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## Privatisation of the shipping industry in Vietnam : the benefit, problems and proposals

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**WORLD MARITIME UNIVERSITY**

Malmö, Sweden

**PRIVATISATION THE SHIPPING INDUSTRY  
IN VIETNAM:  
THE BENEFIT, PROBLEMS AND PROPOSALS**

By

**TRUONG HONG GIANG**

**Socialist Republic of Vietnam**

A dissertation submitted to the World Maritime University in partial  
fulfilment of the requirements for the award of the degree of

**MASTER OF SCIENCE**

in

**SHIPPING MANAGEMENT**

2000

## **DECLARATION**

I certify that the material in this dissertation that is not my own work has been identified, and that no material is included for which a degree has previously been conferred on me.

The contents of this dissertation reflect my own personal views, and are not necessarily endorsed by the University.

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## **ABSTRACT**

Title of Dissertation: **Privatisation the shipping industry in Vietnam:  
the benefit, problems and proposals.**

Degree: **M.S.c**

This dissertation is a dedicated effort to study privatisation of the Vietnamese shipping industry. Its objectives are to provide the benefit of privatisation in shipping, to analyse problems of privatisation campaign and to propose some solutions to make privatisation effective.

The brief concern is taken into the overview of Vietnamese shipping industry, which has potential demand in the future but is able to supply at the modest level.

It is necessary to take a look of current trends of privatisation in the world in general and in the international shipping industry in particular. It is clear that a privatisation mechanism depends on each country 's circumstances, hence, the framework of privatisation in Vietnam is introduced in this paper.

The reasons for inefficiency of state owned enterprises and the benefit of privatisation in the Vietnamese shipping industry are investigated. A comprehensive analysis of privatisation in a forwarding and agency company is undertaken.

This paper finally examines current trends and emerging problems of privatisation in the Vietnamese shipping industry. A number of proposals are made concerning the efforts for effective privatisation in the Vietnamese shipping industry.

Key words: privatisation, efficiency, competition, ownership, share holding, Vietnam.

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## LIST OF ABBREVIATIONS

APEC	Asian-Pacific Economic Co-operation
BIMCO	Baltic International Maritime Council
CEO	Chief Executive Officer
CERC	Central Enterprise Reform Committee
CIF	Cost Insurance Freight
EPB	Enterprise Privatisation Board
ERCs	Enterprise Reforms Committees
GDP	Gross Domestic Product
GEMADEPT	General Forwarding and Agency Company
JSCs	Joint Stock Companies
MDF	Maritime Dependence Factor
MOF	Ministry of Finance
MOTC	Ministry of Transport and Communication
SEC	Stock Exchange Centre
SOEs	State Owned Enterprises
TEU	Twenty foot Equivalent Unit
UNCTAD	United Nations Conference on Trade and Development
UNDP	United Nations Development Programme
VGSO	Vietnam General Statistic Organisation
VINALINES	Vietnam National Shipping Lines
VINAMARINE	Vietnam National Maritime Bureau
VOSCO	Vietnam Ocean Shipping Company
VPA	Vietnam Port Association

## **Chapter 1**

### **Introduction**

Vietnam, a country of long coast line, has considerable potential for development of the shipping industry. In fact, the shipping industry has contributed considerably to reconstruction of the country in the post Vietnam War period. However, in comparison with its potential, the present shipping industry in Vietnam has only a modest position in the national economy because of poor performance, which is attributed to ineffectiveness and inefficiency. It resulted due to the central economy system, which lasted for a long time, leading to bureaucracy and inefficiency of the national economic mechanism. Recently, Vietnam has put forth open economic and institutional reforms in order to develop the national economy and to meet strategic targets of modernisation and industrialisation periods. In such circumstances, the Vietnamese shipping industry needs to reform to cope with new challenges, which are posed by open economic policy, in a competitive market. Ownership in the Vietnamese shipping industry, which faced a lot of problems as other industries in the country, is considered to change. Privatisation, also called equitisation in Vietnam, should be one of the effective treatments for the serious chronic disease in Vietnamese shipping entities.

#### ***1.1 The purpose of study***

For political reasons, most shipping companies are state owned companies, which reflect a great deal of inefficiency. Privatisation should be considered with other parallel reforms. In fact, the Vietnamese government has been aware of the problem and has actively implemented essential institutional reforms. This study will focus on analysing the current privatisation process, specify the difficulties and draw

conclusions as well as make proposals and recommendations. Based on the availability of information, objectives of the paper are as follows:

1. To present the global trends of privatisation in the world economy in general and in the shipping industry in particular and privatisation in Vietnam;
  2. To identify the problems in state owned enterprises in the Vietnamese shipping industry in terms of ownership, and to argue the benefit of privatisation in the Vietnamese shipping entities;
  3. To analyse problems of privatisation in the Vietnamese shipping industry and to make some proposals to facilitate and improve privatisation.
- It is necessary for readers to consider that this dissertation does not intend to present a comprehensive plan for privatisation in Vietnamese shipping companies.

## **1.2 Scope**

This Dissertation consists of five chapters that can be summarised as follows:

- Chapter 1: *Introduction* contains brief introduction, the purpose of study, and the scope of the study and methodology. It also describes limitations that the author has had to cope with while doing this dissertation.
- Chapter 2: *Overview of the Vietnamese shipping industry and its prospect* gives a brief introduction of the Vietnamese shipping industry and its prospect.
- Chapter 3: *Global trends of privatisation and privatisation in Vietnam* presents global trends of privatisation and introduces a concrete scenario of privatisation in Vietnam.
- Chapter 4: *The benefit of privatisation the shipping industry in Vietnam and a case study* argues inefficiency in current state owned enterprises and the benefit of privatisation in the shipping industry. It also presents the impact of privatisation in a ship agency and forwarding company.
- Chapter 5: *Privatisation in the Vietnamese shipping industry* reviews current privatisation, identifies the problems and makes some proposals.

- Chapter 6: *Conclusions and recommendations* points out the author 's view on privatisation of the shipping industry in Vietnam.

### **1.3 Methodology**

A literary survey was conducted using the library at World Maritime University and searching machines on Internet. Staff of a GEMADEPT company and a Saigon shipping company also provided valuable information. Intensive research on privatisation processes, confirmation of ambiguity and complicated problems and likely solutions were discussed through interviews with many visiting professors and specialists at World Maritime University. Extensive understanding and deep knowledge was also gained and presented by a collection of various views of distinguished experts from field trips in Denmark, England, Greece, Germany and Norway. Conclusions and recommendations are made from an independent point of view.

### **1.4 Limitations**

Privatisation is a wide-ranging topic, which can not be covered in one paper. Meanwhile, privatisation virtually differs among different countries, which have different economic and political mechanisms. So, for the purpose of this dissertation, the author intentionally covers some relevantly specific aspects of privatisation related to the shipping industry in Vietnam. As privatisation is under way the informative data, which is sensitive, is not plentiful enough to provide a deeper identification and analysis of privatisation. On the other hand, due to the author 's background as a nautical engineer, the discussion in this dissertation is based on what he learnt at World Maritime University. So it is essential to point out that the dissertation just covers some specific scope of privatisation.



## **Chapter 2**

### **Overview of the Vietnamese shipping industry and its prospect**

This chapter attempts to present the current situation incorporating some analyses of the Vietnamese maritime industry. It includes major components of the Vietnamese maritime organisation system. For the purpose of the dissertation, the chapter concentrates on describing and analysing Vietnamese shipping in terms of commercial aspects and from technical points of view.

#### ***2.1 Vietnam maritime organisation***

The Ministry of Transport and Communication (MOTC) presently is delegated to perform the role and function of administration of all forms of transport through agencies responsible for specific modes, including the Vietnam National Maritime Bureau (VINAMARINE) for coastal and ocean-going shipping and the Inland Waterway Bureau for inland waterways. The interests of the MOTC at a regional level are served through Provincial District Transport Authorities. The VINAMARINE is the authority of state administration of the shipping industry of Vietnam. Until January 1996, the VINAMARINE was responsible not only for regulatory functions in the maritime sector but also for operational management functions of many ships, ports and shipyards. The VINAMARINE acted as co-ordinator of maritime enterprises and assumed governmental responsibility for managing Vietnamese shipping activities including seaports, merchant fleets, shipyards, ship servicing companies and registration of ships.

Now almost all these commercial functions have been transferred to the Vietnam National Shipping Lines (VINALINES), the state body that now manages ship and port activities

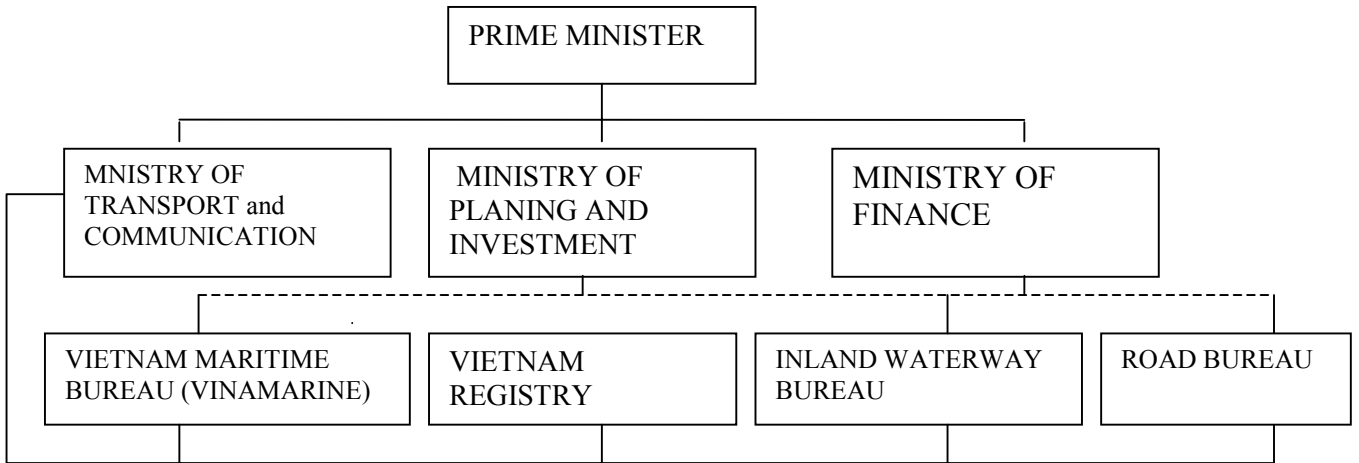


Figure 1: Organisation system of the Vietnam shipping industry before 1996

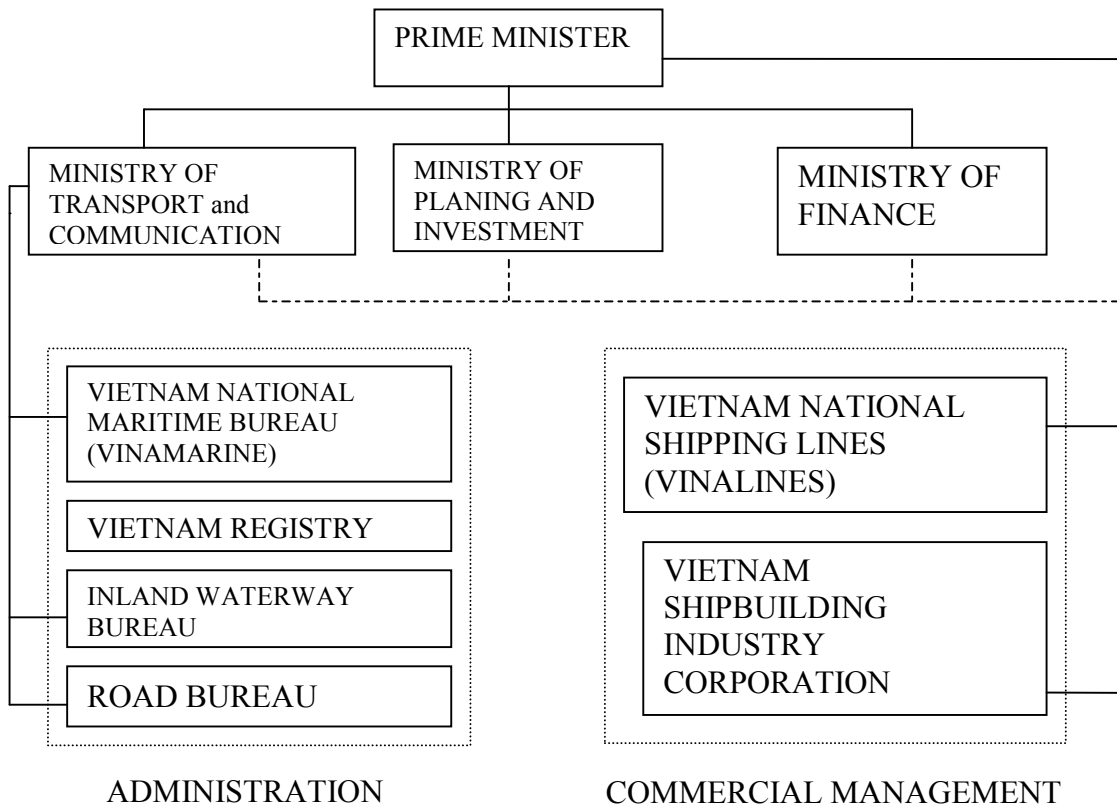


Figure 2: Organisation system of the Vietnam shipping industry after 1996

## 2.2 The Vietnamese maritime industry

### 2.2.1 The Vietnamese merchant fleet

1. The Vietnamese merchant fleet has significantly developed in recent years.

Table 1: Distribution of number and dead weight of ships in the Vietnamese fleet

Year	Number of ships	Dead weight (mt)
1995	497	847 501
1996	469	799 281.7
1998	541	1 149 000
1999	549	1 429 770

(Source Vietnam Register, 2000)

- Thanks to the stable average annual growth of GDP from 1988 to 1998 of about 7,9% (World Bank, 2000) and also the right policy applicable to shipping, the Vietnamese fleet has had a significant increase in terms of tonnage and number of ships.
2. However, from the technical point of view, the Vietnamese fleet has a number of problems that need to be remedied in order to increase their performance to be efficient and competitive.

