

INNOVATING THE ROLE AND POSITION OF STATE OWNED ENTERPRISES AS WELL AS THEIR INDUSTRIES AND FIELDS OF ACTION

PhD. Tran Tien Cuong

1. General overview of the role and position of state owned enterprises (SOEs) as well as their branches and fields of action

1.1- The role and position of SOEs

In the first place, the role of SOEs is determined and oriented by policies and guidelines of the Party on state economy development and on the arrangement, innovation and development of SOEs. According to the consistent policies of the Party, state economy plays as a key role in economy. During the past 10 years, the role and position of SOEs have been mainly driven by the orientation of the Resolution issued in 2011 of The Third Central Conference session IX: “*SOEs occupy a key role in economy, as a measure for orientation end macroeconomic regulations; and are core force contributing to the performance of state economic in socialist- oriented market economy. SOEs are the main force in international economic integration*”. The Resolution of The Third Central Conference session IX defined the role of SOEs in economy “*SOEs concentrate on main industries and fields of actions; occupy important areas; hold a large market share in essential products and services (but not necessarily hold large share in all sectors of economy)*. The Congress X redefined the position of SOEs: “*eliminating monopolies and privileges of SOEs on business sector*” and “*focusing on the construction of infrastructure, the production of capital goods and important services of economy and public utility activities*”. The Congress XI just asserted the key role of state economy; however, it did not clearly and directly confirm the position of SOEs in economic as the third Central Conference session IX and other documents before.

In fact, SOE sector is classified, innovated and narrowed; and a scope of industries and fields of action which SOEs engage in and a number of SOEs in one sector also reduce, as below:

The number of industries and fields of actions with 100% of state capital reduced from 43 (Decision No. 58/2002/QĐ-TT issued in 2002) to 20 (Decision No. 14/2011/QĐ-TTg issued in 2011).

The number of enterprises with 100% of state capital decreased from 12,300 in 1992 to 5,655 in 2001, to 1,309 in late 2011.

In some industries and fields of actions, a number of SOEs has dramatically reduced. There are considerable changes of the density and concentration of SOEs in many sectors such as trading, industry, agriculture, forestry, etc. For instance, the number of SOEs in trading was 1,566 firms in 1998 and was 200 firms by the end of 2011.

However, there is no ideal economic circumstance for participants to equally compete and use efficiently all sources because SOEs have not fulfilled their role yet.

On the one hand, SOEs with 100 % of state capital still hold important position. How they carry out their responsibilities will have pervasive influences on many sectors as well as the entire economy.

There are 452 enterprises (approximately 34.5% in total of 1,309 SOEs) engaged in national defense, security and public benefit activities. 857 remaining firms (accounting for 65.5%) do business activities; some firms hold important roles in infrastructure sector such as telecommunication, electricity, transportation and urban infrastructure, etc. These sectors are the fields of action that SOEs need to focus on according to the orientation of the 11th Congress. The important positions in these sectors are principally occupied by SEGs and governmental corporations such as VNPT and Viettel in telecommunication sector, Vietnam Electricity Group, Vietnam Industrial Construction Group (VNIC), Housing and urban development Corporation (HUD) in construction sector (even after 2 groups

turned into Corporations, important positions still belong to SOEs), Vinashin Group and General Maritime Corporation Vinalines in transport infrastructure, and other Corporations 90 and 91.

Some SOEs engaged in business activities are assigned and expected to hold important roles in agriculture, transportation, industry, forestry, irrigation, trading, services and tourism industry. These positions are also held by SEGs and state Corporations such as Petro Vietnam, Vietnam National Coal- Mineral Group Industry Group, Vietnam National Chemical Group, *Vietnam National Textile and Garment Group, Vietnam Rubber Group, and other Corporations 90 and 91.*

In fact, through SEGs and Corporations, SOEs govern and affect many crucial sectors such as electrical industry (providing over 80% of electricity), coal (providing industrial demands, consumers, export), petroleum (main source of taxes for state budget), petrol (formerly Petrolimex held 70% of market share and now it holds 50% of market share), postal and telecommunication (ensuring national communication system, about 95% of mobile phone network), airlines and railways transport services, textile, food export (conquering 70% of rice export), cement (about 50% market share), banking (state commercial banks hold about 33-57% of market share in terms of deposits and credit component) and so on.

