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Vietnam’s state firms

Excess baggage

The 400 firms the government wants to part-privatise are mostly unappealing

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WHEN the government launched an initial public offering of shares in Vietnam Airlines on November 14th, it was hoping that the flotation of one of few companies widely known outside the country would help it speed up a plan to ñequitiseò hundreds of state firms. However, the IPO, in which a stake of just 3.5% of the airline was on offer, attracted not one foreign investor. Local banks were the main buyers.

State-owned enterprises (SOEs) account for about a third of Vietnamôs GDP, in industries ranging from finance to fabrics, seafood-processing to shipbuilding. Not all are duds: Vinamilk, a dairy firm, attracted a number of foreign investors to its successful IPO in 2003, and this September foreign investors bought about half of the shares sold in a $57m IPO of Vinatex, a big textiles firm (though the firm did not sell as many shares as it had wanted).

Nevertheless, the opaque bureaucracies at most SOEs make them breeding-grounds for graft and mismanagement. In the most prominent example, in 2010 Vinashin, a shipbuilder, defaulted on a foreign loan, triggering a downgrade of Vietnamôs sovereign debt. Many SOEs are stuffed with ñworkersò who do little.

The state firmsô poor performance means that Vietnamôs GDP growth, now around 5.5% a year, is weaker than it should be, given its young and educated population, and its wealth of natural resources. Unusually for a communist country, the prime minister, Nguyen Tan Dung, had to endure a confidence vote in the National Assembly last year over his economic recordð and he did poorly.

This year, besides restoring his popularity by standing up to China in a territorial dispute, Mr Dung has breathed new life into a long-standing plan to sell minority stakes in SOEs to private investors, in the hope of making them more businesslike. Ones with IPOs planned for next year include Vietnam National Shipping Linesð two of whose former executives were sentenced to death last year in a drive against corruption. Given the condition many are in, Mr Dungôs goal of equitising more than 400 firms by late 2015 is optimistic.

Edmund Malesky, a Vietnam-watcher at Duke University in the United States, reckons the government in Hanoi may be pushing forward the equitisations with an eye on the Trans-Pacific Partnership (TPP), a big trade deal now being negotiated, which would oblige member countries to cut subsidies. If floating SOEs made them more efficient, they would need fewer handouts. It would then be easier for Vietnam to sign up to an eventual TPP deal, enabling it to enjoy wider market access for its exports.

The strategy makes sense, but it may be hard to pull off. Vietnamôs stockmarket remains one of Asiaôs smallest, and foreign investors are reluctant to buy shares in firms the state will continue to control, especially those in such areas as energy and transport that it regards as strategic, meaning prone to meddling.