Table 2: Ship types of the Vietnamese fleet

No.	Ship type	Number	Gross tonnage	Dead-weight
1	Bulk carrier	4	54,983	92,119
2	General dry cargo ship	468	401,053	601,016
3	Container ship	6	62,061	73,918
4	Tanker/Oil tanker	59	205,979	368,551
5	Refrigerated cargo ship	12	7,700	7,373
	Total	549	731,776	1,429,770

(Source: Vietnam Register, 2000)

- It is clear that there is an imbalance in types of ships. The number of general dry cargo ships is too high in terms of tonnage distribution by type, accounting for

42% against the world distribution of only 10.2% (ISL, 1999). There are low percentages of the specialised ships such as container ships, bulk carriers, and crude oil tankers that can contribute to huge quantities of cargo carrying capacity. This situation reflects the low level of competitiveness in respect of national demand for sea borne trade. Especially, since Vietnam is the world 's third biggest exporter of rice - a commodity, which is transported under break bulk type. Crude oil is a strategic export commodity, which contributes to the main income of country. Recently the quantity of containerised cargoes has increased. So, from the demand point of view, the Vietnamese fleet should have a larger number of specialised ships than at present in order to meet national demand.

Table 3: Number of various ship-types in the Vietnamese fleet according to tonnage

No.	Ship type	<300 GT	<500GT	<1000 GT	<10,000 GT	>10,000 GT
1	Bulk carrier	0	0	0	0	4
2	General dry cargo ship	230	120	44	73	1
3	Container ship	0	0	0	4	2
4	Tanker/Oil tanker	18	10	13	13	5
5	Refrigerated cargo ship	3	3	2	4	0

(Source: Vietnam Register, 2000)

Table 4: Average age of various ship-types in the Vietnamese fleet according to tonnage

No.	Ship type	<300 GT	<500GT	<1000 GT	<10,000 GT	>10,000 GT
1	Bulk carrier	-	-	-	-	20
2	General dry cargo ship	12.10	12.30	14.64	23.62	11.00
3	Container ship	-	-	-	17.75	18.00
4	Tanker/Oil tanker	17.39	18.20	26.15	20.46	16.40
5	Refrigerated cargo ship	25.67	29.67	26.00	22.25	-

(Source: Vietnam Register, 2000)

- As shown in Table 2, the majority number of ships in the fleet is less than 500 GT. These ships, which use diesel engines and have high operating costs, only contributed 13,5 % of the national tonnage. In contrast, the above 500 GT ships with higher age have a smaller number but are major contributors in terms of tonnage in the Table 3 and 4. Nevertheless, these ships are old except one general dry cargo ship and five tankers in the column for ships above 10000 GT. They operate with high costs due to intensive repair and maintenance costs and high insurance premium, which make them inefficient and less competitive. In consequence, the Vietnamese fleet is mostly outdated, with low level of modern automation and specialised control systems.
3. In terms of ownership, there were 175 ship-owners that can be categorised in three main types:
- State owned companies: there were 67 ship-owners owning 80% of the Vietnamese fleet in terms of tonnage (VMOTC & JICA, 1997). Among these are three large general carriers and one crude oil carrier forming a major part of the Vietnam national shipping lines (VINALINES), which has a substantial level of control over the market. State owned ship-owners, mainly ocean going or foreign sea going shipping, significantly contribute to the productivity of the national fleet.
  - Provincial owned companies: there were 60 provincial-government shipping companies, which mainly operate in coastal shipping. Except three main provincial shipping companies operating general cargo ships over 2,000 DWT, other owners solely operate general cargo vessels below 1,000 DWT (up to about 6 ships). Many of the provincial-government shipping companies are finding it increasingly difficult to compete in coastal shipping. Some have reduced their fleets. As a result a number of these operators, being significant operators in shipping, are likely to decline.
  - Private companies: Private owners have been developed since the introduction of economic reforms in 1985. Most private operators still operate on a small scale.

Despite the limited capacity of most privately owned vessels, they compete even on the longer coastal shipping routes. These owners have been increasingly investing in the new ship building sector recently.

### 2.2.2 Seaports

The seaport system can be divided into three types according to the regional geography.

Northern seaport system:

There are 15 ports in which Haiphong port is the biggest port. In 1998 Haiphong Port served over 1600 ships, handled 5.3 million tonnes of general cargo and 200,000 TEUs. Haiphong Port's throughput capacity is planned to reach 6.2 m tons by 2000, including 250,000 TEUs of containerised cargo according to the Vietnam Port Association (VPA).

Central seaport system:

There are 24 ports with a cargo throughput of ten million tons expected by the year 2000. Danang Port is the biggest port in the system with cargo throughput in 1998 reaching 848,000 tons. Demand for port usage in Danang is growing rapidly and the throughput after the year 2000 is expected to go to two million tons per year (VPA, 1999).

Southern seaport system:

The southern seaport system, which includes 13 ports, has a significant role in the nation's sea transport industry due to favourable geographic and economic conditions. Saigon Port is the biggest of all and Vietnam's busiest port, handling 7.4 million tons in 1998. The average river depth from 8.5 to 11 meters allows ships from 20,000 d.w.t to 30,000 d.w.t to enter the port. According to statistics by the Southern Centre for Traffic and Transportation Economic Science, after the year 2000, Saigon Port will reach a throughput of thirteen to fifteen million tons per year. Furthermore, some twenty other provincial ports are being administered and operated independently by the local authorities.

According to the annual VINAMARINE report in 1999, the throughput cargo volume handled by all port was 56.8 million tons, an increase 40% as compared with

1996 figures. The reason for this achievement, besides the effort of the staff in the organisation, has been the remarkable investment from government to upgrade infrastructure, to build specialised quays, channels, buoys, and lighthouses to facilitate for vessels entering safely. Currently, the Vietnam Port Association is undertaking the improvement scheme, including the increase of handling capacity, port management, and intermodal transport facilities (Vu, 1999). In the period of 2000-2010, Vietnam will mainly concentrate on the capital to build deep seaports at the main economic area to accept vessels with over 20,000 DWT and to set up container terminals soon. On the other hand, it will build specialised ports, break bulk ports and tanker terminals in the central industrial areas. Furthermore, it will also set up the local satellite ports, with the small-scale investment to receive and transfer domestically from the bigger ports to serve the local economy (VPA, 1999).

### 2.2.3 Shipbuilding and ship repair yards in Vietnam

There are 59 shipbuilding and repairing yards with new building and repairing capacities appropriate for 40000 DWT and 105000 DWT respectively. Most of these yards are controlled by the Vietnam Shipbuilding Industry Corporation, established in 1996 under the direct management of MOTC. The navy administrates the others. The seven major shipyards in Vietnam are listed as follows:

Table 5: Major shipyards in Vietnam

No	Shipyard	New-building capacity(DWT)	Repairing capacity (DWT)
1	Bach Dang shipyard	6,500	8,000
2	Ha Long shipyard	5,000	3,500
3	Ben Kien shipyard	1,500	2,000
4	Pha Rung ship repairing yard	-	16,000
5	Ba Son ship repairing yard	-	15,000
6	Saigon ship building	1,000	4,000
7	Ship-oil platform repairing yard	-	10,000

(Source: Vietnam Register, 1997)

At present, the maximum shipbuilding capacity in Vietnamese shipyards is 6,500 DWT while most of the ships domestically built are less than 1,000 DWT. According to the Japanese expert team for Coastal Shipping Rehabilitation and Development Project in Vietnam in 1997 (MOTC & JICA, 1997), there was technical backwardness at Vietnamese shipyards in terms of production efficiency and quality control. It also recommended the problem should be considered and solved if Vietnam wants to be competitive in the international markets of shipbuilding and ship repair industries. In response to the recommendation, in the master plan of shipping and repair yards development from 2000-2010, Vietnamese shipbuilding and ship repair yards require 267 million USD in order to expand and upgrade their status.

### ***2.3 Vietnamese shipping prospect***

According to the World Fact Book, Vietnam has a long coast line measuring up to 3,444 kilometres, excluding the islands. Furthermore, Vietnam has a large inland waterway network which is approximately 40,000 kilometres long, including 11,000 kilometres of sufficient depth for inland transportation (Vietnam Ministry of Transport, 1995). Thanks to favourable geographical configuration, Vietnamese potential in shipping is very huge. In the purpose of viewing the Vietnamese shipping vision the author considers it an opportunity to develop Vietnamese shipping in terms of demand and supply.

#### **2.3.1 Demand**

Economic factors are considered as the basis for an effective development of Vietnamese shipping. The Vietnamese economy has achieved significant results during implementation of "The strategy on stabilisation and socio-economic development up to the year of 2000" (APEC, 1999). Average economic growth reached 8.7 % per annual during 1996-1999, which has facilitated the improvement in the population's living standards. The 'open' economic policy has achieved significant results, which have promoted trade liberation and foreign direct investment.



Table 6: Vietnam's economic indexes (%)

Item	Year			
	1996	1997	1998	1999
GDP growth	9.3	8.2	4.0	3.7
Export growth	41	22,2	3.9	5,0
Import growth	38.9	-1.6	-2.3	-3

(Source: Saigon Time, 2000)

Presently the volume of the country's sea borne trade increase is attribute to mainly three strategic export goods, which significantly contribute to the national income. These are rice, coal and crude oil with a distribution of 3.8 million tons, 3 million tons and 11.5 million tons in 1999 respectively. Other commodities such as rubber, sea food and garment product are around 3 million tons.

Vietnam imports a wide variety of products. Some of the larger volume import commodities are steel, fertiliser, gasoline, cement, clinker, motorbikes, chemicals and pharmaceuticals products. The imports have been growing due to domestic demand in the industrialisation and modernisation period. Table 7 shows the volume of sea borne trade through Vietnamese seaports.

Table 7: The volume of sea borne trade through Vietnamese seaports

No		Unit	1995	1996	1997	1998
1	Container	TEU	315 134	464 849	760 610	799 665
2	Liquid cargoes	Ton	13 180 000	15 510 642	18 126 701	21 889 442
3	Dry general cargo	Ton	14 470 000	17 522 766	20 927 308	23 123 193
4	Transit cargo	ton	-	2 085 160	3 150 506	4 038 619
	Total		34 000 000	36 656 337	45 760 326	56 899 006

(Source: VINAMARINE 1999)

Shipping is much more important to the Vietnamese economy if considering the maritime dependence factor (MDF) which is defined as a Percentage Sea Borne

Trade in value per GDP. Table 8 shows much more Vietnam's economic dependence on shipping.

Table 8: Maritime dependence factor

Country	MDF	Country	MDF
1.Singapore	179%	6.The Philippines	62%
2. Malaysia	131%	7.Vietnam	61%
3.Thailand	95%	8.Korea	60 %
4. UAE	90%	9.Saudi Arabia	58%
5.Tunisia	70%	10.Tanzania	54%

(Source: Ma, 1999)

There will be an increase of sea borne trade. Asian Development Bank (2000) forecasts the increase of the Vietnamese economy in 2000-2001 periods 5% and 6% respectively. Based on the macroeconomic indicators VINAMARINE (1999) forecasts the increase of sea borne trade through Vietnamese ports for the 2005-2010 period. The volume of sea borne trade will reach 125,170 thousand tons in 2010 as Table 9 shows.

Table 9: Forecast of Vietnam sea borne trade

Items	2005 (thousand tons)	2010 (thousand tons)
Export	<b>38 000</b>	<b>80 370</b>
Import	<b>23 880</b>	<b>44 800</b>
Total	<b>61 880</b>	<b>125 170</b>

(Source: VINAMARINE, 1999)

### 2.3.2 Supply

Historically, the Vietnamese fleet dominated a modest share in the Vietnamese shipping market of about 10% (VINAMARINE, 1995). Although the Vietnamese shipping industry has striven to dominate the market, Vietnamese shipping companies in 1999 transported only 13.4% of the total volume of import-export cargoes (VINAMARINE, 2000). In terms of import cargo, the Vietnamese shipping

fleet carried only 1.1 million tons of rice, 51,000 tons of coal and 600,000 tons of crude oil against the total export volume of 3.8 million tons, three million tons and 11.5 million tons of the above commodities respectively. As mentioned earlier, the Vietnamese fleet is quite old and technically backward. In the fleet structure there is an imbalance between dead-weight capacity and types of vessels, not appropriate for the major kinds of cargo. The fleet seriously lacks specialised vessels, especially container ships and tankers, bulk carriers.

In order to be active in the domestic shipping market, the Vietnamese government have drawn a planned target of handling export/import cargoes for the years 2000,2005,2010: 20%, 30%, 40%; and handling well 99% North -South domestic cargo. However, to reach its targets the Vietnamese shipping industry expects to develop its fleet, to be able to carry the cargo volume as follows:

Table 10: Targets of the Vietnamese fleet up to 2010

	Year	
	2005	2010
Container fleet (TEU)	<b>9 880</b>	<b>24 990</b>
Tanker fleet(DWT)	<b>2,263,200</b>	<b>3,241,000</b>
Conventional fleet(DWT)	<b>218850</b>	<b>224,280</b>
Break bulk fleet (DWT)	<b>136 940</b>	<b>291,700</b>
Coastal fleet (DWT)	<b>705,880</b>	<b>1,764,705</b>

(Source: VIETNAMARINE, 1999)

To reach the above expectation, the Vietnamese shipping industry proposed investing budget allocation according to the following:

Table 11: Financial investment for the Vietnamese fleet.

