement of Decree No.43/2010/ND-CP (about business registration), Decree No.102/2010/ND-CP about guiding to implement of some points of Enterprises Law in order to increase number of new registration firms. Besides, it is necessary to carry out some measures to assist companies in the period of post-registration by performing Decision No.22/2010 of Prime

Minister to implement Decree No.56/2009/ND-CP about policy on supporting small and medium enterprises development.

4. To accelerate a disbursement speed of foreign investment through State support measures and simplifying administration procedures, land clearing and human resource training for project implementation. It is important to have a research and assessment on competitiveness advantage of each local and region to attract foreign investment following the trends of national policy of restructuring economy. To enhance the cooperation between some provinces in the same region to limit overlapping in FDI attracting, step by step to overcome the phenomena of "price transfer" in FDI firms. The State should re-orienting FDI attracting policies, linking FDI industry to domestic production, increasing value added and using domestic material, minimizing FDI flow in assembling production.

5. Development of infrastructure for business has been one of three key targets social and economic development strategy for 5 years 2011-2015. While the State needs to quickly overcome the power shortage, lasting power cuts, improve transport infrastructure, water supply and sewerage systems, waste disposal, etc., the development of real industrial clusters which can truly link enterprises in a supply chain is a wise measure. China's experience in developing industrial clusters in this direction has provided invaluable support to enterprises, including for SMEs, in terms of infrastructure and significantly reducing production costs.

6. State plays an important role in the process of enterprise restructuring. State should pay attention on improvement of business environment to promote firms restructuring. To ensure economic growth with high quality, which includes: Orientation to restructure businesses; Renovation of management mechanism; Support financial resources; Restructuring in the use of capital, restructuring of debt settlement, etc

7. For the SOEs, requirement of clearly separation in functions of management and ownership becomes urgent more than ever. To ensure this separation, the State may establish a specialized agency which has abilities of participating in making business decisions purely as a representative of owner of the State asset The Government needs to clearly identify areas where the Government needs to control, building an operation mechanism of state management for SOEs from respective of "owner representative" with a clear roadmap for implementation. Performing benchmarking with enterprises of the same industry in ASEAN, Asia and the world to assess business performance of SOEs.

8. For the private sector, the State should create conditions for formalization of individual households business; improve the quality of the private sector in term of size, business performance, the ability to accumulate capital of this sector. All master plan of economic development for certain industry, province or region should be developed with balanced growth between public and private sector, between large, small and medium enterprises allow them equally access to production land, raw materials, infrastructure, capital, human resources and technology. Special attention to support private sector enterprises in innovation and application of scientific and technological achievements. It is necessary to develop domestic supporting industries and to expand raw materials areas for the FDI enterprises which operate in sector of production and manufacturing.

9. The State should urgently review the pilot scheme of state economic groups and builds a common policy to support development of economic corporation, irrespective of economic sectors, particularly in overcoming the limitations generated by low level of concentration and lack of "organic" management, thereby creating the "locomotives" of economic dynamism, fair competition with each other. For State economic group, it needs to clearly define the core mission for each SEG, separated business tasks from social mission. Other measures also have to be implemented simultaneously, such as: Restructuring the functions of state representatives (as the owners and as State management) for each SEG; Strengthening the oversight function of the representative of the State ownership; improving transparency in management and releasing information. The State should build a favorable legal framework to facilitate businesses sale, M&A activities, especially between enterprises of State or non-State sector.

10. The development of tools to support and monitor the activities of EGs to be considered carefully in order not to go against WTO principles, and must assess the economic efficiency of EGs on the basis of taking advantage of scale in terms of: (i) profits increase, jobs creating, (ii) Impact on the economy, helping Vietnam to expand markets and participate in global value chains, (iii) Creating the change in system to the economy of technological capability, quality growth, etc. These tools above need to ensure fair competition. The State should consider a possible negative impact of the collapse of an EG on the economy and on reputation of political system. From this point of view the State has to have strict requirements for EGs when they fell into difficulties condition, trying to get cross funding within the economic group to hide their difficulties.

11. The State should create a favorable business environment, to support enterprises which manage by women leaders to encourage them mobilize their potentials with gender dimension and help them overcome difficulties in the business management. The measures to support capacity building of financial management for women entrepreneurs and support them expanding business and creating confidence in approaching the capital and new technology should be given a priority.

II. SUGGESTIONS TO FIRMS

1. Firstly, enterprises need to carry out restructuring by themselves to improve labor productivity, better integration with the international economy, providing a basic for sustainable growth and long-term stability. The process of restructuring enterprises must follow the tendency of economic structure of Vietnam, increasing the proportion of industry, construction and services

2. The trend of innovation and market rules require SOEs to restructure not only in ownership capital but also business and market strategy, technological innovation while ensuring a really key role in the economic development of the country.

3. Firms in three sectors which have low level of concentration (Manufacture of wearing apparel, Manufacture of rubber and Construction) should focus on improving the capacity of labor, especially, in the Wearing apparel industry whose indicators of the labor capacity is the lowest in eight researched sectors. The restructuring depends very much on the issue of labor productivity growth - improving efficiency

indicators of labor used. Without an improvement in the labor index, it is difficult to say to the industry's strong rally in the future.

4. For SOEs in Water Transport sectors it needs to urgently improve the indicators of liquidity and interest coverage indicators to improve the liquidity of loans. The state-owned enterprises in general have to improve financial indicators such as of debt and profitability (include three profit indicators: rate on assets (ROA), rate of return on equity (ROE) and profit rate on sales (ROS)) to be able to compete with non-state sector and FDI in this index.

5. Businesses need to urgently improve the technological capacities, invest in hiring more scientific, technical personnel, research and development staffs. This is the first important issue to improve the competitiveness of enterprises in the present context

6. Enterprise restructuring is essentially the restructuring of large enterprises, especially with the economic group. The economic groups need (i) Focus on key business areas - especially for SOEs in Water transport and Generation and Distribution of Electricity, (ii) Speed up the process of equitization of SOEs, reduce State capital in enterprises which not need State ownership, improving the quality of the activities of joint stock companies in order to qualify for listing on the regional and international stock exchange (iii) Prepare all aspects for equitization of mother company of the EGs to diversify its ownership while to ensure its leading role in the economy, (iv) Restructuring the investment portfolio by concentrating resources to ensure the progress and quality of key investment projects went into operation; (v) Increase capital of the corporation on the basis of assessement of property value on the market, and then the State addes investment to have SOEs with large enough scale, (vi) Restructure human resources in parrallel with the implementation of corporate governance with gradually modernized, accounting standards, statistics, economic forecast, risk management.

7. The corporate restructuring should be based on the business strategy with identified resources. For private economics groups which must continue to accumulate capital and production, it is neccessary focus on core business to be specialised and capable in linking into regional and global value chain

8. The Vietnamese businesses have to continously upgrade their capicity in building business strategy, pay attention on the application of suitable methods of scientific business management, make the business transparent creating a foundation for long term development.

9. Vietnam Businesses have to cooperate with domestic and foreign enterprises, pushing Public -private partnership, actively establish linkage with leading company in the Industrial zone and Industrial Cluster to creat a real cluster on specialised product and industry.

10. Vietnam Businesses need to actively participate in the development of local and regional economic strategy to exploit the regional competitiveness advantage and have a best use of natural resources and raw materials within the master plan of local and regional development and to ensure the economy restructure policy of the Government.

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APPENDIX

Table 1.1: Growth rate of gold price and US dollar

Unit: %

Month	Comparison to previous month		Comparison to Dec 2009		Comparison to same period in 2009	
	Gold	USD	Gold	USD	Gold	USD
1	- 2.94	- 0.11	- 2.94	- 0.11	+ 53.89	+ 8.96
2	- 2.03	+ 0.33	- 4.91	+ 0.22	+ 42.58	+ 8.34
3	+ 1.21	+ 1.28	+36.86	+ 9.52	- 3.76	+ 1.50
4	- 0.80	- 0.28	- 4.53	+ 1.22	+ 33.89	+ 7.86
5	+ 1.91	- 0.63	- 2.71	+ 0.58	+ 35.62	+ 5.86
6	+ 3.09	- 0.17	+ 0.30	+ 0.41	+ 32.43	+ 5.53
7	+ 2.15	+ 0.38	+ 2.46	+ 0.79	+ 35.86	+ 5.04
8	- 0.88	+ 0.48	+ 1.56	+ 1.27	+ 32.35	+ 5.41
9	+ 3.58	+ 1.61	+ 5.19	+ 2.91	+ 34.35	+7.35
10	+ 7.87	+ 0.60	+ 13.47	+ 3.52	+ 38.01	+ 8.37
11	+ 8.67	+ 3.00	+ 23.31	+ 6.63	+ 36.24	+ 10.03
12	+ 5.43	+ 2.86	+30.00	+ 9.68	+ 30.00	+ 9.68

Source: Monthly report on Socioeconomic of General Statistics Office

Table 1.2: FDI in sector from 1st January to 20th December 2010 (from 01/01/2010 to 20/11/2010)