Holding a dominant capability, SOEs occupy monopoly position in these industries and fields of actions including electricity transmission, railway, water supply, etc; and monopolies are created by unfair competition. The main reasons of monopoly position are specific policies and unfair competitions lead by the merge and consolidation from independent SOEs into united SEGs and Corporations. The government is responsible for competition and monopoly management, but the Government is also the one to play the ownership function that creates monopoly.

In the other hand, SOEs are used to regulate macroeconomics, stabilize market and economy. This role was widely used in the centralized planning and subsidized period. In recent years, SOEs have continued to play this role with smaller scale and less extent than previously. For example, in 2008-2009, SOEs

used state capital and raised their own capital to increase investment in order to against economic downturn. In 2011-2012, SOEs was used to curb inflation, stabilize macroeconomics by cutting down investment and expenditures and stabilize the prices of commodities and services such as electricity, coal, petroleum and steels (etc) according to the requirement of the government.

However, this role seems not to accord with a market economy. The abuse of this role of SOEs can distort the signals of market prices and cause an inequality for private enterprises. Therefore, SOEs will have more advantages due to the monopoly position or they can be at disadvantages because the authority does not compensate for the cost of the implementation of these policies.

1.2 Actual situation of SOEs' activities:

Industries and fields of action of SOEs' activities are considered less than two parts. The first one is the number and property of these operation sectors; the diversity, expansion of operation sectors of the whole SOEs area. The second one is the differences between the sectors on the actual activities of SOEs and operation activities under policies and legal regulations.

By late 2011, an overview of industries and fields of action of 1,309 enterprises, that the State held 100% s of charter capital, was described as following:

**Distribution of 1,309 Enterprises holding 100% state capital in industries
and fields of action**

Industry / Field of actions	Quantity	Proportion (%)
1. Industrial production	247	18.9
2. Construction	114	8.7
3. Transportation	137	10.4
4. Finance, banking	18	1.4
5. Trade and other services	200	15.3
6. State farm, agriculture companies	120	9.2
7. State forestry, forestry companies	129	9.9
8. Lottery	63	4.8
9. Hydraulic agricultural , irrigation	92	7.0
10. Urban environmental services	89	6.8
11. Water supply and sewerage	61	4.6
12. Publishing, printing	39	3.0

The above data showed that SOEs (including only enterprises with 100% state capital, excluding enterprises with state capital dominates over 50% of charter capital) operate in all 12 industries / fields including industrial manufacturing, construction, transportation, finance & banking, trade, service, state farms, agricultural companies, forestry companies, lottery, Hydraulic agricultural, irrigation, environmental services, urban water supply, publishing, printing.

The position of the industries / fields in proportion of 100% state capital as following: industrial production (18.9%), trade, services and the other (15.3%), transportation (10.4%), forestry (9.9%), agriculture (9.2%), construction (8.7%), irrigation (7.0%), urban environment services (6.8%), lottery (4.8 %), water supply (4.6%), publishing, printing (3.0%), financial and banking (1.4%). In particular, industries/fields of action that SOEs participate more are industrial production, trade and other services, transport, forestry, agriculture, construction.

In detail as following sector:

(1) *Industry production* has the most number of SOEs (including 247 enterprises), with many branches, various products such as petroleum (exploration, extraction and processing); coal mining (exploration, mining, processing of minerals and coals); electricity production; shipbuilding, cement production, construction materials, textiles, garments, chemicals, fertilizers, paper, tobacco, footwear and mechanical engineering (cars, transportation, construction, chemical, rubber, agriculture, irrigation, etc), steel and metallurgy, electro-mechanical, electro-mechanical, production equipment, mechanical equipment, medical assemblage manufacturing electronics, information and telecommunications, automobile industry, pharmaceutical industry, food industry, and processing of agricultural, forestry and aquatic products; printing money, etc.

(2) *Trade, services and the other*: including 200 SOEs providing services such as transmission, power distribution, communication, media, television, food, petroleum, import and export; tourism; trade promotion; trade and services; mountainous commercial, pharmacy, maritime pilots, research, consulting, design, technology transfer, technology services (in the different industries such as industrial production, mining, traffic construction, environment, etc); foreign service agencies, survey, construction consulting, testing, counseling, construction safety, valuation consulting, international manpower supply, labor export, land, development of software, exhibitions, hotels, parking operators, development of

sports, books, school equipment, management, business home services, art, culture, cinema.

(3) *Transport Industry*: including 137 SOEs providing services such as management and repair of roads, rail, bridge management, maritime pilots, maritime safety, water transport, flights management; shipping port, logistics, transport (rail, road, air, sea, ferry); railway signal information; registry of motor vehicles.