	2005	2010
Budget (million USD)	<b>318.1</b>	<b>294.124</b>

(Source: VIETNAMARINE, 1999)

There are some possibilities for the Vietnamese shipping industry to mobilise capital, in addition to some its own capital:

- Loan from banks
- Selling stakes
- Join venture co-operation

For such finance, the Vietnamese shipping industry should obtain credit, which requires it to improve its performance in respect of competitiveness and efficiency. So, the institutional reforms in the Vietnamese shipping industry should take place in order to overcome such challenges in the future.

## **Chapter 3**

### **Global trends of privatisation and privatisation in Vietnam**

Privatisation has probably been the most significant global economic phenomenon of the last 20 years. In the late 1980s and 1990s, due to globalisation in world trade, open economy and the collapse of East European socialist countries, led to a wide restructuring. Privatisation has become popular and increased. For the purpose of dissertation, this chapter will present global trends of privatisation in the world in general and in the shipping industry in particular. Then, the author presents the concrete scenario of privatisation in Vietnam.

#### ***3.1 Global trends of privatisation in several regions***

The phenomenon of privatisation has happened in both developed and developing countries for the last two decades. The number of privatisation transactions has been growing over the years. According to Shafik (1996) between 1988 and 1993 there were more than 2,600 transactions in 95 countries, yielding USD 271 billion. In consideration of Vietnamese geography and economy, it is necessary to take into account privatisation in Asia, where Vietnam is located, and in Eastern Europe, where there has been a similar economic situation to the Vietnamese economy during the beginning phase of privatisation.

##### **3.1.1 Asia**

Privatisation in Asia has taken place with force, left rich experience and reached achievement in the decade of 1990. Privatisation in the region actually includes a wide range of methods, forms and approaches to shift economic activities from the

state to the private sector (UNDP, 1999). Experience from privatisation in Asia clarified that privatisation can work under a well defined legal framework, which is formalised, transparent, formal and accepted by those subject to them. Due to history, law, culture, social, political and economic factors privatisation happened quite different in each country. However, there was a common feature of privatisation in East Asian countries namely that the governments retain over major enterprises.

### 3.1.2 East European countries and former Soviet Union countries

UNCTAD (1994) pointed out that state owned enterprises in East European countries operated with lack of priority for efficiency considerations so their operations were costly. Privatisation, which brings economic efficiency, was to foster trade liberation in these countries. At the beginning of privatisation a number of new private enterprises entered into sectors, which reserved state owned enterprises before. Most of them were low-capital enterprises and operated in the light industry and service sectors. The global trend of privatisation in such countries is that a large percentage of shares belongs to insiders, such as managers and employees, because the goal of completing privatisation is carried quickly by mass distribution of shares (Brown, 1998). Some experiences of privatisation in such countries showed that the best mechanism for privatisation is the entry of new private enterprises. Another experience is that institutional reforms in the economy should be carried out at the beginning phase (Luis, 1997). These experiences are very useful for Vietnam to implement a privatisation policy.

## **3.2 Privatisation in the shipping industry**

### 3.2.1 Privatisation in shipping lines

Towards the end of the 1980s maritime analysis drew totally different views between state owned enterprises and private enterprises. In developed countries during that time there was costly government involvement in shipping. In developing countries, the situation of state owned enterprises was worse. It was common phenomena in

these countries that state owned enterprises were reserved privileged rights of cargo space by protection method such as bilateral 50-50 cargo-sharing treaties, enforcement of UNCTAD formula 40-40-20, favourable port and tax treatment. Although the state owned enterprises received economic and fiscal incentives, they were less competitive and inefficient due to their poor performance. In shipping state owned enterprises, there was mostly a serious chronic labour problem, which resulted in high cost. In some cases the governments invested huge amounts of money to build expensive fleets with big and fast ships but the result was modest due to lack of cargo space, for example Brazil's Lloyd Brasileiro (Eyre, 1990). Shipping state owned enterprises contained hidden problems, which floated when they were sold in public. The typical example is New Zealand lines, when in 1980s it encountered problem to find suitable buyers. Most of them performed poor with high costs, over manning and even, one of them was in a critical financial situation – nearly bankrupt. In contrast, privately owned enterprises operate on the basis of price signals satisfying supply and demand. Private executors consider cost effectiveness rather than social and political objectives. As a result, private enterprises can supply high quality services with low costs.

On the other hand, arguments to support state owned enterprises in shipping became obsolete. Basically, state owned shipping lines were based on the following reasons:

- To try and reserve cargo space for domestic transport operators
- To promote their shipyards
- To address political matters

For the first reason, most governments believed that by protecting of transport rights for export-import operations they would raise the profit and revenue. However, the poor performance of domestic operators made their domestic importers and exporters loose profit, if alternatively the foreign carriers were considered. In fact, in developing countries, the majority of the cargo-carrying shares belonged to foreign carriers, who have had good quality services. For the second reason, governments helped the domestic shipping industry by integrated solution whereby governments developed domestic fleets and shipyards in parallel. However, fleet development

schemes implied a financial burden due to the high cost of shipbuilding and poor performance of shipping operations. For the third reason, in the past governments believed that by developing national fleets, dependence capacity was raised. However, the need for specialisation in shipping spelt out separate types of challenges and the implication of collapse of socialist East European countries made the idea become obsolete.

It is clear that the privatisation trend in shipping lines was necessary to bring efficiency. In fact, after the collapse of socialist European countries, privatisation was widely applied. In such countries, similarities in shipping structures that could be found were centralised management, insufficient investment and overstaff both shore and ship based. Privatisation in these countries was carried out on a large scale. The privatisation process went hand in hand with fundamental reorientation in fleet strategies and service configuration (Seck, 1998).

### 3.2.2 Privatisation in ports

The situation in port activities is the same as in shipping lines. In most of the cases, governments invested huge amount of money to build port infrastructure but got a modest achievement from state owned port activities. Eyre (1990, p.115) stated “ports run entirely by state are more expensive and less efficient”. From the 1980s, a compromised solution for state owned ports against inefficiency has been to leave port operations for private sectors by leasing or contracting out.

In the 1990s, due to containerisation and globalisation, ports globally have required upgrading and modernisation in order to meet the breakthrough demand of sea-borne trade. Application of new technology especially in container handling equipment and port structure implied new institutional reforms and major investments. More over, mostly in developing countries, governments have already experienced the burden of rising fiscal deficit of hungry port projects in the past. As a result, the lack of public funds or the refusal of governments to make funds available for investment in modernisation and expansion of terminals has result in an increased need for private capital investment (Marge, 1997). So privatisation in ports is an inevitable consequence of port development. In fact, involvement of private sectors in all the



port activities, even in development of ports, has brought updated techniques, higher productivity and a means of resource generation. Under these circumstances, privatisation in ports helps governments save foreign exchange, give a chance to expand trade, carry out industrial development and avoid port congestion. Shashikumar (1998, p.47) concluded “the involvement of a private operator to run its new state-of-the-art container terminal is epoch-making by any measure, and amounts to a psychological breakthrough in the nation’s port planning, development, and operations”.

### 3.2.3 Privatisation in shipbuilding and ship yards:

Shipbuilding and shipyards are also a hungry financial sector, which requires from governments huge money investments. Operating this sector needs modern technology upgrading and innovation. State owned enterprises in this sector were normally passive and backward in comparison with international techniques. Privatisation in shipbuilding and ship-repair yards brought a chance to import managerial experience of foreign investors and to attract financial support for newbuilding programmes. The starting point and motivation of privatisation in the sector definitely varied among cases. For Bulgarian and Romanian yards in 1998, low labour costs attracted foreign investors. In fact, participation of foreign investors in those shipyards brought significant cash flow and high technology, improved their performance and productivity, and diversified their products according to (“Privatisation gets”, 1998). For Spain, privatisation aimed at encouragement of worker’s involvement to improve shipyard performance. In fact, workers can seek benefits by buying shares and become more interested in the common fruit (“Spain’s privatisation”, 1998).

### **3.3 Privatisation in Vietnam**

#### 3.3.1 Objectives and frameworks for privatisation in Vietnam

##### 3.3.1.1 Objectives

Decree 44 stated objectives of the privatisation programme as follows:

- Transformation of non-strategic small and medium sized state enterprises into joint stock companies in order to mobilise capital from employees and outside investors for the purposes of investing in technological renovation, modernisation and development of Vietnam, creating more jobs, expanding and improving the competitiveness of Vietnamese economy and changing the structure of State owned enterprises
- Giving opportunities for enterprise employees and outside investors to own shares and play the role of real owners, thereby creating incentives for increasing the efficiency of the employees and the enterprise, enlarging the properties of the state and contributing to the growth of the national economy.

##### 3.3.1.2 Economic framework

- Premise for open economy :

Before the economic renovation started in the mid-1980s, Vietnam had followed a model of centrally planned economy. The State owned almost all production measures, established state-owned enterprises in all sectors, subsidised co-operatives, and restrained developments of private and household sectors. Since 1986 - under the “Doimoi” (renovation) policy of Sixth Party Congress - Vietnam has carried out the most comprehensive and profound economic renovation in its modern history. This renovation, aimed at creating the fundamental conditions for economic development, has already helped Vietnam overcome serious difficulties and a substantial progress has been achieved.

- State enterprise reform and current matters:

In order to reinforce the state sector the Prime Minister stipulated Decision 90 and 91 in March 1994 to establish state corporations. Decision 90 called for establishment of State Corporation with at least five state owned enterprise members and minimum VND 100 billion in legal capital (currently about USD 70900). Decision 91 called for formation of much larger corporation of VND 1000 billion (currently about USD 709000). With the government 's will of higher efficiency, state entities attempted to merge a number of state owned enterprises into big corporations following incentive actions such as delivery capital and autonomy.

In the effort for state enterprise reforms, the government enacted the law on state enterprise in April 1995. Following that, the government undertook re-registration of state owned enterprises and reduced their total number from 12,000 to 6,000. According to the new law, state owned enterprises have full autonomy, accountability for their decisions and actions and are audited by a competent state agency according to Vietnam General Statistic Organisation (VGSO, 1999).

However, the state sectors still remain chronic problems, which require deep and wide spread reforms. Most of the foreign economic experts consider the state sector containing debts and inefficiency, a political bias toward State owned enterprises investment, trade and allocation of public funds and credit (World Bank, 1999). VGSO (1999) clarified 300 of 6000 State owned enterprises in operation providing 80% of the state revenues from enterprises. 60% of the remaining State owned enterprises were in debt, unprofitable and non-competitive. The state sector absorbs more than 75 % of bank credits and much of the state 's budget.

- Private sector development:

Before the renovation policy was applied, the private sector had limited scope to develop and was mainly household enterprises. Thanks to the "Doi Moi" policy, the private sector has freely extended in terms of forms and scope of operation.

Especially, in the 1990s privately owned enterprises have grown and multiplied very rapidly from a very small base to a share equivalent to roughly 40 % of GDP.

The development of private enterprises especially small and medium-sized companies is vitally important to Vietnam long-term development. The argument for the idea is that Vietnam has comparative advantage of human resources. So, Vietnam can rapidly achieve long-term growth via an export-oriented industrialisation strategy. Furthermore, in export-oriented industrialisation, small and medium sized private companies show their advantages, such as superior efficiency and profitability (Mekong Project Development Facility, 1999).

Table 12: Privatised sector contribution in GDP

	1995	1996	1997	1998
Outcome (billion of VND)	85071.21	91306.26	96436.25	121635.8
Share	43.5%	42.7%	41.7%	44.1%
Growth	8.8%	7.3%	5.7%	4.3%

(Source: VGSO, 1999)

- Stock market in Vietnam:

Vietnam's first Stock Exchange Centre (SEC) will open in Hochiminh City at the end of 2000. After that another one is also planned to open in Hanoi. This event will be warmly welcomed by local joint stock companies looking to raise capital, and by local and foreign investors wishing to invest funds in Vietnam. It is believed that the SECs will facilitate privatisation of larger state owned enterprises (“Vietnam’s Securities”, 2000).

The procedure for setting up a market for trading securities in Vietnam has been prepared for a long time. In late 1996 the government established the State Securities Commission. However, until mid 1998 the government issued regulations on the securities market and on the establishment and operation of SECs.

### 3.3.1.3 Legal framework

- Legal system:

The Constitution of 1992 has legalised the economic reforms and recognised the freedom of business. Private entities are freely operated in all economic activities in which there is no restriction on capital and labour employed. The Constitution also recognised essential principles of the market economy, and thus has set up the legal environment for the more comprehensive economic reform. In fact, it has offered a legal basis such as promulgating legal documents for property ownership, different types of enterprises and legal mechanisms including legal institutions and settlement processes. The legal framework in Vietnam has changed dramatically with the promulgation of the Constitution of 1992 and the passage of nearly 100 laws (Dao, 1997). These laws, though not yet sufficient, have provided the main legal framework for the market economy, the market institutions and mechanisms, rights on property and ownership, the role and function of the state, and the necessary legal institutions.

- Legal documents related to privatisation:

Recognising that the legal environment is the most important matter not only for market mechanism operation in general but for institutional reforms like privatisation in particular, the Vietnamese government has enacted a series of legal documents which are essential for free trade, competition and privatisation. In general, Vietnam has prepared an available legal framework for privatisation such as labour law, Foreign Direct Investment law, the company law and the contract law. These laws have been stipulated and/or revised in recent years for suitability with economic reforms. The labour law was promulgated in 1994, the investment incentive law was promulgated in 1994 and modified in 1998, the company law promulgated in 1990 and modified in 1994, the contract law promulgated in 1990.