No.	Sector	New projects	New registered capital (million USD)	Number of projects increase capital (million USD)	Increase registered capital (million USD)	New registered and increase capital
1	Processing and manufacturing industry	334	3,464.0	152	907.1	4,371.0
2	Manufacturing, Electricity, Gas and Water Industry	6	2,942.9	1		2,942.9
3	Real estate industry	20	2,722.4	5	132.1	2,854.5
4	Construction	118	1,219.0	5	20.6	1,239.5
5	Transport	11	815.5	3	55.0	870.5
6	Hotel and restaurant	31	279.1	2	27.2	306.3
7	Sales, retail and repair	104	369.1	12	-7.0	362.1
8	Education and training	5	105.8	1	6.5	112.3
9	Banking sector	1	15.8	5	43.3	59.0
10	Telecomiunication	46	39.3	7	0.9	40.2
11	Scientification	107	58.1	6	1.8	59.9
12	Artist and entertainment	5	36.0			36.0
13	Agriculture, forestry and fishing	10	8.5	6	7.0	15.5
14	Another services	20	12.0	2	1.0	13.0
15	Water supply and waste processing	5	9.1			9.1
16	Administration and supporting service	6	3.1	1	2.5	5.6
17	Mine ores			1	2.1	2.1
18	Health and social work	4	1.3	1	2.6	3.9
	Total	**833**	**12,100.9**	**210**	**1,202.6**	**13,303.5**

Source: Foreign Investment Agency

Table 1.3: FDI by partners from 1st Jarnuary to 21st December

No.	Country	Number of project	Registered capital (Million USD)
1	Singapore	88	4,350.2
2	Holland	14	2,364
3	Japan	114	2,040.1
4	Korea	256	2,038.8
5	America	52	1,833.4
6	Taiwan	95	1,180.6
7	British Virgin Islands	23	726.3
8	Cayman Islands	5	500.7
9	British West Indies	1	475.9
10	Malaysia	19	412.6
11	Switzerland	3	285.2
12	China	84	172.8
13	Hong Kong	43	154
14	Russia	5	139.3
15	Thailand	16	131.9
16	Slovakia	1	100
17	British	11	56.4
18	Other	139	267.4

Source: General Statistics Office

Table 1.4: FDI in areas from 1st Jarnuary to 21st December

No.	Provinces	Number of project	Registered capital (Million USD)
1	Quang Nam	8	4,177.1
2	Ba Ria - Vung Tau	38	2,400.6
3	Quang Ninh	2	2148
4	Ho Chi Minh City	252	1,895.3
5	Nghe An	9	1,327.7
6	Ca Mau	1	773
7	Long An	29	592.1
8	Binh Thuan	10	523.4
9	Dong Nai	41	378.7
10	Quang Ngai	4	369.4
11	Binh Duong	96	362.3
12	Ha Tinh	13	302.3
13	Bac Ninh	36	196.2
14	Hung Yen	19	189.9
15	Ha Noi	225	180.2
16	Binh Dinh	6	150
17	Other provinces	180	1,263.4

Source: General Statistics Office

Measure of the concentration of economic activities

HHI (Herfindahl-Hirschman Index): an indicator to measure the concentration of an industry. HHI is measured by summing the squared marketshares of all businesses in the industry.

Formula: $H = \sum_{i=1}^{n} S_i$ (Si is the marketshare of business i and n is the total number of businesses)

The larger the HHI is, the higher the concentration of the industry is. HHI ranges from 1/n to 1, in which n is the number of businessses in the same industry. To make it easy to compare the concentration across categories by HHI, researchers usually convert HHI to standard HHI, ranging between 0 and 1.

Formula: $H^* = \dfrac{\left(H - \dfrac{1}{n}\right)}{\left(1 - \dfrac{1}{n}\right)}$

The European Commission and the United States adopted the following standards for the concentrantion of economic activities based on the H* index:

- H* < 0,10 weak concentration
- 0,10 ≤ H* ≤ 0,18 medium concentration
- 0,18 < H* high concentration

Market share held by 20 leading businesses: this indicator reflects the concentration of an economic category. It ranges between 0 and 1. This is also an important indicator usually used in measuring the concentration of industries in countries worldwide. In developed economies such as in the UK or the US, for better measurement, researchers also adopted another indicator – market share held by 10 or 5 leading companies in the same industry.

Table 2.1: Number of businesses in industries by type of ownership

Unit: businesses

	2005	2006	2007	2008	2009
Manufacture of wearing apparel	**1,737**	**2,039**	**2,423**	**3,204**	**3,276**
SOEs	57	42	36	27	32
Non-State	1,369	1,634	1,930	2,674	2,697
FDI	311	363	457	503	547
Manufacture of chemicals and chemical products	**1,053**	**1,027**	**1,137**	**1,368**	**1,515**
SOEs	61	38	29	26	31
Non-State	806	788	889	1,092	1216
FDI	186	201	219	250	268
Manufacture of rubber and plastic products	**1,449**	**1,629**	**1,962**	**2,284**	**2,549**
SOEs	25	22	23	21	22
Non-State	1,186	1,314	1,606	1,872	2,080
FDI	238	293	333	391	447
Generation and distribution of electricity and gaseous fuels	**33**	**2,801**	**2,814**	**2,849**	**2,004**
SOEs	2	37	16	18	80
Non-State	27	2,759	2,792	2,827	1,919
FDI	4	5	6	4	5
Construction	**14,521**	**13,858**	**15,501**	**20,579**	**24,539**
SOEs	631	488	422	378	388
Non-State	13,830	13,324	15,006	20,107	24,022
FDI	60	46	73	94	129
Water transport	**736**	**741**	**842**	**808**	**907**
SOEs	43	41	43	35	35
Non-State	687	695	793	770	869
FDI	6	5	6	3	3
Telecommunication	**353**	**351**	**470**	**708**	**816**
SOEs	13	11	8	16	30
Non-State	338	333	456	686	776
FDI	2	7	6	6	10
Insurance	**32**	**60**	**64**	**72**	**79**
SOEs	7	10	13	14	16
Non-State	13	38	36	39	43
FDI	12	12	15	19	20

Table 2.2: Ratio of businesses in industries by type of ownership

Unit: %

	2005	2006	2007	2008	2009
Manufacture of wearing apparel	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**
SOEs	3.3	2.1	1.5	0.8	1.0
Non-State	78.8	80.1	79.7	83.5	82.3
FDI	17.9	17.8	18.9	15.7	16.7
Manufacture of chemicals and chemical products	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**
SOEs	5.8	3.7	2.6	1.9	2.0
Non-State	76.5	76.7	78.2	79.8	80.3
FDI	17.7	19.6	19.3	18.3	17.7
Manufacture of rubber and plastic products	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**
SOEs	1.7	1.4	1.2	0.9	0.9
Non-State	81.8	80.7	81.9	82.0	81.6
FDI	16.4	18.0	17.0	17.1	17.5
Generation and distribution of electricity and gaseous fuels	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**
SOEs	6.1	1.3	0.6	0.6	4.0
Non-State	81.8	98.5	99.2	99.2	95.8
FDI	12.1	0.2	0.2	0.1	0.2
Construction	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**
SOEs	4.3	3.5	2.7	1.8	1.6
Non-State	95.2	96.1	96.8	97.7	97.9
FDI	0.4	0.3	0.5	0.5	0.5
Water transport	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**
SOEs	5.8	5.5	5.1	4.3	3.9
Non-State	93.3	93.8	94.2	95.3	95.8
FDI	0.8	0.7	0.7	0.4	0.3
Telecommunication	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**
SOEs	3.7	3.1	1.7	2.3	3.7
Non-State	95.8	94.9	97.0	96.9	95.1
FDI	0.6	2.0	1.3	0.8	1.2
Insurance	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**
SOEs	21.9	16.7	20.3	19.4	20.3
Non-State	40.6	63.3	56.3	54.2	54.4
FDI	37.5	20.0	23.4	26.4	25.3

Table 2.3: Growth rate of number of businesses by types of ownership

Unit: %

	2006	2007	2008	2009	Average
Manufacture of wearing apparel	**17.4**	**18.8**	**32.2**	**2.2**	**17.7**
SOEs	-26.3	-14.3	-25.0	18.5	-11.8
Non-State	19.4	18.1	38.5	0.9	19.2
FDI	16.7	25.9	10.1	8.7	15.4
Manufacture of chemicals and chemical products	**-2.5**	**10.7**	**20.3**	**10.7**	**9.8**
SOEs	-37.7	-23.7	-10.3	19.2	-13.1
Non-State	-2.2	12.8	22.8	11.4	11.2
FDI	8.1	9.0	14.2	7.2	9.6
Manufacture of rubber and plastic products	**12.4**	**20.4**	**16.4**	**11.6**	**15.2**
SOEs	-12.0	4.5	-8.7	4.8	-2.8
Non-State	10.8	22.2	16.6	11.1	15.2
FDI	23.1	13.7	17.4	14.3	17.1
Generation and distribution of electricity and gaseous fuels	**8,387.9**	**0.5**	**1.2**	**-29.7**	**2,090.0**
SOEs	1,750.0	-56.8	12.5	344.4	512.5
Non-State	10,118.5	1.2	1.3	-32.1	2,522.2
FDI	25.0	20.0	-33.3	25.0	9.2
Construction	**-4.6**	**11.9**	**32.8**	**19.2**	**14.8**
SOEs	-22.7	-13.5	-10.4	2.6	-11.0
Non-State	-3.7	12.6	34.0	19.5	15.6
FDI	-23.3	58.7	28.8	37.2	25.3
Water transport	**0.7**	**13.6**	**-4.0**	**12.3**	**5.6**
SOEs	-4.7	4.9	-18.6	0.0	-4.6
Non-State	1.2	14.1	-2.9	12.9	6.3
FDI	-16.7	20.0	-50.0	0.0	-11.7
Telecommunication	**-0.6**	**33.9**	**50.6**	**15.3**	**24.8**
SOEs	-15.4	-27.3	100.0	87.5	36.2
Non-State	-1.5	36.9	50.4	13.1	24.8
FDI	250.0	-14.3	0.0	66.7	75.6
Insurance	**87.5**	**6.7**	**12.5**	**9.7**	**29.1**
SOEs	42.9	30.0	7.7	14.3	23.7
Non-State	192.3	-5.3	8.3	10.3	51.4
FDI	0.0	25.0	26.7	5.3	14.2

