Winners and losers in Vietnam equitisation programs[☆]

Hoang Cuong Le [a], Helen Cabalu [b], Ruhul Salim [b,*]

[a] *Murdoch Institute of Technology, Murdoch University, 90 South Street, Perth, WA 6150, Australia*
[b] *School of Economics & Finance, Curtin Business School, Curtin University, Perth, WA 6102, Australia*

Abstract

This article develops a computable general equilibrium model of Vietnam to assess the long-run likely effects of the country's equitisation programs on its national economic outcomes and industries. Equitisation is found to be pro-growth as reflected in its contribution to increasing real GDP growth rate in the long run. In terms of industrial output growth rates, the winners include electrical, steel and other manufacturing, while the losers include rice and paddy, and oil, gas and petroleum. To achieve better economic outcomes, the coverage of equitisation should be extended to include medium to large state-owned enterprises across all industries.

1. Introduction

In 1986, Vietnam introduced the *Doi Moi* (or Renovation) policy in an attempt to move the country towards a market economy. Since then, the transformation process has been slow and incomplete due to the remaining heavy influence of policies and institutions from the central planning days. During the time of central planning, many public policies were protectionist in favour of domestic state-owned enterprises (SOEs). Despite these incentives most SOEs were

inefficient and failed to lead the economy's growth. This has been a formidable challenge to government authorities. Since 1990, the government has been implementing measures to equitise inefficient SOEs, targeted at improving economic efficiency and competitiveness, in order to accelerate and achieve sustainable growth.

Equitisation or privatisation[1] is in the forefront of the reform agenda in many countries in recent years aiming to increase the role of market forces in resource allocation. Governments around the world privatise SOEs because of their well-documented poor performance or inefficiencies (Sheshinski & Lopez-Calva, 2003; Miljkovic, 2002). On theoretical grounds, equitisation has proven to be beneficial in improving firms' efficiency under perfectly competitive environments (Schusselbauer, 1999). However, under non-competitive environments (for instance, oligopolistic competition), equitisation may reduce rather than increase the total efficiency of an industry (Fraja, 1991; Nellis, 2007).

A number of studies on privatisation in Vietnam empirically examine the microeconomic impacts of equitisation program and find that its effects have been positive on firms' output, sales and profitability, and reduced leverage (measured by the total debt/total asset ratios) (Vu, 2002; CIEM, 2003; Truong, Lanjouw, & Lensink, 2006; Truong, Nguyen, & Nguyen, 2007; Ha, 2007). In contrast, Pham and Mohnen (2012) developed a general equilibrium model to examine the impacts of privatisation on economic growth and poverty alleviation in Vietnam. The authors find that privatisation does not contribute to job creation and welfare improvement.

Privatisation is found to generate positive macroeconomic impacts on employment, GDP growth and investment in other countries. Studies which support these findings include Boubakri and Cosset (1998) who examine 79 companies from 21 countries, Brainerd (2002) focusing on Russia, Ho, Dong, Bowles, and MacPhail (2002) focusing on China, Wu (2006) investigating 34 privatised entities in Taiwan, Broadman, Laurin, Moore, and Vining (2009) focusing on Canada's national railway company, and Boubakri, Smaoui, and Zammiti (2009) examining 56 developed and developing countries. However, there exist a number of studies having opposite conclusions including Miljkovic (2002) focusing on Yugoslavia, Cook and Uchida (2003) examining 63 developing countries, Stuckler and King (2007) examining 25 transition (or Post-Soviet) countries, and Moshiri and Abdou (2008) examining 117 developing and transition economies.

Given the unique features of the Vietnamese privatisation programme, Vietnam represents a good case study for investigating this since *Doi Moi*. The main objective of this paper is to develop a computable general equilibrium model, namely VNGEM to analyse the likely effects of equitisation program on Vietnam's national economic outcomes and industries and identify the inter-sectoral changes that occur.

The rest of the article is organised as follows. Section 2 provides an overview of Vietnam's equitisation program. Section 3 discusses the specification of VNGEM, followed by a brief description of the model database, sources of data and data treatment, model equations, model closure and simulation design. Section 4 analyses the long-run macroeconomic and industry results, with the view of identifying the winners and losers of equitisation. Effects on employment by occupation and long-run welfare effects of efficiency gains on household consumption are also examined. Finally, Section 5 provides some policy implications for achieving effective equitisation outcomes in the future.

---

[1] 'Privatisation' is used interchangeably with 'equitisation'—a Vietnamese term—throughout this paper, despite certain conceptual and technical differences between them.