### 3.3.2 Processes and methods for privatisation in Vietnam

#### 3.3.2.1 Privatisation process in Vietnam:

According to Decree 44, the privatisation process in Vietnam is summarised as follows:

1. Agencies of the government that control state owned enterprises such as ministries, ministerial-level institutions, people's Committees and state corporations shall establish Enterprise Reforms Committees (ERCs) which steer privatisation. It shall also decide which enterprise segments and enterprises should be privatised, send the list to Central Enterprise Reform Committee; issue the decision to set up the Enterprise Privatisation Board (EPB); and provide training for privatisation board members and concerned enterprise officials.
2. The enterprise privatisation board (EPB) will prepare all information required from the enterprise 's financial statements, a managerial report, an inventory of assets to an estimate of expenditures for privatisation. The EPB shall popularise the government 's privatisation policies and regulations to the workforce.
  - An accredited auditing firm shall audit the accounts of the enterprise. The EPB determines the enterprise value and submits it to the controlling agency, central enterprise reform committee (CERC).
3. The controlling agency, CERC, shall appraise EPB's submission and send it to the Ministry of Finance (MOF).
  - Besides, EPB shall prepare and publicise a 3- 5 years business plan for post-privatisation and a draft plan for (i) cash distribution of reward and welfare funds, (ii) determining the amount of credit available to each employee for share purchase.
  - EPB shall submit the finalised privatisation plan and the draft joint stock company's statute to the controlling agency for approval and the comments. The ERC shall propose nominees to represent the state shareholding on the board of

management of the joint stock company and issue the decision to transform the state enterprise into a joint stock company.

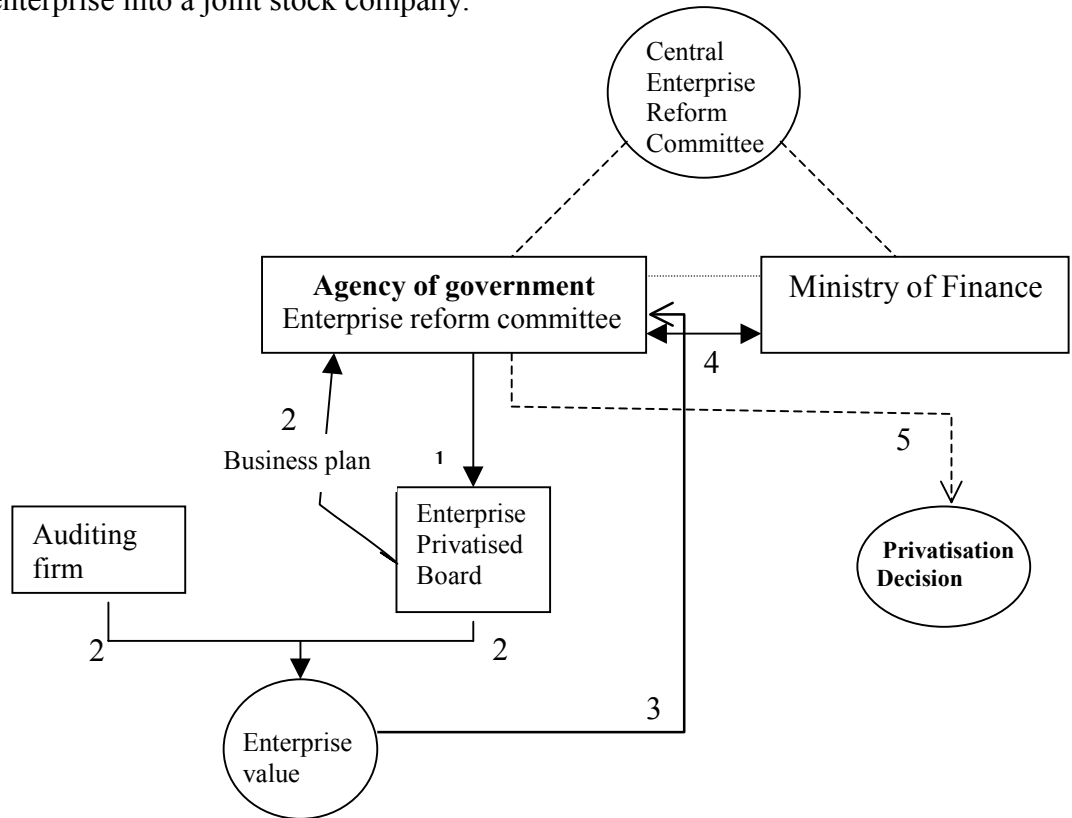


Figure 3: Privatisation process in Vietnam

### 3.3.2.2 Methods and forms of privatisation in Vietnam

- Methods of privatisation:

For the time being, the method of privatisation applicable in Vietnam is popular public issue or offer. This may be a full or a partial sale of shares to the general public. Presently, there is no existence of the stock market, which hopefully is expected to open by the end of year 2000. Presently, shares are offered to employees, small domestic investors and foreign investors with the limitation of shares for respective investors. When the stock exchange centres are set up with the business being quoted on the stock exchange the shares will be really open for trading. Thomas (1994) pointed out the advantage of this method normally raises the highest price for the assets and secures the widest possible share ownership. It

also shares the offered premium between the largest number of people. The broad share ownership base also makes the company difficult to be taken over. The major disadvantage of this method is that since the shares are freely traded the company could fall into the hands of competitors or even foreign-owned companies. The procedure can only be pursued by large businesses because of the expense incurred in management fees and promotional costs.

- Forms of privatisation in Vietnam:

Decree 44 prescribes four ways in which a state owned enterprise may be converted into a joint-stock company:

- leaving the existing capital of the enterprise unchanged and mobilising more funds by issuing shares, in other words increasing capital;
- selling a portion of the enterprise's existing capital to new shareholders;
- turning off as a new entity a section, department or division of an state owned enterprise, which on a stand-alone basis meets the requirements for privatisation; or
- converting into a joint-stock company (100% privately owned). The state retains no share in the new company.

### 3.3.3. Enterprise valuation

According to Decree 44, the actual value of the enterprise at the time of privatisation is stated to be the price of all existing properties of the enterprise acceptable to both the seller and the buyer. The actual value of the state-owned capital of an enterprise is the actual value less the liabilities.

The enterprise's actual value is calculated on the basis of the following factors:

- Data and records contained in the books of accounts of the enterprise at the time of privatisation.
- The quality, technical characteristics, buyer's need for the assets and the market price of the assets.



- The business advantages of the enterprise in terms of its geographical location and the company's reputation. The business advantages should be reflected by the return on average working capital (not working capital in the business sense) in the three years before privatisation. The value of this factor is to be minimum and maximum to 30% of the total.

### **3.4. Current scenario of privatisation in Vietnam**

The privatisation process for state owned enterprises in Vietnam has so far reached a reasonable success. By the end of 1999, there were 370 state owned enterprises nation- wide completely privatised with the mobilisation capital up to VND 1 trillion (currently about USD 70.9 million). Most privatised state owned enterprises have adapted to the new production and business environment and shown positive results in improving workers' lives. According to a survey from the Central Committee for Enterprise Reform on the privatised state owned enterprises for last year, average turnover increased by 39 %, pre-tax profit reached 17.5 %, salary increased around one per cent. Share dividends ranged between 6 and 24 %. Thousands of new jobs were created ("Vietnam to Equitise", 2000).

However, this process has still been slow in comparison to the government target in which there were 400 state owned enterprises to be privatised in 1999. There are some reasons, summarised in the following, which prevented the privatisation to speed up:

Managerial problems: poor management

Financial problems: long-term domestic or foreign debts, over due account receivable and over due fiscal debts

Political problem: constraint from top management and provincial leaders

Regulatory systems: lengthy and cumbersome privatisation process, the restriction access for joint stock companies (Tran, 2000).

## Chapter 4

### **The benefit of privatisation in the Vietnamese industry and a case study**

#### ***4.1 Current inefficiency in state owned enterprises in the Vietnamese shipping industry***

From ownership point of view, state owned enterprises in the Vietnamese shipping industry contain a number of listed problems.

##### 4.1.1 Multiple objectives

- In addition to economic objectives, state owned shipping enterprises in Vietnam have political and social objectives. In order to satisfy a number of interests, state owned enterprises under enforcement of the central government or provincial council set up their objectives, which are too general to be carried out or may combine a number of controversial objectives. In illustration, the plan of VINALINES for the 21<sup>st</sup> century states its objectives “contributing VINALINES become a co-operation with average capital level in South East Asia region having advanced technology and effective operation in order to co-operate and share market with leading companies in Asia”. The assignment of the ambitious goals is a burden for VINALINES in consideration of their limited potential with a market share as low as 10% in the ocean and foreign going shipping around and a merchant fleet having an average age around 17 years. Considering advanced technology aspects, it implies that VINALINES invest a significant budget to upgrade the fleet and influence their freight rates offered in the market in short term and return of equity in long term. So, the technical objective is not in consistency with the competitiveness and financial objectives. Sheshinski and

Lopez-Calva (1999) point out that “Not only are the managers' objectives distorted, but the budget constraints they face are also softened”. So, setting multiple objectives creates distortions in the allocation and use of resources. It ultimately leads to counter-productive results and unintended side effects in state owned enterprises.

- From a political point of view, state owned shipping enterprises concern egalitarian employment under Vietnam government enforcement. Edgren (1990) noted employment and efficient objectives in state owned shipping enterprises might be hard to satisfy whether or not they are given in general with no limitation. Actually, in Vietnam, managers have certain privileges to avoid their responsibility in case of loss benefit because when objectives are unclear or inconsistent the managers have freedom in interpretation to their faults. In case the profit is not reached, managers can be blamed on the egalitarian objective. If social objectives are not put into effect, managers can be blamed on the efficient objectives. As a result, most of state owned shipping enterprises in Vietnam are unaccountability.

#### 4.1.2 Poor planning

- The planning division, a vital part in an organisation like a shipping company, is very weakly represented in most state owned enterprises in Vietnam. In most of the cases, it is very hard for an observer to see a clear scope of responsibilities in terms of reports and information in shipping state owned enterprises (MOTC & JRCI, 1997). Mainly, there are two reasons for poor planning in state owned enterprises. First, there is lack of relevant information for planning such as traffic forecasting and market research. Second, the inadequacy of skilled managers as discussed below, can not draw creditable plans in consideration of vessel scheduling and allocation methods, vessel acquisition planning, and strategy for cost control.

#### 4.1.3 Poor appropriation of finance

- Due to the organisation structure of shipping state owned enterprises in Vietnam, the executive manager and board of directors have limitation of decision making for new investments. Planning the new investment and raising funds for it must comply with very strict regulations and procedures. It is rare for them to make a final decision for a loan even using state owned enterprises' earning as a major investment in a project. Normally, the proposal will be submitted to MOTC for approval. Moreover, granting for the approval is based not only on the criteria that are related to the expected economic return on the investment but also on various external and non-economic factors. Political interference is normal business in state owned enterprises. For instance, in 1997 the government granted the Vietnam Ocean Shipping Company (VOSCO) budget to build two 6500 dwt general cargo ships in Vietnam. According to statistical analysis, the price that VOSCO had to pay to a domestic ship yard is higher by more than 5 % that Japanese shipyards for those ships and the time for construction is longer in comparison with Japanese shipyards. However VOSCO had to accept higher cost under the pressure of controlling agencies like MOTC and MOF; but, in turn, easily got funding granted.
- It is inconvenient and complicated for shipping state owned enterprises to draw up investment plans because investment planning and feasibility studies should combine political and bureaucratic lobbyism to ensure the project granted. Therefore, uncertain decision-making process has strong influence to systematic planning of state shipping companies. It leads to lowering the effectiveness of state shipping companies in general, and the productivity of capital in particular (Edgren, 1990).

#### 4.1.4 Inappropriate control and monitoring systems

- Another constraint, which shipping state owned enterprises have faced, is an imperfect system of audit, control and monitoring. In order to understand how it works it is essential to take a look the following figures.

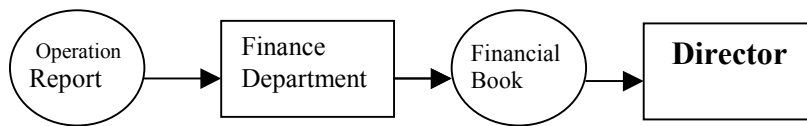


Figure 4: Operational report



Figure 5: Annual report

- The monitoring system operation seems to be good, but in reality it contains a number of problems. First, the system can not work effectively and efficiently due to the fact that state owned enterprises are not fully operated in the market. The low threat of take over leads to the poor monitoring function among state owned enterprise 's managers. Sheski and Lopez-Calva (1999, p.8) specified “Debt markets can not play the role of disciplining the managers, because state owned enterprise's debt is actually public debt that is perceived and traded under different conditions”. So, state owned enterprise managers are likely to exist in any level of performance even in financial distress because of state subsidy policy. On the other hand, the government could withdraw its protection for state owned enterprises but the political cost of state owned enterprises going bankrupt is more serious than the protection cost. Seemingly, the state prefers to give state owned enterprises its protection, which partly make them weaker.
- Second, this system is not transparent in the sense that all information about financial statements is kept secret, can not be observed and be accessible to employees or outsiders, who are interested in doing business with them. The effects of this are employees losing motivation incentives and bringing in opportunity for corruption. The former effect shows that there is no motivation to employees when employees do not know what they have done for the enterprise and the future perspective of the enterprise. The latter effect results in popular corruption in state owned enterprise.