(4) *Agricultural industry*: has 120 SOEs (such as agricultural companies and state farms) performing 1 or 2 goals or simultaneously performing both two goals. The first one is to perform business objectives. Although these SOEs are not belonging to the group with 100 % state-owned capital; but due to many unsolved problems (both policies and technologies), they haven't transform to joint stock enterprises yet. Secondly, a number of businesses located in the strategically important, regional and remote locations are assigned to combine defense and economics tasks.

(5) There are 129 SOEs in *Forestry industry*. SOEs in the forestry industry perform tasks and objectives as following: The first one is to plant and protect of watershed forests, protective and special-use forests. The second is to manage and exploit forests for commercial purposes. The third one is to perform economic tasks combined with defense in important strategic, regions and remote areas.

(6) *Construction industry*: consists of 114 SOEs performing construction activities such as civil construction, housing, urban, industrial parks, industrial construction, transportation works , bridges, roads, irrigation, agriculture, assembly and construction, construction materials production, infrastructure development, highway development, etc.

(7) *Irrigational field*: have 92 SOEs including mainly local enterprises working on construction, operation and exploitation irrigation (88 enterprises), only 03 enterprises from the Ministry of Agriculture and Rural Development, and 01 from State capital Investment Corporation (SCIC) which is Tuan Giao

Irrigational construction and services. Tuan Giao was once owned by the locality and then transferred to be under SCIC's management.

SOEs in irrigational industries are mainly for public interests, providing irrigational services on local areas working for local interests (including 88 local businesses), or providing inter-provincial hydraulic agricultural and irrigational services, in many provinces, for local interests (including 03 enterprises of the Ministry of Agriculture and Rural Development).

(8) *Urban environmental field*: has 89 SOEs. These businesses provide sanitation services, solid waste collection, green parks, public lighting. SOEs in the field of urban environmental service field are mainly located in the provinces and cities directly under the management of central government. In particular, Ho Chi Minh City has the highest number of such enterprises (29 firms). Some provinces have more than one business such as Hai Phong (6 companies), Hanoi (5 firms), Long An (3 firms), Hai Duong (2 firms), Nam Dinh (2 firms), Ninh Binh (2 firms), Ha Tinh (2 firms), Quang Nam (2 firms). Ministry of Natural Resources and Environment owns 01 firm and Coal mining group owns 01 firm.

(9) *Lottery sector*: has 63 SOEs. This sector is made monopoly by the State and it is assigned exclusively to 63 provinces and cities under central management.

(10) *Water supply sector* has 61 enterprises, mainly providing urban water supply and drainage services. SOEs in the fields of water supply are mainly located in the provinces and cities directly under the Central management. In particular, Ho Chi Minh City has the highest number (5 firms), followed by Hanoi (4 firms), Hai Phong (2 firms), Yen Bai (2 firms), Tien Giang (2 firms). Except for Lang Son, Son La, Ha Nam, Quang Ngai, Quang Nam, Phu Yen, Ninh Thuan and An Giang not having any business, the remaining provinces or cities have 01 business in this field of services per area.

(11) *Publishing and printing sector* has 39 SOEs publishing and printing houses owned by the State, mainly of central ministries. In particular, SOEs are mainly owned by the Ministry of Culture, Sports and Tourism (20 firms) and the

others (such as the Ministries of Information and Communications, Public Security, Education and Training, Transportation, Science and Technology, Labor, Invalids and Social Affairs, Agriculture and Rural Development, Finance, Natural Resources and Environment, Health). In some localities, SOEs also have publishing and printing houses (such as in Hanoi, Thanh Hoa, Da Nang, Thai Binh, Ho Chi Minh). Thanh Hoa has 02 SOEs, including 01 publishing house and 01 printing house. As SOEs, Vietnam Posts and Telecommunications also have 01 stamp publishing house and SCIC has Dien Bien Printing Company.

(12) *Financial and banking sector* has 18 SOEs which mainly financial companies (07 businesses of SEGs), financial leasing companies, debt management, mining properties (08 companies of commercial banks), investment companies, state capital business, purchase of outstanding debts and assets of the business (03 enterprises of the Ministry of Finance and Ho Chi Minh City).

In the past 10 years, the State has reduced the number of sectors holding 100% state capital from 42 (stated in the Decision no.58/2002/QĐ-TTg issued in 2002) to 20 (stated in the Decision no.14/2011/QĐ-TTg issued in 2011).

