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Privatization of Vietnam Airlines: A successful Reform or A Timid Policy Step

Nguyen Thi Bao Ngoc
Master of Science in Economics

Acknowledgement

This master thesis marks the end of my master program in Economics in NMBU. It is really meaningful to me because I will not be a student anymore.

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Abstracts

This study provides an overview about the privatization process of the national airlines in Vietnam, representing for a key large SOE which has been privatized. Therefore, it helps to reflect the process of the country in term of the government perspectives in general, through which to bring ideas or suggestion for more efficient policy to favor liberalization.

Privatization of state-owned enterprises (SOEs) is one pillar of the structural reforms in addition to the deregulation and trade liberalization. As a necessity for development, Vietnam implemented privatization along with the Renovation policy to transfer from a centrally planned market to an open and market-oriented economy as a necessity for development. The privatization process in Vietnam is on-going and has begun in large SOEs. The privatization of Vietnam Airlines is a typical case of a large-scale concern undergoing privatization through equitization. This study is of particular interest for the Vietnam Airlines' privatization in evaluating the success or failure of the equitization.

This study qualitatively analyzes the airline's performance, and market conditions as competition on the domestic market and the stock exchange using secondary data. Comparison is made with other airlines, e.g. British Airway, Air Canada, LAN Chile and Kenya Airway. The analysis of impacts of the privatization process on the airline performance, which are reflected by the firm's growth, profitability, productivity was conducted by combining and looking at the changes in the indicators as total assets and its components, profits, sales, debts, profitability ratios, number of workers, and volume of passengers.

The results showed a positive effect of the privatization. That is, the airline improved its performance efficiency, reflected by the increase in all criteria. However, when examining competition under market shares and the stock prices, it seemed that the equitization of Vietnam Airlines failed to become more competitive relative to its rival on the domestic aviation market, and failed to attract investors on the stock exchange. The comparison among Vietnam Airlines and the other national airlines used the comparison table with comparative criteria based on the country and macroeconomy conditions, perspectives of the government on privatization and the way the process was implemented. The analysis showed that Vietnam does not have a good economic environment for the privatization and the government also failed to show a firm commitment to privatize larger-scale SOEs, especially large firms. Therefore, the privatization in Vietnam Airlines has been too slow and fragmented compare to other cases. Hence, combining all the above results tells us that the privatization of Vietnam Airlines seemed not to be considered as a successful case in term of raising the competitiveness and withdrawal of the state's intervention, even though it may still bring efficiency to the airline.

Key words: Vietnam, privatization, Doi Moi reform, Vietnam Airlines, equitization, macroeconomic situation

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Privatization of Vietnam Airlines: A Successful Reform or A Timid Policy Step

I. Introduction

As a part of deregulation and trade liberalization, privatization of state-owned enterprises (SOEs) or assets was one pillar of the structural reforms that were widely instituted in developing countries and in emerging market economies in the 1990s (Kikeri & Kolo 2005), when the countries moved away from centrally planning the economy. Privatization has been a realization that public ownership was ineffective and caused more damage than good. Following the common trend, Vietnam started to privatize its economy in 1992 (Tran et al. 2015).

Before privatization, Vietnam had pursued an industrial policy under central planning that relied heavily on the use of subsidies. Earlier Vietnamese generations often tell a story about the so-called “Thời Bao Cấp” (Thoi Bao Cap) or the Subsidy Period in 1976-1986. During this time, the Government controlled all aspects of the social economy through rationing, bartering, and issuing coupons and stamps. “Goods were not traded in the market, but distributed through coupons. Even salaries were sometimes paid by goods” (VietNamNet 2011). Under the inefficient central planning system together with the consequences of war against the United States, Vietnam’s economy was impoverished and developing at a very slow pace. From 1975 to 1979, the population rose by 5 million, corresponding to a rate of about 9.4% while the national income grew at a slower rate (Bui 2000). The annual inflation rate averaged 164.9% during 1980-1984 (Bui 2008) and reached the hyper level of 775% at a point in 1986 (Hoang 2014). The GDP growth rate of Vietnam in 1985 was about 3,8%, which fell to 2,8% in 1986 (World Bank 2017a). The macroeconomic situation had become alarming to the Vietnamese government, requiring it to renovate the economy. Thus, in December 1986, the government launched the Renovation Policy, known as the “Đổi Mới” Reform (Doi moi Reform). The reform aimed to transfer the economy from a centrally planned market to an open and market-oriented economy. While the subsidies to industry ceased and the role of private sectors was encouraged.

Despite 30 years having passed since the launching of the Reform, Vietnam is now still in the process of implementing the economic. The process in Vietnam is about restructuring state-owned enterprises (SOE) mostly through equitization, which means the transformation of an SOE into a joint-stock company, which can be or fully owned privately. From 1992 to 2004, there were more than 2000 SOEs equitized (Stoxplus 2013); however, they were primarily

small- and medium-sized enterprises. Large SOEs retained their dominance over the economy. According to the World Trade Organization (WTO), the state sector still accounted for 35,9% of GDP in 2007, decreasing by only 3% four years later (WTO 2013).

So far, Vietnam has made a great effort to reform its economy by promoting the integration into the global economy. Vietnam has become a party to many free trade and investment agreements that were negotiated: the US-Vietnam Bilateral Trade Agreement (BTA) in 2000, the Vietnam-EU Free Trade Agreement since 2005, and the Trans-Pacific Partnership Agreement (TPP) since 2009. It also pursued accession to the WTO in 2005 and became an official member of the organization in 2007. Vietnam knew that it was necessary to accelerate the process of privatization, especially because Vietnam was the only country that joined the negotiation of TPP without a market economy (Le 2015). Hence, many big SOEs have rapidly completed reformation or started coming into equitization, such as Vinamilk (a dairy company), the Bank for Foreign Trade of Vietnam (Vietcombank or VCB), the Bank for Investment and Development Vietnam (BIDV), and so on. It marked a step towards the cessation of elimination of domestic monopolies and the intervention of the state into business operations, bringing Vietnam closer to a full market economic system. In 2014, privatization reached aviation sector with the equitization of Vietnam Airlines with the initial public offer (IPO) on 14th November. This received much attention because aviation is considered as a sensitive and priority sector in Vietnam. The General Director and CEO of IATA, Mr. Tony Tyler, predicted that Vietnam's aviation sector would contribute big dividends to the Vietnamese economy and hence it should be treated as a "strategic asset" of the nation. Therefore, the start of privatization in the aviation sector is considered as a remarkable policy move by the state.

The purpose of this thesis is to study the privatization process of Vietnam Airlines through its equitization, in a general context of the country's privatization. The thesis focuses on the changes of Vietnam Airlines before and after privatization, assessing how privatization, or more precise equitization, is implemented in the case of the national airline of Vietnam. Such an assessment requires an understanding of the aviation sector and more generally the macroeconomic situation of the economy. Moreover, as there has not been any research about the specific privatization of Vietnam Airlines before, the thesis provides a basis for understanding the company's operation under equitization and the company's approach to the privatization policy of the government. Hence, the research question which this thesis intends

to answer is: *How successful has the Vietnamese government been with privatizing Vietnam Airlines?* Of particular interest are answers to the following up questions:

- 1.1. *Has privatization brought efficiencies to Vietnam Airlines' performance?*
- 1.2. *Does privatization make Vietnam Airlines a strong competitor on the domestic market?* and
- 1.3. *How do the country conditions in Vietnam affect privatization of Vietnam Airlines and compare with British Airway's, Air Canada's, Kenya Airway's and LAN Chile's?*

The framework of analysis for answering the research questions based on assessing market conditions and country conditions, and begins with finding answers for the follow-up questions using qualitative methods. Answers of questions 1.1 and 1.2 show the impact of the privatization of Vietnam Airlines on its performance, its competition on domestic market. The impacts of the privatization on the airline's performance are analyzed based on the secondary data on the firm's financial situation, business results and operation during 2008-2016, from planning for equitization until its implementation. Hence, criteria of profitability, productivity and the growth of the airline are assessed. The market conditions are considered through the competition of Vietnam Airlines and its rival – Vietjet Air – on the domestic aviation market and the stock exchange from the beginning of the competition until now. Studying over these, along with a consideration of the appearance of the privatization process, helps to assess whether the process has been successful in improving the airline's performance efficiency and its competitiveness. The results are used in a comparison with other airlines' privatization processes for the question 1.3 and build an overall look on privatization of Vietnam Airlines. Four national airlines which are British Airway, Air Canada, LAN Chile and Kenya Airway are chosen for the comparison using criteria of country conditions relating to privatization. The conditions are mainly about policies and regulatory system. Within this thesis, they include the healthy degree of the economy reflected by corruption index, how friendly the economic environment is under the ease of doing business index, the transparency in the economy reflected by business extent of the disclosure index, the country's general privatization, the government's purposes and perspectives on privatization, the time, the process and the results after the airlines were privatized. This provides insight into the environment under which Vietnam Airlines' privatization occurred.