- Third, this system is complicated and tied by complicated and a long regulatory system. It leads to the situation in which managers can not access straight away financial information and estimate use of an opportunity to increase profits. The control system is difficult, if not impossible; to appraise the effectiveness of total resources used, including capital and labour.
- Finally, from strategic economy point of view, the system being a close system with outsiders as investors, financiers and other interested entities confine the opportunities to expand enterprise business. Under current circumstances of global shipping as a high competition, the corporate relation with outsiders principally has a positive effect to develop an enterprise in terms of global level. On the other hand, the disclosure of financial statement is essential to bring the concerns of outsiders (Chopping & Powell, 1996). So, eventually the close system results in a restriction to enterprise development.

#### 4.1.5 Weak organisational structure regarding marketing and customer relations

- Due to the central democracy regime that has been applied in state owned shipping enterprises, there is no clear border of rights and responsibilities among divisions and staff. The concept of “community responsibility” has existed and it seems that senior staff, such as managers, can avoid their responsibility in case of negligence. Moreover, the weak links among departments also lead to failure of co-operation to implement strategic plans.
- Especially, the critical problem is that in state owned shipping enterprises marketing and consideration of customers’ interests are weak. From managerial point of view, marketing divisions, which are in charge of performing cargo canvassing and maintaining good customer relationships, are a vital part of the business department of shipping companies. But they are very weak in Vietnam shipping companies (VMOTC & JICA, 1997). There are several reasons for the weakness. Traditionally, managers in state owned enterprises carry out business according to planned economic principles that concentrate on pre-defined objectives basis rather than market needs basis. The limitation of managers’

vision and the lack of motivated personnel in state owned enterprises also prevent the implementation of ambitious marketing plans.

#### 4.1.6 Inadequate management

Another chronic weakness in state owned shipping enterprises is management inadequacy for internal and external reasons:

- First, staff in state owned enterprises mainly have insufficient experience in marketing, providing customer service, financing investment and accounting. Furthermore, the Japanese expert team (VMOTC & JICA, 1997) stated “shipping operators in State owned enterprises have little or no experience of operating specialised vessel (container or semi container, RoRo) or developing scheduled liner service”.
- Second, the rapid changes caused by economic reforms are causing reasonable difficulties for the existing management who have insufficient experience or expertise in the new ways of carrying out business. There are a number of uncertainties, which have been created by the difficulty in estimating future expected traffic, unclear government policy and the continued development of new laws and regulations.

#### 4.1.7 Lack of know-how

- The problem of lack of know-how is specified in many official reports of VINAMARINE. This is a constraint for developing improved management methods, meeting international safety standards for shipping and competing in the international market. In the author’s belief, training schemes and employee incentives, which are scarce in state owned enterprises, are solutions to upgrade the level of know-how. Actually, in state owned enterprises, training schemes are not considered as strategic actions. In fact there is lack of comprehensive introductions to implement them at operation levels and providing budget reservation for them. On the other hand, practically, there is no employee incentive in state owned enterprise mechanism. Hence, employees under such obsolete mechanism seem to be left behind in the changing business

environment. Especially, under the information technology boom, the progress of technology requires endless employees' efforts in upgrading their level of know-how in order to survive in the competitive market.

#### 4.1.8 Poor performance: overstaff, low productivity

- Overstaff

Taking into consideration availability of staff there is an overstaff phenomena in state owned enterprises. The following table shows the staff per ship comparison between BIMCO members and Vietnamese state owned shipping enterprises. The figure of BIMCO members was sought out from Professor Mottram in the MASSOP project.

Table 13: Average staff in the Vietnamese shipping industry.

Average staff Per ship	Company size		
	Small(4-5 ships)	Medium(6-20 ships)	Big(over 20 ships)
BIMCO members	3.33	2.15	1.78
Vietnamese shipping companies	5.2	4.6	–

(Source: Mottram, 1999)

There are several reasons to explain such problems.

First, the egalitarian objective prompts this chronic problem for state owned shipping enterprises. In Vietnamese state owned shipping enterprises, managers must maintain employment, considered as a criterion, which determines the competence of managers and the achievement of enterprises. Moreover, employment problems are subjects to be examined by higher level management such as ministry or provincial committee and through strict regulation.

Second, the prevailing thinking is psychological inducement in which the top management tries to run for achievement. Managers in state owned enterprise tend to achieve higher targets in coming years without concerns for future market. In



consequence, they employ increasingly human resources in coming years. This results in high cost and overstaffing.

The third reason is bureaucratic behaviours and corruption issues. As a normal practice, most directors and high ranking official from central agencies use their power to influence the recruitment process in order to recruit their friends and relatives. Promotion is based, among seniority officials who have the same political tendencies, on experience in the majority of cases not seriously considering their competence.

- Low productivity:

As a result of the above-discussed problems, state owned enterprises have low productivity. Typical statistics show that the state owned shipping enterprises have high cost equivalent with 10-12% freight cost as a percentage of the CIF value of import goods, whereas the world average and that of Asia are about 5,7 % and 7.9% respectively (VINALINES, 1999).

So the Vietnamese state owned shipping enterprises have faced the same problem that was stated by Ihedruru (1993) “low productivity and inefficiency of resource and allocation have been the main feature of maritime industry in these countries”

## ***4.2. Privatisation and efficiency in the Vietnamese shipping industry***

Privatisation could not immediately bring up enterprises 's efficiency, which depends on a number of factors in terms of internal and external considerations. However, privatisation, which introduces market liberation, can lead to opportunities in which enterprises remedy the deficiency and improve their performance.

### **4.2.1 Cost benefits**

First of all, by privatisation an enterprise can eliminate the so called, cost of public decision making. As mentioned above, in state owned shipping enterprises, there is a lot of interference and dependence on higher level of controlling agencies. Besides their core business, state owned enterprises have to satisfy those conflicting interests and political pressures which are impossible to settle except by compromises, which reduce the state owned enterprise's achievements. The governmental agencies

seemingly try to remedy uncertainties by passing the problems to an state owned enterprise with unclear directives. So, by changing the ownership, shipping enterprises can avoid creditable costs.

Second, another cost that can be reduced by privatisation is corruption. In Vietnamese state shipping companies, corruption can exist in various forms. Mostly corruption is bribery for procurement. It simply represents a surcharge on procurement costs. Moreover, bribery becomes more harmful when it results in procurement of substandard equipment or less productive assets. Privatisation can reduce corruption by introducing an incentive structure that will make the obstructive types of corruption unprofitable. On the other hand, in joint stock companies employees can clearly enjoy their efforts but directly suffer by their faults. Due to the nature of joint stock enterprises, as share holding entities, they can offer a stricter financial control in order to keep transparent financial status and attract more opportunities to develop. So, privatisation can be an effective medicine for the chronic disease- corruption.

In consequence, private sectors can work more profitably than public sectors (Lesser, 1990).

#### 4.2.2 Improved management

In consideration of the above problems privatisation introduced, joint stock companies can overcome the problem in such aspects as:

- Multiple objectives: As a prevailing phenomenon, formulating objectives badly influence state owned enterprises much more than joint stock companies because joint stock companies rarely make decisions beyond their finance and operation. Joint stock companies are more flexible and dynamic in response to market changes.
- Planning: poor planning can be remedied in the sense that joint stock companies can attract experts and experienced staff in the work of the planning division.
- Appropriation finance: the joint stock companies do not confront with the problem of poor appropriation of finance in the sense that they have more

autonomy in raising loans or finding means of self-financing. In terms of planning finance, joint stock companies can easily employ professional expertise and reduce deficiencies, which state owned enterprises are not able to do due to cumbersome and bureaucratic procedures.

- **Monitoring system:** joint stock companies fully operate under discipline of debt market. The managers of joint stock companies are always put under threat of bankruptcy if they lose their control on operations. So, the function of monitoring is particularly a concern and improvement in joint stock companies. As a result, in joint stock companies the operational and decision-making procedure is simple, transparent and flexible. On the other hand, the top management has power to make their decisions workable and the managers are absolutely responsible for their decisions.
- **Marketing:** The work of the marketing division is more effective and efficient in joint stock companies because of following reasons. First, joint stock companies easily offer more attractive employment terms to recruit good sales managers. This leads to increase in the number of qualified staff deployed in marketing. Second, joint stock companies can simply set up and implement the basis for staff remuneration according to their efforts and results. This regime motivates qualified staff to seek ways to carry as much cargo as possible at the least cost.
- **Human factor:** Under competitive market economy, privatisation is the best way in which human resources can be employed effectively and efficiently. Employees can clearly find their benefits through their attempts by owning certain shares of the enterprise. Employee rights and profits, which are related to the enterprise, will prompt employees to devote their competence to the enterprise. So employees try to do best in their daily work. Joint stock companies can also have relevant methods to attract high skilled employees by employment and wage incentives. As shipping is an international business which needs proper and creditable know how from foreign partners. Privatisation, which attracts foreign investors, can introduce valuable knowledge and techniques in shipping practice.

#### 4.2.3 Encouraged competition

- The implication of privatisation in state owned shipping enterprises brings new participants, which increases the level of playing field in the shipping market. The impact of it is that only shipping operators who present good services with low rates from a customer's point of view and low operation costs from a shipping operator's point of view survive in the competitive market. In turn, it forces all participants, especially state owned enterprises, to improve their performance. Jian (1997) stated privatisation is one of the effective ways to prompt competition and hence transformation from planned economy to market economy.
- In particular, privatisation in Vietnam is in the beginning phase, not matured yet, so, it normally applies to small and medium scale enterprises, which have less cost and risk. It generates small and medium private entities, which have comparative advantage in coastal shipping. A result of the Japanese expert team study shows that private operators have profitability even in coastal shipping (MOTC & JICA, 1997). Their profitability is achieved by performing with less overhead costs and presenting the superior level of service offered, which not only attracts customers but also enables them to charge premium freight rate.

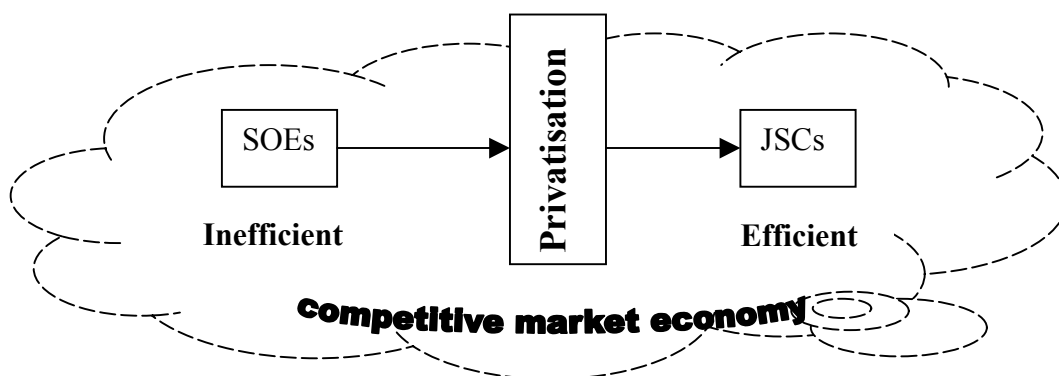


Figure 6: The effectiveness of privatisation under competitive market economy

### **4.3 GEMADEPT is an example of an efficient privatised-enterprise**

#### 4.3.1 Background of company and privatisation process

General Forwarding and Agency Company (GEMADEPT) was founded in April 1991 and privatised (equitised) in September 1993. Acting as ship agent and freight forwarder, GEMADEPT is a medium-scale company worth equity equivalent with USD 1,040,000 at the time of privatisation. There were some advantages for GEMADEPT at the time it was privatised:

- Efficient , young and ambitious staff (90 % under 40 years old)
- Top managers were experienced and had expertise in shipping
- Available and reasonable market and cargo reservation.

Some key indicators of privatisation in GEMADEPT:

- Ownership: State share is 18%, employee is 33.8 % and Outside investors is 48.2%
- Privatisation took 18 months. It is definitely a relatively short time for privatisation process in Vietnam when it is necessary to consider an average time equivalent to 27 months according to a case study of the Central Enterprise Reform Committee before 1996, associated with World Bank for privatisation of state owned enterprises.

#### 4.3.2 The impact of privatisation

After privatisation of GEMADEPT, the figures show its improved efficiency.

Table 14: Financial indicators of GEMADEPT

Year	Before privatisation		After privatisation				
	92	93	94	95	96	97	98
Turn over (USD million)	1.14	1.65	2.34	4.52	6.55	8.17	9.17
Profit (USD million)	0.26	0.26	0.69	1.142	1.525	1.682	1.84
Average wage (USD)	86	90	116	171	229	241	232

(Source: Economic Board of Ho Chi Minh City Communist Party, 1999)

According to the above table, there are continuous remarkable progresses in GEMADEPT performance. After privatisation GEMADEPT has had increased average percentage of turnover, profit and wage, 43%, 43 % and 22% respectively.

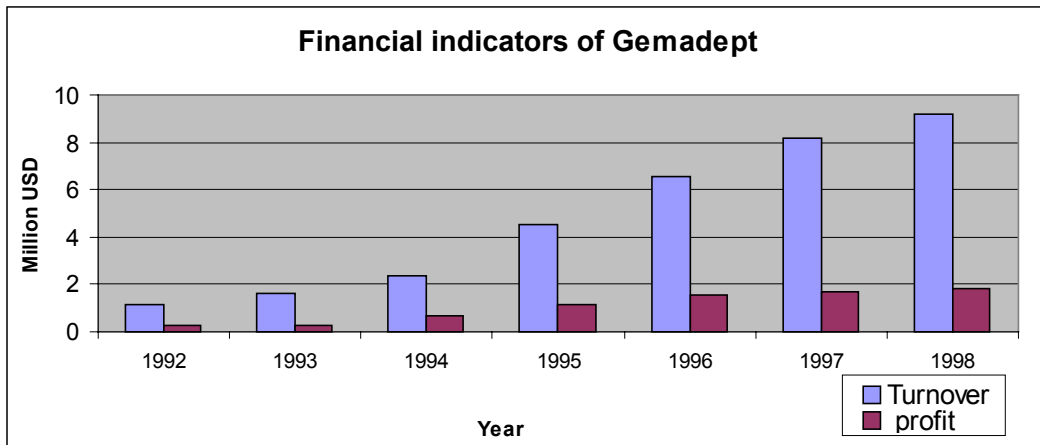


Figure 7: Financial indicators of GEMADEPT based on the data in Table 14.