However, some sectors have 100 % SOEs operating in practical remains in excess of prescribed sectors. Specifically:

- *Environmental services and urban water supply sectors* the State capital must only account for 50% of charter capital in SOEs (stated in the Decision no.38/2007/QĐ-Tt and current Decision no. 14/2011/QĐ-TTg). However, there are still 150 SOEs having 100% state capital operating in this field.
- *Industrial production, construction and transportation sectors* have many enterprises with 100% state capital (now 498 firms) and account for a large proportion of total SOEs - 38%. These SOEs operate in various industries, but only a part of them is in accordance with the provisions of industries and fields which are allowed to use 100% state capital according to the Decision no.14/2011/QĐ-TTg (mainly mother companies and several key members of the groups, corporations).

- *Trade, services and other* have 200 SOEs . But in terms of substance, many of these businesses do not operate in industries and fields that the State own 100% of capital, they operate in such industries that the State only holds 50% of capital, even none, such as tourism, trade promotion, trade and services, hotels, parking operators, sports development, etc.

2. Innovation of thoughts about the role and position of SOEs in a socialist-oriented market economy in Vietnam

2.1 Innovation of thoughts about the decisive role of the State economy and the role, position of SOEs in implementing the role of the State Economy.

In the socialist-oriented market economy in Vietnam, the role and position of SOEs associate with the role of the State economy and depend on the role of State economy in a socialist-oriented market economy. The previous Party congresses as well as the recent XI Congress have continued to confirm that the State economy plays a key role in the economy. This is a consistent policy of the Party.

The starting point and the base of repositioning the role and position of SOEs, as mentioned above, are the new awareness of the decisive role of the state economy, the judicious awareness of the State economy's decisiveness and characteristics of its decisiveness.

Firstly, the State economy is not expressed in a large number of SOEs, or account for a large proportion of the economy or of GDP; else, the state economy will hinder or deny other features of the socialist-oriented market economy (such as long-term development, equality, cooperation, healthy competition, and the private sectors are driving force of the economy, foreign investment is encouraged to develop).

Secondly, the decisiveness of the State economy does not require that SOEs are always physical tools to orient and regulate macro. SOEs are always holding key positions in the economy as a whole state ownership.

Thirdly, the decisiveness of the State economy are reflected in the requirements that SOEs need to apply advanced science and technology; make good examples of high productivity, quality, socio-economic efficiency. Actually, it is hardly feasible if SOEs are still assigned too many goals (such as ensuring profitable, job security, implementing public tasks, social responsibility, etc) while

the management system of SOEs still maintain multi-levels with unclear responsibilities.

Fourthly, the method of performing the decisive role of the State economy must also be consistent with the characteristics of the socialist-oriented market economy, without abusing administrative or legal tools, instruments, strategies, planning, policy and physical forces bias towards the State economy and SOEs.

In the currently new context, the State economy is no longer decisive by themselves and for themselves as formerly. There is a need for realizing that the State economy is a decisive role thanks to the socialist-oriented market economy with many economic sectors. Not only the state economy but also non-state economies are driving forces of the economy. With this implication, the decisive feature of the State economy should contain the following characteristics:

Firstly, the State economy needs to orient, guide and facilitate other economic sectors to participate in the multi-components economy with long-term development, cooperation and healthy competition.

Secondly, the State has authority to use physical forces of the State economy (in which SOEs are components) as well as all of legal tools, strategies, plans and policies to manage the economy; direct, regulate and promote the socio- economic development.

Thirdly, the State economy (including not only SOEs, but also state budget, funds, land, resources and SOEs system) is the important physical force for the State to regulate the orientation and the economy, contributing to stable macro economy. Components and parts of the State economy are mobilized and used in accordance with the role and position of these parts, turning them into material forces to orient and regulate the economy, contributing to the stable macro-economy.

Fourthly, the State economy plays a role in overcoming failures or deficiencies of the market which is caused by: (1) the market cannot operate (not

yet formed or exclusive); (2) distortion due to the impact of unhealthy competition; (3) special circumstances (economic crisis, etc).

With new awareness of the decisive role of the State economy, here go several orientations on the role and position of SOEs in order for the state economy to take its role in the socialist-oriented market economy:

- *The role of SOEs* is to contribute to guarantee the decisive role of the State economy, shown in the following points: (i) creating, leading and promoting the formation and development of economic infrastructure, basic and essential platform to develop socio-economy, promoting competition and integration; (ii) a tool to overcome the shortage or failure of the market (such as: conditions making other economic sectors cannot participate, lack of market, natural monopoly, failure in creating competitive market); (iii) becoming supporting tools along with main tools (which are macroeconomic policies) in order to regulate the economy, stabilize macroeconomics in special cases such as crisis, slowdown, high inflation.

