STATE OWNED ENTERPRISES AND EQUITIZATION IN VIETNAM

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ABSTRACT

Equitization (privatization) has been at the core of the policy debate in Vietnam over the last decade but the government's attitude seems ambivalent. On the one hand, equitization is emphasized in policy statements. On the other, the progress on equitization has been relatively modest and SOEs continue to dominate the Vietnamese economy. This paper examines SOEs and the equitization process in Vietnam. We compare the development with guidelines from economic theory and with lessons from privatization programs in other countries. Equitization in Vietnam is found to target small SOEs and no larger ones, and it does not address the efficiency problem with state ownership since the state typically remains a controlling share of the equitized SOEs. Moreover, economic theory and experience from other countries suggest that the Vietnamese approach with diffused ownership in SOEs and in equitized firms; equitization to employees and management; and little participation of strategic investors, might not be the most efficient approach to public ownership and to equitization. We argue in this paper that Vietnam still has an opportunity to change its approach towards SOEs and equitization and thereby secure increased efficiency and economic growth.

Keywords: State Owned Enterprises; Privatization; Equitization; Vietnam
JEL Codes: P21; P31; L32

I. Introduction

Equitization (privatization) has remained at the core of the policy debate in Vietnam over the last one and half decade. However, the progress on equitization has been relatively modest and SOEs remain a dominating role in the Vietnamese economy. Compared to most other transition economies, the Vietnamese equitization program is best characterized as cautious. This is partly a consequence of the government's strategy of gradualism, but other factors are presumably also of importance. More precisely, the equitization program gives the impression of being ambivalent and lacking in commitment. Moreover, the development strategy seems to lack in coherence: it is on the one hand argued that private enterprises shall be an engine of growth and development, but on the other hand argued that SOEs shall continue to play a leading role in the economy (CPV, 2000).

It is therefore not surprising that the share of the industry sector that has been equitized is small and that the state's share of the economy has been stable over the last years. This is not likely to seriously harm Vietnam's economic growth in the short term: Vietnam has shown a very high economic growth over the last decade despite the tendency of pursuing an unorthodox economic policy (Van Arkadie and Mallon, 2003). In the longer run, an economy dominated by SOEs is not likely to bring steadily increasing economic development to its citizens. No country has become wealthy by relying on SOEs.

One can choose to see the potential rather than the problems in the Vietnamese situation: the small amount of pursued equitization might provide an opportunity for Vietnam to secure an efficient approach towards SOEs and equitization.

First, the good economic condition and steady growth in Vietnam gives the government the opportunity to continue the policy of gradualism. There is no need of pursuing a big bang of equitization, and the economic setting is not characterized by sharp recession, as have been the typical case in many other transition economies.

Second, Vietnam has the luxury of being a latecomer in terms of privatization, which brings the opportunity to study and learn from the experiences of other countries. Privatization has been common in many places around the world, so there is ample of examples to learn from. In particular, such programs have been common in transition economies and in low income countries: the share of SOEs in the latter group declined from around 15 percent at the end of the 1980s to below five percent today (Megginson and Netter, 2001, p. 327).

Finally, Vietnam can learn from its own cautious attempts of SOE reforms and equitization: Vietnam started its equitization program in 1992, and new programs have been launched in recent years. Moreover, different approaches towards equtization have been tried in Vietnam which means that it is possible to compare the outcome of alternative strategies.
Hence, instead of reinventing the wheel, Vietnam can use strategies that have been proven useful in the past as well as in other countries.

This paper aims at studying and discussing the Vietnamese equitization program. Our analysis shows that the number of equitizations has been substantial during the last few years. However, it is only small SOEs that are targeted and no larger ones have so far been equitized. As a result, the state's share of the economy remains very high and stable. Moreover, SOEs are controlled by a host of different ministries, which is likely to provide an obstacle to efficient management. The equitization process does also include aspects that, according to the experience in other countries, lead to a less efficient outcome. For instance, the state remains a controlling share in most equitized firms. Moreover, management and employees are other important stakeholders in equitized SOEs, and few SOEs are taken over by strategic investors and by foreign actors.

II. Theoretical Discussion

Corporate Finance

To address the issue at hand we have to discuss what determines the behavior, or more specifically the efficiency, of firms. We also need to discuss why we might expect a difference in efficiency between private and public owned firms.

The behavior of firms is shaped by various host-country characteristics. Such characteristics include laws, regulations and traditional practices, and how the firm's ownership and management is separated. Corporate governance is concerned with this issue of how suppliers of capital assure that they will be handed a return by the management (see e.g. Shleifer and Vishny, 1997). In other words, there has to be a mechanism that ensures that the firms is efficiently run and prevents the management of a firm to simply divert the capital to itself.

One way to separate ownership and management is to write a detailed contract that clearly defines the responsibilities of management and how management should behave in various situations. In practice, such arrangement fails because of the difficulties to cover all possible developments in a contract. Moreover, the main reason why the owners hire a manager in the first place is because they lack sufficient knowledge on how to run the business themselves, which is another obstacle for writing complete contracts. The result of incomplete contracts is that the managers possess what in the literature is called residual control rights, meaning that they have some discretion on how to allocate resources.

To foster efficiency, an arrangements has to be set up that ensures that this residual control right is not abused. There are different mechanisms that are frequently used: concentrated ownership, legal protection of investors' rights, and the threat of a hostile takeover.

Diffused ownership leads to more discretion for the management since it can be difficult for small investors to collect enough information needed to exercise their control rights. Moreover, a situation with many small investors frequently means that most investors do not make the effort to control the owners, because of a so-called free rider problem. Finally, the more investors the more difficult it is to coordinate the control of the management.

The use of a legal system can be one way for the owners to make sure that the management is not abusing their position. There is in many countries detailed laws protecting the rights of the investors and stating that they should be allowed to vote before important changes such as mergers and acquisitions. The owners can use court procedures against management that have abused their positions.

The threat of a hostile takeover can be viewed as an additional mechanism that might discipline the management. The idea is that if managers are not maximizing the return of the company, this will be reflected in a relatively low stock price. New investors will then be able to acquire the firm and improve upon the performance and the stock price by replacing the management. A well-developed capital market is required for such a mechanism to work.

Private vs. Public Ownership

Contracting ability impacts the efficiency of state and private ownership. What this means is that SOEs are typically plagued by, at least, two problems. First, the firm's objectives might not be clearly defined. It is, for instance, sometimes referred to as maximizing social welfare, which is difficult to define and measure. Second, the large number of owners of SOEs (the public) makes it very difficult to define the contract and it is also a factor that often leads to frequent changes in the objectives given to the firm.