The profitability of GEMADEPT can be clearly seen in comparison with that of VINALINES, in which GEMADEPT is a member company, and with that of SAIGON SHIP. Informatively SAIGON SHIP is planned to be privatised in the year 2000. In Annex 2, the background of such companies and their financial statement are included.

Table 15: Return of equity of GEMADEPT, VINALINES and SAIGON SHIP

	1995	1996	1997	1998
ROE of GEMADEPT	<b>27.8</b>	<b>24.9</b>	<b>21.5</b>	<b>19.1</b>
ROE of VINALINES	<b>10</b>	<b>9.1</b>	<b>8.3</b>	<b>9.2</b>
ROE of SAIGON SHIP	-	<b>5.4</b>	<b>4.1</b>	<b>2.4</b>

(Source: VINALINES, 2000)

### Direct impact of privatisation in GEMADEPT:

Based on direct flow calculation from financial statements of GEMADEPT, the direct impact of privatisation is illustrated in the following:

- Employment: the workforce in GEMADEPT has increased by 64 percent since privatisation, largely as a result of expansion of enterprises privatised during 1995-1998.
- Value added: GEMADEPT improved its productivity and efficiency in comparison with other state owned enterprises in the same segment as shown below:

Table 16: Added value of GEMADEPT after privatisation

Name	Added Value (USD)			Added Value per employee (USD/employee)		
	1996	1997	1998	1996	1997	1998
GEMADEPT	198084	2243762	2464044	8069	7817	7773
SAIGONSHIP	834192	734424	561115	1418	1350	1320

#### 4.3.3 The implication of privatisation in GEMADEPT

- Some lessons from GEMADEPT: GEMADEPT is a typical example of achievement of privatisation due to several reasons. It appears to be financially healthy from the beginning of privatisation. It draws a sound business plan and an appropriate company statute. Furthermore, the management team includes young, motivated, dynamic and expert staff. All these factors actually attract investors. In fact, when the enterprise launched the privatisation plan and offered its shares to the public there was a positive response from employees and outside investors.
- The implication of privatisation in GEMADEPT:
  - Employee & management incentives: The changing of ownership from state to employees is a breakthrough in employee incentive policy. Employees become fond of the company business and are motivated by owning some

shares. In respect of management, the competition among staff is a consequence of managers 's effort to be the best beside looking for more employment, and improving their business and customer service in order to keep their company to survive.

- Organisational structure reforms: There was a significant change in organisational structure in respect of strategic planning. The innovation in structure of the organisation, which aims at strengthening the structure and improving its performance, brings about more efficiency and competitiveness. The planning division undertakes traffic forecasting, market research and strategy for cost control. This division makes the vision of the enterprise clear.
- In terms of customer considerations, the marketing service was set up to maintain good customer relations. It follows effective procedures for the speedy settlement of customer claims for delays or damage to cargo. It also takes care of business strategy. Especially, assessment of profitability takes into account the effect of customer characteristics on revenue potential.

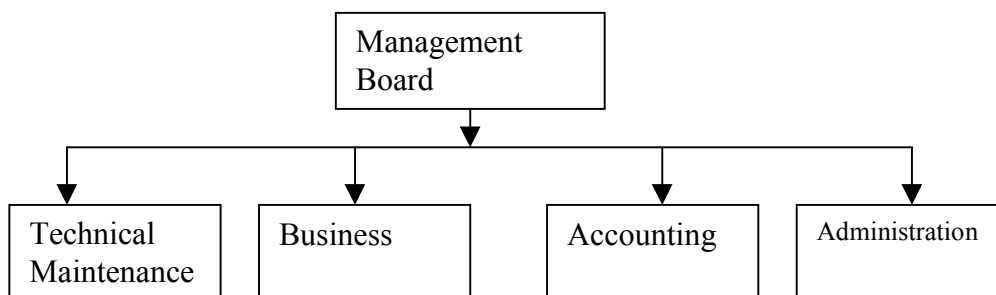


Figure 8: The organisational chart of GEMADEPT before privatisation



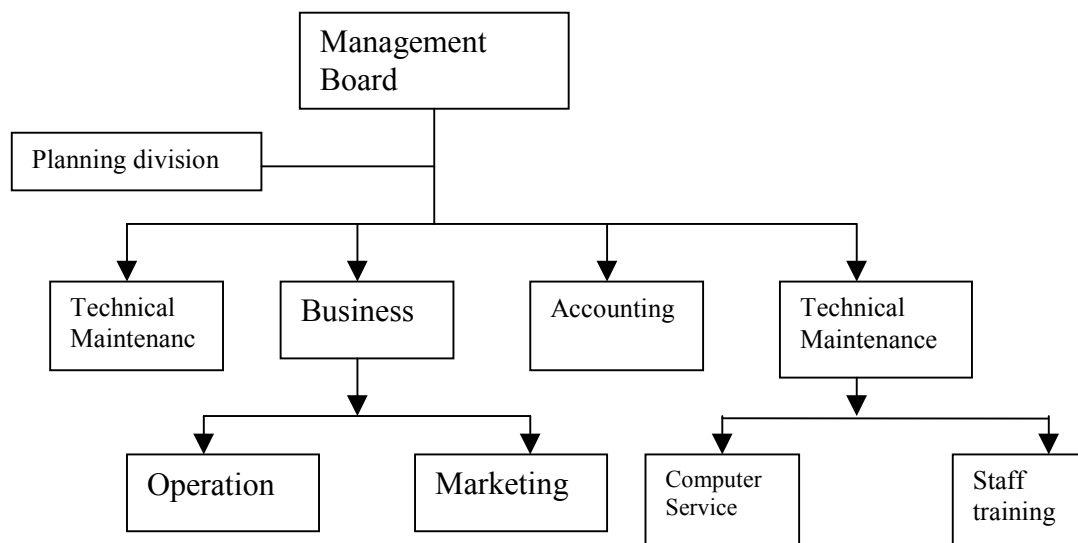


Figure 9: The organisational chart of GEMADEPT after privatisation

- The state-share is not prevailing in percentage comparison with non-state shares. This brings GEMADEPT some advantages in terms of operational expansion. Clearly the agreement between management board and shareholders for transferring profit to equity to expand business is easier in non-state shareholders. In fact, there were tremendous dividends converted to equity in the good business cycle, before the Asian crisis, which rapidly increased its equity.
- Outsiders hold the majority of shares. Most of the outsiders are individuals working in the maritime field, or permanently in state owned enterprises. Although the old management board was basically kept after privatisation, the dominant participation of outsiders has required high expectations in terms of operation and urged it reform a lot. Especially, among outsiders are key officials in the Vietnamese maritime industry. They can actually put important influences to its strategic plan in the form of informative consultants.
- The changing of ownership also changes working culture and psychological inducement of promotion. Employees focus on result of work rather than working time. Promotion is based on competence rather than experience.

- **Autonomy:** The top managers manage the enterprise in almost independent ways. The liberation of financial planning and loan arrangement brings flexibility in business operations. The company shows they are sensitive and active in confronting the changing market such as the changing of import and export segments, and participation of new shipper. As a result, the company 's competitiveness increases.

#### 4.3.4. The constraints during privatisation of GEMADEPT

- The privatisation process of GEMADEPT has experienced multiple and cumbersome procedures. Although privatisation in GEMADEPT took place under advantageous conditions and in a short time, the drawbacks of lengthy and cumbersome privatisation procedures have had a negative impact on the firm's operation and employees ' creditability to privatisation. In fact the privatisation process was delayed by the controversial arguments among controlling and consulting agencies dealing with privatisation matters, such as enterprise value. In respect of psychological considerations, employees doubted the privatisation plan. More or less, it ultimately had an impact on the employee's productivity and the employee 's supports to privatisation at that time.
- **Difficulty after privatisation:** GEMADEPT, being one of the first generation privatised enterprises, has been confronted with the problem of lack of knowledge of joint stock companies in administrative and financial bodies, which prompted obstacles due to legal procedures. There is lack of relevant recommendations in decree/ directive for privatisation in terms of extending the scope of joint stock companies. Ultimately, it failed to register two member companies, whose proposed establishment aimed at diversification of its business, looking for new revenues and reducing risks. The inconsistency in policy interpretation between central and local administration toward joint stock companies created difficulties in business practice.

## Chapter 5

### Privatisation in the Vietnamese shipping industry

#### 5.1 Current privatisation in the Vietnamese shipping

##### 5.1.2 Current trends

- State owned enterprises belong to the central government :

This sector plays an important role in the Vietnamese shipping market. Regarding ship-owner category, this sector occupies 80% tonnage of the Vietnamese fleet. Privatisation began in 1993 starting with GEMADEPT-a non-vessel operator. But, by 1998 thanks to the wide spread privatisation plan of the government, the privatisation programme has been widely applied in this sector. Mostly, it has been successful in non -ship owner operators.

Table 17: List of privatised companies

Company	Type of company	Equity up to Jan 2000 (USD thousand)	Percentage of State shares (%)	Year of privatisation
GEMADEPT	Agency & Forwarding	6240	18.2	1993
INFACO	Forwarding	357	20	1999
INLACO	Crew management and shipping	250	30	1999
SAFI	Agency & Forwarding	406	15	1998
VICONSHIP-SAIGON	Forwarding	2 142	30	1999
TRANSIMEX	Forwarding	1 040	10	1999

(Source: MOTC, 2000)

Most enterprises show to be profitable up to the end of 1999. The average dividend is about 16%. However, in comparison with the first case of privatisation i.e. GEMADEPT, the rest of the enterprises have modest results due to less comparative advantages.

The average time for privatisation reduced to 9 months for the companies, which were privatised by the 1998-1999 period.

In the phase of 2000 and 2001, MTOC plans to apply privatisation largely in the maritime sector. For instance, VINALINES, being the biggest enterprise, dominant in coastal shipping market, plans to privatise the following companies with 30% of shares for state.

Tables 18: List of companies that will be privatised in VINALINES

Company	Equity (USD thousands)	Company	Equity (USD thousand)
INLACO Saigon	1214	MARISUPPLY	744
VICONSHIP	3714	MASERCO	273
Haiphong			
VIMADECO	4401	INSECO	728
VOSA	3714	MITECO	100

(Source: VINALINES, 2000)

- Privatisation in provincially owned shipping companies:

As mentioned in Chapter Two, most of the provincial governments own shipping companies and being small-scale companies have confronted problems under market economy. Privatisation is a relevant solution for provincial governments releasing their financial burden due to inefficiency. This sector really needs institutional reforms but failed in the privatisation program for political and managerial reasons. First, most of the chosen companies to be privatised have unhealthy financial status and poor management. Second, there are constraints from officials at different levels related to privatisation (political problems).

### 5.1.2 Some characteristics of privatisation in the shipping industry

- In Vietnamese circumstances, privatisation implies the changing of ownership but not changing of the management board. From privatisation objective consideration, privatisation programmes mostly encourage employees' involvement in order to create new incentives to increase efficiency. The consequence of it is that employees constitute a major shareholder proportion and there is almost no considerable changing of the management board. Although privatisation brings tremendous forces and opportunities to urge enterprise to go ahead, the limitation due to the old management board still exists in post privatisation phase. So, from the author's point of view, this phenomenon should be considered and remedied when privatisation widely stretches out and effectively influences the national economy in the future.
- Privatisation in small and medium scale enterprises mainly non-shipowner enterprises: Most privatised companies are small or medium scale in which there are fewer risks in case of mistakes. Privatisation in ship-owning enterprises is too difficult because the category of these enterprises is having high capital requirement, low marginal profit and low "know-how" in shipping. It alternatively leads to privatisation in other companies like agencies and forwarding companies, which definitely require light capital.
- Insiders occupy the major proportion of prevailing numbers of shares: the current Vietnamese legislation stipulates that foreign investors can own up to 30% of the total shares of an enterprise. However, in cases of shipping privatisation, foreign investors are rarely accessible and have participated in two cases: TRANSIMEX Company and VICONSHIP Saigon Company with 5 % and 10% shareholding respectively. Although the case of GEMADEPT is a typical example because of the advantage of outside share-holders in privatisation, Vietnamese shipping is likely to prefer and reserve a significant percentage of shares for insiders. The explanation of this though may be for political reasons, concerning "co-operative owner right of labour" under the socialist regime. The concept attempts to protect employees' rights but is in conflict with privatisation. The compromise

for these matters is to reserve a prevailing percentage to insider investors such as employees and managers. In fact, insiders have a limitation in terms of their managerial and financial capacity. So, the above practice is not effective in the privatisation process because shipping is highly capital intensive with high know how requirements. In fact, in most cases capital mobilisation from outside is carried out. The experience in transactional economies points to the absence of substantial improvements in the performance of insider-owned firms (Frydman, Gray, Mhessel & Rapaczynski, 1999). Consequently, privatisation programmes in the Vietnamese shipping industry in the future should consider the participation with an increased share of outsiders.

Table 18: Average percentage type of shareholder in privatised companies

	State(%)	Inside (%)	Outside %
INLACO	30	52	18
VICONSHIP	30	55	15
SAFI	20	45	35
GEMADEPT	18	34	48
TRANSIMEX	10	63	27
INFACO	20	56	24
<b>Average</b>	<b>23.9</b>	<b>50.6</b>	<b>27.8</b>

(Source: MOTC, 2000)

- The privatisation method in shipping: Like in other industries, the privatisation method applicable in the shipping industry is public offerings with the sale to the public community such as employees and domestic and foreign investors. As discussed in Chapter Three, the method has some advantages and disadvantages. In the latter section of this chapter, the author will give some recommendations.