- *The position of SOEs*: has an impact on ensuring the decisive role of the state economy, which is determined on the following grounds: (i) main industries and fields of action of SOEs contribute to the decisive position of the State economy; (ii) the level of state ownership in SOEs and total state ownership in main industries and fields of actions that contribute to the decisive position of the State economy; (iii) the size of SOEs in main industries and fields of actions that contribute to the decisive position of the State economy.

2.2- Innovation of thoughts in the role and position of SOEs to facilitate the private sector to become a driving force of the economy

Besides, the identification of the role and position of SOEs in the upcoming time has to consider these new points approved in the Congress XI:

Firstly, the Congress XI solely confirmed the decisive role of the state economy, but clearly, directly and specifically defining the role and position of SOEs in the economy. The role and position of SOEs in the economy were asserted

in the 3rd Plenum Resolution of the Central Party Congress IX and other previous documents.

This means that the specification of the role and position of SOEs has no longer been, nor should be, bound by old postulations like before. It is calling for an innovation of thoughts.

It also implies that: (1) it is necessary to consider the philosophy as well as the methods that SOEs use to keep the role and position in the economy in order to support and facilitate the state economy to hold the decisive role with innovative thoughts; (2) on the other hand, the decisive role of the state economy has to be distinctly aware of, defined clearly in details and in accordance to the new context and innovation of the role and position of economic sectors.

Secondly, the 11th Congress is new by affirming to develop the private sector into the driving force of the economy; thus, it is essential to find the new and more suitable approach method to define the role and position of the state economy as well as SOEs.

Thirdly, the 11th Congress emphasized on the importance of using market mechanisms to run the economy, thus the market mechanism needs be applied fully and flexibly to effectively utilize all resources. Therefore, the role and position of SOEs should be innovated to support, but create hindrances for this policy.

Fourthly, the Congress XI affirmed the management of the economy, the direction, regulation and promotion of the economy as well as the society by combining these tools: law, strategies, plans, policies and infrastructure. It means that SOEs are under the management, orientation and regulations by the law, strategy, planning and policies. Besides, SOEs can be used as physical force for the state management, direction and regulation; yet, this role needs be viewed as minor, not to distort the economy driven by market mechanisms.

These above noticeably innovative points are regarded as the main and significant reasoning bases to determine or reposition the role and position of SOEs in the socialist-oriented market economy.

2.3- The role and position of SOEs – their relationship with industries and fields of action that need maintain the state ownership and level of state ownership.

The role of SOEs has close contact with the position of SOEs. On one hand, the position of SOEs has an impact on the role of SOEs, this facilitates and promotes SOEs to perform their roles. If SOEs hold important positions, SOEs will demonstrate an important role. In contrast, if SOEs are assigned an important role, they are also assigned to hold the key positions.

The position of SOEs is expressed in the industries/fields that need maintain state ownership and maintain the level of state ownership. Such industries and fields not only reflect the characteristics of economic institutions, but also are influenced by economic institutions.

During centralized planning and subsidized period, the philosophy defining the industries /fields maintaining state ownership is to guarantee the performance in accordance with centralized planning mechanism; to ensure a strong and irreplaceable role of the state-run economy and SOEs; to suit the view that the state-run economy is component of socialist economy, the view that SOEs are the state economy, that developing state-run economy and SOEs is building a socialist society. Therefore, to carry out their roles, SOEs have positions in almost industries and fields of the economy, including heavy industries, light industries, transportation, construction industry, civil construction, circulation, distribution, trade, services, retails, culture, society, science, education and training, etc. This is the thinking and philosophy of the state management mechanism in administrative and subsidized style, using SOEs and cooperatives as tools to implement centralized planning mechanism and economic development. So, expanding industries and fields of SOEs to almost entire scope of the economy is essential and appropriate to this period.

The philosophy of industries/fields of action of SOEs is applicable now. If it continues to apply in the future, it will be unsuitable to the market economy. Thus,

the philosophy of industries and fields of action of SOEs need strong innovation. The identification of industries and fields of action of SOE must be adjusted to suit the environment; thus create fair condition among participations and facilitate other economic sectors to join with the State economy.