The main problem with SOEs is perhaps the difficulties for the owners to discipline the company. SOEs do not face the disciplinary effect of capital markets and the threat of a hostile takeover. Moreover, the owners often fail to discipline the firm, partly because most decisions are based on negotiations, objectives are vaguely defined, and profits and efficiency are typically of considerably less importance in comparison with capitalist systems (Djankov and Murrell, 2002, p. 742). The SOEs face "soft budget constraints", meaning that the owner, the state, bails them out when they are in financial difficulties (Kornai, 1993). The result is an increased drain on the public budget and increased inefficiency.

For private firms operating in a market economy, there are less problems in formulating appropriate incentives for efficiency and hard budget constraints (Kokko and Sjöholm 1997, pp.14-15). The objective of the firm is to generate an acceptable profit for its shareholders. Since the profit of the individual firm (or the value of the firm) can be compared with those of its competitors, shareholders can easily monitor the performance of the manager, even without knowing all the details about the production process. A manager who is not maximizing profit will be replaced, which provides a strong incentive for mangers to work hard. This is a serious threat even if the firm's own shareholders are passive. A manger who is not maximizing profit is not maximizing the value of the firm's stock. Again, this means that the firm's assets will appear relatively cheap, and outside investors may see an opportunity to make a profit by purchasing the shares and replacing the old management with more competent personnel. Private firms that are not able to operate efficiently and generate profits can also be forced into bankruptcy, which typically means that the owners loose the funds they invested in the company. This provides strong incentives for owners and shareholders to actually monitor the performance of the manager.

However, in a regulated economy dominated by SOEs, mangers typically have weaker incentives to maximize efficiency and profits, there is no individual owner with strong incentives to monitor the performance of managers, and it is harder to find good performance measures. The incentives for efficient management are particularly weak if mangers are appointed on the basis of political decisions rather than professional capacity, and if salaries and job security are not related to economic performance. Lacking individual profit-oriented owners, the objectives of SOEs are often defined by politicians, and may include a multitude of specific targets ranging from maximization of employment to regional policy objectives. In these cases, performance is often very difficult to monitor, both because it may be hard to find appropriate performance measures for all objectives and because the weights of the different objectives are seldom specified. Monitoring may be difficult even when profit maximization is the formal objective. With regulation and limited competition, the SOEs are facing input prices that do not reflect underlying demand and supply. Moreover, they may hold enough market power to set their own prices. In these conditions, the nominal profit that is generated is not a good measure of efficiency. For example, a SOE that has a monopoly in its market may be able to generate a financial profit even if management and physical production practices are inefficient. With limited competition and lack of a level playing field for SOEs and their competitors, it is also hard for decision makers to determine what a reasonable return on business operations is in any specific industry.

Is Private Ownership Always to Prefer?

The economic benefit of private ownership depends on the context. Whereas privatization can be expected to result in efficiency improvements in most cases, there are others where it might lead to welfare losses. Economic theory predicts that private ownership is more efficient than public ownership given a number of assumptions (e.g. Megginson and Netter, 2001, p. 329):

- No externalities in production or consumption
- Not a public good
- No natural monopoly
- Low information costs

Hence, the impact of privatization depends on the degree of market failure: the larger such failure is, the less positive impact of privatization. It follows from this that privatization will result in the largest positive effects when there is a high degree of competition in the economy. Such competition can be caused both by a high degree of trade and FDI, and from a large number of domestic actors. By the same token, a high degree of competition can sometimes force SOEs to be relatively efficient. Moreover, it is less obvious why privatization should be expected to result in large efficiency gains if the market is characterized by natural monopolies or is a public good.

It should be stressed, however, that just as there are market failures, which will impact privatization, one should also recognize that government failures might result in poor efficiency even in situations of natural monopolies and public goods. SOEs are in practice run by politicians or by bureaucrats and are likely to serve the public interest only when that coincides with their own interest. Bureaucrats will often place limited interest on firm profits since such profits flow into the government budget (Shleifer and Vishny, 1997, p.768).

How to privatize

Countries differ in how they implement privatizations, often depending on the institutional and historical context. Brada (1996) presents a taxonomy of privatization methods.

1. Privatization though restitution.
2. Privatization through sale of state property.
3. Mass or voucher privatization.
4. Privatization from below.

Restitution means that the property or firm is given back to the old owners. It often involves the transfer of agriculture land to former owners but also buildings and real estate. Restitution has also been used with some success on small shops and restaurants in many transition economies (Brada, 1996, p.70). There are few cases of restitution of larger companies. Moreover, restitution depends on how long the asset has been nationalized. It is, for instance, no coincidence that there has been almost no restitution in Russia where nationalization took place already in the early 20th century, whereas restitution has been more common in other East European countries where private ownership dominated until the end of the WWII.

Most privatization takes the form of direct sales of SOEs to individuals or to other companies. There are many factors that need to be in order before a sale can take place, or which at least will make such a sale easier to carry through. Important factors include a legal framework with well-defined property rights and the provision of adequate performance records for the SOE.

Another important issue is the choice of sale method: a direct sale of the SOE or privatization through share issue privatization. The latter method means that the public is offered to buy shares and it is often conducted for political reasons; as a way of getting public support for privatization programs. There does not seem to be any evidence of one method being better than another and the choice between these two alternatives is often determined by institutional and other country specific characteristics (Megginson and Netter, 2001).

The second issue is if SOEs should be restructured before the privatization or if such restructuring should be left to the new owners. Again, the choice of strategy is likely to depend on country characteristics. In particular, any successful restructuring will rely on good business management, a resource that is often in scarce supply in transition economies. There is also a risk that governments attempt to restructure SOEs will slow down the whole reform process. On the other hand, some (larger) SOEs might be difficult to sell if they are not improved upon before being sold on the market.

Another issue concerns the pricing of the SOE. It might sound trivial but can be difficult in a situation where it is hard to evaluate the performance of the SOE. This situation is not uncommon in transition economies where good accounting standards is lacking and where privatization is typically accompanied by several other market reforms. The latter aspect means that the SOE's performance during the old economic regime - with various market distortions such as price controls, monopolies, tariffs, and quotas – might be of little guidance on how this firm will perform in a very different economic environment.

Moreover, the government might choose to privatize the whole company at once or through a series of partial sales, and it may also favor one sort of buyers over another. The first issue can depend on how large the privatization program is and if the financial and administrative capital is sufficient to carry through a large privatization program. An example on the latter aspect is if employees in the SOEs should be given the opportunity to buy shares in the company and whether there should be restrictions on foreign purchase of SOEs.