In chapter 2, background information on the economy of Vietnam, including the macroeconomic situation and policies introduced during the privatization period of the country,

is presented to set the context for the privatization of Vietnam Airlines. The macroeconomy situation is discussed in the period of post-renovation (from 1986) to understand fiscal and monetary policies as well as other policies on exchange rates and investment. The history of the company and its privatization plan is reported and discussed in consideration of the domestic aviation market situation. Chapter 3 first defines concepts related to privatization and discusses on its forms/methods. Theoretical consideration is given, including discussion on the reasons for privatization, the impacts of it at micro and macro level, the reason for partial privatization and conditions for a success privatization. Chapter 4 develops a framework with three part analyzing the impacts of privatization on firm performance, competition and the cross-country comparison of other airlines' privatization based on market conditions and country conditions as illustrated above. The analysis and discussion to the framework developed in Chapter 4 are reported in chapter 5, and the conclusions are summarized in chapter 6, along with suggestions for future studies and the limitations of the study.

II. Background

2.1. Vietnam's macroeconomy: policies and performance

2.1.1. General macroeconomic performance after 1986

In 1986, a renovation policy was launched by Mr. Truong Trinh, the General Secretary of Vietnam's Communist Party, in the Sixth National Congress. The policy is known as Doi Moi reform, which is an economic and politic renewal campaign to facilitate the transition of from centrally planned economy under government's lead to multi-sector economy which means to include private sector. Before the reform was introduced, the economy had been small, outdated and vulnerable after just escaping from the two wars against France and America. At that time, Vietnam was one of the poorest countries in the world. Although it has great advantage in agricultural sector¹, the state disregarded the agriculture while focused on developing heavy industry in large scale without sufficient capacity. The state had spent 40% of the country's total investment on industry, on which 70% of that was heavy industry. Meanwhile industry accounted for only around 10% of total employment, mainly manual labor. Despite this priority, industrial sectors created less than 30% of the GDP (Ministry of Industry and Trade of the Socialist Republic of Vietnam 2017). Even though Vietnam struggled with its five-year plans on develop the economy, the results were far behind expectation due to the guiding principles was considered to "violate most important motivation for production development, that it is worked against the working people's vital vested interests" (Hoang 2014). Due to the improper policies in structuring the economy, the macroeconomy was significantly unstable: very low GDP level at just over USD 14 billion and galloping inflation at around 390% with a peak of 411.04% in 1988 (World Bank 2017a). The economy fell into a severe crisis. Vietnamese people's lives, especially in the North, were extremely hard with poor, unstable living standard and insufficient nutrition average diet. Therefore, the policy was introduced as a solution for the crisis.

In general, Vietnamese government's vision is to stabilize and sustain the macroeconomy, open the market, and extensively integrate into global economy. The reform consists of policies relating to many aspects of the country: from economics to politics, culture, social issues and security. However, within the framework of this thesis, we focus mainly on the economic reform. The reform aimed at abolishing the bureaucratic management system to stimulate the

¹ With fertile soil, favorable climatic condition and 70% of the population are farmers, according to Vietnamnet at <http://english.vietnamnet.vn/fms/special-reports/143237/the-challenges-of-vietnam-agriculture.html>

economic development and eliminating the centrally planned market. It included the decentralizing the government, devaluing the Vietnam dong, ending price controls, encouraging the establishment of private businesses, freeing markets, relaxing regulations for foreign investors, streamlining the bureaucracy, closing down inefficient government monopolies. Besides, the program proposed policies to eliminate agriculture collectives, remove price controls on agricultural good and allow farmers to sell their goods on the market (Facts and Details 2014). It marked a step of transforming into a “market-oriented socialist economy under state guidance” of Vietnam and laid the foundation for the privatization process in the country.

In 30 years since the reform, Vietnam today has become a lower middle-income country and the government strategies to reach a higher level. Doi Moi program was officially embarked along with the stabilization program in 1989. The economic management regime based on central plans and subsidy was gradually abolished. Multi-sector economy was recognized with which private ownership became legalized and privatization started. Subsidies to SOEs were reduced, and a new taxation system was launched to improve the fiscal situation. Vietnam experienced a notable change of the macroeconomy and quickly escaped the crisis with a steady increase in GDP, higher growth and low inflation rate. Specific economic policies of the Doi Moi program are discussed later. Below, the macroeconomic situation of Vietnam in 20 years of the renovation period (1990-2010) was described through some key indicators in Table 1.

According to the table, Vietnam’s GDP increased almost twenty-fold during those 20 years, from only about USD 6.5 billion in 1990 to nearly USD 116 billion in 2010. The average GDP growth rate was 7.3% annually during the period, had it peak at a level of 9.54% in 1995 and bottomed at 4.77% in 1999 due to the Asia financial crisis of 1997-1998 (World Bank 2017a). After the 20-year period, GDP continued to increase steeply, reaching USD 193 billion in 2015. Vietnam is now considered as a star in Asia in term of the sustained economic growth rate. GDP per capital grew more than eleven-fold to USD 1130 in 2010. Poverty was reduced significantly. After 5 years from 1993 until 2008, the poverty head count ratio went down by about 44%, to the new level of just 14.5% (World Bank 2011).

Table 1: Vietnam macroeconomic indicators 1990-2010

	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010
GDP (current billion USD)	6.5	9.6	9.8	13.2	16.3	20.7	24.6	26.8	27.2	28.7	33.6	35.3	37.9	42.7	49.4	57.6	66.4	77.4	99.1	106.0	115.9
GDP growth rate (%)	5.1	5.96	8.65	8.07	8.84	9.54	9.34	8.15	5.76	4.77	6.78	6.19	6.32	6.9	7.53	7.54	6.98	7.13	5.66	5.4	6.42
Composition of GDP (%)																					*
Agriculture	38.7	40.5	33.9	29.9	27.4	27.2	27.8	25.8	25.8	25.4	24.5	23.2	23.0	22.5	21.8	19.3	18.7	18.7	20.4	19.2	18.4
Industry	22.7	23.8	27.3	28.9	28.9	28.8	29.7	32.1	32.5	34.5	36.7	38.1	38.5	39.5	40.2	38.1	38.6	38.5	37.1	37.4	32.1
Services	38.6	35.7	38.8	41.2	43.7	44.0	42.5	42.2	41.7	40.1	38.7	38.6	38.5	38.0	38.0	42.6	42.7	42.8	42.5	43.4	36.9
Composition of employment (%)																					
Agriculture	73.0	72.7	72.4	72.1	71.7	71.1	70.7	70.1	69.5	68.9	68.2	67.2	66.1	65.1	-	-	-	-	-	-	-
Industry	11.2	11.3	11.3	11.3	11.3	11.3	11.5	11.7	11.8	12.0	12.1	12.5	12.9	13.1	-	-	-	-	-	-	-
Services	15.7	16.1	16.3	16.7	17.0	17.5	17.8	18.2	18.7	19.1	19.6	20.3	21.0	21.8	-	-	-	-	-	-	-
Inflation (%) (Measured as GDP deflator)	42.1	72.5	32.6	14.4	16.9	17.0	8.7	6.6	8.8	5.7	11.6	2.7	4.9	6.8	9.2	9.2	8.6	9.6	22.6	6.2	12.1
FDI (million USD)	180	375	473.9	926.3	1945	1780	2395	2220	1671	1412	1298	1300	1400	1450	1610	1954	2400	6700	9579	7600	8000
Trade balance (% GDP)	-9.3	-5.1	-4.1	-8.8	-9.5	-9.1	-11.0	-8.1	-7.3	-2.8	-3.3	-1.7	-6.6	-10.1	-12.5	-3.3	-2.9	-13.6	-13.7	-10.5	-8.2
Export (% GDP)	36.0	30.9	34.7	28.7	34.0	32.8	40.8	43.1	44.8	50.0	50.0	51.0	50.6	52.5	54.9	63.7	67.7	70.5	70.3	62.8	72.0
Import (% GDP)	45.3	36.0	38.8	37.5	43.5	41.9	51.8	51.2	52.1	52.8	53.3	52.7	57.2	62.6	67.4	67.0	70.6	84.1	84.0	73.3	80.2
Current account (%GDP)	-	-	-	-	-	-	-8.2	-5.7	-3.9	4.1	3.3	1.9	-1.6	-4.5	-1.9	-1	-0.2	-9.0	-10.9	-6.2	-3.7
Unemploy-ment rate (%)	-	2.69	2.62	2.9	2.46	2.14	1.9	2.9	2.3	2.3	2.3	2.8	2.1	2.3	2.1	2.33	2.45	2.41	2.29	2.61	2.64

*From 2010, the amount of products taxes minus subsidies on production has been calculated in the composition

Source: General Statistics Office of Vietnam (2017); World Bank (2017a)

The remarkable trend in GDP of Vietnam is shown in the below Figure 1, was attained by restructuring of the economy under the Renovation policy. Specifically, in early period of the renovation (1986-1990), the economy was still in unstable situation; therefore, Vietnam focused on develop its strength, which is agriculture to raise GDP and stabilize the economy. At that time, agriculture accounted for the largest proportion in the total GDP (more than 40%). At the beginning of the renovation period, agriculture was a priority, accounting for 73% of the total employment and created 38.7% GDP in 1990 (Le 2008). Heavy industry was developed as per capacity of the country. After the economy became more stable, the country gradually shifted to develop industry and services while reduced agriculture.