## ***5.2 Problems and constraints in privatisation in the Vietnamese shipping industry***

Under the circumstances of broad and wide privatisation in Vietnam, the shipping industry confronts a lot of problems, which are caused by the characteristics of

Vietnamese shipping enterprises, the privatisation mechanism and the regulatory mechanism.

#### 5.2.1 Low market share in market structure

Theoretically, the market structure in which an enterprise operates after privatisation is the key to the design of the state owned enterprises sale. The technological characteristics of the industry, the demand for the service and the legal restrictions to entry and exit determine the market structure. Notwithstanding the advantage of higher demand in shipping services, privatisation in shipping has confronted creditable constraints. Shipping is a competitive, international, capital intensive and volatile business, which requires high levels of expertise. The low market share in ocean going shipping is a big obstacle for privatisation in state shipping companies.

#### 5.2.2 Managerial Problems

- The inconsistency in performance of state owned enterprises results in delay in privatisation. Due to their running under a planned economy, most state owned enterprises generally lack a sound business plan, an appropriate company statute. Furthermore the management is familiar with the dynamics of a market economy. These poor characteristics of state owned enterprises can not secure the long-term success of every privatised enterprise. So, they restrict both inside and outside investors to respond to public offers.
- The inadequate knowledge among officials and privatised company executives draw back privatisation. The human factor is a critical issue to determine the success of any economic transaction. However, the fact in some state owned enterprises is that knowledge among officials about relevant banking and finance laws and labour codes is very inadequate (Nguyen, 1998).

#### 5.2.3 Financial problems

- The lower degree of development of the local financial sector: The lower financial capacity of inside investors and the restricted share for foreign investors

result in the limitation of available capital for state owned enterprise sales. As a result, the scarcity of financial supply distorts the price of state owned enterprise sales. Consequently, the government can not obtain the maximum revenue from state owned enterprise sales.

- The absence of Stock Exchange Centre (SEC) makes privatisation slow. For the time being, privatisation has mostly been applied to small and medium state owned enterprises. In the future, when large state owned enterprises will be planned to be privatised, the presence of an SEC is essential to facilitate offering of shares in public; otherwise state owned enterprises can not spread out their tremendous shares. Moreover, when large numbers of state owned enterprises are privatised the demand of selling and buying shares increases, making it essential that an SEC be established.

#### 5.2.4 Political problems

- First, there is little interest in local authorities to reduce the influence of the government by promoting a privatisation policy. In Vietnam, the power distribution system grants its local party and government leaders considerable authority and control over a number of enterprises. So, there is no doubt that they have an exclusive benefit from state owned enterprises and hence ignore privatisation, by which they believe they will be losing their privileges.
- Second, leaders and officials in many state shipping companies have a common belief that privatisation will remove their personal special interests and privileges. This sense particularly predominates for those who are incapable. There are some argument against privatisation in the sense that:
  - The shipping industry, being a strategic industry, should be in the hands of the state;
  - Poor employees will not have access in the post-privatisation stage.



### 5.2.5 Poor privatisation mechanism

1. First, valuation methodology does not reflect the real value of an enterprise. As mentioned above, for the time being the traditional formula for appraising the value of an enterprise at the time of privatisation is:// Adjusted Net Worth +/- Advantage/Disadvantage Value +privatisation Expenditures//. Adjusting the audited net worth and the advantage/disadvantage value are subjective adjustments, dependent on individual state owned enterprise management.
  - Re-assessment of fixed and current assets in current prices depends on the discretion of experts at the various levels of review. The absence of more specific guidelines of MOF on re-assessing buildings, equipment, and goods results in endless discussions among numerous experts. In consequence, negotiated settlements for those problems take time.
  - According to MOF guidelines, the performance of the enterprise over the three years prior to privatisation is compared with performances of enterprises of the same type that are active in the same economic subsection during the same period. This comparison determines the advantage/disadvantage value. However, these data of other entities are rarely available. In consequence, it makes this process very difficult, if not impossible. In fact, the advantage/disadvantage values were the result of negotiations between the State and the enterprise (Webste & Amin, 1998). So, determination of the advantage/disadvantage value should be fixed in accordance with the market value of the enterprise.
2. Second, the valuation procedure is lengthy and ponderous. According to the Figure 3, the review process takes considerable time at each decision-making stage. Further, if there are disagreements at any stage, the submission must go back to the originator for revision.
3. The governance authority is concentrated in a single person. Practically, in the case of privatisation in most Vietnamese shipping companies, one person is appointed to the two key positions (chairperson of Enterprise Privatisation Board

and CEO). As a result, too much power is concentrated in a single person. The risks here are that most of the directors of state owned enterprise boards do not have good competence and corruption is possible in economic activities.

4. Finally, the communication campaign for privatisation is limited. Although the government stipulates regulations of public notice such as public disclosure of information on the enterprise and public offering of its shares, there are existing limitations on means of increasing the general public's awareness of the process and benefits of privatisation. Practically, the disclosures of information stretch out internally within the enterprise and related agencies. It results in the lack of information for outsiders, who are concerned with state owned enterprises. The use of public media such as radio, newspapers and television is very rare or absence. UNCTAD (1995b) stated that the utmost transparency communication determines privatisation achievement. In fact, where public awareness has developed such as in Ho Chi Minh City, there are positive responses to public share offerings. Consequently, the utmost transparency and opening communication campaign should be considered in order to make privatisation effective.

#### 5.2.6 Regulatory mechanism

- There are some policies that do not encourage employees' involvement. For instance, regarding share purchase through credit, Directive 44 stipulates that "buying one share in cash as a prerequisite to getting one share on credit". This provision is unfair to employees with no available cash. Furthermore, according to article 11 of MOF's decision No.104/1998/TT-BTC "the total shares sold on credit shall not exceed the shares bought in cash by workers". This practice reinforces employees' resistance to privatisation.
- There is a restriction for joint stock companies to access bank loans. Although the legal document for privatisation stipulated the equal treatment of bank to joint stock companies as state owned enterprises, in practice, this provision is unlikely to be applied smoothly. When a Vietnamese credit institution considers whether

to extend a loan, the first enquiry is likely to be into the value and availability of collateral rather than the creditworthiness of the enterprise or the prospects for success or the business plan. Thus, state owned enterprises may borrow funds from banks more easily because they are allocated more funds or assets to provide security or may obtain a guarantee from a government authority. Joint stock companies face obstacles in obtaining loans because the law is unclear on the mortgage procedures applicable to the private sector. Moreover, they do not usually have sufficient assets to meet the collateral requirements of the banks. This obviously affects the efficiency and the implementation of the business plan of newly established companies. Major banks treat state owned enterprises favourably in relation to interest rates, capital and equity reduction requirements, advance payments, fees and charges.

- There are many elements in shipping business regulations and practices that discriminate in favour of state owned enterprises. For instance, article 9 II Vietnam Maritime Code stipulates that “the Council of Ministers shall specify the activities in which privately owned Vietnamese sea-going ships may engage”. Such discriminations prevent the concept of “pro-business environment”, which determines the development of private sectors in general and the success of the privatisation process in particular.

### ***5.3 Proposals to make privatisation effective***

#### 5.3.1 Pre-privatisation phase: Restructuring schemes and training programmes

In most cases failure of privatisation has resulted from poor performance of state owned enterprises. So a restructuring package in pre-privatisation can bring effective privatisation. There are some forms for restructuring.

- Change in management restructure:

Changes in management policy can lead to effectiveness for improving management results in declining enterprise performance. It is clear that under the competitive market economy, poor management in state owned enterprises significantly consumes public budget. As most managers in state owned enterprises know how to

cope with a centrally planned economy, have difficulty in dealing with the changing market economy. Replacing old management teams can bring two positive effects to privatisation, setting up a newly oriented market management teams and creating potential shareholders' belief and confidence.

- Absorption of enterprises' debt:

In the privatisation process, there were many cases where enterprises were reported to have financial problems. The forms of financial problems are long-term domestic or foreign debts, over due account receivable due to liability among state owned enterprises and over due fiscal debts. Such problems create large financial costs or threats of bankruptcy. So, by debt absorption method, state can cut such critical costs and bring opportunities for state owned enterprises to start afresh with a new balance sheet.

- Efficiency programs to improve performance:

In this form, the management board can apply relevant solutions to increase management capacity. Quality assurance emphasises a strategic consideration. The objective of an enterprise should be transparent and workable, cover the enterprise target, guide the enterprise prospect and cut down the strategic gap. The role of the planning division should be raised. Increasing the competitiveness of the enterprise should be done by market consideration and customer service, which should be included in both the strategic and business plans. Strengths, weaknesses, opportunities and threats analysis has to follow the change of environment. Cutting red tape in the organisation needs to be done by implementing a proper system of recruitment, promotion and reward in the consideration of competence instead of experience.

- Investment measures:

In case the state owned enterprise can not carry out its program efficiently, the controlling agency can help the state owned enterprise by investment measures such as rehabilitation plan or agreements on financial restructuring tied to improvements in operation. The controlling agency can send an expert team to undertake surveys

of the state owned enterprise status. The team clarifies emerging issues and gives recommendations.

- De-investment or cutting the flow of resource for physical capital:

This form applies to state owned enterprises where there are wrong decisions to invest some assets. The effect of this is that cutting off wrong investments would reduce the price that potential shareholder will pay. Eventually, the precise price attracts the investors concern more.

- Training programmes:

The problem of inadequate knowledge among officials and executives of privatised companies can be overcome by training programmes, which prepare managers for privatisation and upgrade their skills and competence. The purpose of training programme makes managers cope with the shipping industry in its new forms. Training is not only important in terms of implementing government policy at operational levels but also features strongly in the controlling agency 's forward plan. Controlling agencies should also consider management training as a crucial issue and recommend that the government enact the provision of significant support for training and education. The content of training courses should include business management and administration, marketing, finance, customer service and human resource management. Training programmes should be undertaken at all levels of management from executive board to supervisor level.

### 5.3.2 Privatisation mechanism

#### 5.3.2.1 Partial privatisation for monopoly sectors

Currently, privatisation in the shipping industry does not touch some monopoly sectors such as port and ocean going shipping. But in the privatisation perspective these sectors can apply partial privatisation such as management buy or contract out. Under the light of this issue, some aspects can be sourced out on a concession basis to the private sector, which are believed to be able to handle this efficiently. As an illustration, a port operator can contract out partial areas as a container terminal to foreign operators. Iheduru (1993) stated this form was considerable for these

strategic sectors of the national economy. In the author's opinion, this practise brings limited effects in terms of enterprise efficiency because the partial privatisation form certainly liberates an enterprise from some aspects but leaves some constraints in existence such as the uncertainty and fear for private entities about political policies and political influence of other public entities. However, this form creates an initial basis of private operation in such monopoly sectors and raises political acceptability for full privatisation by giving good improvements in operations.

#### 5.3.2.2 Auction method should be considered

The weakness of privatisation method in Vietnam in general and the shipping industry in particular is the absence of the auction method. This method can apply to small enterprises with two purposes: cutting time of the privatisation process and maximising the price of enterprise to be sold. In fact, the public offering applied in the small enterprises could not be cost-effective. In such cases the state, by applying the auction process as a relevant alternative, can maximise revenues and allocate assets efficiently without dealing with other issues, like investment requirements and minority protection. In theory, this transfer can be done through two forms: competitive bidding or a privately negotiated deal (Lopez-Cava, 1998). An open competitive bidding process has the following advantages: First, it encourages political acceptability because it is transparent and results in the higher price of enterprise sales. Second, it maximises revenues for the government by giving a precise price. Third, it introduces the enterprise to the most efficient investor owing to public competitive deals, which all potential investors are able to access. On the other hand, when there is enough competition and a limitation of the bidding process, which attracts one or two buyers only, the negotiated sales are conducted. In this process, the privatisation agency reviews case by case proposal and meets potential buyers. The main disadvantage of this method is that the lack of transparency might result in very high political cost: low creditability of public audience and the possibility of corruption.

### 5.3.2.3 Increased percentage of outsider shareholders

In the consideration of shareholder institution, there is a prevailing inside shareholding in privatised enterprises. The suggestion for this issue is to decrease share holding of the state down to lower percentage and increased percentage of outside shareholders. Regarding the former argument, the fact that state shareholder is passive in terms of business extension, there is reduced flexibility for diversification in such privatised enterprises. In fact, when privatisation comes to maturity, the state shareholding tends to be taken over by others. The withdrawal of the state does not mean that the state loses their benefits but it concentrates on their core function of administration and governance. Regarding the latter argument, outsiders have some comparative advantages against insiders. First, they have creditable know-how and financial status, especially in shipping. Second, outsiders normally have some potential resources before being shareholders so the integrated corporation can help the privatised companies in sound business practices. Shipping is international business so the involvement of foreign partners can give assistance in terms of strategic and operational businesses. Participation of outsiders encourages the changing structure management and corporate culture, facilitates organisational reforms and puts management board under much pressure of profitability.

Secondly, the fact that there is an identical tendency of privatisation in Vietnam as in the East European countries where the dominant shareholders are insiders, the employee ownership has drawbacks because they know how to cope with central economics but this may be difficult under market economics. While there has been no definite answer to the question of less effectiveness of insider ownership, there is some evidence of less effectiveness from the privatisation experience of East European countries, where there has been a similar economic situation to the Vietnamese economy. In theory, in the consideration of financial resources, managerial know how and corporate governance expertise, foreign and domestic outsiders investors have some prevailing advantages to insiders. The nature of the shipping business is such that the appearance of outsiders, especially foreign entities, can make a break through for entering by transferring technology and managerial

know-how. In the Vietnamese circumstance, there is lack of participation of domestic financial investors. Mostly they are individual investors occupying a major percentage of the shareholding. The explanation for this reason is that the incomprehensive communication campaigns restrict the access of external entities. In consequence, the increase in percentage of outsider shareholders is essential to ensure the achievement of shipping privatisation in Vietnam.