Voucher privatization is another type of privatization that has been of importance in Eastern Europe. It means that citizens can utilize vouchers to bid for shares in assets that are being privatized. The vouchers are typically distributed free of charge or at a nominal cost. The main reason for voucher programs has been politically but such programs can, if they work, bring with them economic benefits in the form of free and efficient markets and good corporate governance.

Privatization from below is outside the scope of this paper but is discussed in more detail in the chapter on private sector development in this volume (see chapter ?).

III. Previous Experience

A large number of countries have pursued privatization programs over the last decades and their experience might provide valuable lessons for Vietnam. We briefly discuss the experience of Sweden, the East European transition economies, and China. The experience in these countries will be used as benchmarks and guidelines for later discussions on Vietnam.

Sweden

The state is Sweden's largest employer and largest owner of firms. It employs around 200,000 people, and the turnover was about 302 billion SEK in 2004. In total, the state has ownership interest in 57 firms of which 43 are wholly owned and 14 are joint ownership with private actors.

The state owned companies contributes significantly to the public revenues: the return to the owner (state) was around 17 billion SEK in 2004. A number of the firms are registered on the stock market and the state is the largest owner at the Swedish stock exchange. The market value of the SOEs registered at the stock exchange amounted to about five percent of the total stock market value in 2003 (SOU, 2005, p.706).

The Swedish state is since 1999 trying to concentrate the management of SOEs to one ministry: The Ministry of Industry, Employment and Communication manages 43 of the SOEs. Various other ministries manage the remaining 14 SOEs. Moreover, the Ministry of Industry, Employment and Communication is, since 2002, responsible for a number of general issues also for SOEs that are formally under the management of other ministries. The concentration of management of SOEs is likely to continue in Sweden, since it is widely perceived to have been beneficial and led to a more efficient and coherent management of SOEs. The Ministry of Industry, Employment and Communication has through this policy been able to develop considerable expertise in running the SOEs and a relatively large number of its personnel specializes on this task.

However, there have recently been discussions on whether the Ministry of Industry, Employment and Communication might have a conflict of interests and if an alternative institutional setting would be to prefer (SOU, 2005, p.35). More precisely, the ministry is not only responsible for the SOEs but also for a host of other aspects of the economy, such as various laws and regulations. The type of regulations that the ministry implements might affect the performance (profits) of its SOEs, leading to a potential conflict of interests. It has therefore been suggested that the regulating part of the ministry's responsibility should be moved to another state body.

The SOEs can be divided in two groups: those with economic objectives and those with a mixture of objectives, including both return to capital and to work for other social objectives. Whereas the economic objectives are clearly formulated as maximization of firm values, the non-economic objectives are typically more vaguely formulated and also more difficult to measure and assess. The first group of SOEs includes companies in such industries as mining (LKAB), power supply (Vattenfall), and forestry (Svea Skog). The second group includes the Swedish monopoly on sales of alcohol, or firms in communication (SJ, Scandinavian Airlines).

Sweden has liberalized its economy during the last 15 years primarily by opening up various sectors to competition from private firms. The result has improved productivity and accessibility, been negative for employment and, somewhat surprisingly, increased prices (SOU, 2005, p. 20). Other experiences from the Swedish liberalization suggest that liberalization affects larger parts of the economy than the specific sector being liberalized; it creates short run transaction costs; and does not reduce the role of the state, although the nature of intervention change from ownership to regulations.

Privatization of SOEs has been rather uncommon in Sweden. There are a few exceptions, however, such as in Banking (Nordea), and Telecommunication (TeliaSonera), where the state has divested part of its assets but still remains a controlling share. The state's objective for these and some other SOEs is to divest remaining state shares.

Sweden differs substantially from Vietnam. Sweden has never been a planned economy, and Swedish SOEs have never totally dominated the economy. It might therefore be more suitable to add some lessons from SOEs and privatization in other transition economies.

Transition Economies

One problem with evaluating privatization in transition economies is that privatization is only one among many changes taking place in the transition from command to market. It is therefore difficult to disentangle, for instance, productivity effects caused by change of ownership from those caused by increased competition from imports or from abolishment of price controls. Bearing this difficulty in mind, there is a substantial literature trying to evaluate the effect of privatization in transition economies. Megginson and Netter (2001) and Djankov and Murrell (2002) summarize the experience of privatization, primarily in East European transition economies:

- Private firms perform better than SOEs and the positive economic effects of privatization are often very large
- Foreign takeovers of SOEs leads to better performance than pure domestic privatization
- Firms controlled by a majority shareholder, and non-employee takeovers, perform relatively well
- Performance improves if new management is brought in after the privatization

How the privatization is carried out is important. The sale of SOEs is difficult, often more difficult than carry through restitution programs or voucher privatization. However, many

SOEs have been created during a communist regime meaning that there are no former owners to hand the firm over to.

Germany is perhaps the country that relied most on privatization through the sale of state-owned enterprises (Brada, 1996, p.71). There are two interesting aspects of the German privatization program that is worth emphasizing. First, the privatization came at a great cost: revenues collected amounted to about $50 billion but the costs of the program amounted to about $249 billion. Hence, revenue collection was clearly not the aim of the privatization of East German assets but it was rather conducted from ideological and efficiency perspectives. Second, Germany is special in the sense that a large domestic pool of buyers existed who were ready to purchase the SOEs. Few countries are in such a fortunate position. Most are instead facing a constraint on the availability of domestic funds.

One alternative could then be to allow foreign investors to purchase the SOEs. This approach was used with some success in Hungary during their transition process. Hungary has perhaps been the most successful of the transition economies in Eastern Europe, largely due to the strategy of actively encouraging foreign firms to take over domestic SOEs (Mihályi, 2000). One huge benefit of allowing foreign MNCs to acquire domestic SOEs is that such MNCs do not only bring with them the capital but also management, technology and access to foreign markets.

Again, experience from East European countries suggest that firms sold to employees and managers might be problematic and an obstacle for restructuring the firm (Frydman et al., 1999). For instance, it is often the case that the old management has limited knowledge on how to restructure and run the firm in a new economic environment. Frequently, this leads both to relatively inefficient privatized firms and to a situation where resources are diverted from the firm to the management (Shleifer and Vishny, 1997, p.769).