Firstly, the involvement of SOEs must be selective and have a clear and wise philosophical base. Legally and philosophically, the selection and the decision of the industries and fields of action are done by the State. In other words, with some specific and selective industries / fields of action, the State can authorize or license activities; while the State ownership only confirms the presence of the State to perform assigned missions. The State can cancel the presence of state ownership or ownership role in the industries and fields of action when the context and conditions are suitable for other economic sectors to substitute effectively for state ownership, and when the role of the state economy is done more effectively and efficiently through policy tool rather than SOEs (physical tools).

Secondly, besides operating in the above industries / fields, SOEs may participate and have to accept competition under market pressure in some industries which are not legally and philosophically belonging to any specific economic sector; such industries / fields must be available for all economic sectors.

3- Adjusting industries and fields of action of SOEs to reposition SOEs

It is essential to adjust and restructure the industries and fields of action of SOEs so that SOEs can keep the innovative role and suitable position.

3.1- General point of view on the adjustment of industries and fields of action of SOEs.

Firstly, it is necessary to assure the relative stability, long-term, accurateness and transparency; to specifically focus on main business sectors and other strategic industries in the adjustment, orientation and restructure of industries and fields of action of SOEs.

This is a much shorter path to achieve more objectives, decrease the opportunity cost of the rearrangement and restructure of entire SOEs sector and of each individual business. In reality, we have chosen the long path to innovate SOEs. In only 10 years, there were 04 times of changing the sorting and classification criteria with 4 issued Decisions of the Prime Minister: Decision no.58/2001/QĐ-TTg (2001), Decision no.155/2004/QĐ-TTg (2004), Decision no.38/2007/QĐ-TTg (2007), Decision no.14/2011/QĐ-TTg (2011). Meanwhile, SOEs were stuck in the spiral of the classification, arrangement and conversion; it leads to waste changing expenditures in terms of legal forms and business types. The instability of thinking to do business also aroused many short-term logics and short-term benefits besides tenure thinking.

Secondly, it is essential to narrow the number of industries and fields of action of SOEs, thus to narrow the number of unnecessary SOEs. The operation of SOEs needs focus on some specific industries and fields to ensure national economic benefit; national economic security; national defense and security; public services and infrastructure. It is also essential to lay foundation for high-tech industrial development as well as foundation for the integration and international competitiveness.

Thirdly, it is necessary to restructure the state ownerships in the economy, the industries and fields of action of SOEs and enterprises with state-owned

capital. It is also essential to adjust state ownership mechanism with the motto of “reduce mainly, increase if necessary” in every industry and field of action of the economy, in each state enterprises or enterprises with state capital; thus, to reallocate the use of resources (including resources which are components of state economy such as the state budget, funds, land, natural resources, etc) between the state economic sector and other economic sector and among SOEs in the state economy. From that point, we can reposition the role of SOEs.

3.2 - Viewpoints to identify industries and fields of action that need state ownership and level of state ownership

Industries / fields of action maintaining state ownership need the presence of state ownership in the form of SOEs (100% state capital or over 50% state capital), or enterprises having state capital level of 50% or less.

The level of state ownership in industries and fields affects the role and impact of the state economy or of the State to that industry / field. The level of state ownership maintained in those industries / fields is primarily expressed in percentage of state ownership in enterprises operating in such sectors. In addition, it is also shown in the scale of state ownership, of the charter capital or state equity, overall scale of state equity or total capital ratio of home owners in those sectors.

The identification of sectors needing maintain state ownership and maintain the level of state ownership is based on some of the following main viewpoints:

Firstly, the general opinion is to identify sectors needing maintain state ownership must be based on right philosophy about the role of the state economy and SOEs in the socialist-oriented market economy, while considering the impact of market and capacity of useful existence of the state ownership through SOEs or enterprises having state capital at the lower level than dominant level in those industries and fields of action.

Secondly, sectors needing maintain state ownership are primarily determined by whether if the nature and characteristics of goods or services need the role of State or not; and by the competitiveness of SOEs (this is time limited).

Thirdly, identification of sectors that need maintain state ownership and maintain the level of state ownership must follow specific guidelines, but only based on general industries and fields of action of SOEs. It must base on the position and importance of the businesses or stage of production or technologies.