Figure 1: Vietnam' GDP from 1985-2015

Unit: billion USD

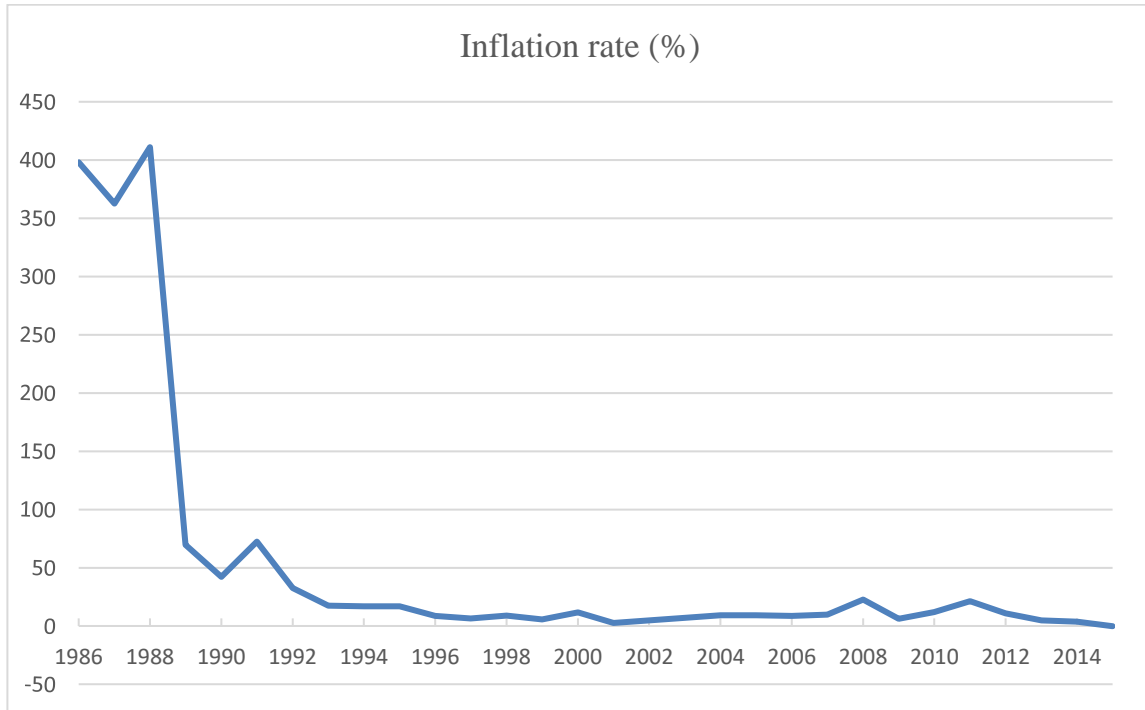


Source: World Bank (2017b)

The changes in the rates of inflation of Vietnam since the Renovation Policy are shown in the Figure 2. Inflation was successfully tackled after 1988. The rate decreased noticeably in only one year: from more than 400% in 1988 to 69.7% in 1989, and continued to reduce, reaching single-digit levels in 1996 (approximately 8.7%). It seemed that privatization also contributed to curb inflation through constraining fiscal policy by helping to reduce government spending by reducing subsidies of SOEs. The inflation remained quite stable at low levels before rising again in 2008 and becoming less stable due to the global crisis and a subtle shift in Vietnam's policy. Since 2001, the Vietnamese government has not focused on controlling the inflation and maintaining rapid growth, but more on stabilizing the macroeconomy. Therefore, the

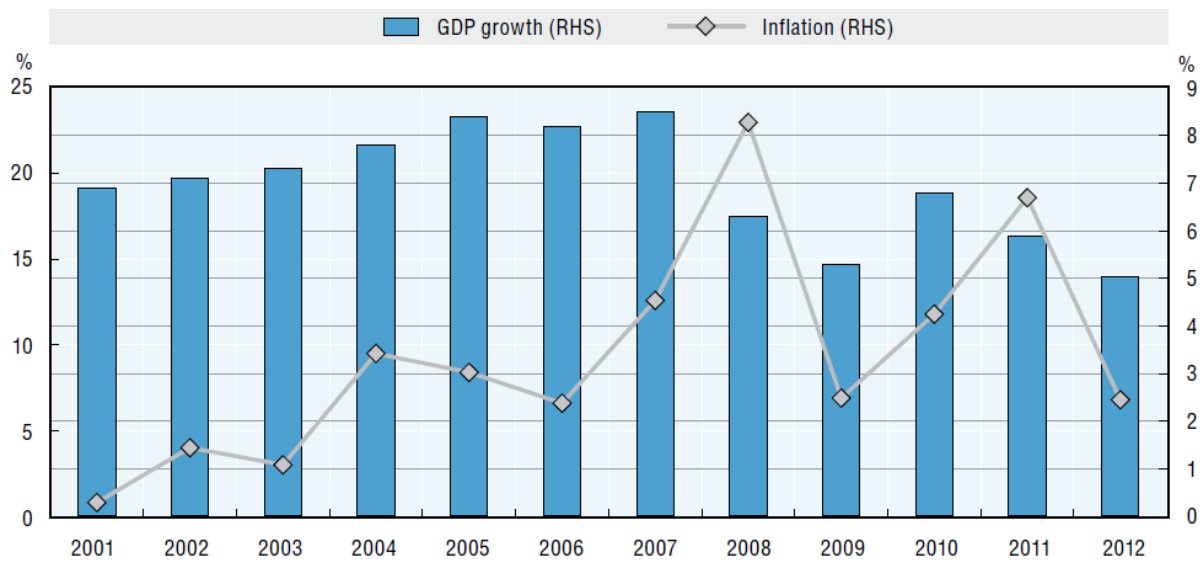
inflation rate fluctuated with an increasing and the GDP growth rate was slowed down since 2008, as being shown in the Figure 3 of Vietnam's GDP and inflation in 2001-2012.

Figure 2: Vietnam's inflation rate from 1985 to 2015



Source: World Bank (2017c)

Figure 3: Vietnam's GDP growth rate and Inflation rate during 2001-2012



Source: OECD (2014)

According to the IMF's country report in 2016, Vietnam is considered as a solid growth economy which is successful in curbing inflation and maintain macroeconomic stability until now. In 2015, Vietnam witnessed a robust in economic performance with rapid export growth, more foreign investments and strong domestic demand (IMF 2016). The reason for such achievements comes from suitable policies in timely manner.

2.1.2. Macroeconomic policies and other key policies

Under the renovation policy, Vietnamese government's perspective on economics showed clearly that a state economy was to be replaced by a multi-component economic structure. The private sector was accepted and gradually expanded. Vietnam also opened the economy and enhanced integration to welcome foreign investment and develop the foreign sector of the economy. The country actively participated in regional as well as international economic organizations such as Association of Southeast Asian Nations (ASEAN) in 1995, Asia-Europe Meeting (ASEM) in 1996, Asia-Pacific Economic Cooperation (APEC) in 1998 and the WTO in 2007. The extensive integration has brought many positive changes to Vietnam economy: external financial inflows, as foreign direct investment (FDI) or official development assistance (ODA) (Le 2008). Step by step the country eliminated the centrally planned system, reduced state's management and ownership and promoted privatization. However, Vietnam is more likely to be affected negatively by regional and global economic fluctuations. Therefore, macroeconomic stabilization became necessary for the country to balance between external influences and the reform. Vietnam's fiscal policy, monetary policy, policy on exchange rate, and others related during the period of study are considered to understand the broader macroeconomic context of Vietnam when implementing the privatization program.