Table 2.4: Number of employees in industries by types of ownership

Unit: person

	2005	2006	2007	2008	2009
Manufacture of wearing apparel	**508,075**	**594,860**	**705,250**	**742,643**	**760,264**
SOEs	94,338	77,388	60,039	43,183	42,548
Non-State	196,903	232,241	276,919	290,046	290,439
FDI	216,834	285,231	368,292	409,414	427,277
Manufacture of chemicals and chemical products	**85,511**	**71,407**	**70,339**	**74,629**	**82,369**
SOEs	32,537	24,285	21,142	20,106	22,737
Non-State	34,230	29,579	30,258	33,375	37,096
FDI	18,744	17,543	18,939	21,148	22,536
Manufacture of rubber and plastic products	**113,336**	**126,931**	**147,281**	**161,326**	**174,293**
SOEs	12,964	12,321	12,150	12,402	11,512
Non-State	60,065	58,404	71,318	73,768	82,484
FDI	40,307	56,206	63,813	75,156	80,297
Generation and distribution of electricity and gaseous fuels	**69,323**	**78,604**	**107,968**	**33,892**	**124,056**
SOEs	68,388	54,131	82,831	4,505	102,617
Non-State	256	23,633	24,137	28,536	20,537
FDI	679	840	1000	851	902
Construction	**922,528**	**781,966**	**809,904**	**874,175**	**994,074**
SOEs	348,304	255,279	211,374	185,413	180,981
Non-State	568,109	522,614	593,246	680,622	803,738
FDI	6,115	4,073	5,284	8,140	9,355
Water transport	**44,314**	**49,431**	**51,958**	**41,522**	**41,813**
SOEs	19,766	24,886	24,892	15,042	14,582
Non-State	23,829	23,847	26,361	26,341	26,916
FDI	719	698	705	139	315
Telecommunication	**116,177**	**115,397**	**105,546**	**22,729**	**123,675**
SOEs	111,091	112,813	101,579	14,633	116,688
Non-State	4844	2468	3792	7928	6766
FDI	242	116	175	168	221
Insurance	**18,583**	**13,948**	**13,407**	**16,556**	**17,661**
SOEs	14,940	10,010	8,615	10,309	10,590
Non-State	667	1,348	1,979	2,243	3,288
FDI	2,976	2,590	2,813	4,004	3,783

Table 2.5: Share of workforce in industries by types of ownership

Unit: %

	2005	2006	2007	2008	2009
Manufacture of wearing apparel	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**
SOEs	18.6	13.0	8.5	5.8	5.6
Non-State	38.8	39.0	39.3	39.1	38.2
FDI	42.7	47.9	52.2	55.1	56.2
Manufacture of chemicals and chemical products	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**
SOEs	38.1	34.0	30.1	26.9	27.6
Non-State	40.0	41.4	43.0	44.7	45.0
FDI	21.9	24.6	26.9	28.3	27.4
Manufacture of rubber and plastic products	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**
SOEs	11.4	9.7	8.2	7.7	6.6
Non-State	53.0	46.0	48.4	45.7	47.3
FDI	35.6	44.3	43.3	46.6	46.1
Generation and distribution of electricity and gaseous fuels	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**
SOEs	98.7	68.9	76.7	13.3	82.7
Non-State	0.4	30.1	22.4	84.2	16.6
FDI	1.0	1.1	0.9	2.5	0.7
Construction	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**
SOEs	37.8	32.6	26.1	21.2	18.2
Non-State	61.6	66.8	73.2	77.9	80.9
FDI	0.7	0.5	0.7	0.9	0.9
Water transport	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**
SOEs	44.6	50.3	47.9	36.2	34.9
Non-State	53.8	48.2	50.7	63.4	64.4
FDI	1.6	1.4	1.4	0.3	0.8
Telecommunication	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**
SOEs	95.6	97.8	96.2	64.4	94.4
Non-State	4.2	2.1	3.6	34.9	5.5
FDI	0.2	0.1	0.2	0.7	0.2
Insurance	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**
SOEs	80.4	71.8	64.3	62.3	60.0
Non-State	3.6	9.7	14.8	13.5	18.6
FDI	16.0	18.6	21.0	24.2	21.4

Table 2.6: Growth rate of labour in industries by types of ownership

Unit: %

	2006	2007	2008	2009	Average
Manufacture of wearing apparel	**17.1**	**18.6**	**5.3**	**2.4**	**10.8**
SOEs	-18.0	-22.4	-28.1	-1.5	-17.5
Non-State	17.9	19.2	4.7	0.1	10.5
FDI	31.5	29.1	11.2	4.4	19.0
Manufacture of chemicals and chemical products	**-16.5**	**-1.5**	**6.1**	**10.4**	**-0.4**
SOEs	-25.4	-12.9	-4.9	13.1	-7.5
Non-State	-13.6	2.3	10.3	11.1	2.5
FDI	-6.4	8.0	11.7	6.6	4.9
Manufacture of rubber and plastic products	**12.0**	**16.0**	**9.5**	**8.0**	**11.4**
SOEs	-5.0	-1.4	2.1	-7.2	-2.9
Non-State	-2.8	22.1	3.4	11.8	8.6
FDI	39.4	13.5	17.8	6.8	19.4
Generation and distribution of electricity and gaseous fuels	**13.4**	**37.4**	**-68.6**	**266.0**	**62.0**
SOEs	-20.8	53.0	-94.6	2,177.8	528.9
Non-State	9,131.6	2.1	18.2	-28.0	2,281.0
FDI	23.7	19.0	-14.9	6.0	8.5
Construction	**-15.2**	**3.6**	**7.9**	**13.7**	**2.5**
SOEs	-26.7	-17.2	-12.3	-2.4	-14.6
Non-State	-8.0	13.5	14.7	18.1	9.6
FDI	-33.4	29.7	54.0	14.9	16.3
Water transport	**11.5**	**5.1**	**-20.1**	**0.7**	**-0.7**
SOEs	25.9	0.0	-39.6	-3.1	-4.2
Non-State	0.1	10.5	-0.1	2.2	3.2
FDI	-2.9	1.0	-80.3	126.6	11.1
Telecommunication	**-0.7**	**-8.5**	**-78.5**	**444.1**	**89.1**
SOEs	1.6	-10.0	-85.6	697.4	150.9
Non-State	-49.1	53.6	109.1	-14.7	24.8
FDI	-52.1	50.9	-4.0	31.5	6.6
Insurance	**-24.9**	**-3.9**	**23.5**	**6.7**	**0.3**
SOEs	-33.0	-13.9	19.7	2.7	-6.1
Non-State	102.1	46.8	13.3	46.6	52.2
FDI	-13.0	8.6	42.3	-5.5	8.1

Table 2.7: Total assets of business in industries by types of ownership

Unit: VND billion

	2005	2006	2007	2008	2009
Manufacture of wearing apparel	**27,643**	**33,060**	**43,088**	**55,218**	**62,999**
SOEs	6,191	6,122	4,575	3,855	4,296
Non-State	8,294	11,303	17,607	22,551	27,637
FDI	13,158	15,635	20,906	28,812	31,065
Manufacture of chemicals and chemical products	**44,194**	**42,845**	**45,703**	**60,044**	**78,677**
SOEs	17,386	16,914	12,487	16,781	23,800
Non-State	9,104	7,245	10,324	14,048	19,262
FDI	17,704	18,687	22,892	29,215	35,615
Manufacture of rubber and plastic products	**30,618**	**37,759**	**50,799**	**78,147**	**89,411**
SOEs	2,896	3,048	3,810	4,227	4,075
Non-State	13,773	15,455	23,513	29,103	42,637
FDI	13,949	19,256	23,476	44,817	42,699
Generation and distribution of electricity and gaseous fuels	**112,290**	**87,345**	**186,806**	**77,267**	**50,8785**
SOEs	109,668	69,135	165,747	41,495	484,166
Non-State	146	1,981	3,754	19,151	6,812
FDI	2,476	16,229	17,305	16,621	17,807
Construction	**213,992**	**225,629**	**303,700**	**384,087**	**551,208**
SOEs	107,235	109,731	114,499	107,709	148,089
Non-State	103,989	111,950	184,525	268,032	389,988
FDI	2,768	3,947	4,676	8,347	13,131
Water transport	**20,405**	**28,532**	**43,281**	**59,713**	**80,173**
SOEs	13,993	19,409	27,516	32,750	38,634
Non-State	5,759	8,442	14,957	26,756	28,134
FDI	653	681	807	207	13,405
Telecommunication	**73,801**	**85,845**	**112,475**	**35,903**	**15,3343**
SOEs	72,151	84,635	110,593	25,952	137,818
Non-State	566	369	1,086	9,098	13,268
FDI	1,084	841	797	854	2257
Insurance	**42,986**	**35,532**	**53,546**	**75,578**	**89,704**
SOEs	28,015	19,064	27,175	33,857	40,593
Non-State	553	859	3878	6006	7655
FDI	14,418	15,609	22,493	35,716	41,456

