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PUBLIC POLICY AND MANAGEMENT

# State-Owned Enterprises and Privatization

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Naypyitaw, 15 May 2018

## Structure

1. Why SOEs to begin with?
2. Why privatization?
3. Issues of the design and implementation of SOE privatization



## Why SOEs to begin with?

### ❖ Correcting market failures

- ❖ Natural monopoly
- ❖ Public goods
- ❖ Externalities
- ❖ Incomplete markets
- ❖ Reducing inequality
- ❖ Providing “merit goods”

### ❖ Political causes

- ❖ SOEs as “economic instruments” of the government
- ❖ SOEs as “economic base” of socialist economies

## Why privatize?

### ❖ Efficiency motivations

- ❖ Weak governance
- ❖ Weak incentives
- ❖ Being shielded from competition

### ❖ Budget motivations

- ❖ Reducing budget burdens
- ❖ Increasing budget revenue

### ❖ Reform motivations

- ❖ Market-oriented reforms

## ISSUES OF PRIVATIZATION

### [1] Government vs. market



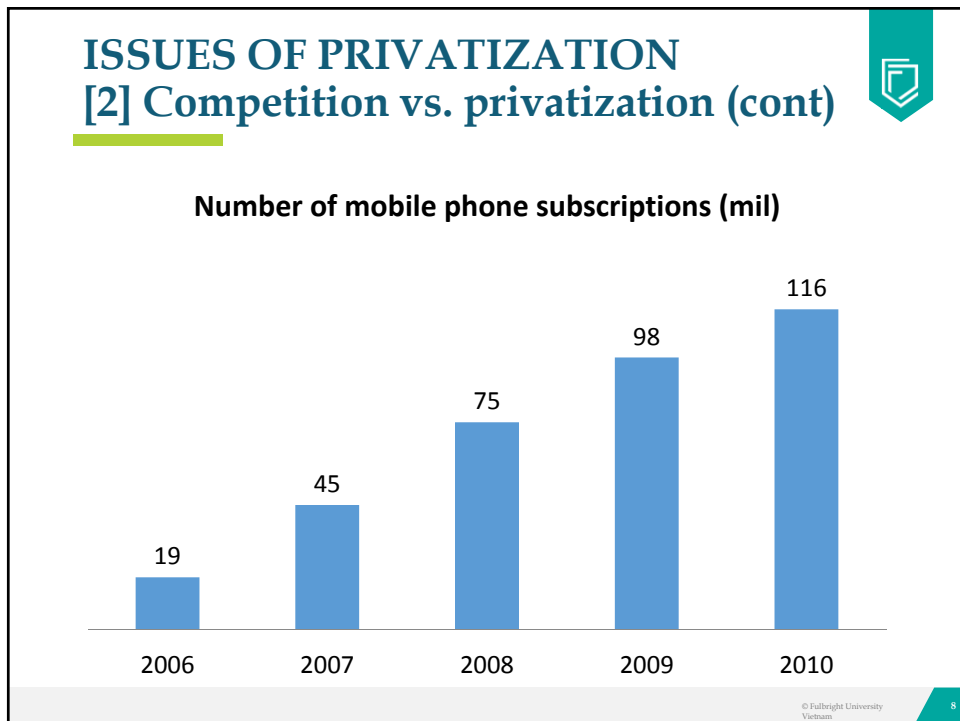
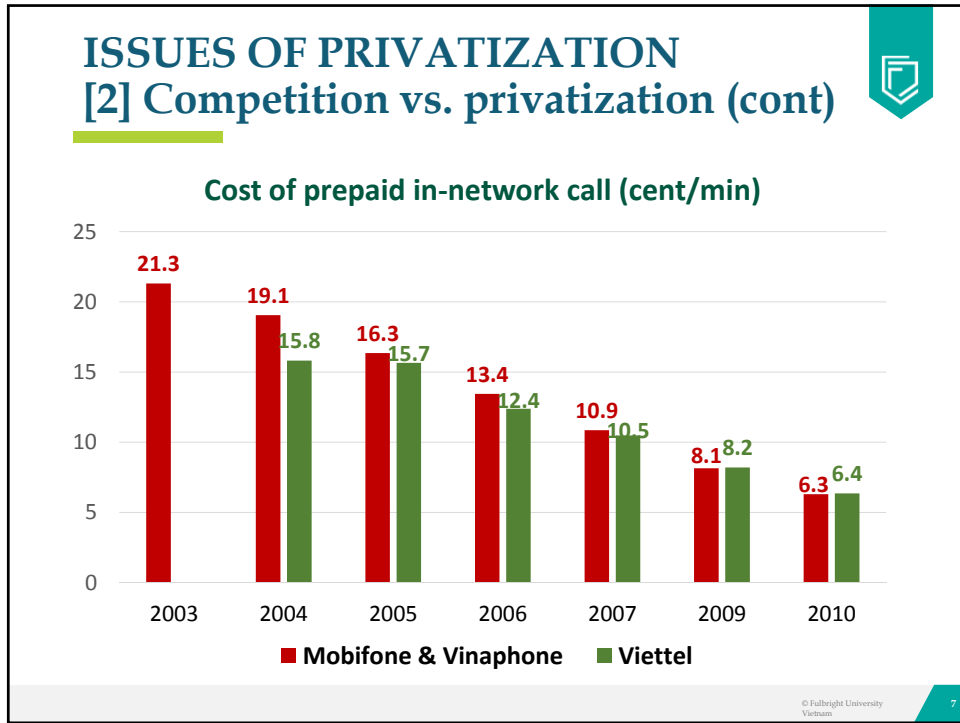
- ❖ Q: Which SOEs should be kept by the government, and which SOEs should be subject to privatization?
- ❖ A1 [theory]: Market vs. government failures
- ❖ A2 [reality]: It depends on the prevailing political economic equilibrium.
  - ❖ Russia and Eastern European countries
  - ❖ China and Vietnam