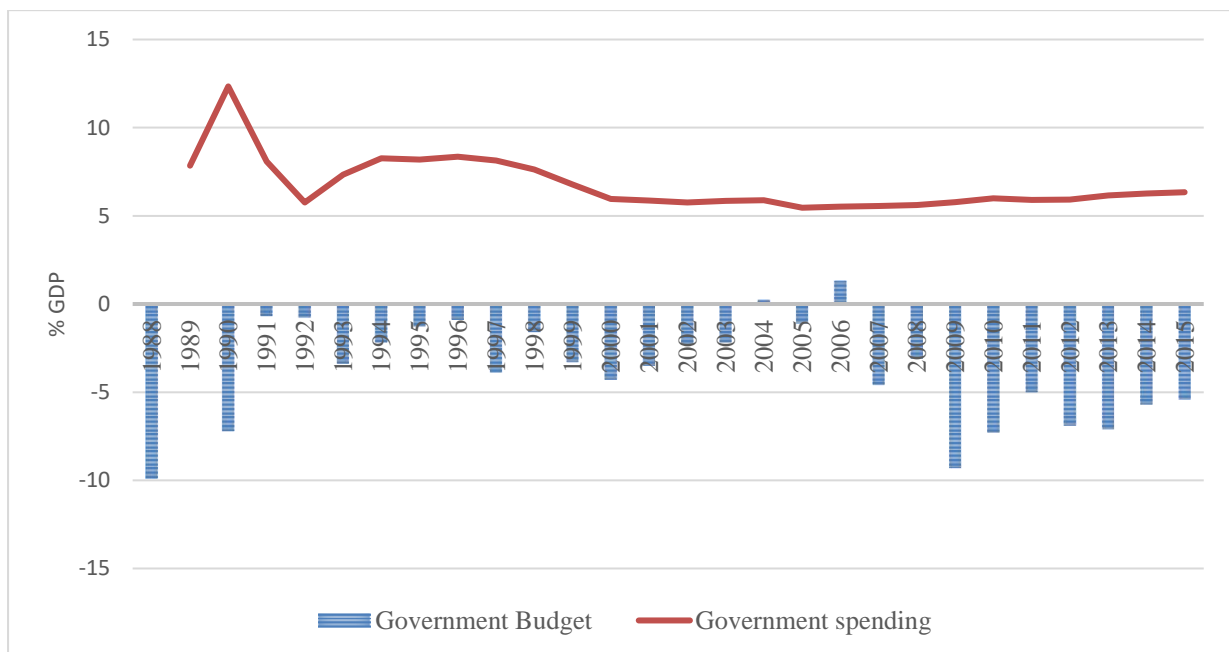
Fiscal policy

In 1986-1990, Vietnam's inflation and overspending of the state budget were at around 12% by 1990. Most of the country's expenditures are based on the state budget, in which expenditures on state sector, infrastructure construction and production accounted for the bulk of the spending. To constrain the heavy budget deficit, tight fiscal policy was applied by reducing public expenditure at the beginning of the period. In addition, a new taxation system was launched, regulated by a series of tax laws including turnover tax, profit tax, export and import tax, to help increasing revenue for the state (Le 2008). Figure 4 below illustrates the state budget and government spending during 1990-2015, showing that budget deficit was 9.9% of the GDP in 1988, then narrowed to only 0.7% of the GDP in 1991. Government

expenditures were reduced steadily and remained quite stable as a percent of GDP. The fiscal deficit fell remarkably after 1990s, averaging roughly 1.88% of the GDP during 1991-2006. Along with the low budget deficit, the inflation was low in 1991-2006 and Vietnam witnessed more improved finances. The country more flexible policy. The government increased spending and also revenues of the budget to comply with the spending level.

In 2006-2008, Vietnam's macroeconomy was affected by the global crisis and became unstable. The inflation increased to double-digit rates, around 23% in 2008. Fiscal policy thus became stricter. In 2008-2010, the government loosened fiscal policy to stimulate investment. A comprehensive stimulus package of VND 145.6 trillion (USD 8 billion and equivalent to 8.3% GDP) was introduced in 2009 to support economic development by increasing investment and decreasing taxes, and to ensure social security. Exports became more competitive due to the depreciation of VND. Hence, the deficit rose to 7.2% of the GDP in 2010 (Figure 4). Import continued to increase due to the country started to participate in many free trade agreements. Vietnam continued implementing the stabilization program comprehensively in 2011 and brought the deficit down (World Bank 2011).

Figure 4: Vietnam's Government spending and State budget as %GDP during 1988-2015



Source: Trading Economics (2017a); Trading Economics (2017b)

Due that the inflation was curbed and the budget deficit was tightened and controlled successfully, the fiscal policy was loosened since 2015. Government revenue rose significantly, but the expenditure was more than the plan because of the spending by local governments on

expenditures, and social and interest spending. Furthermore, due to commitments from WTO accession, many bilateral agreements, and free trade agreements, the tax revenues from trade have been reduced. The budget deficit was 5.9% of the GDP in 2015 (IMF 2016).

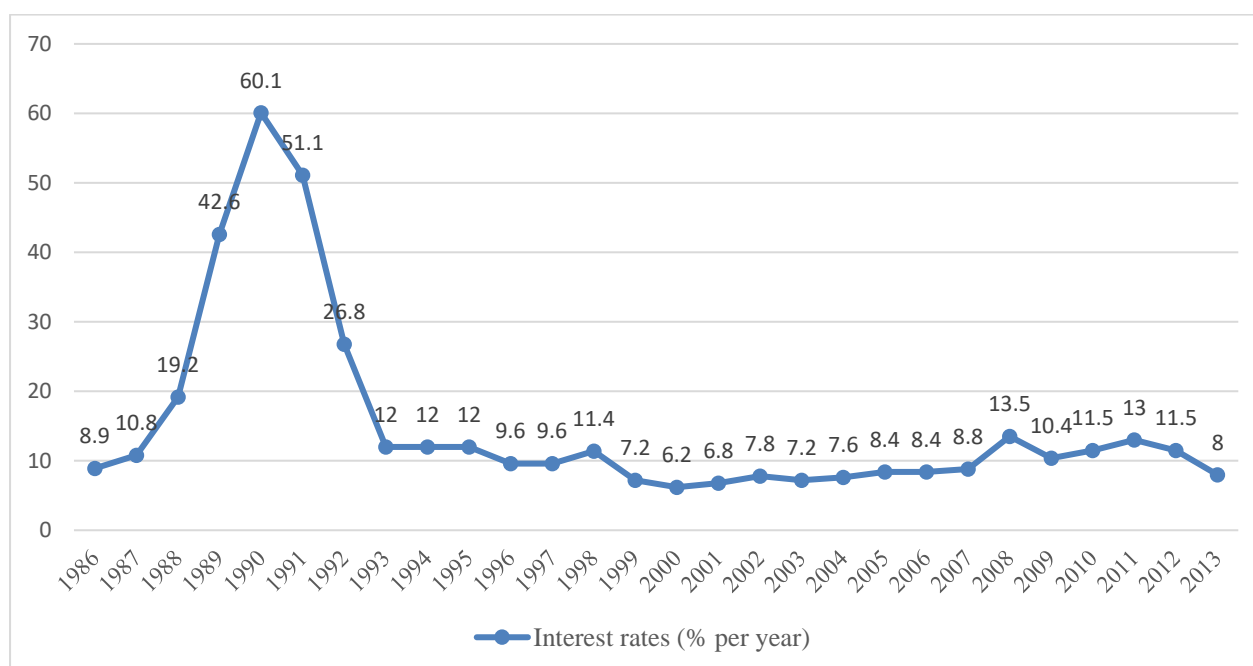
Monetary policy

A new double tier banking system was established under the renovation policy. The first tier included central bank and state bank, while the other consisted of commercial banks. The new banking system facilitated for private banks to be born as commercial banks, contributing to the private sector in the economy (Finance - Maps of World 2017) and became a mean for the government to implement the monetary policy. During 1986-1993, tight monetary policy was applied, focusing on inflation stability. Printing money to finance budget deficit was stopped. From 1994, the money supply was controlled under a direct mechanism, i.e. the State Bank of Vietnam (SBV) imposed a credit ceiling and interest rate floor for every commercial bank to help increase their capital reserve. The nominal interest rate was raised to push real rate to a positive level so that credit subsidies were stopped (Le 2008; Tran et al. 2014).

In the development period 1996-2006, the SBV also abolished the lending rate ceiling of foreign currency loan. Thus, interest rates were allowed to be negotiated between the domestic borrowers and domestic or foreign banks in term of foreign currencies. From June 2002 until now, the interest rates are fully liberalized, which is decided based on the banks' negotiation with their customers (Le 2008). Interest rate liberalization was one of the important step in the transition to market economy of Vietnam.