Table 2.8: Share of assets in industries by types of ownership

Unit: %

	2005	2006	2007	2008	2009
Manufacture of wearing apparel	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**
SOEs	22.4	18.5	10.6	7.0	6.8
Non-State	30.0	34.2	40.9	40.8	43.9
FDI	47.6	47.3	48.5	52.2	49.3
Manufacture of chemicals and chemical products	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**
SOEs	39.3	39.5	27.3	27.9	30.3
Non-State	20.6	16.9	22.6	23.4	24.5
FDI	40.1	43.6	50.1	48.7	45.3
Manufacture of rubber and plastic products	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**
SOEs	9.5	8.1	7.5	5.4	4.6
Non-State	45.0	40.9	46.3	37.2	47.7
FDI	45.6	51.0	46.2	57.3	47.8
Generation and distribution of electricity and gaseous fuels	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**
SOEs	97.7	79.2	88.7	53.7	95.2
Non-State	0.1	2.3	2.0	24.8	1.3
FDI	2.2	18.6	9.3	21.5	3.5
Construction	100.0	100.0	100.0	100.0	100.0
SOEs	50.1	48.6	37.7	28.0	26.9
Non-State	48.6	49.6	60.8	69.8	70.8
FDI	1.3	1.7	1.5	2.2	2.4
Water transport	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**
SOEs	68.6	68.0	63.6	54.8	48.2
Non-State	28.2	29.6	34.6	44.8	35.1
FDI	3.2	2.4	1.9	0.3	16.7
Telecommunication	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**
SOEs	97.8	98.6	98.3	72.3	89.9
Non-State	0.8	0.4	1.0	25.3	8.7
FDI	1.5	1.0	0.7	2.4	1.5
Insurance	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**
SOEs	65.2	53.7	50.8	44.8	45.3
Non-State	1.3	2.4	7.2	7.9	8.5
FDI	33.5	43.9	42.0	47.3	46.2

Table 2.9: Growth of assets in industries by types of ownership

Unit: %

	2006	2007	2008	2009	Average
Manufacture of wearing apparel	**19.6**	**30.3**	**28.2**	**14.1**	**23.0**
SOEs	-1.1	-25.3	-15.7	11.4	-7.7
Non-State	36.3	55.8	28.1	22.6	35.7
FDI	18.8	33.7	37.8	7.8	24.5
Manufacture of chemicals and chemical products	**-3.1**	**6.7**	**31.4**	**31.0**	**16.5**
SOEs	-2.7	-26.2	34.4	41.8	11.8
Non-State	-20.4	42.5	36.1	37.1	23.8
FDI	5.6	22.5	27.6	21.9	19.4
Manufacture of rubber and plastic products	**23.3**	**34.5**	**53.8**	**14.4**	**31.5**
SOEs	5.2	25.0	10.9	-3.6	9.4
Non-State	12.2	52.1	23.8	46.5	33.7
FDI	38.0	21.9	90.9	-4.7	36.5
Generation and distribution of electricity and gaseous fuels	**-22.2**	**113.9**	**-58.6**	**558.5**	**147.9**
SOEs	-37.0	139.7	-75.0	1,066.8	273.7
Non-State	1,258.5	89.5	410.2	-64.4	423.4
FDI	555.4	6.6	-3.9	7.1	141.3
Construction	**5.4**	**34.6**	**26.5**	**43.5**	**27.5**
SOEs	2.3	4.3	-5.9	37.5	9.6
Non-State	7.7	64.8	45.3	45.5	40.8
FDI	42.6	18.5	78.5	57.3	49.2
Water transport	**39.8**	**51.7**	**38.0**	**34.3**	**40.9**
SOEs	38.7	41.8	19.0	18.0	29.4
Non-State	46.6	77.2	78.9	5.1	52.0
FDI	4.2	18.5	-74.3	6,371.6	1,580.0
Telecommunication	**16.3**	**31.0**	**-68.1**	**327.1**	**76.6**
SOEs	17.3	30.7	-76.5	431.1	100.6
Non-State	-34.9	194.3	737.9	45.8	235.8
FDI	-22.4	-5.2	7.2	164.3	36.0
Insurance	**-17.3**	**50.7**	**41.1**	**18.7**	**23.3**
SOEs	-32.0	42.6	24.6	19.9	13.8
Non-State	55.3	351.5	54.9	27.5	122.3
FDI	8.3	44.1	58.8	16.1	31.8

Table 2.10: Total revenues in industries by types of ownership

Unit: VND billion

	2005	2006	2007	2008	2009
Manufacture of wearing apparel	**32,206**	**39,336**	**51,118**	**64,037**	**73,045**
SOEs	8,793	9,465	8,928	7,849	7,305
Non-State	8,711	12,200	18,768	25,121	28,394
FDI	14,702	17,671	23,422	31,067	37,346
Manufacture of chemicals and chemical products	**54,330**	**59,296**	**67,696**	**92,307**	**109,897**
SOEs	17,924	16,373	18,140	26,600	28,488
Non-State	10,884	12,829	13,402	18,951	24,242
FDI	25,522	30,094	36,154	46,756	57,167
Manufacture of rubber and plastic products	**34,935**	**40,211**	**55,063**	**74,395**	**83,998**
SOEs	4,236	4,527	6,137	6,611	7,326
Non-State	18,605	18,808	27,222	35,676	40,635
FDI	12,094	16,876	21,704	32,107	36,036
Generation and distribution of electricity and gaseous fuels	**37,732**	**70,594**	**83,124**	**53,954**	**300,577**
SOEs	35,438	60,842	68,822	36,045	235,587
Non-State	64	1,533	4,661	6,950	53,640
FDI	2,230	8,219	9,641	10,959	11,349
Construction	**118,122**	**117,911**	**155,692**	**200,111**	**282,549**
SOEs	55,785	48,628	52,815	52,159	73,433
Non-State	58,675	66,324	96,828	139,362	201,991
FDI	3,662	2,959	6,049	8,591	7,125
Water transport	**14,543**	**17,469**	**19,550**	**27,624**	**24,481**
SOEs	8,903	11,009	11,928	15,597	13,948
Non-State	4,159	5,078	6,441	11,869	10,365
FDI	1,481	1,382	1,181	157	168
Telecommunication	**41,173**	**53,148**	**65,176**	**12,219**	**79,908**
SOEs	40,314	52,489	63,864	9,374	72,994
Non-State	573	469	618	2,055	5,752
FDI	286	190	694	790	1162
Insurance	**18,921**	**12,549**	**14,276**	**79,972**	**101,621**
SOEs	13,884	9,510	10,216	69,889	89,297
Non-State	227	285	1,621	2,468	3403
FDI	4,810	2,754	2,440	7,615	8,921

Bảng 2.11: Share of revenue in industries by types of ownership

Unit: %

	2005	2006	2007	2008	2009
Manufacture of wearing apparel	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**
SOEs	27.3	24.1	17.5	12.3	10.0
Non-State	27.0	31.0	36.7	39.2	38.9
FDI	45.6	44.9	45.8	48.5	51.1
Manufacture of chemicals and chemical products	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**
SOEs	33.0	27.6	26.8	28.8	25.9
Non-State	20.0	21.6	19.8	20.5	22.1
FDI	47.0	50.8	53.4	50.7	52.0
Manufacture of rubber and plastic products	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**
SOEs	12.1	11.3	11.1	8.9	8.7
Non-State	53.3	46.8	49.4	48.0	48.4
FDI	34.6	42.0	39.4	43.2	42.9
Generation and distribution of electricity and gaseous fuels	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**
SOEs	93.9	86.2	82.8	66.8	78.4
Non-State	0.2	2.2	5.6	12.9	17.8
FDI	5.9	11.6	11.6	20.3	3.8
Construction	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**
SOEs	47.2	41.2	33.9	26.1	26.0
Non-State	49.7	56.2	62.2	69.6	71.5
FDI	3.1	2.5	3.9	4.3	2.5
Water transport	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**
SOEs	61.2	63.0	61.0	56.5	57.0
Non-State	28.6	29.1	32.9	43.0	42.3
FDI	10.2	7.9	6.0	0.6	0.7
Telecommunication	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**
SOEs	97.9	98.8	98.0	76.7	91.3
Non-State	1.4	0.9	0.9	16.8	7.2
FDI	0.7	0.4	1.1	6.5	1.5
Insurance	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**
SOEs	73.4	75.8	71.6	87.4	87.9
Non-State	1.2	2.3	11.4	3.1	3.3
FDI	25.4	21.9	17.1	9.5	8.8