Finally, empirical evidence suggests that many of the voucher privatization programs failed, often because of insider controls of the firms (Megginson and Netter, 2001, p. 345). More precisely, management typically blocked the share-holders' influence over the company, partly as a result of the difficulties in exercising a good control of a company in situations where ownership is not concentrated. This points again to the importance of bringing in outside knowledge and influences to the privatized companies. It should be stressed however, that some voucher programs, such as the Czech one, has been rather successful (Brada, 1996, p. 73).

China

The Chinese experience of privatization is perhaps of special interest to Vietnam, considering the geographic proximity and political similarities between the two countries. The special construction of the Chinese welfare system makes privatization relatively difficult. In China, state owned firms, rather than the government, provide various social benefits, like pensions, which makes them both difficult to sell to private investors and difficult to liquidate because of the risk of social turmoil.

Considering these difficulties, it is not surprising that reforms of SOEs did not take off until quite recently: although reforms of SOEs have been on the political agenda since 1984, privatization was uncommon until Deng Xiaoping’s famous visit to Southern China in 1992. The reforms of SOEs, including privatization, have been cautious but substantial. For instance, the number of SOEs has declined from 114,000 in 1996 to 34,000 in 2003 (Garnaut et al., 2005, p.xi). Around two thirds of the decline is due to privatizations. Moreover, the state’s share of the economy has declined from around 41 percent in 1998 to around 34 percent in 2003 (Garnaut et al., 2005, p.10).

The privatization started with small SOEs in the early 1990s, continued after 1998 with SOEs that in practice were privately controlled, and has since targeted increasingly large SOEs. The average size of SOEs being privatized is around 600 employees. Management and local politicians have often been the main force behind privatization.

There are a few lessons that can be drawn from the Chinese experience (see Garnaut et al. 2005, Chapter 1). First, insiders, in particular the old management, control most privatized companies. However, outside investors have a much stronger positive impact on firm performance, partly by providing a better check and balance on management discretion. Outside investors do also tend to reduce the role of traditional stakeholders such as the Party and the labor union.

Moreover, the stock exchange has been important in transforming Chinese SOEs since the authorities are using the stock exchange to divest state assets. Around 1,400 large SOEs have been listed over the last decade and their market capitalization amounts to about 40 percent of GDP.

However, there are two potential problems with the Chinese divestment strategy. First, many SOEs have not been fully privatized but do often remain under some form of state control. Second, there is a risk that ownership is too widely diffused for an efficient control of the management. Third, the control of the firms is not really contestable. The three problems are summarized by Megginson and Netter (2001, p.365) who note that:

> Only one-third of the stock in China's publicly listed former SOEs can be owned by individuals; the remaining two-thirds of a company's shares must be owned by the state and by domestic (usually financial) institutions-which are invariably state-owned. So-called A-shares may be owned and traded only by Chinese citizens, while B-shares are stocks listed in Shanghai or Shenzen that may be owned and traded only by foreigners. Other shares are listed in Hong Kong (H-shares) or New York (N-shares), and these are also restricted to foreigners. The net effect of this fractionalization of ownership is that, even in publicly listed former SOEs, control is never really contestable, and the long-term financial performance of "privatized" Chinese companies has been quite poor.

IV. SOEs and Privatization in Vietnam

In Vietnam, as in many other developing countries, the emergence of SOEs was not only caused by a Marxist political system but also by the dominating policy views at the time, and by a colonialist past. More precisely, the policy prescription in the 1950s typically involved industrialization through heavy emphasize on capital-intensive large-scale projects. It was widely argued that such development strategy needed to be undertaken by state-owned enterprises because private firms were not in a position to generate the sufficient resources. Moreover, many of the private firms had been owned by the colonial powers and the nationalization of them was as much a resentment of this arrangement as it was part of an economic ideology.

Vietnam has changed dramatically since the early agricultural reforms in 1979 and, even more, since the launch of the Doi Moi in the mid 1980s. A steady march towards market economy has arguably been the main determinant to the very high economic growth during later years. Despite this development, the leading role of the state appears to be one of the few unyielding ideological foundations of the Vietnamese leadership, although it is not always clear how this leading role should be implemented. It is clear, though, that SOEs have played, and continue to play, an important part of the state's involvement in the Vietnamese economy.

A cautious beginning: 1992-2000

A pilot privatization program was initiated in 1992. The interest in reforming SOEs was caused by their poor performance. Most SOEs operated with obsolete machinery and equipment, and surveys of the sector indicated that perhaps one-third of the capital stock was useless (Le Dang Doanh, 1996). Moreover, the financial performance of the SOEs were weak; most SOEs were running at a loss and only 300 enterprises accounted for 80 percent of the SOE sector's contribution to the state budget. Due to their low profitability, many SOEs were forced to borrow capital from other state enterprises, the banking sector, and other capital sources, which created a complex maze of cross-subsidization and indebtedness. At the end of 1995, the aggregate debt of the SOE sector was reported to exceed the sector's aggregate turnover the same year (Kokko and Sjöholm, 1997).

The poor performance of the SOEs was caused by a host of different factors. For instance, unclear objectives, poor management, and soft budget constraint all contributed to the deteriorating situation. The former factor was perhaps the main constraint on improved efficiency, and the government kept on bailing out SOEs in financial distress and even encouraged the banks to lend them money without collaterals.

The pilot scheme was extended in 1996, with the issuance of a formal decree on equitization. The decreed allowed the transformation of non-strategic SOEs into join-stock companies. The first steps were very cautious and the equitization was initially restricted to a few SOEs: only 18 SOEs were equitized as late as in early 1998 (MPDF, 1998). The slow process was explained both by a resistance towards equitization among many interest groups and because of administrative difficulties. For instance, managers were often obstructing or at least opposed to equitization. A major concern for the SOE managers was the loss of various privileges associated with managing a state enterprise. For individual managers, it was clear that equitization could be perceived as a serious threat. Since neither the pay nor the job security of SOE managers was strictly related to economic performance, it is understandable that some mangers tended to resist changes that made them accountable to new owners with tougher demands.

Hence, the situation for SOEs at the mid 1990s were troublesome and there was an urgent need for reforms, as emphasized by at the time newly appointed Prime Minister Phan Van Khai at the 10th parliamentary assembly in September 1997. The exact nature of SOE reform were often less explicit and the policies that were implemented often aimed at consolidating the SOE sector rather than privatizing it. In other words, the government did still believe in an important role for the SOEs in Vietnam's industrialization and development but thought that reforms were needed to make them more competitive.