The interest rates were cut by 5% in five rounds in 2012, expected that it would help to deal with effects from slowing domestic demand as well as slowdown in Europe and Asia. (World Bank 2011). The government also introduced priority interest rates for four beneficiary sectors, including agriculture, export, small- and medium-scale enterprises and supporting industries. The adjustment of interest rates was in 1986-2013 illustrated in the below figure (Figure 5):

Figure 5: Interest rates in Vietnam during 1986-2013



Source: Tran et al. (2014)

Exchange rate

Along with the high inflation rate before 1986, the exchange rate (USD/VND) on the market soared to a much higher level than the official exchange rate provided by the SBV. During that time, Vietnam depended substantially on imports. Therefore, stabilizing the economy along with stable domestic price were depended on a stable exchange rate. In 1989, the SBV devaluated sharply the official exchange rate to unify the exchange rate. In 1990s, the VND was kept fixed but after that, it was put under a devaluatory pressure. Because the VND was considered overvalued, Vietnamese export goods became less competitive, and led to a decline in export growth. Consequently, it was difficult to finance the current account deficit. The SBV responded to the situation by allowing to the VND to devalue but in a gradual progress, with strict control over foreign exchange, imports and current account transaction. After the East Asia financial crisis (1997-1998), the VND was depreciated by about 20% with respect to the USD. However, it was appreciated by at least 19% relative to the currencies of other ASEAN countries which were affected by the crisis (Le 2008; Tran et al. 2014). Since then until now, Vietnam is applying a flexible exchange rate regime, which is not totally free floating but under state management, using the USD as an anchor.

In 2011, the SBV allowed the official rates to be set more flexibly to align with the market rate. The VND's nominal exchange rate was devalued by an overall 10.2% in 2011, reflecting high

inflation. After the adjustment, the exchange rate was gradually stable. The combination of exchange rate policy and tightening monetary policy brought good results: the VND was improved and was trading on the interbank market for the first time (World Bank 2011).

Proper exchange rate policy, together with fiscal and monetary contributes to strengthen Vietnam macroeconomy so that the government can gradually withdraw its hand out of the market and let the market rules itself.

Trade and Investment policy

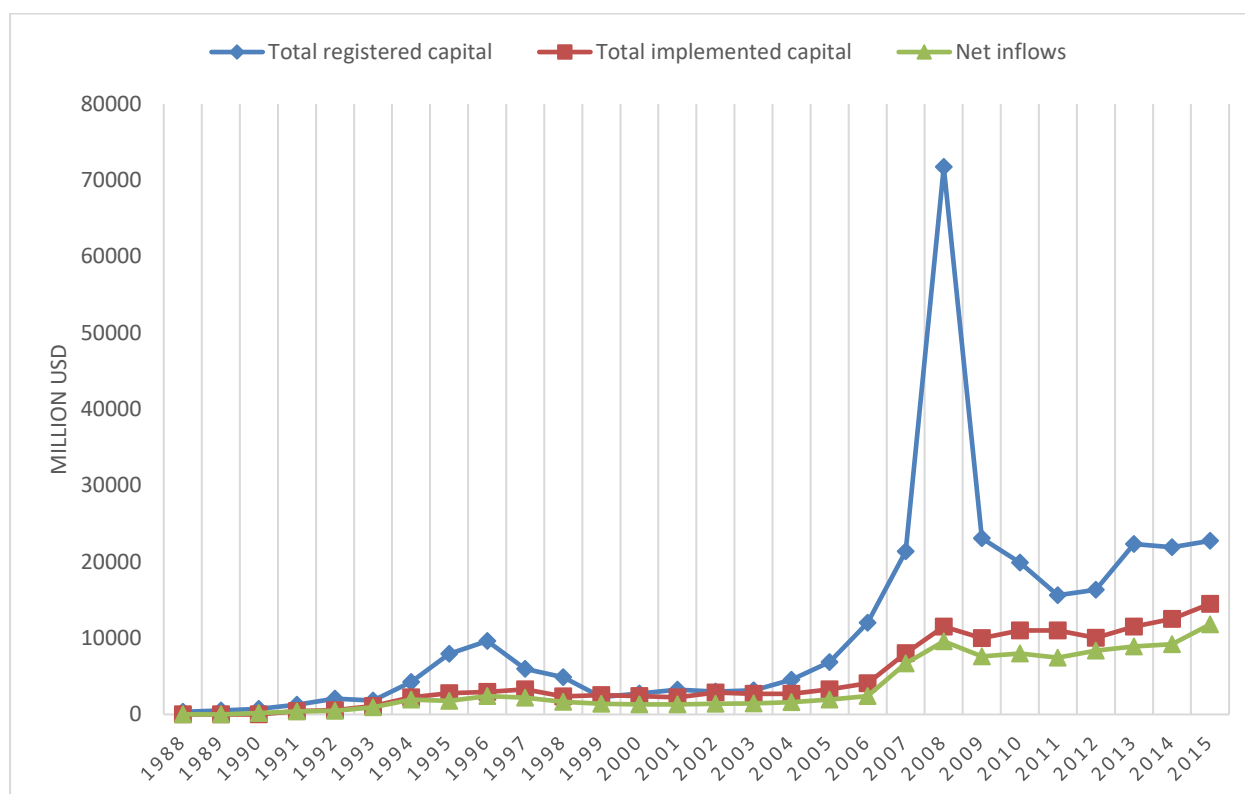
International economic integration is one of Vietnam's targets as was stated in the renovation policy. Through which, Vietnam wishes to open the market, get out of poverty and develop the economy in accordance with the global pace, all of which contributes to create a favorable environment for Vietnam to foster privatization for the reform. Therefore, the Vietnamese government has put much effort on intensifying trade liberalization. Until now, Vietnam has committed to the multilateral trading system to promote economic integration. Vietnam agreed with all key WTO agreements, except only for the plurilateral agreement on Government Procurement or Trade in Civil Aircraft (World Bank 2011). Vietnam committed to strongly open the economy for both merchandises and services. Accordingly, Vietnam committed to cutting about 3800 tariff lines (about 35.5% of all lines) and bindings on 3700 tariff lines (34.5% of all goods) or binding of tariff ceiling rates 3170 tariff lines. After joining to WTO in 2007, Vietnam has accelerated the transforming towards market economy. By attempting to engage with trading partners, nearly 40 countries have admitted that Vietnam has a market economy (MUTRAP II 2007).

Vietnam opened its economy to foreign investment since the Renovation Policy, with the FDI increased year by year from USD 180 million in 1990 to USD 8000 million in 2010. In the effort of promoting international integration, the government has wanted to enhance the foreign investment inflow. The legal and regulatory framework for investment has been strengthened since Vietnam started its negotiation to join WTO. Many reforms during 12 years of preparation for accession, relating to taxation, intellectual property, trading, exchange rates, facilitate investment. The Law on Investment and the new Law on Enterprises was launched in 2005 to create more equal footing for both domestic and foreign, private and public investors. The event made the FDI soared 4 times 5 years (Table 1). Since Vietnam accessed WTO in 2007, along with a number of commitments to liberalize FDI entry, such as international treaty,

Vietnam has accelerated opening the investment environment. FDI entry is believed to be significantly liberalized after Vietnam’s accession to WTO (UNCTAD 2008).

In general, FDI invested to Vietnam has an increasing trend since 1990 until now, however, there are increasing differences among the total registered capital, the implemented capital, and the net inflows. Figure 6 below illustrates the situation of foreign direct investment in Vietnam from 1988 to 2015, in which the registered capital was generally much higher than the real amount implemented. It shows that the use of FDI in Vietnam was not as high as expected. On the other hand, total FDI registered and implemented, which include both foreign and domestic capital under Vietnam’s measurement, was increasingly higher than the net inflows, which is the actual flow of foreign investment reflected on the balance of payment. It means that the proportion of domestic capital is rising, with many FDI projects based on the contribution of corporations, state corporations, and domestic bank loans.

Figure 6: FDI in Vietnam during 1988-2015



Source: General Statistics Office of Vietnam (2017); World Bank (2017a)

The reforms in investment have been gradual and it maintains a number of restrictions, limitation and prohibitions to FDI entry. Even though foreign investors find it attractive to invest in Vietnam, the FDI is allowed mainly for sectors or regions which are beneficial, such

as manufacture. Due to influences of the non-market economy, the regulatory and legal system is more likely to “steer and control rather than regulate, monitor and enforce”. Many restrictions to FDI entry still existed in important services sectors such as telecommunications, transport, and distribution. In the air transport sector, the commitments to liberalization are mainly upon sales, marketing, computer reservations and maintenance. Otherwise, foreign investors can only invest through joint ventures with maximum ownership of 51% of capital (UNCTAD 2008).