Table 2.12: Growth rate of revenues in industries by types of ownership

Unit: %

	2006	2007	2008	2009	Average
Manufacture of wearing apparel	**22.1**	**30.0**	**25.3**	**14.1**	**22.9**
SOEs	7.6	-5.7	-12.1	-6.9	-4.3
Non-State	40.1	53.8	33.9	13.0	35.2
FDI	20.2	32.5	32.6	20.2	26.4
Manufacture of chemicals and chemical products	**9.1**	**14.2**	**36.4**	**19.1**	**19.7**
SOEs	-8.6	10.8	46.6	7.1	14.0
Non-State	17.9	4.5	41.4	27.9	22.9
FDI	17.9	20.1	29.3	22.3	22.4
Manufacture of rubber and plastic products	**15.1**	**36.9**	**35.1**	**12.9**	**25.0**
SOEs	6.9	35.6	7.7	10.8	15.2
Non-State	1.1	44.7	31.1	13.9	22.7
FDI	39.5	28.6	47.9	12.2	32.1
Generation and distribution of electricity and gaseous fuels	**87.1**	**17.7**	**-35.1**	**457.1**	**131.7**
SOEs	71.7	13.1	-47.6	553.6	147.7
Non-State	2291.1	204.0	49.1	671.8	804.0
FDI	268.5	17.3	13.7	3.6	75.8
Construction	**-0.2**	**32.0**	**28.5**	**41.2**	**25.4**
SOEs	-12.8	8.6	-1.2	40.8	8.8
Non-State	13.0	46.0	43.9	44.9	37.0
FDI	-19.2	104.4	42.0	-17.1	27.5
Water transport	**20.1**	**11.9**	**41.3**	**-11.4**	**15.5**
SOEs	23.7	8.4	30.8	-10.6	13.0
Non-State	22.1	26.8	84.3	-12.7	30.1
FDI	-6.7	-14.6	-86.7	7.1	-25.2
Telecommunication	**29.1**	**22.6**	**-81.3**	**553.9**	**131.1**
SOEs	30.2	21.7	-85.3	678.6	161.3
Non-State	-18.2	31.9	232.4	180.0	106.5
FDI	-33.6	265.7	13.9	47.0	73.3
Insurance	**-33.7**	**13.8**	**460.2**	**27.1**	**116.8**
SOEs	-31.5	7.4	584.1	27.8	147.0
Non-State	25.5	468.6	52.3	37.9	146.1
FDI	-42.7	-11.4	212.1	17.2	43.8

Table 2.13: Worker average income in industries by types of ownership

Unit: VND million

	2005	2006	2007	2008	2009
Manufacture of wearing apparel	**13.7**	**16.0**	**18.4**	**23.2**	**27.3**
SOEs	15.2	18.1	20.5	26.5	30.4
Non-State	12.8	15.1	18.4	22.5	24.8
FDI	13.9	16.1	18.1	23.3	28.7
Manufacture of chemicals and chemical products	**32.7**	**35.4**	**42.6**	**52.0**	**56.4**
SOEs	35.4	40.9	54.8	72.4	69.5
Non-State	20.3	19.4	20.9	29.0	33.7
FDI	50.6	54.6	63.6	68.8	80.4
Manufacture of rubber and plastic products	**17.5**	**20.3**	**23.5**	**27.8**	**33.6**
SOEs	25.3	25.6	35.2	33.6	51.3
Non-State	14.9	17.5	20.3	24.6	29.7
FDI	19.0	22.1	24.7	30.0	35.1
Generation and distribution of electricity and gaseous fuels	**36.9**	**27.9**	**39.0**	**28.4**	**74.5**
SOEs	36.8	35.0	47.4	94.9	85.6
Non-State	14.5	6.9	8.7	15.3	15.8
FDI	52.0	162.6	80.1	115.6	146.9
Construction	**16.9**	**18.7**	**25.4**	**27.0**	**32.7**
SOEs	19.6	22.2	27.2	31.7	39.4
Non-State	14.9	16.8	24.4	25.3	30.8
FDI	49.3	44.4	65.3	68.8	72.2
Water transport	**32.8**	**33.2**	**36.8**	**49.5**	**52.3**
SOEs	46.6	41.4	47.0	83.6	80.2
Non-State	19.9	23.4	25.6	29.8	36.5
FDI	77.4	75.0	97.8	93.6	107.4
Telecommunication	**38.4**	**43.6**	**55.2**	**60.9**	**62.9**
SOEs	39.4	44.0	56.2	72.1	63.5
Non-State	15.3	22.1	24.5	37.5	50.0
FDI	72.6	191.4	170.8	185.3	177.0
Insurance	**39.5**	**51.2**	**91.4**	**97.5**	**109.4**
SOEs	27.0	37.7	83.7	86.2	101.4
Non-State	31.7	24.1	62.7	61.2	64.2
FDI	104.1	117.7	135.1	147.0	171.3

Table 2.14: Average revenue per employee in industries by types of ownership

Unit: VND million

	2005	2006	2007	2008	2009
Manufacture of wearing apparel	**63.4**	**66.1**	**72.5**	**86.2**	**96.1**
SOEs	93.2	122.3	148.7	181.8	171.7
Non-State	44.2	52.5	67.8	86.6	97.8
FDI	67.8	62.0	63.6	75.9	87.4
Manufacture of chemicals and chemical products	**635.4**	**830.4**	**962.4**	**1,236.9**	**1,334.2**
SOEs	550.9	674.2	858.0	1,323.0	1,252.9
Non-State	318.0	433.7	442.9	567.8	653.5
FDI	1,361.6	1,715.4	1,909.0	2,210.9	2,536.7
Manufacture of rubber and plastic products	**308.2**	**316.8**	**373.9**	**461.1**	**481.9**
SOEs	326.8	367.4	505.1	533.1	636.4
Non-State	309.8	322.0	381.7	483.6	492.6
FDI	300.0	300.2	340.1	427.2	448.8
Generation and distribution of electricity and gaseous fuels	**544.3**	**898.1**	**769.9**	**1,591.9**	**2,422.9**
SOEs	518.2	1124.0	830.9	8001.1	2,295.8
Non-State	250.5	64.9	193.1	243.5	2,611.9
FDI	3,284.7	9,784.4	9,641.1	12,877.4	12,582.5
Construction	**128.0**	**150.8**	**192.2**	**228.9**	**284.2**
SOEs	160.2	190.5	249.9	281.3	405.7
Non-State	103.3	126.9	163.2	204.8	251.3
FDI	598.8	726.6	1,144.9	1,055.4	761.6
Water transport	**328.2**	**353.4**	**376.3**	**665.3**	**585.5**
SOEs	450.4	442.4	479.2	1,036.9	956.5
Non-State	174.5	212.9	244.3	450.6	385.1
FDI	2,059.9	1,980.3	1,675.2	1,131.0	534.5
Telecommunication	**354.4**	**460.6**	**617.5**	**537.6**	**646.1**
SOEs	362.9	465.3	628.7	640.6	625.5
Non-State	118.3	189.9	163.0	259.2	850.2
FDI	1,180.5	1,635.2	3,963.8	4,703.4	5,256.1
Insurance	**1,018.2**	**899.7**	**1,064.8**	**4,830.4**	**5754.0**
SOEs	929.3	950.1	1,185.8	6,779.4	8,432.2
Non-State	340.4	211.4	819.0	1,100.2	1,034.9
FDI	1,616.2	1,063.2	867.4	1901.8	2,358.2

Table 2.15: Labour use efficiency in industries by types of ownership

Unit: Time

	2005	2006	2007	2008	2009
Manufacture of wearing apparel	**4.6**	**4.1**	**3.9**	**3.7**	**3.5**
SOEs	6.1	6.8	7.3	6.9	5.6
Non-State	3.4	3.5	3.7	3.8	3.9
FDI	4.9	3.8	3.5	3.3	3.0
Manufacture of chemicals and chemical products	**19.4**	**23.5**	**22.6**	**23.8**	**23.7**
SOEs	15.5	16.5	15.7	18.3	18.0
Non-State	15.7	22.4	21.2	19.6	19.4
FDI	26.9	31.4	30.0	32.2	31.6
Manufacture of rubber and plastic products	**17.6**	**15.6**	**15.9**	**16.6**	**14.3**
SOEs	12.9	14.4	14.3	15.9	12.4
Non-State	20.8	18.4	18.8	19.6	16.6
FDI	15.8	13.6	13.8	14.3	12.8
Generation and distribution of electricity and gaseous fuels	**14.8**	**32.2**	**19.7**	**56.1**	**32.5**
SOEs	14.1	32.1	17.5	84.3	26.8
Non-State	17.2	9.4	22.1	16.0	165.8
FDI	63.2	60.2	120.4	111.4	85.6
Construction	**7.6**	**8.1**	**7.6**	**8.5**	**8.7**
SOEs	8.2	8.6	9.2	8.9	10.3
Non-State	6.9	7.6	6.7	8.1	8.2
FDI	12.1	16.3	17.5	15.3	10.5
Water transport	**10.0**	**10.6**	**10.2**	**13.4**	**11.2**
SOEs	9.7	10.7	10.2	12.4	11.9
Non-State	8.8	9.1	9.6	15.1	10.6
FDI	26.6	26.4	17.1	12.1	5.0
Telecommunication	**9.2**	**10.6**	**11.2**	**8.8**	**10.3**
SOEs	9.2	10.6	11.2	8.9	9.9
Non-State	7.7	8.6	6.6	6.9	17.0
FDI	16.3	8.5	23.2	25.4	29.7
Insurance	**25.8**	**17.6**	**11.7**	**49.5**	**52.6**
SOEs	34.4	25.2	14.2	78.7	83.2
Non-State	10.7	8.8	13.1	18.0	16.1
FDI	15.5	9.0	6.4	12.9	13.8