As an example, in 1994, the government established 18 General Corporations (GC) and 64 Special Corporations, which were large conglomerates incorporating SOEs operating in what was considered to be various strategic industries or specific geographical areas. Taken together, these General and Special Corporations absorbed approximately 2,000 of the 6,300 SOEs that existed at the end of 1994. Moreover, they accounted for about half of the SOE sector's employment.

Slowly gaining speed: 2000-present

Although the equitisation process started already in 1992, it took considerable time for it to take off. Around 2,600 firms were equitized in the first 13 years of the equitisation program. Out of these, around 2,000 have been equitized in the last five years (2000-05).

The main reason why equitization took off around year 2000 was an increased interest of the issue within the central authorities. Official sources argue that enough experience from the first years of equitization had been gathered to provide a solid foundation for continued liberalization of the Vietnamese economy.

One should not interpret the recent waves of equitization as a sign of a diminishing role of the state in Vietnam. On the contrary, the state's role in the Vietnamese economy remains dominant and is not declining. Table 1 shows the structure of the Vietnamese economy by ownership. The state's share is large and has remained stable at around 39 percent over the period. It is interesting to note that this development stands in sharp contrast to the Chinese development where the state's share has fallen significantly during the same time (see discussion above).

It should also be noted that the figures in Table 1 underestimates the real share of the state since the Foreign Investment Sector includes a substantial share of joint ventures between foreign and state actors.[1]

-- Table 1 about here --

How can one explain the stable share of the state despite the substantial number of firms that have been equitized since 2000? One explanation is that many existing SOEs have been doing very well over the last years. Gainsborough (2002a) describes how state actors have been well placed to take advantage of the opportunities that emerge after reforms of the economy. The growth of production in non-equitized SOEs has therefore balanced the shrinking number of SOEs.

Another explanation can be found in Table 2, which shows the number of firms with different ownership for two years where such figures are available, 2001 and 2003. The number of SOEs has decreased from 5,355 in 2001 to 4,845 in 2003. The decrease is caused by both equitization and liquidization. Around 80 percent of the total decline is accounted for by the decline in the number of local owned SOEs. Moreover, all decline is found in the small categories of SOEs. For instance, the number of SOEs with less than 50 employees declined from 1,063 in 2001 to 799 in 2003. On the other hand, the number of large SOEs increased: SOEs with above 500 employees increased from 940 in 2001 to 1,042 in 2003. Accordingly, the number of SOEs with above 5,000 employees increased with 40 percent over the two years.

As previously said, state interest is also hidden in other firm categories such as foreign joint ventures and local Stock companies. The latter group with state shares has increased from 470

[1] Accordingly, it seems that the category "private" includes joint-stock companies between private and state actors.

to 669 enterprises with most of the increases taking place among large entities.[2] The conclusion is that the equitization has primarily targeted small SOEs and that the number of large SOEs has increased, leaving the state's share of the economy unchanged.

One likely reason why the government has been slow in equitizing larger SOEs is that they tend to be profitable and bring home revenues to the government. For instance, Painter (2003, p.26) claims that about one-quarter of state revenues comes from SOEs, and about two-thirds of these revenues comes from the 200 largest SOEs.

--Table 2 about here--

A closer look at the SOEs

It seems clear from the figures above that SOEs continue to dominate the Vietnamese economy. It should be stressed that the SOE sector is not homogenous but consists of firms with very different ownership arrangements. The definition of a SOE is according to the State Owned Enterprises Law 2003 an economic organization in which the state keeps the whole charter capital or some shares, or contributes controlling capital, and it is established in the form of a state company or a joint-stock company or a limited liability company. The core of SOEs consists of the around 100 General Corporations (sometimes referred to as State Corporations). More precisely, there are eighty three so called Corporations 90 and eighteen Corporations 91. These are large organizations, each consisting of many different firms, and accounts for around 2,000 of the total number of SOEs. They are not, however, any corporations in a traditional sense since there are no cross ownership arrangement or a holding company that is controlling the included SOEs. The government has also decided to approve a pilot project of forming 5 economic groups: Post and Telecommunication, Textile, Ship Building, Coal and Minerals, and Bao Viet Financial Group.

There have been suggestions that the presence of GC limits the degree of competition in the Vietnamese economy. This might be the case for GCs were the included firms are complementing each other rather than competing. There are other GC's however, were the degree of competition is higher between included firms, such as in the Sugar Cane

[2] The number of foreign joint ventures increased from 717 to 772 and most of the increase were in the large categories. We do not know how many of these enterprises that include state actors as the domestic partner.

Corporation and in the Construction Corporation. There does not seem to be any price collaboration between firms in these sectors.

As previously discussed, one problem with SOEs tend to be soft budget constraints caused by poor monitoring by the owner. The management can, in other words, abuse the residual right. This seems to be the situation in Vietnam, which is governed "through a highly decentralized, fragmented and sometimes incoherent set of state institutions" (Painter, 2005, p. 267). The division of ownership responsibilities and control duties are very blurred with many different actors involved in the same SOE.[3] There is typically one ministry that has the main responsibility for the SOE. However, other ministries are involved in various aspects of the same SOE. For instance, Ministry of Finance is typically responsible for the capital and its utilization, Ministry of Social Affairs for employment issues, and different line ministries for the management. The large number of involved actors complicates matter and puts large requirements on the ability to coordinate and cooperate, and it is said, even among the actors themselves, to result in large inefficiencies. For instance, Ministry of Finance has typically no formal control right on management and the business plan, although such factors have obvious effects on the return to capital, which is the responsibility of the Ministry of Finance.

One obvious effect of the many ministries with interest in each SOE, and by the many SOEs that each ministry is responsible for, is that the real control of the firm might be hijacked by some other actor. This is what is happening according to Gainsborough (2002b) and Painter (2005) who describe how SOEs are often controlled by private actors, such as the management or people from the political sphere. One problem with this type of hidden privatization is the lack of transparency and the strong remaining links between the business- and the political community.

The situation for equitized companies is no less complicated. Firms that used to be independent SOEs (not part of a GC) but have been equitized and where the state remain a minority or majority share, will continue to be monitored by line ministries or by Peoples

[3] A central administrated body used to be responsible for executing the control responsibilities of the state. However, there were frequent conflicts with local authorities that also had an interest in these companies and the arrangement was eventually closed down.