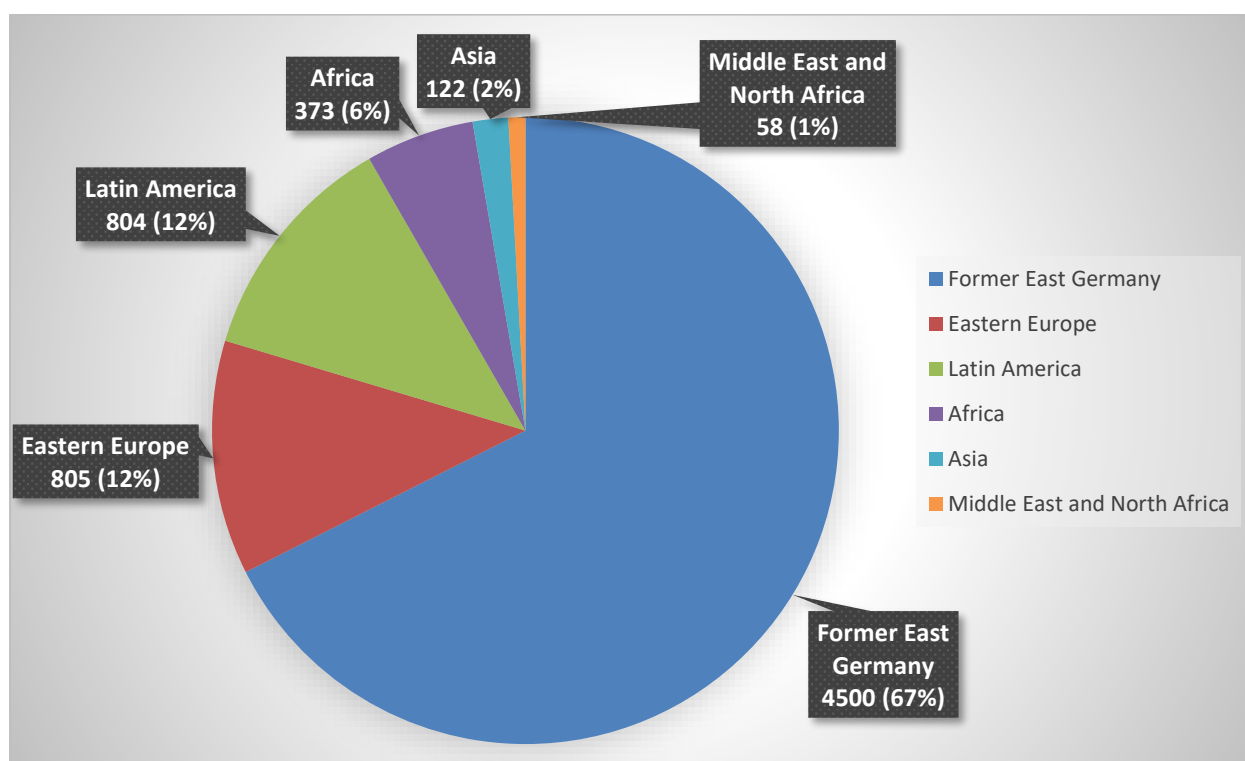
Those policies above have been launched to support the country’s purposes and visions on macroeconomy. Even though the process for achieving the above purposes is going slowly and gradually, Vietnam’s economy today is more market oriented. The market is more opened and liberal than before, due to the attempt to join and sign a large number of agreements on trade and investment with many other countries and regions. The progress of the macroeconomy has facilitated the privatization process in Vietnam to be more radical.

2.2. Privatization process of Vietnam in the world context

After the World War II, privatization of SOEs started with Great Britain’s steel industry in 1950s and with West Germany’s large-scale privatization in the 1960s. However, after the late 1970s, following the example of Prime Minister Margaret Thatcher’s government, privatization spread out more broadly around the world. Together with the collapse of Soviet in Eastern Europe, it became a world trend. European and Latin American nations transformed their economies, moving them toward a free market with more private than state sectors.

During 1980 to 1991, the world recorded 6832 enterprises privatized, including those with any sales that reduced the state’s shares to less than 50% ownership, liquidation and partial sales but re-privatization. Figure 7 describes the number of privatized enterprises structured as proportion across regions. As can be seen from Figure 7, the former East Germany ranked first with 4500 enterprises privatized, accounting for 66% of the world total, followed by the Eastern Europe (805 enterprises) and Latin America (804 enterprises). During that period Asia privatized only 122 enterprises, ranking near the bottom (Shirley 1991).

Figure 7: Number of privatized enterprises from 1980 to 1991, by region



Source: Shirley (1991)

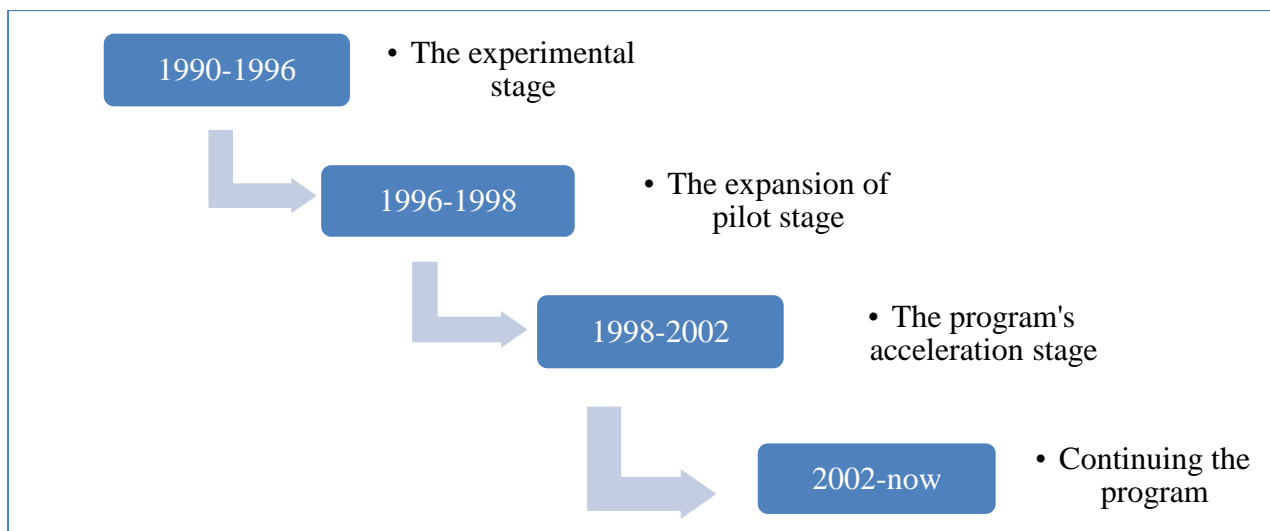
Against the trend was Vietnam which not only maintained the operation of SOEs but also expanded the state-owned sectors. After ending the war against the French colonialists in 1954, Vietnam found it necessary to build an economy governed and subsidized by the state. Following the economic development model of the Soviet Union, Vietnam's government established a system of SOEs, believing that private sectors have were incapacitated due to a lack of accessibility to some type of resources, for example financial, patented or technical knowhow and the country's resources. SOEs in Vietnam were managed by line ministries of the central government or by departments under local government's jurisdiction. After the unification in 1975, Vietnam decided to develop industrial SOEs, granted more in subsidies to SOEs to support and encourage their business consistent with the 5-year plans dictated by the government (Le 2015). Vietnam's economy at that time was a centrally planned economy that depended entirely on the management and decision making of the government.

After 10 years, the plan for developing the national economy through SOEs exposed noticeable failures. The government had tried to introduce some reform packages to deal with those failures. One of the packages is the so-called General Adjustment of Price, Wage and Money, as known as the price-wage-currency adjustment scheme, launched in 1985. The scheme aimed

to improving the term of trade of the agriculture sector because low prices discouraged government from focusing on agriculture. The scheme was implemented by pegging planned prices to market prices, abandoning the rationing system to raise the living standard, redenominating currency to control households' cash holdings and increasing loan for SOEs to offset the adverse effect of currency reform. However, the adjustment scheme failed SOEs did not operate efficiently but contributed to make state budget deficits by heavy loans (Le 2015). The economy fell into a severe crisis with the hyperinflation of 775% in 1986 (Hoang 2014). Vietnamese people's lives, especially in the North, were extremely hard with poor, unstable living standard and insufficient nutrition average diet.

The government realized the errors in policies and managing mechanisms, and decided to reform the entire economy. After launching the Doi Moi Reform, Vietnam still struggled to privatize SOEs. The privatization process really started only in the 1990s, and can be divided into four stages as presented in Figure 8. These stages are summarized as the experimental stage, the expansion through pilot programs, the accelerated stage, and the continuation of the privatization program stage.