Table 2.16: Liquidity ratios

Unit: Time

	2005	2006	2007	2008	2009
Manufacture of wearing apparel	**3.42**	**3.90**	**3.81**	**2.87**	**2.58**
SOEs	0.91	0.95	0.98	1.06	1.11
Non-State	3.81	4.40	4.27	3.02	2.74
FDI	2.45	2.23	2.26	2.23	1.88
Manufacture of chemicals and chemical products	**4.41**	**4.16**	**3.58**	**3.15**	**2.95**
SOEs	2.23	2.04	1.32	1.54	1.65
Non-State	5.29	4.82	3.91	3.47	3.21
FDI	1.83	2.27	2.71	2.04	1.95
Manufacture of rubber and plastic products	**3.25**	**3.22**	**3.11**	**2.55**	**2.07**
SOEs	1.02	0.89	1.17	1.25	1.64
Non-State	3.53	3.64	3.44	2.62	2.02
FDI	2.22	1.69	1.81	2.32	2.32
Generation and distribution of electricity and gaseous fuels	**4.62**	**4.00**	**4.99**	**5.52**	**8.33**
SOEs	0.81	3.34	4.90	2.16	0.85
Non-State	5.95	4.02	5.01	5.56	8.74
FDI	1.24	0.62	0.71	0.65	1.10
Construction	**4.53**	**4.57**	**4.91**	**3.53**	**3.84**
SOEs	1.09	1.07	1.14	1.24	1.49
Non-State	4.73	4.71	5.04	3.57	3.87
FDI	1.61	4.75	2.54	3.45	5.12
Water transport	**3.37**	**2.28**	**2.68**	**3.91**	**2.88**
SOEs	1.01	0.72	1.05	0.86	0.65
Non-State	3.50	2.39	2.78	4.09	2.99
FDI	6.83	3.26	2.17	0.59	0.54
Telecommunication	**8.25**	**10.96**	**17.09**	**3.49**	**10.79**
SOEs	2.33	1.54	1.64	0.76	0.93
Non-State	8.63	11.37	18.06	3.64	11.28
FDI	2.23	9.26	1.30	2.62	5.43
Insurance	**3.54**	**5.65**	**5.61**	**6.02**	**8.08**
SOEs	0.66	1.80	1.38	1.57	8.59
Non-State	3.00	8.06	7.40	8.76	8.45
FDI	5.48	3.33	4.32	4.44	7.28

Table 2.17: Quik Ratio

Unit: Time

	2005	2006	2007	2008	2009
Manufacture of wearing apparel	**2.74**	**2.93**	**3.00**	**2.01**	**1.78**
SOEs	0.69	0.71	0.71	0.79	0.86
Non-State	3.05	3.27	3.31	2.09	1.88
FDI	1.96	1.80	1.93	1.64	1.38
Manufacture of chemicals and chemical products	**2.90**	**2.51**	**3.02**	**2.28**	**1.83**
SOEs	0.76	1.42	0.88	0.94	1.15
Non-State	3.58	2.80	3.41	2.45	1.96
FDI	1.06	1.76	1.87	1.69	1.34
Manufacture of rubber and plastic products	**2.09**	**2.34**	**2.23**	**1.64**	**1.41**
SOEs	0.60	0.54	0.64	0.74	1.02
Non-State	2.26	2.66	2.52	1.67	1.33
FDI	1.44	1.16	1.04	1.57	1.76
Generation and distribution of electricity and gaseous fuels	**3.60**	**3.59**	**4.73**	**5.41**	**8.60**
SOEs	0.51	3.41	5.46	2.25	0.70
Non-State	4.64	3.60	4.74	5.46	9.14
FDI	0.44	0.50	0.60	0.53	1.00
Construction	**3.26**	**3.60**	**4.03**	**2.34**	**2.69**
SOEs	0.78	0.74	0.76	0.73	0.76
Non-State	3.41	3.72	4.15	2.37	2.71
FDI	1.17	4.81	1.24	2.38	4.73
Water transport	**3.01**	**2.17**	**2.21**	**3.85**	**1.65**
SOEs	0.80	0.63	0.92	0.77	0.59
Non-State	3.16	2.36	2.32	4.14	1.72
FDI	8.06	0.61	2.08	0.53	0.51
Telecommunication	**7.63**	**9.60**	**17.02**	**3.05**	**10.68**
SOEs	1.46	1.41	1.47	0.63	0.69
Non-State	8.02	9.94	17.77	3.17	11.13
FDI	2.81	9.00	1.48	3.84	7.00
Insurance	**2.20**	**5.54**	**4.47**	**5.68**	**2.96**
SOEs	0.59	1.32	1.06	1.08	0.96
Non-State	3.00	8.40	5.04	11.95	3.49
FDI	2.91	3.33	4.94	3.47	3.75

Table 2.18: Debt ratios

Unit: Time

	2005	2006	2007	2008	2009
Manufacture of wearing apparel	**1.76**	**1.74**	**1.82**	**1.64**	**1.8**
SOEs	4.36	4.00	3.53	2.48	2.38
Non-State	1.65	1.56	1.63	1.49	1.76
FDI	1.77	2.31	2.50	2.49	2.22
Manufacture of chemicals and chemical products	**1.60**	**1.69**	**1.82**	**1.78**	**1.8**
SOEs	2.81	2.27	2.29	3.15	1.94
Non-State	1.35	1.58	1.80	1.62	1.69
FDI	2.29	2.00	1.83	2.33	2.08
Manufacture of rubber and plastic products	**1.64**	**1.65**	**1.89**	**1.94**	**2.0**
SOEs	3.54	2.34	1.67	1.33	0.99
Non-State	1.52	1.59	1.80	1.84	1.92
FDI	2.04	1.90	2.34	2.52	2.14
Generation and distribution of electricity and gaseous fuels	**0.57**	**0.34**	**0.34**	**0.37**	**0.8**
SOEs	1.19	2.03	0.49	1.89	3.05
Non-State	0.40	0.30	0.34	0.36	0.69
FDI	1.24	1.98	1.40	1.67	1.07
Construction	**1.68**	**1.59**	**1.58**	**1.66**	**1.5**
SOEs	7.41	6.81	6.15	5.69	5.83
Non-State	1.41	1.40	1.46	1.58	1.47
FDI	4.25	3.54	2.23	3.17	2.09
Water transport	**1.59**	**1.78**	**2.05**	**2.06**	**2.4**
SOEs	2.50	3.60	4.54	5.16	4.54
Non-State	1.54	1.66	1.92	1.92	2.29
FDI	0.47	1.20	0.84	0.33	0.94
Telecommunication	**0.56**	**0.63**	**0.28**	**0.76**	**0.3**
SOEs	1.54	3.53	1.28	1.05	1.25
Non-State	0.52	0.51	0.25	0.75	0.23
FDI	0.55	1.68	1.44	1.41	2.93
Insurance	**3.99**	**2.03**	**1.90**	**1.11**	**1.2**
SOEs	4.66	2.86	1.79	1.53	2.36
Non-State	3.00	1.71	1.85	0.96	0.47
FDI	4.10	2.17	2.02	1.16	1.69

Table 2.19: Capital turnover

Unit: Time

	2005	2006	2007	2008	2009
Manufacture of wearing apparel	**1.25**	**1.22**	**1.22**	**1.24**	**1.13**
SOEs	1.30	1.50	1.62	1.88	1.58
Non-State	1.23	1.16	1.17	1.17	1.05
FDI	1.30	1.42	1.40	1.59	1.49
Manufacture of chemicals and chemical products	**1.33**	**1.65**	**1.33**	**1.41**	**1.08**
SOEs	1.45	1.57	1.84	1.86	1.76
Non-State	1.40	1.80	1.37	1.45	1.05
FDI	1.03	1.08	1.10	1.17	1.13
Manufacture of rubber and plastic products	**1.57**	**1.29**	**1.45**	**1.49**	**1.05**
SOEs	1.28	1.57	1.50	1.53	1.44
Non-State	1.71	1.37	1.55	1.58	1.06
FDI	0.90	0.91	0.95	1.03	0.97
Generation and distribution of electricity and gaseous fuels	**0.73**	**0.85**	**0.88**	**1.01**	**1.04**
SOEs	0.36	1.16	0.88	0.73	0.92
Non-State	0.74	0.85	0.88	1.01	1.05
FDI	0.86	0.75	0.87	1.00	0.92
Construction	**0.95**	**0.84**	**0.76**	**0.74**	**0.68**
SOEs	0.75	0.68	0.76	0.76	0.78
Non-State	0.96	0.84	0.75	0.73	0.67
FDI	1.78	1.80	1.82	2.31	1.48
Water transport	**1.00**	**1.04**	**0.93**	**0.99**	**0.71**
SOEs	1.01	0.97	1.05	1.33	0.86
Non-State	0.99	1.04	0.92	0.97	0.70
FDI	1.24	1.85	1.84	1.47	0.35
Telecommunication	**1.19**	**1.65**	**1.05**	**1.35**	**0.85**
SOEs	0.80	1.09	1.15	0.62	1.14
Non-State	1.21	1.69	1.03	1.37	0.84
FDI	1.16	0.39	2.62	1.75	0.90
Insurance	**0.50**	**1.14**	**1.17**	**1.47**	**1.15**
SOEs	0.57	2.97	2.93	1.84	1.93
Non-State	0.61	0.93	0.96	1.91	1.36
FDI	0.32	0.27	0.26	0.21	0.21