Committees. Firms that are equitized and which have been part of a GC is monitored by the GC. The GC itself is in turn controlled by line ministries and Ministry of Finance.[4]

As seen in Table 2, most equitizations have been of locally controlled SOEs. Up until the late 1990s, the funds from equitization were controlled by the central authorities, bringing little incentives and willingness to local authorities to equitize firms under their control. However, in the late 1990s there was a change in control of the equitized funds from central to local authorities. More precisely, the local people's committees were controlling the equitization funds and could use the means in local development projects. However, there were frequent complaints on how the local authorities were using the funds; local authorities were often accused of making "inefficient investments". As of late 2005, the arrangement has changed once again and the local authorities now need the permission of the central authorities before the funds can be used. This has reportedly led to large complaints from local authorities and it seems likely that diminishing local incentives will provide an obstacle for further equitization, as it did in the early 1990s. Central authority sources claim that the problem is minor because remaining local SOEs tend to be small in size and often loss making. While this might be true for local SOEs in rural provinces, it is not necessarily the case for local SOEs in urban areas. There are also areas in Vietnam with strong local leadership that might oppose central directives. Indeed, VIE (2000, p.31) find that resistance from local people's committees is one of the main obstacles for equitization in Vietnam.[5] Taken together, it is likely that the number of local SOEs will continue to decrease over the next few years but the change might not turn out to be as smooth as predicted by central authorities.

Equitized Firms

The equitized firms can be divided in three different categories according to the state's remaining degree of control: no control; minority share; and a majority share.

In those enterprises that have been equitized so far, the state holds on average around 46 percent of the equity, workers 29 percent and outside investors around 24 percent.

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[4] The main difference between GC and other SOEs is that the Prime Minister appoints the chairman of the board of directors in the GCs.

[5] The other actor who tends to obstruct equitization is SOE management. This is different from the situation in China were local peoples committees and management have been the main forces behind equitization (see discussion above).

Around 30 percent of the firms being equitized belongs to the group with no remaining state equity, were, hence, neither the central nor the local authorities keep any shares in the firm being equitized. These firms are the ones that are most similar to privatized firms in other countries.

The state remains a majority share of the equity in around 30 percent of the equitized companies. In the remaining 40 percent the state holds a minority share where the exact share varies from case to case. The average state share in this latter group is a substantial 40 percent.

It should be noted that a minority state ownership share is in reality enough for a controlling share. Again, around 40 percent of the equity is on average kept by the state in so called minority shareholding firms. Another 15 percent of the equity is in these firms, on average, offered to what is called outside individual entities and individuals. The rest of the shares are diffused among the employees and management. Hence, the state is typically the only stakeholder that can gather enough shares to control the firm.[6]

It seems from the discussion above that equitization in Vietnam is primarily a way to generate capital to the company, and not an end to state ownership control: the state remains a controlling share of most equitized companies. This is confirmed in surveys where equitized firms claim that the state continues to have a significant influence over the company even when it is a minority shareholder (MPDF, 1998, p.x). This is yet another example on the difficulties in categorizing firms as private or public. Or as Fforde (2003, p. 21) puts it, “in Vietnam, the private is not entirely private and the public not entirely public”.

Moreover, the sale of SOEs to foreign owners are very few, only 25 of the 2,600 equitizations. One reason is that the foreign owners have only been entitled to a maximum of 30 percent of the shares. Most foreign firms have no interest in taking such small stake in a company. Another reason is that it has mainly been small SOEs that so far have been equitized and these might be of little interest to foreign investors. A new policy on Foreign Direct Investment was approved in October 2005, allowing foreign owners up to 49 percent of equitized SOEs, which might increase future takeovers by foreign firms. It would

[6] To put the figures in perspective, it can be mentioned that the controlling share of equity is only 15 percent according to OECD’s definition.

presumably be even better if all types of limits on foreign ownership were abandoned, which would allow foreign investors to fully control the acquired firms and thereby increasing their interest to invest.

The few foreign takeovers of SOEs should not be interpreted as a lack of cooperation between foreign firms and SOEs. On the contrary, a large number of joint-ventures in Vietnam consist of such cooperation between private-foreign and state-Vietnamese owners. How large share of the foreign joint venture investments that involves state interests is, unfortunately, not reported (see above).

The choice between the three different levels of state engagement in equitized firms – no remaining ownership, majority- or minority ownership - is partly decided by the strategic importance of the sector in question. The state remains a majority share in strategic sectors. However, the concept of strategic interests is not well defined but involves a number of different industries. Some industries are of obvious public good character, some are in defense and security areas, but others in what appears to be ordinary manufacturing. It is said that industries have been selected as strategic after discussions by many different ministries, perhaps representing different vested interests, which could be one possible explanation to the diverse choice of industries. There is also a tendency for the state to remain a dominant share in the largest firms being equitized and keep no, or a minority share, in the smallest firms. The state is for instance said to keep a dominant share in firms with more than 30 million Dong of capital.

Some more discussion on how firms are equitized in Vietnam

The mode of equitization has been almost exclusively through direct sales, and through privatization from below. Privatization from below, or the development of a private sector through the establishment of new firms, is discussed at detail in Chapter ?? of this volume. Restitution and voucher privatization has not really been used in Vietnam and we focus our discussion on privatization, or equitization of SOEs.

Employees are in a typical equitization encouraged to buy shares and are given a discount rate of 40 percent on the official price. The employees are free to sell these shares and many are reportedly trading away their shares quite rapidly.

The valuation of firms being equitized is a problem in economies undergoing relatively rapid changes, such as the Vietnamese economy. More precisely, firms being profitable under one economic regime might not be so under another economic regime. The problem of valuation was probably more pronounced in the earlier years of equitization when the economy changed rapidly and when good accounting standards and other tools for firm evaluation were missing. Up until recently, a government committee that was put up for the occasion valued firms that were being equitized. This system was abolished in 2005, apparently because of poor performance, and the valuation is now conducted by outside consultants. The price suggested by the consultants is a reference price, which can be changed by the selling part.

The time between the decision to equitize the company and the time when the equitization is fully implemented average 15 months. The company might be restructured during this time if it is needed. Restructuring of the firm can include change of management (something one would normally presume to happen after privatization rather than before it), the reconstruction of bad debts, and layoff of redundant labor. Typically, the government will take over bad debt if it considered to be caused by unexpected events, but it is less willing to do so if it is considered to be the outcome of the firm’s own behavior. In the latter case the state might choose to instead liquidate the company. In practice, there are no clear rules how to handle the issue and the outcome seems to be caused by a range of other factors, such as the size of the company, the controlling owner’s position within the state sector, and by demands from potential buyers.

The means from equitization is sometimes getting back to firms in bad conditions. This is decided on a case by case basis. However, the normal procedure is that the revenues are going to the GC, or to the Ministry of Finance if it was an independent SOE. The government plans to use future incomes from equitization for large investment projects, for instance in infrastructure.