Figure 8: Privatization process in Vietnam from 1990 until now



Source: Hiep et al. (2012)

From the beginning, Vietnam struggled through with privatizing SOEs. The government had not had a clear vision and direction to transform firms or sectors. The procedure of Vietnam's privatization was mostly through partial liquidation, transforming a firm into a limited company and through equitization. Equitization means the conversion of a firm into a joint-

stock company by selling equity stakes to the public. By focusing on that method, the government advocated increasing capital rather than reducing the influence of the state. The Council of Ministers in 1990 issued Decision No. 143/HDBT to select some SOEs for an experimental transformation (Hiep et al. 2012). Small- and medium-sized enterprises were chosen. The Law on Foreign Investment in 1987, and the Law of Private Enterprises and Companies in 1990 were also adopted to set a legal basis for establishment and operation of private firms as well as for privatization (Le 2015). The pilot program resulted in two SOEs privatized during 1990-1991 (Hiep et al. 2012).

The privatization program officially started from 1992. The number of SOEs was reduced by almost half, from about 12300 enterprises in 1986 to approximately 6500 enterprises in 1992 (Pham & Carlin 2008). The government showed their cautiousness in implementing privatization gradually and retained their administrative control. In particular, the program was deployed from small and medium to large enterprises, managed from local to central government. In 1994, there were only five SOEs privatized, three of which belonged to the central state and the other two were managed by local governments. The state still kept control of about 30% of the shares in four of those (Hiep et al. 2012).

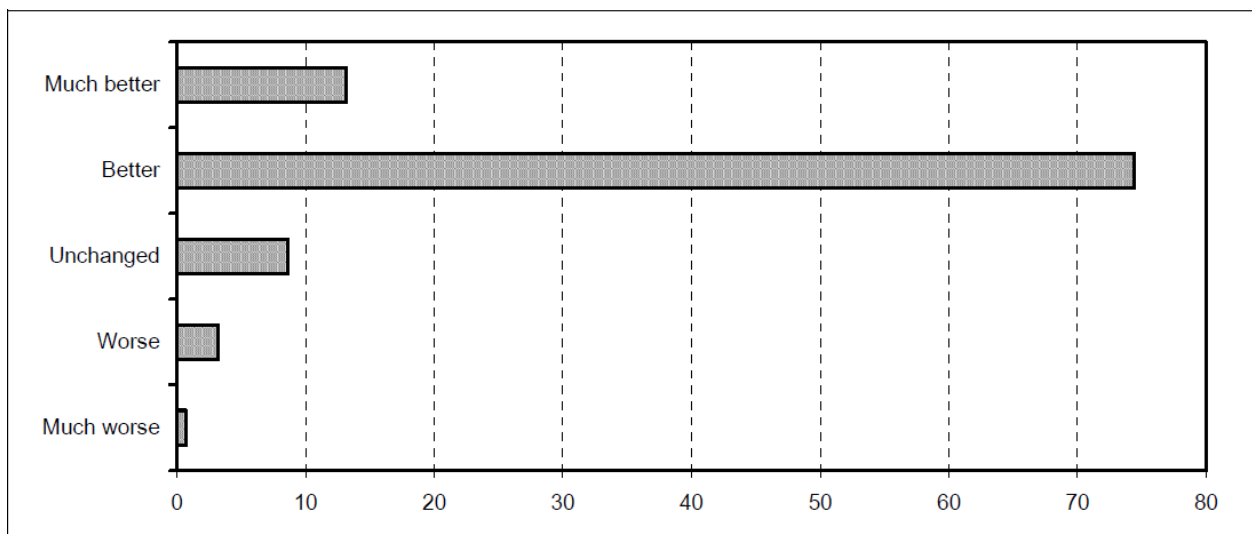
The second stage of the process began with by noteworthy milestones for Vietnam. Vietnam became a full member of the Association of South East Asian Nations (ASEAN) in 1995 and joined the Asia-Pacific Economic Corporation (APEC) in 1998. With these events, Vietnam was motivated to boost the privatization program. Hence, in 1996, Vietnam expanded the pilot program, clarified the implementation measures by issuing a formal decree on equitization, Decree No.28-CP on “The Transformation of a Number of State Enterprises into Joint-stock Companies”, dated 7th May 1996 (Sjöholm 2006). During the 6 years through 1998, the whole country had finished equitizing 30 SOEs (Do 2008). More SOEs with the capital scale of VND 10 billion (approximately USD 900,000 as per the exchange rate in 1996) or less became subjects of equitization (Hiep et al. 2012).

Between 1999-2011, privatization through the equitization process accelerated. In 1999, there were just 250 enterprises equitized (Do 2008), compared with only 30 enterprises of the two previous periods. The government added Decree No. 44/1998/ND-CP on “The Transformation of State Enterprises into Joint-Stock Companies with Supplemental Detailed Regulations”. Accordingly, individuals could not buy more than 5% of the shares of a firm while institutions were not allowed to buy more than 10% of the shares of a SOEs in which the government

wanted to retain control. The ratios increase to 10% and 20%, respectively, for SOEs that the state later found not necessary to control (Vu Quoc Tuan 2010).

The final stage, the period since 2002, continued expanding the equitization process to the whole economy, and to many big companies as well as corporations. The process was accelerated substantially in 2003-2004. Until mid-2005, 2,461 SOEs and their integral part had been equitized. The pace even though was lower than planned. However, according to the comprehensive survey conducted in 2005 by researchers from the Central Institute for Economic Management of the Ministry of Planning and Investment, the equitization process has positive effect on SOEs' performance. It is fair to say that, since 2005, the equitization process was more stable and shown more efficiency in term of financial performance (Cuong et al. 2007). In Figure 9, the survey's result showed that about 75% of the equitized enterprises responded to be better, and more than 10% of the equitized enterprises even found it much better in financial performance than pre-equitization.

Figure 9: Responses of equitized enterprises on financial performance before and after equitization



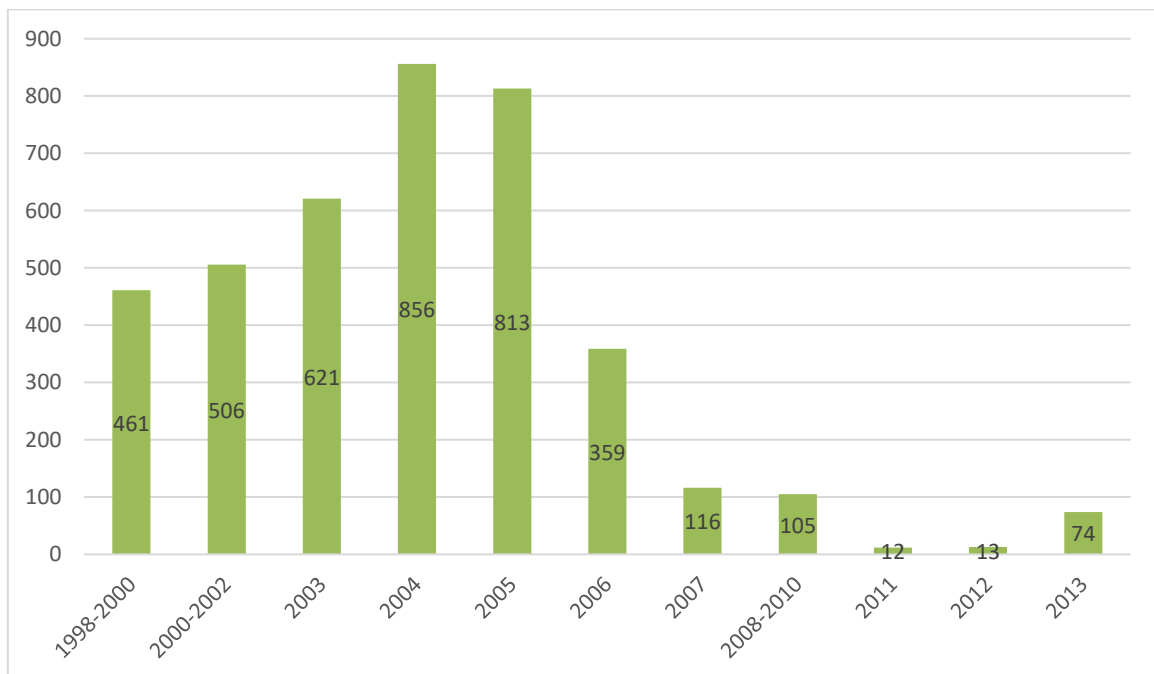
Source: Cuong et al. (2007)