Table 2.20: Equity turnover

Unit: Time

	2005	2006	2007	2008	2009
Manufacture of wearing apparel	**3.60**	**3.30**	**3.53**	**3.27**	**3.33**
SOEs	9.66	8.37	8.54	7.65	5.64
Non-State	3.24	2.99	3.22	2.92	3.02
FDI	4.11	4.29	4.51	5.21	5.00
Manufacture of chemicals and chemical products	**3.68**	**4.62**	**3.62**	**3.92**	**3.25**
SOEs	6.10	6.20	7.29	7.18	4.96
Non-State	3.56	4.84	3.60	3.78	3.17
FDI	3.42	3.37	3.23	4.18	3.43
Manufacture of rubber and plastic products	**4.17**	**3.29**	**3.96**	**4.26**	**3.35**
SOEs	5.84	5.49	4.39	4.09	3.25
Non-State	4.35	3.37	4.06	4.45	3.32
FDI	3.00	2.71	3.47	3.28	3.49
Generation and distribution of electricity and gaseous fuels	**1.38**	**1.23**	**1.19**	**1.54**	**1.79**
SOEs	0.78	2.41	1.21	1.74	2.90
Non-State	1.36	1.21	1.19	1.54	1.75
FDI	1.81	2.13	2.10	2.55	1.77
Construction	**2.44**	**2.03**	**1.95**	**1.84**	**1.82**
SOEs	6.68	5.65	5.28	5.12	5.27
Non-State	2.23	1.90	1.85	1.77	1.76
FDI	7.54	4.82	4.58	6.07	4.55
Water transport	**2.68**	**2.45**	**2.43**	**2.54**	**2.22**
SOEs	4.38	3.76	4.39	4.45	4.44
Non-State	2.57	2.37	2.32	2.46	2.13
FDI	1.88	4.08	2.20	0.60	0.58
Telecommunication	**2.68**	**2.82**	**1.56**	**2.00**	**1.30**
SOEs	2.35	5.18	2.43	1.51	2.61
Non-State	2.70	2.76	1.50	1.98	1.20
FDI	2.23	0.74	7.42	7.34	5.29
Insurance	**2.40**	**2.50**	**2.00**	**2.03**	**2.38**
SOEs	4.33	4.63	5.26	2.59	5.57
Non-State	1.21	1.28	1.33	2.45	1.88
FDI	2.46	4.49	1.01	0.70	1.12

Table 2.21: Loss – making ratio

Unit: %

	2005	2006	2007	2008	2009
Manufacture of wearing apparel	**42.9**	**44.4**	**46.4**	**62.0**	**60.3**
SOEs	29.8	19.0	13.9	11.1	25.0
Non-State	41.2	41.9	44.8	63.4	61.5
FDI	53.1	58.4	55.6	57.5	56.7
Manufacture of chemicals and chemical products	**34.4**	**32.6**	**34.1**	**41.4**	**39.2**
SOEs	8.2	2.6	6.9	3.8	9.7
Non-State	34.7	32.0	33.3	40.8	41.4
FDI	41.4	40.8	41.1	48.0	32.5
Manufacture of rubber and plastic products	**34.0**	**40.3**	**35.8**	**55.4**	**51.9**
SOEs	8.0	18.2	8.7	9.5	13.6
Non-State	32.2	38.0	33.7	56.6	53.7
FDI	45.8	52.2	48.0	52.2	45.4
Generation and distribution of electricity and gaseous fuels	**15.2**	**2.9**	**3.9**	**6.9**	**12.0**
SOEs	0.0	0.0	6.3	5.6	11.3
Non-State	18.5	2.8	3.9	6.9	12.0
FDI	0.0	40.0	0.0	25.0	0.0
Construction	**24.9**	**29.0**	**34.3**	**18.5**	**32.0**
SOEs	15.5	13.7	13.0	11.1	9.3
Non-State	25.3	29.5	34.8	18.5	32.2
FDI	41.7	43.5	42.5	45.7	50.4
Water transport	**22.8**	**28.7**	**19.6**	**34.4**	**40.9**
SOEs	11.6	12.2	9.3	2.9	2.9
Non-State	23.3	29.9	20.2	35.8	42.6
FDI	50.0	0.0	16.7	33.3	0.0
Telecommunication	**30.6**	**38.5**	**34.5**	**17.9**	**23.0**
SOEs	0.0	9.1	0.0	18.8	10.0
Non-State	31.7	38.7	34.4	17.5	23.2
FDI	50.0	71.4	83.3	66.7	50.0
Insurance	**21.9**	**23.3**	**17.2**	**23.6**	**32.9**
SOEs	0.0	0.0	0.0	7.1	6.3
Non-State	23.1	23.7	11.1	25.6	37.2
FDI	33.3	41.7	46.7	31.6	45.0

Table 2.22: Return on Assets - ROA

Unit: %

	2005	2006	2007	2008	2009
Manufacture of wearing apparel	**6.22**	**5.65**	**4.98**	**5.72**	**7.01**
SOEs	4.95	6.49	4.63	6.49	6.86
Non-State	4.94	4.47	3.61	4.69	6.21
FDI	12.96	12.83	15.40	11.91	10.22
Manufacture of chemicals and chemical products	**6.09**	**6.16**	**4.81**	**5.74**	**11.87**
SOEs	7.49	8.26	7.40	9.82	10.93
Non-State	4.91	4.62	3.90	4.95	11.46
FDI	10.64	12.47	10.39	9.67	13.39
Manufacture of rubber and plastic products	**4.26**	**3.97**	**3.27**	**3.59**	**5.21**
SOEs	2.56	4.37	5.26	5.50	10.29
Non-State	3.52	3.13	2.74	2.78	3.68
FDI	9.01	8.97	8.16	9.14	10.44
Generation and distribution of electricity and gaseous fuels	**2.69**	**6.38**	**3.92**	**4.30**	**8.11**
SOEs	2.76	5.98	11.65	8.52	12.92
Non-State	0.94	6.38	3.89	4.25	7.89
FDI	9.22	7.74	8.55	13.82	14.04
Construction	**2.79**	**2.56**	**2.16**	**1.76**	**2.66**
SOEs	2.18	2.35	2.54	2.33	2.96
Non-State	2.78	2.53	2.12	1.72	2.62
FDI	15.43	14.73	9.43	16.27	10.52
Water transport	**4.54**	**3.92**	**4.86**	**3.69**	**4.27**
SOEs	3.60	3.70	4.27	4.98	3.25
Non-State	4.61	3.95	4.75	3.59	4.34
FDI	5.29	2.46	29.67	7.48	4.35
Telecommunication	**9.85**	**11.92**	**30.56**	**12.34**	**14.20**
SOEs	9.30	13.70	13.72	4.05	4.11
Non-State	9.72	11.87	31.00	12.45	14.32
FDI	35.44	4.10	-	35.31	55.24
Insurance	**7.26**	**6.30**	**8.19**	**6.00**	**18.80**
SOEs	5.08	5.36	22.19	5.57	26.25
Non-State	6.12	5.22	6.44	5.98	7.51
FDI	10.89	11.54	6.02	6.20	5.26

Table 2.23: Return on Equity - ROE

Unit: %

	2005	2006	2007	2008	2009
Manufacture of wearing apparel	**42.16**	**25.66**	**26.48**	**31.68**	**46.80**
SOEs	31.55	30.65	19.66	16.18	18.75
Non-State	27.72	18.70	13.43	22.37	26.34
FDI	107.29	59.70	110.15	87.68	113.45
Manufacture of chemicals and chemical products	**24.22**	**17.40**	**14.33**	**13.12**	**24.59**
SOEs	26.92	26.52	18.28	21.17	21.55
Non-State	20.22	12.87	11.87	11.44	20.95
FDI	39.68	33.51	29.91	21.84	37.06
Manufacture of rubber and plastic products	**15.56**	**19.69**	**8.35**	**9.94**	**36.63**
SOEs	5.84	23.43	12.01	11.34	21.23
Non-State	8.48	9.00	7.12	7.41	9.40
FDI	58.66	78.47	20.25	27.72	127.76
Generation and distribution of electricity and gaseous fuels	**4.81**	**9.30**	**4.66**	**5.24**	**12.25**
SOEs	6.04	14.44	17.69	18.79	47.30
Non-State	1.11	9.21	4.60	5.10	10.70
FDI	18.09	25.70	16.67	26.15	27.91
Construction	**8.10**	**7.47**	**5.64**	**4.17**	**8.59**
SOEs	18.41	42.36	13.24	11.20	20.56
Non-State	7.31	5.63	5.32	3.92	8.03
FDI	55.59	72.29	26.59	44.54	64.16
Water transport	**11.54**	**8.82**	**8.16**	**8.14**	**18.10**
SOEs	13.93	13.60	11.93	26.91	7.92
Non-State	11.36	8.46	7.59	6.85	18.85
FDI	11.89	5.86	69.62	12.30	7.93
Telecommunication	**17.13**	**16.16**	**33.16**	**18.11**	**16.20**
SOEs	22.87	21.56	23.33	8.46	9.54
Non-State	16.27	15.98	33.43	18.16	16.52
FDI	69.97	4.48	-	89.19	17.55
Insurance	**23.21**	**12.67**	**12.51**	**10.30**	**22.10**
SOEs	21.03	18.30	26.92	11.15	30.75
Non-State	19.14	7.98	9.04	8.74	9.87
FDI	30.63	25.77	16.53	13.40	13.05