#### 5.3.4 Increase communication campaign

The proposal of increasing communication has two meanings: promoting broad participation and bringing opportunity to overcome resistance. Two meanings are interfaced. The more the people are involved in privatisation, the easier it is to overcome resistance for privatisation. As mentioned above there is resistance among managers and governmental officials but this group represents a conservative class, which is a minority group, not representing the desire of the large group of labourers. By carrying out broad and effective communication campaigns and opening debates the obsolete tendency will be criticised and overtaken. In consideration of the drawbacks of communication, the proposal for privatisation campaigns is to emphasise on utmost transparency. As an illustration, the sales of state owned enterprises can be promoted through newspaper articles in the national, regional and international press giving details of sale, their bids, the successful bids and amounts received. The open communication can attract potential buyers, as well as domestic and foreign investor participation, which may result in high price of state owned enterprise sales. On the other hand, using public media as the radio and television can rapidly spread out information to a wide audience, establish and build up credibility of the government and procedures of privatisation. Besides, privatisation planners and affected state owned enterprises can communicate through workshops in which all levels of officials are involved in informal discussions.

#### 5.3.3. De-regulation programmes accompany with the privatisation process

Privatisation should go hand in hand with deregulation. For the time being Vietnamese legislation has a lot of drawbacks for both privatisation and market



liberation. As mentioned above this problem is likely to be involved in pre-privatisation, privatisation and post privatisation. The constraint of legislation prompts time and cost of privatisation. As a result, it reduces price of state owned enterprise sales and gives a negative effect to the result of privatisation. On the other hand, UNCTAD (1995a) states that promotion of competition is central to the success of privatisation. In my belief, privatisation fails when there are a lot of artificial entry and exit barriers for private sectors in particular and market liberation in general. So, from a market economy's point of view, deregulation programs will introduce an efficient and enforced competition policy, which will cut down artificial barriers and induce a competitive market. The deregulation programme directly facilitates ownership transaction and reduces cost and time of privatisation. In the Vietnamese circumstance, deregulation should be considered as constitutional restrictions that impose limits on the foreign and domestic private ownership. Deregulation programs will cut down such constraints and lead to the presence of a set of available choices to privatisation agencies. All the above effects can increase the price of state owned enterprise sales. It is clear that privatisation achievement can bring substantial budgets to the state and make financial systems healthy. The fact that there are constraints in legal framework, the financial bodies draw back from the privatisation process. Deregulation should be undertaken in order to keep legal documents update with practices. As an illustration, the government should consider some provisions about foreign shareholders, promoting purchase by cash and improve the bank loan system. Based on the above arguments the author draws the effect of deregulation on privatisation in the following figure as a conclusion for this argument.

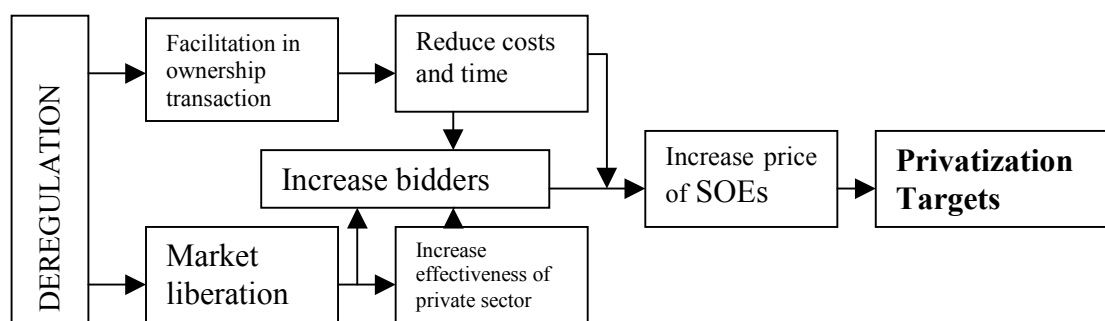


Figure 10: The effect of deregulation on privatisation

## Chapter 6

### Conclusions and recommendations

#### ***6.1 Summary of privatisation in the Vietnamese shipping industry***

- In the competitive market economics, state owned enterprises can not perform as well as private owned enterprises. The main reason is that under state subsidy the discipline of market rule can not effect and create motivation for state owned enterprises. In terms of generally social interest, joint stock companies, being efficiently economic entities, can produce much more benefits for society. In terms of shipping industry interests, joint stock companies can create efficiency and profitability in the shipping industry.
- Private sectors in the Vietnamese shipping industry have gradually increased is a good premise for privatisation. In turn, privatisation has implied an increase in the private sector in the shipping industry and created a competitive business environment.
- By privatisation, state owned enterprise performance can be improved in the sense that the public budget gained by privatisation can be invested in state owned enterprise restructuring schemes. More or less, under the challenge of the newly competitive environment and the release of state protection for state owned enterprises, induced by privatisation, state owned enterprises will compulsorily improve their performance if they do not want to be taken over or merged.
- Privatisation in Vietnamese shipping is just at the beginning phase in which the government concentrates on non-strategic small and medium state owned enterprises.

- Privatisation is one of the best solutions for the serious chronic disease of inefficiency in Vietnam shipping entities.
- Currently privatisation in Vietnamese shipping confronts the following obstacles: First, low market share of state owned enterprises, poor management and invisible finance of state owned enterprises, which do not attract investors. Except for the problem of low market shares, which needs long time to remedy, the rest of the problems can be overcome by a restructuring scheme in pre-privatisation phase. Second, there are political constraints as a result of the nature of a socialist mechanism and personal interests among top management and provincial political leaders. Third, the inadequate competence of management and finance among staff in state owned enterprises are big constraints for privatisation, in terms of the privatisation process and the vision of privatised companies. Fourth, the currently cumbersome regulation system has a number of disadvantages for the privatisation process and activities of joint stock companies. There are long and cumbersome processes and the restriction for joint stock companies' access to bank loans and the absence of the pro-business concept.

## ***6.2 Prospect of privatisation in Vietnamese shipping***

- The companies that the government chose to privatise had some comparative advantages, which the companies coming late in the next privatisation phase will not have. Prospectively, the initial phase of privatisation requires a lot of efforts and reforms from the state in order to overcome the problems.
- Currently, there is no stock exchange centre (SEC) in Vietnam. The SEC is still in the planning stage. However, in the coming phase some larger state owned enterprises will be privatised, resulting in high financial acquisition for state owned enterprise sales. So, the privatisation achievement in turn depends on the foundation of SEC.
- The effects of privatisation will be reduced when the essential implementation for pro-competitive market economics fails. Definitely, the achievement of

privatisation depends on privatised enterprise abilities to present efficiency and profitability. These performances depend not only on management skills and starting advantages of chose entities but also on how well the business environment supports the newly-privatised enterprises.

- Monopoly consideration: When privatisation becomes wide spread and effective, the issue of monopoly should be of concern, especially in the competitive shipping field. Principally, monopoly conflicts with efficiency and deviates from privatisation objectives.

### **6.3 Recommendations:**

- Generally, privatisation in shipping depends on the government policy. The government should maintain and follow strong commitment to privatisation. By legislation and public media, the government should maintain and develop a broad consensus among the parties affected such as bureaucrats, managers and employees.
- In order to improve privatisation, the following proposals are presented:
  1. Restructuring schemes for upgrading state owned enterprise performance can bring precise price for state owned enterprise sales and maximum revenues for the government. Training programmes can help controlling agencies to overcome the problem of human resource.
  2. The auction method, which facilitate small-scale state owned enterprise sales, should be considered as the option for privatisation methods in Vietnam in the coming time.
  3. Partial privatisation, contract out or management buy, can be alternatives for privatisation in the strategic sector of the shipping industry. It makes a premise for privatisation in those sectors when privatisation comes up to a wide stretch and maturity in Vietnam society.
  4. Deregulation programmes accompany with a privatisation process because privatisation can not be improved if there are a lot of restrictions for private sector operations, foreign participation and market liberation.

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## **ANNEX 1**

### **Legal documents relate to privatisation in Vietnam**

1. Decree No. 28-CP on the Transformation of a Number of State Enterprises into Joint-Stock Companies dated May 7 1996 (replaced by Decree 44);
2. Directive No. 658-TTg of the Prime Minister on the Acceleration of State-Owned Enterprises' Privatisation Process dated August 20 1997;
3. Decree No. 25-CP of the Prime Minister Amending Some Provisions of Decree No. 28-CP dated March 26 1997 (replaced by Decree 44);
4. Directive 20/1998/CT-TTg of the Prime Minister on the Acceleration of Re-Arrangement and Renovation of State-Owned Enterprises dated April 21 1998;
5. Decree No. 44/1998/ND-CP of the Government on the Transformation of State-Owned Enterprises into Joint-Stock Companies dated June 29 1998.

(Source: Enterprise Reform Committee, 1998)

## ANNEX 2

### Key information of GEMADEPT, SAIGON SHIP and VINALINES

#### I General forwarding and agency company (GEMADEPT)

- Established year : 1991
- Privatised year: 1993
- Functions:  
Agent and broker for domestic and foreign shipping lines  
Forwarding cargo
- Key indicators from 1995 to 1998:

	1995	1996	1997	1998
Employee (person)	210	246	287	317
Equity (USD)	4109000	6121000	7811900	9589700
Turnover (USD)	4520000	6550000	8169000	9170100
Profit (USD)	1142000	1525000	1682000	1840000
Tax (USD)	283000	403750	492595	550500

(Source: Economic Board of Ho Chi Minh City Communist Party, 1999).

#### II Saigon Shipping Company (Saigon Ship)

- Established year: 1982
- Owner ship: state owned enterprise.
- Functions:  
Coastal and ocean going shipping  
Agent and broker for domestic and foreign shipping lines

Forwarding cargo.

Crew management

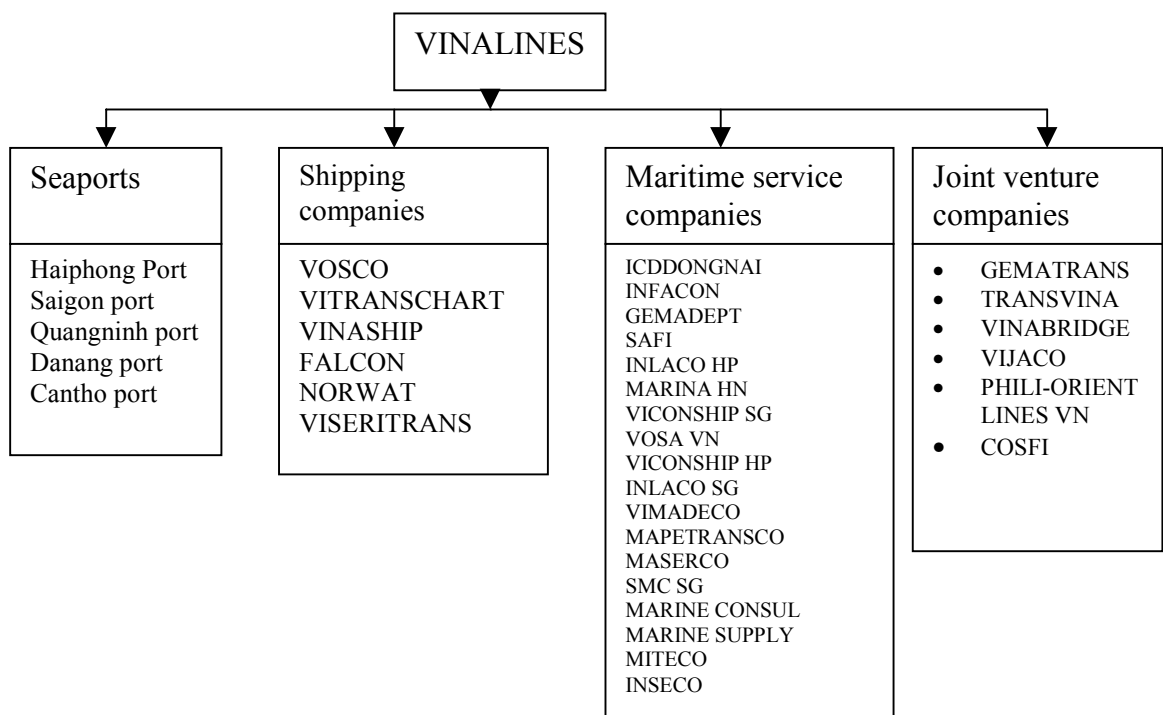
- Key indicators from 1996-1998:

	1996	1997	1998
Employee	588	544	425
Equity (USD)	3700743	3498359	3221510
Turnover (USD)	2430578	1963593	1655683
Profit (USD)	200082	145625	79136
Tax (USD)	121528	98179	82784

(Source: SAI GON SHIP, 2000)

### III. Vietnam National Shipping Lines Corporation (VINALINES)

- VINALINES established in 1996 according to Decision 91. VINALINES is the biggest shipping entity in Vietnam and includes 25 member organisations in 4 categories: seaports, shipping companies, maritime service companies and joint venture companies.
- The organisation chart of VINALINES:



Key indicators from 1995-1998:

	1995	1996	1997	1998
Equity (USD)	123472000	137273640	138739300	137161370
Turnover (USD)	128565000	145376000	156320000	163831000
Profit (USD)	12418403	12567107	11560859	12747266

(Source: Vietnam National Shipping Lines, 2000).