Has Equitization in Vietnam Been Successful?

Unfortunately, there are almost no studies that try to examine the economic outcome of equitization in Vietnam in any greater detail. The result from the few initial equitization in the 1990s seems to have been positive with increased efficiency (MPDF, 1998). The improvements are likely to have been caused solely by the new set of incentives since no major change in personnel or management took place after the equitization. However, all firms were profitable already at the time of equitization, which means that they were not typical for SOEs and also makes it more difficult to draw any general conclusions on the effect of equitization.

There are no detailed studies analyzing the effect of more recent equitizations on firms' performance, but various sources taken together suggest that it has been positive. For instance, officials at the Ministry of Finance claimed in interviews to have information that equitized SOEs increased their revenues with around 23 percent, profits with 139 percent, and number of employees with 23 percent. The contribution to the state in forms of taxes and fees increased with 25 percent. It is difficult to evaluate such information but other sources agree that the effect of equitization has generally been positive (e.g. Vietnam Economic Times, 2005, p.21).

Since the state often remains in control of the equitized firms, as discussed above, and since private firms often have more difficulties in getting access to capital and land, the question is what the mechanisms are that leads to increased efficiency? Most observes argue that equitizations improve upon incentives and decrease various regulations that constrain efficiency. As one minor example, SOEs have a ceiling on wages at the amount of three times the firm's average salary. This means that the official salary for management and specialists becomes very low. Equitization releases the firm from such regulations and thereby the need to find other solutions to increase remuneration of key personnel. Moreover, many firms claim that they need less approval from the owners after equitization, even when the main shareholder continues to be the same state actor as before the equitization. Why this is the case is difficult to comprehend.

It is also clear that the improved performance is not caused by improved technology; most firms use the same production method and produce the same goods after equitization as they did before. The explanation is of course the restriction on the share of equities to outside investors, domestic or foreign, which limits the interest of so called strategic investments.

Finally, better management could not explain the improved performance either, since it is the old management that remains in charge of the firm in almost all equitized SOEs.

V. Discussion on the future path of state owned enterprises and equitization.

How should policies concerning SOEs and equitization in Vietnam be constructed to ensure the highest possible efficiency and welfare gains? This is obviously a difficult issue but the previous discussion on lessons from other countries and on possible problems with the Vietnamese situation might provide some guidance.

A discussion starting from the Vietnamese authorities' own reform plans might also be useful. There are, for instance, plans to reduce the number of SOEs to around 1,000 and the number of GCs to around 50.[7] It is also said that the remaining SOEs should primarily be located in strategic sectors defined as security, defense and public utilities. The rest of SOEs should be equitized, merged, or liquidated. The suggestions are in line with economic theory that stresses that the state should for efficiency reasons concentrate on provision of public goods and let private actors be responsible for other products and industries. It should be noted here that some initial and cautious equitization is for the first time targeting larger companies in Vietnam, such as VinaMilk, which is in line with the suggested policies.

Moreover, there shall be no distinction between central- and local SOEs. In practice, this implies that local SMEs will disappear, again through equitization, mergers (with central SOEs) or liquidisation.

There are, however, a few question marks regarding this type of reforms in Vietnam. The first, and perhaps most crucial one, is that the Prime Minister has not yet approved any of the suggested policies. It is uncertain whether support for the policy is wide enough among the Vietnamese leadership for getting the reforms started.

The second question mark concerns the issue of equitization. As has been discussed above, the equitization that has taken place up till now has been one of attracting capital to firms without giving up state control. There are no clear indications that this is about to change despite frequent statements from the authorities on the importance of strategic investors.

[7] Some observers interpret the state's intention as to equitize some of the GC's included SOEs rather than whole GCs. Others think that it will take about another five years before large SOEs are equitized. This is yet another evidence of the large uncertainties that characterise future reforms and policies in Vietnam.

There are also suggestions on changing the system of monitoring responsibilities, suggestions that also waits to be approved. More precisely, the idea is to move away from a system with several ministries responsible for monitoring the same SOE to a system where the responsibility should be concentrated to one line ministry for each SOE. The line ministry would then be responsible for reporting to the Prime Minister. The Ministry of Finance will have an advisory role.

Whereas the concentration of monitoring is a step in the right direction it is more uncertain whether different line ministries should be responsible. The main task of these ministries is to develop and implement public policies and it can be questioned if they are qualified in practical business operations. It would presumably be more efficient to concentrate the monitoring responsibility to one specific ministry staffed with qualified personnel, along the lines discussed in the case of Sweden.

One possibility would be to transfer all control rights to the State Capital Investment Corporation (SCIC). This newly formed entity is said to begin its operation in January 2006. As of late 2005 no director has been appointed and no staff employed, indicating that the start might be delayed. SCIC will reportedly get the responsibility of controlling equitized firms where the state remains an ownership share. Hence, there will be a transfer of monitoring responsibilities away from various ministries to this new state organization. Although the exact duty is unclear it does not seem to include monitoring of equitized firms which used to belong to GCs.

If these changes are implemented there will remain a large number of actors with monitoring responsibilities: Ministry of Finance, line ministries, General Corporations, People's Committees, SCIC.

The situation will be even more complicated at a regional level where local branches of the ministries as well as local People's Committees will share the control responsibility. Again, one suggestion would be to concentrate the state's monitoring to one state body, and perhaps the SCIC would be a natural candidate. It would increase the possibility of coordinated actions, facilitate comparisons of different SOEs, and make the division of responsibilities between different authorities clearer.

To concentrate monitoring to one such body raises sometimes concerns and questions if SCIC, or any other ministry, would be capable of an efficient monitoring. Instead, it is argued, the GCs are in a better position to monitor equitized SOEs that previously belonged to them. Whether this is correct or not, it is definitely a huge task that lies ahead of SCIC. It is estimated that SCIC will be in charge of the state's share in around 800 equitised firms accounting for a capital stock of some 30 thousand billion Vietnamese Dong. This large amount of assets will obviously make SCIC a powerful actor. While the concerns of creating yet another important state actor should be taken seriously, the status quo seems to be a worse situation. Moreover, experiences from, for instance, Sweden suggest that a specialized ministry can be relative efficient in monitoring both SOEs and equitization processes.