## ISSUES OF PRIVATIZATION

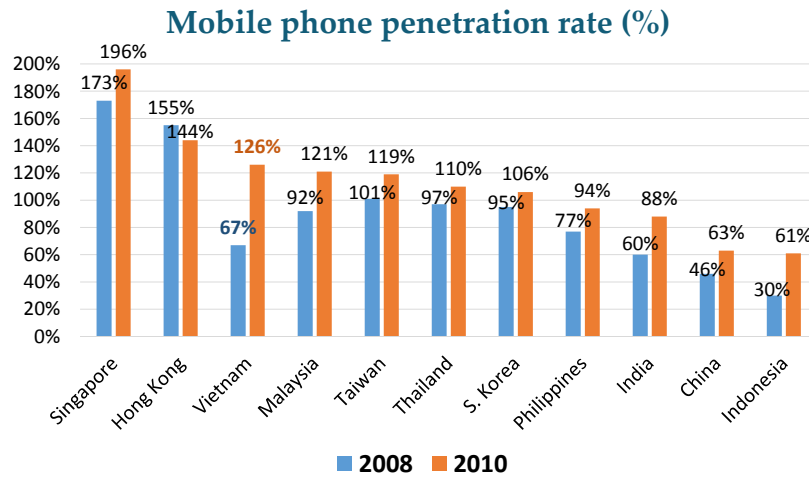
### [2] Competition vs. privatization



- ❖ While competition is often conducive to efficiency improvement, the effect of privatization is much less clear.
- ❖ If privatization is not a viable option, it's very important to create a competitive environment to put pressure on SOEs.
- ❖ Case study: Vietnam's telecom reform
  - ❖ VIETTEL vs. VNPT (MOBIFONE & VINAPHONE)



## ISSUES OF PRIVATIZATION [2] Competition vs. privatization (cont)

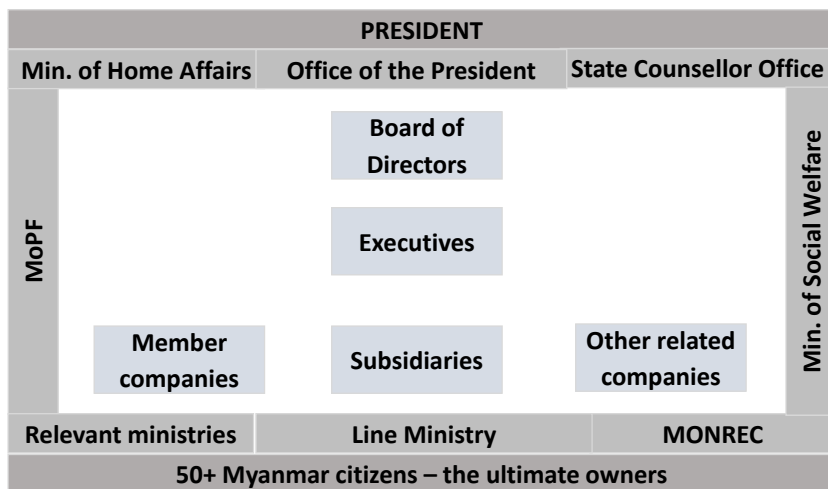


## ISSUES OF PRIVATIZATION [3] Regulation and governance after privatization



## ISSUES OF PRIVATIZATION

### [3] Regulation and governance after privatization

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## ISSUES OF PRIVATIZATION

### [4] Pricing privatized SOEs?

- ❖ How to price land (and other SOE assets)?
  - ❖ Land ownership regime
  - ❖ Existence and function of land market
  - ❖ Capacity and enforcement power of government
- ❖ How to avoid asset tunneling?

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## ISSUES OF PRIVATIZATION

### [5] Labor layoff



- ❖ Excessive employment in SOEs implies that many workers will be subject to layoff during the process of privatization.
- ❖ Important considerations:
  - ❖ Absorptive capacity of labor market
  - ❖ Government funds to support laid-off workers

## ISSUES OF PRIVATIZATION

### [6] Other issues



- ❖ Gradual vs. mass privatization
- ❖ Partial vs. full privatization
- ❖ Internal vs. external privatization



The slide is divided into two main sections. The left section has a dark blue background with a white stylized logo consisting of three nested 'F' shapes. To the right of the logo, the text 'Q&A' is written in a large, white, serif font. Below the logo and text are two horizontal yellow bars. The right section has a white background. At the top right, there is a decorative graphic of diagonal yellow and green stripes with a small version of the 'F' logo. Below this, a dark blue rectangular box contains the word 'CONTACT' in white, uppercase letters. Underneath, the text 'Fulbright School of Public Policy and Management' is written in a bold, black, sans-serif font. This is followed by the address '232/6 Vo Thi Sau, District 3, HCMC', the phone number 'T: (028) 3932 5103', and the fax number 'F: (028) 3932 5104'. Below these are the email address 'E-mail: info.fsppm@fuv.edu.vn' and the website 'Web: www.fsppm.fuv.edu.vn/'. At the bottom right of the slide, there is a small copyright notice '© Fulbright University Vietnam' and the number '15'.

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