This view above can be understood as below:

- (i) Not maintaining state ownership in general as SOEs; be specific at the scope of industries and fields of action, the scope of businesses, of parts and stages.
- (ii) The directions to focus:
 - In large-scale enterprises;
 - Legal forms: mainly joint stock Company, limited company with 2 members or more; rarely in the form of one-member limited company.
- (iii) Among SOEs, groups and corporations:
 - Maintaining state ownership in major parts, key stages;
 - Groups and Corporations hold key enterprise members and important parts or stages

Fourthly, maintaining state ownership at sufficient level in accordance with the position and role of SOEs in industries and fields of action, with key departments an stages in businesses or in the production chain,

3.3 The adjustment orientation for industries and fields of action of SOEs

In order to renovate industries and fields of action of SOEs, it is necessary to adjust the scope of such sectors in accordance with new role of SOEs and adjust the scale of state ownership in these sectors.

The adjustment orientation of SOEs is to narrow the range of sectors of SOEs; focus on some sectors fitting to the role of SOEs; narrow the scale of SOEs in general and in some sectors.

(1) State monopoly goods and services sectors:

These are the sectors providing products and services for the economy. Due to significant security, safety for society and the economy, such sectors have to be monitored and tightly controlled, such as explosives, toxic chemicals, radioactive materials, printing and minting money, lotteries, weapons, ammunition and equipment exclusively used for defense and security, technical services in information security techniques cipher, etc.

Legally and philosophically, these sectors have products and services under state monopoly, so they have to maintain state ownership at 100% of charter capital in SOEs.

Currently, the regulation of industries and fields of action under the state monopoly often take SOEs to be objects under management without clear analysis and identification of monopoly scope (industries / fields or products / services or specific stages). That leads to too high and wide level of maintenance of state ownership in SOEs and in industries / fields of action under state monopoly.

The adjustment direction of SOEs regional scale in industries / fields of action under state monopoly is narrowing monopoly SOEs and scope of monopoly of monopoly SOEs:

- For natural monopoly without competition (for example: electricity), we need to check and isolate goods, services or operations that are basically not natural monopoly (like generating power) out of the State monopoly; determining the step or operation that are natural monopoly (e.g. electric power transmission), then narrowing the State monopoly. This is narrowing the arising monopoly area.

- For SOEs at monopoly because there is only one SOE in the market, the narrowing of this kind of state monopoly can be implemented by 2 ways: the first is creating competitiveness that forces SOEs to compete fairly with private enterprises, the second is establishing other SOEs for competitions.

(2) Public goods and services for public interests

Such as: defense, security, radio, television, sanitation, water supply and public transport.

These sectors aim to satisfy the needs of the majority under non-competitive and non-excludable mechanism. If these services apply market mechanism and are provided by private sectors, uncovered costs will lead to limitation in satisfying customer needs. Thus, this section is managed and provided by the State, mainly SOEs or organizations assigned by the State. Hence, maintenance of state ownership in SOEs in such sectors would help overcome the shortcomings of market mechanism and limitation from business investments of private sectors.

The adjustment directions of the SOEs scale in goods and public services sectors are: (i) innovating the mechanism of providing goods, public services and public benefits through applying order mechanism for economic sectors (exclude products and services serving security and defense sectors); (ii) checking to peel products, services and stages that are not public goods, services for public benefits to narrow sectors providing public goods and services for public benefits, then narrowing this kind of SOEs

(3) Sectors provide products and services with great meanings and national importance; contributing to create important economic infrastructure to ensure great revenue for budget, promote integration and international competitiveness.

- Ensuring economic security, such as security of energy: electricity, coal, gas, oil, gas, (etc), banking and finance, food industry and so on.

- Creating a platform of economic infrastructure: information and telecommunications postal, transport (long distance, great weight), infrastructure (large scale and great national importance), etc;

- Creating a platform for developing high-tech industries.

- Ensuring great revenue for the budget, foreign currencies, import and export.

- Creating a platform to collaborate and support other economic components for and international economic integration competitiveness.

These important products and services are not only manufactured and provided by not only SOEs, but also non-state enterprises. There is a number of enterprises operating in these sectors (except for SOEs and some stages under the state monopoly), for example: postal, telecommunications, transmission, etc).

The adjustment directions of the scale of SOEs in these sectors are: (i) extending so that non-state enterprises can participate in providing products and services with great socio-economic meaning and importance (except for SOEs and some stages under state monopoly; (ii) using the mechanisms of competition and competitive pressures to adjust the scale of SOEs in these industries and fields of action; (iii) maintaining 100% state ownership in selective key SOEs, the rest should be converted into joint-stock companies or limited liability companies.

In the short-term, we need to maintain large-scale SOEs, effective SOEs and maintain the rate of ownership at sufficient level enough to perform the role of the state economy in such sectors.