Never the less, it seems reasonable that the task of supervising state interest in 800 relatively small SOEs will be difficult. It is presumably more efficient for the state to concentrate on large SOEs. An alternative strategy would therefore be to encourage the firms to register on the stock exchange and then try to sell the state's shares in these companies. Hence, it might be a reasonable strategy to concentrate the state's interest in equitized firms with the SCIC in the short run but a strategy for the medium term would ideally have the purpose of letting the SCIC divest the assets. This requires a developed and functioning Vietnamese stock market. So far it has been a disappointment. Around 106 companies are listed on the Saigon or the Hanoi tock exchange. It is well below the official target of some 200 companies.

Another consequence of the poor development of the stock exchange is that there is no disciplinary effect on the firms from the potential threat of hostile takeovers. Moreover, for the stock market to fill its role in corporate governance it is important that also accounting standards are improved. Vietnam has officially adopted rather advanced accounting standards. In reality, firms are said to be able to show more or less any results they want through a number of different actions, such as purchases of faked invoices.

There is also a discussion in Vietnam of transforming the GCs to a more traditional type of holding companies. It is argued that this would increase the transparency and clarity regarding the exact relationships between the SOEs included in the same group. One risk with this strategy is that it will lead to stronger GCs and that it therefore might make future equitization more difficult to carry through.

Another potential problem with a holding company structure is that it will in practice create large firms with substantial monopoly power. As previously said, the present situation in most GCs seems to be one with little cooperation between included firms. If the included firms will be more firmly controlled by the same owner, it will be obvious risks of price collaboration with resulting decline of competition and efficiency.

VI. Concluding Discussion

Equitization has been one of the major policy issues in Vietnam over the last decade. Despite this interest in equitization, the progress has been modest. The number of firms that have been equitized in the last few years is truly impressive but these firms tend to be small in size. There has been basically no equitization of large SOEs. As a result, the share of the state in the economy has not decreased despite the equitization programs. It was decided by authorities in 2004 that the policy would change and that larger and more important SOEs are going to be equitized. This would be a fortunate development but the policy remains to be implemented.

A cautious interpretation is that the government proceeds in a typical gradual fashion, starting with the easier, smaller, SOEs and progressing towards the more difficult and larger ones. The situation can be compared to, for instance, China where larger SOEs are already privatized and where the share of the state is declining rapidly. Hence, it seems fair to say that Vietnam is lagging behind its large and important neighbor in terms of privatization.

Moreover, the equitization process has not meant that the state withdraws from the firms in question: the state remains ownership in 70 percent of the firms being equitized and in a disproportional large share of the larger firms being equitized. Hence, the perception of declining state interests in the overall economy is wrong.

The remaining state interest in equitized firms suggests that the equitization process is a way to attract capital to the firms, or to ease pressure on the public budget, or for political-business interest groups to get access to various resources (e.g. Gainsborough, 2002a, Painter, 2005), but the equitization process has not addressed the important efficiency issue. In other words, privatization is often leading to large efficiency gains, but it requires that the state gives up the control to new private owners.

Economic theory suggests a few guidelines on how to enhance the efficiency in the economy. More precisely, concentrated ownership, a well functioning stock market, and a proper legal system, improves upon the discipline of managers and thereby on the performance of firms, private- as well as state-owned. Some of these aspects are discussed in other chapters in this volume. It is here sufficient to say that the legal system is relatively weak in Vietnam with little ability for firm owners to use it for control purposes.

Moreover, and as discussed in this paper, the development of the stock market has been a disappointment and the ownership of Vietnamese firms is therefore not contestable. Finally, the equitization program is typically leading to a relatively diffused ownership, since shares are allocated to many actors and with an upper limit the share of the firm one single investor can obtain.

Experience from other countries provides other suggestions on how Vietnam might design its policy towards SOEs and equitization. For instance, the Swedish experience of centralizing management of SOEs to one ministry has been positive and stands in stark contrast to the Vietnamese situation. In Vietnam, ownership is non-transparent and includes a host of different state actors. The situation makes an efficient state management difficult to pursue and is providing an opportunity for various state-business groups to take over the real control of the SOE.

Moreover, experience from other transition economies confirm that diffused ownership might be a problem and do also suggest that one should avoid selling SOEs to management and employees but instead try to attract strategic investors. Djankov and Murrell (2002, p. 741) claim that privatization to outsiders is associated with 50 percent more restructuring and improvements than privatization to insiders. It is particularly beneficial if one can convince foreign investors to take over SOEs, since they bring with them superior technology and access to foreign markets. These are aspects worth considering in Vietnam where hardly any SOEs have been sold to foreign investors.

Vietnam is now at a crossroad and it is likely that the choices on how to progress with equitization will be crucial for the coming development of the economy. The slow progress on equitization in Vietnam can be seen as an opportunity: a possibility to reflect on how the equitization process is best conducted. Vietnam has by now collected experiences from 13 years of equitization. This experience will be very valuable if and when the country stages the next and more substantial phase of equitization. In addition, privatization programs have been launched in many countries around the world, which can provide additional valuable information on how Vietnam best should approach equitization. It is our view that Vietnam's prospect of continued high economic growth and rapid development must be considered to be exceptionally good if it manages to reap this learning opportunity from past and foreign experiences.

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Tables

Table 1. Structure of Vietnam’s gross domestic product at current prices by ownership (% of total)

Sector/Year	2000	2001	2002	2003	2004 (preliminary)
State	38.5	38.4	38.4	39.1	39.2
Collective	8.6	8.1	8.0	7.5	7.1
Private	7.3	8.0	8.3	8.2	8.4
Household	32.3	31.8	31.6	30.7	30.1
Foreign	13.3	13.8	13.8	14.5	15.2
Total	100	100	100	100	100

Source: General Statistics Office (2005a, Table 29).

Table 2. Number of enterprises by ownership and size (number of employees)

	Year	Total	> 5	5-9	10-49	50-199	200-299	300-499	500-999	1000-4999	5000-
Total	2001	51,680	11,932	13,896	15,737	6,304	1,193	1,156	883	539	40
	2003	72,012	13,091	20,438	25,220	8,531	1,407	1,403	1,181	684	57
SOEs	2001	5,355	22	60	981	2,087	602	663	560	355	25
	2003	4,845	2	30	767	1,801	545	658	596	411	35
Central SOEs	2001	1,997	8	7	196	637	234	327	324	240	24
	2003	1,898	1	4	139	545	237	308	362	269	33
Local SOEs	2001	3,358	14	53	785	1,450	368	336	236	115	1
	2003	2,947	1	26	628	1,256	308	350	234	142	2
Joint Stock with state share	2001	470	3	14	100	208	40	53	33	19	0
	2003	669	1	12	155	283	63	83	45	27	0

Source: General Statistics Office (2005b, Table 2).