Bảng 2.24: Return on Sales - ROS

Unit: %

	2005	2006	2007	2008	2009
Manufacture of wearing apparel	**4.59**	**4.39**	**3.60**	**3.71**	**4.45**
SOEs	3.99	4.79	2.78	3.31	4.16
Non-State	3.68	3.72	2.95	3.20	3.88
FDI	9.29	8.52	8.63	6.92	6.73
Manufacture of chemicals and chemical products	**4.90**	**4.74**	**3.77**	**4.00**	**5.72**
SOEs	6.17	6.40	5.23	6.82	7.52
Non-State	3.86	3.46	3.06	3.21	4.25
FDI	8.88	10.06	8.39	8.26	10.42
Manufacture of rubber and plastic products	**3.17**	**3.34**	**2.57**	**2.76**	**4.30**
SOEs	2.39	3.32	3.63	3.70	5.63
Non-State	2.30	2.41	2.11	2.17	2.81
FDI	8.55	8.96	6.88	6.89	9.65
Generation and distribution of electricity and gaseous fuels	**5.04**	**8.59**	**6.47**	**7.34**	**8.95**
SOEs	7.68	10.21	11.63	19.85	17.03
Non-State	3.32	8.56	6.45	7.24	8.59
FDI	10.15	13.65	11.82	16.03	16.83
Construction	**3.07**	**2.77**	**2.59**	**2.57**	**4.64**
SOEs	3.55	4.14	4.44	4.30	4.75
Non-State	3.01	2.69	2.52	2.52	4.62
FDI	10.46	10.29	5.50	9.45	7.37
Water transport	**4.06**	**3.96**	**4.55**	**3.68**	**5.31**
SOEs	5.37	5.46	8.16	6.69	5.00
Non-State	3.94	3.81	4.20	3.45	5.29
FDI	7.52	6.71	29.80	7.44	16.05
Telecommunication	**8.52**	**7.65**	**27.26**	**9.52**	**15.00**
SOEs	13.94	14.78	14.16	7.97	8.24
Non-State	7.97	7.25	27.60	9.53	15.21
FDI	16.21	17.78	0.00	16.86	26.05
Insurance	**17.29**	**16.21**	**10.06**	**12.69**	**21.11**
SOEs	11.51	20.30	14.06	24.57	41.94
Non-State	10.31	9.93	7.67	5.54	10.51
FDI	32.05	36.69	17.44	22.93	19.49

Table 2.25: Share of scientific staff in businesses per 1000 employees

Unit: person

	Total	Colledge	University	Post university
Year 2009				
Manufacture of wearing apparel	5	2	3	0
Manufacture of chemicals and chemical products	63	12	50	1
Manufacture of rubber and plastic products	41	5	35	1
Generation and distribution of electricity and gaseous fuels	21	2	18	1
Construction	49	7	35	7
Water transport	145	0	29	116
Telecommunication	174	90	78	7
Year 2008				
Manufacture of wearing apparel	13	6	7	0
Manufacture of chemicals and chemical products	68	14	53	1
Manufacture of rubber and plastic products	55	13	41	1
Generation and distribution of electricity and gaseous fuels	23	2	21	0
Construction	33	6	27	1
Water transport	486	139	307	39
Telecommunication	52	9	41	2
Year 2007				
Manufacture of wearing apparel	12	2	9	0
Manufacture of chemicals and chemical products	68	13	53	2
Manufacture of rubber and plastic products	78	16	60	2
Generation and distribution of electricity and gaseous fuels	43	17	26	0
Construction	64	10	52	1
Water transport	192	0	38	154
Telecommunication	292	66	219	8

Table 2.26: Share of labor from core business

Unit: %

	2005	2006	2007	2008	2009
Manufacture of wearing apparel	**99.4**	**99.5**	**99.5**	**99.6**	**99.7**
SOEs	98.7	98.7	97.4	96.5	98.4
Non-State	99.3	99.4	99.4	99.6	99.6
FDI	99.9	99.9	99.9	99.9	99.9
Manufacture of chemicals and chemical products	**97.7**	**98.1**	**97.8**	**98.7**	**98.5**
SOEs	89.7	92.6	88.8	88.7	91.3
Non-State	97.8	97.8	97.5	98.7	98.5
FDI	100.0	100.0	100.0	100.0	99.4
Manufacture of rubber and plastic products	**98.9**	**99.1**	**98.8**	**99.3**	**99.2**
SOEs	95.6	99.4	96.3	94.6	98.1
Non-State	98.7	98.9	98.6	99.2	99.1
FDI	100.0	99.9	100.0	100.0	99.9
Generation and distribution of electricity and gaseous fuels	**98.7**	**99.5**	**99.0**	**96.5**	**95.1**
SOEs	100.0	93.0	91.4	93.1	92.2
Non-State	100.0	99.6	99.1	96.5	95.2
FDI	89.1	95.6	81.5	90.6	92.8
Construction	**97.8**	**98.0**	**98.1**	**98.8**	**98.9**
SOEs	91.4	91.5	90.7	91.5	93.1
Non-State	98.1	98.2	98.3	98.9	99.0
FDI	100.0	99.1	100.0	99.9	99.9
Water transport	**95.2**	**95.0**	**94.6**	**95.7**	**95.6**
SOEs	72.4	72.5	77.8	78.7	75.1
Non-State	96.7	96.3	95.5	96.5	96.4
FDI	90.0	100.0	96.9	100.0	100.0
Telecommunication	**99.6**	**99.4**	**99.5**	**99.6**	**99.9**
SOEs	98.2	93.5	97.7	98.7	99.0
Non-State	99.6	99.6	99.5	99.6	99.9
FDI	100.0	100.0	100.0	100.0	100.0
Insurance	**100.0**	**98.8**	**99.2**	**100.0**	**100.0**
SOEs	100.0	100.0	100.0	100.0	100.0
Non-State	100.0	98.1	98.6	100.0	100.0
FDI	100.0	100.0	100.0	100.0	100.0

Table 2.27: Share of revenues from core business

Unit: %

	2005	2006	2007	2008	2009
Manufacture of wearing apparel	**98.70**	**98.78**	**98.75**	**99.22**	**99.23**
SOEs	94.05	94.50	91.65	89.86	93.29
Non-State	98.62	98.66	98.63	99.19	99.20
FDI	99.92	99.77	99.83	99.88	99.73
Manufacture of chemicals and chemical products	**96.03**	**96.89**	**96.67**	**98.23**	**97.54**
SOEs	81.37	88.41	82.39	86.58	85.66
Non-State	96.22	96.50	96.32	98.11	97.39
FDI	100.00	100.00	100.00	100.00	99.51
Manufacture of rubber and plastic products	**97.45**	**98.60**	**97.86**	**98.51**	**98.55**
SOEs	95.71	96.56	88.90	96.16	96.36
Non-State	97.01	98.35	97.60	98.29	98.27
FDI	99.85	99.87	99.76	99.69	99.95
Generation and distribution of electricity and gaseous fuels	**99.75**	**99.11**	**98.58**	**97.16**	**95.28**
SOEs	100.00	91.82	78.63	80.84	90.55
Non-State	100.00	99.21	98.72	97.26	95.47
FDI	98.11	97.28	88.03	96.91	95.28
Construction	**97.29**	**97.59**	**97.79**	**98.61**	**98.59**
SOEs	90.60	90.15	87.71	89.81	92.41
Non-State	97.60	97.86	98.07	98.77	98.69
FDI	99.99	98.98	100.00	99.92	99.84
Water transport	**93.42**	**92.36**	**92.97**	**92.59**	**92.72**
SOEs	68.51	62.28	75.42	70.25	71.96
Non-State	94.98	94.10	93.95	93.58	93.54
FDI	97.74	100.00	90.39	99.99	100.00
Telecommunication	**99.44**	**99.22**	**99.09**	**99.62**	**99.93**
SOEs	99.59	94.41	93.75	99.56	98.60
Non-State	99.43	99.37	99.17	99.61	99.98
FDI	100.00	100.00	100.00	100.00	100.00
Insurance	**100.00**	**99.61**	**99.75**	**100.00**	**100.00**
SOEs	100.00	100.00	100.00	100.00	100.00
Non-State	100.00	99.39	99.56	100.00	100.00
FDI	100.00	100.00	100.00	100.00	100.00