(4) Sectors provide products and services sectors with market competitiveness

These are sectors supplying products and services manufactured and provided by all economic components under competitive mechanism. Among 1,309 SOEs with 100% of state capital by the end of 2011, there are many SOEs providing products and services in the competitive market.

The adjustment orientations for these sectors are:

Firstly, narrowing fast and comprehensively the industries / fields of action that provide competitive products - services and maintain 100 % state ownership: by conducting equalization in 2 steps. Step 1 is fast changing 100 % SOEs into joint stock companies (JSC). For enterprises that are not turned into JSC completely yet, they can maintain state ownership at high level¹, then the state will divest state capital (step 2). This 2-step method aims to: (i) narrowing sectors have 100% of state ownership, overcoming the spread of the 100% SOEs in many

¹ The rapid transfer of 100% SOEs into JSCs that maintain state ownership at high level would be more beneficial than keeping 100% state ownership, for reduction of opportunity costs.

sectors; (ii) maintaining the position and powers of SOE (in form of JSC which still ensure the dominant rights of the state after equalization of SOEs); (iii) creating more suitable legal-organizational forms; (iv) creating a new modern and more dynamic governance structure; (v) creating the "gap" between SOEs and state agencies to avoid random interferences.

Secondly, using market mechanism and hard budget pressures, competitive market pressures to determine the existence of SOEs; from that point, we can confirm the existence and maintenance of state ownership in SOEs operating in those sectors. In other words, operating in the sectors with competitive market, SOEs are forced to compete for survival and development (conservation and development of capital with real effectiveness). Ineffective SOEs are eliminated from the market and it shows that such sectors do not need maintain SOEs and the state ownership.

(5) SOEs operating in sectors involved in economic regulation, macro-economic stabilization in special case (e.g. crisis, slowdown, and high inflation) will be withdrawn gradually when market economy and market institutions are gradually developed and improved.

These SOEs are used as a supporting tool along with macroeconomic policies to regulate and stabilize economy. We need to innovative thinking: using macroeconomic policies as a tool to regulate economy and stabilize macroeconomics instead of SOEs. Using SOEs to regulate macroeconomic can be considered administrative intervention in the market that distort the market, create unfair environment between SOEs and non-state enterprises. If so, SOEs can be either at advantage thanks to monopoly position or at disadvantages due to the fact that the state does not cover expenses for the implementation of policies activities to regulate and stabilize the economy.

References

1. Communist Party of Vietnam (2011), *Congress of the Communist Party of Vietnam XI*, National Political Publishing House, Hanoi.
2. Communist Party of Vietnam (2006), *Congress of the Communist Party of Vietnam X*, National Political Publishing House, Hanoi.
3. Communist Party of Vietnam (2001), *Resolution of the Third Assembly of the Central Executive Committee of IX Party on continuing to organize, innovate, develop and improve the efficiency of state-owned enterprises*, National Political Publishing House Family, Hanoi.
4. Decision no.14/2011/QĐ-TTg dated 4/3/2011 on *Criteria, classification of SOEs*.
5. Decision no.38/2007/QĐ-TTg dated 20/3/2007 on *Criteria, classification of SOEs*.
6. Decision no.155/2004/QĐ-TTg dated 24/8/2004 on *Issuing criteria, classification and public company accounting member firm of independent public corporation*.
7. Decision No.58/2002/QĐ-TTg dated 26.04.2002 on *Criteria, classification of SOEs and state-owned corporations*.
8. Steering Committee for Innovation and Enterprise Development, *Final Report of innovation, development, improve the efficiency of SOEs period 2001 - 2010 and task-oriented, SOE restructuring solutions 2011 - 2015*, 12/2011.
9. Ministry of Finance, *SOE restructuring scheme on economic groups and State corporations*, 4/2012.
10. Tran Tien Cuong (2012) , "Industry and fields need to maintain state ownership of strategic vision of social economic development 2020 " Scientific Seminar on Innovation role of state ownership in business sector and SOE governance , Institute of Economic Management central , 2012 .

11. Tran Tien Cuong (2012), "Assignment of decentralized management of SOEs: Current status, causes and recommendations innovation “, Economic Forum Fall 2012: Vietnam's economy in 2012, Innovation in decentralized institutional reform. Economic Committee of Congress, the Institute of Social Sciences of Vietnam, Vietnam Chamber of Commerce and Industry, UNDP 8/2012 .