The number of enterprises equitized increased significantly to 2813 firms in the 5 years from 2002 to 2006. Almost all of Vietnam enterprises showed efficient performance, contributing to increasing the state budget by 25%, and creating 7% more employment. The lives of Vietnamese people were improved with a higher per capita income, increasing by almost 12% (Vu Quoc Tuan 2010). Vietnam's stock market also experienced remarkable growth per year, with the market capitalization soaring from less than 1% of GDP in 2000 to 22,7% at the end

of 2006. Equitization, together with other components in the policy of reformation, helped Vietnam convert from a poor country struggling with a vulnerable economy into “a little tiger economy in Southeast Asia” at that time, with the annual average GDP growth rate of 7,5% during 2000-2005 (General Statistics Office of Vietnam 2017; UNCTAD 2008)

Figure 10 show that the most dynamic phase in Vietnam’s privatization process occurred during 2003-2005. After that, the process was significantly slowed down, especially in 2011 and 2012. However, the equitization process was not thorough. About 60% of the number of firm equitized were small and medium sized enterprises of which capital was less than VND 5 billion (approximately USD 320,000). The state remained holding dominant shares in 42% of equitized enterprises (Vu Quoc Tuan 2010). The 2009-2011 period even saw a reversion in privatization as 128 new wholly owned SOEs were formed. The total number of SOEs in 2012 reached 1309 enterprises, managed by 101 state bodies. The expansion of SOEs over more sectors worsened the economy. SOEs’ profits went down by 5% in 2012 compared to the previous year. The total losses of the budget were VND 17.7 trillion (about USD 850 million). The state sector remained large accounting for 33% of GDP in 2011, and reduced only by 2.9 percent after 4 years (WTO 2013).

Figure 10: The number of SOEs equitized through years from 1998 to 2013

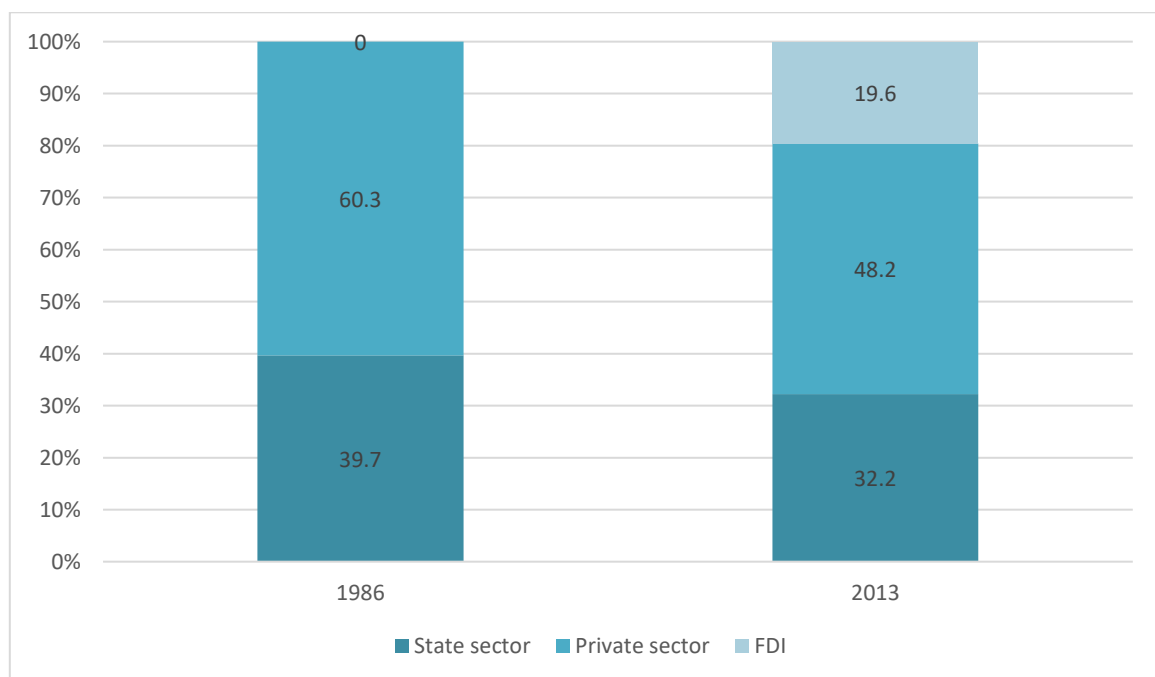


Source: BaoViet Securities (2014)

Figure 11 shows the comparison of GDP structure contributed by sectors between the year 1986 and 2013. In which, the contribution of state sector was smaller than before while the FDI sector had appeared with 19.6% in 2013.

Vietnam’s government managed some prominent achievement, including reducing the dominance of the SOEs, empowering the private sector and open the market for foreign investment. Many well-known large corporations have finished or been processing equitization. For example: Vinamilk, the largest dairy company in Vietnam, started equitization in December 2013 and completed the divestment of entire state’s share of capital in 2015. It had a market capitalization of USD 7.5 billion. Vietnam Airlines, the flag carrier (and the darling of the aviation sector, planned for equitization in 2008 and officially became a joint-stock company with 75% capital held by the state.

Figure 11: GDP structure by sectors in 1986 and 2013



Source: GSO in Minh Ngoc (2014)

Table 2 provides information about typically large SOEs which are projected to launch their IPO in 2013.

Table 2: List of SOEs on-going IPO in 2013

Name	Sector	Charter capital (\$US million)	% Initial public offering	Deal size* (\$US million)	Commentaries by StoxPlus
Vietnam Airlines	Airlines	447.1	25-35%	111-156	Proposal and valuation were to be completed by 1 April 2013
Vinatex	Clothing and Accessories	170.0	> 50%	85.0	IPO planned for 1 July 2013 but would be delayed because Vinatex had not finalized the section on strategic investor in time.
Hawacom	Water	89.7	< 50%	44.9	Hanoi Water Company and a number of its member companies were being reviewed by the government.
Viglacera	Building materials and fixtures	52.5	20%	10.5	Viglacera is a large ceramic and building materials firm. The Ministry of Construction issued a decision in March 2013 to form a working team to move up the IPO.
Vinamotor	Automobiles	34.1	< 59%	17.0	Vinamotor is a vehicle and bus manufacturing and assembly company. In 2013, 13 of the 36 member companies were equitized. The IPO of the parent company was to be completed in 2014.

* Estimated by StoxPlus and based on valuation at par

Source: Stoxplus (2013)

2.3. Vietnam Airlines – The development and the equitization plan


2.3.1. *The foundation and development*

The aviation sector of Vietnam was established along with the formation of the Civil Aviation Authority of Vietnam (CAAV) in 1956, rooted in the People's Armed Force. The main task of the CAAV at that time was to build an Air Force that served the Government. Vietnam's aviation sector has been regarded as an industry with enormous potential and has developed at a very rapidly. The volume of passengers increased significantly year by year, from under 20 million in 2006 to about 81 million people in 2016. The annual growth rate of passenger numbers between year and year was 17,4% based on the passenger volume at the airport. In 2016 this remained at a high level, roughly twice the rate of the Asia-Pacific area, respectively 16,1% and 7,9% (ACBS 2016). In an International Air Transport Association press release (IATA 2014), it is said that the annual contribution of aviation to GDP is about \$6 billion to GDP and this sector creates more than 230,000 jobs. IATA has also expected Vietnam's aviation market to be the 7th fastest growing market in the world by 2017 (IATA 2014).

Vietnam Airlines was established in April 1993 as an offspring of CAAV and a large-scale business unit of the state (CAAV 2016). Since then, Vietnam Airlines has undergone several notable landmarks. Vietnam Airlines' establishment and development are described clearly in Table 3.

Since it was founded, Vietnam Airlines has enjoyed a monopoly in the Vietnam aviation market. With the acquisition of Pacific Airlines' shares from the CAAV, it became the holding company of Pacific Airlines (now operating as Jetstar Pacific) with a majority of 70% shares owned (2007). Although the Vietnamese aviation market has experienced ups and downs, Vietnam Airlines to date has maintained its dominant position in the domestic market. Vietnam Airlines and its subsidiaries Jetstar Pacific implements a dual-brand strategy, in which Jetstar targets to average-income passengers while and Vietnam Airlines serves average- and high-income passengers, so that together they hold about 70% of the market share. According to CAPA – Center for aviation, Vietnam Airlines plays a core role in aviation sector, accounting for 78% of the domestic market share in 2011. However, with the rapid development of Vietjet Air, the only private airline in Vietnam at the time, Vietnam Airlines was losing its dominant status, entering the competition on the market.

Table 3: The formation and development of Vietnam Airlines (VNA)

1993	<i>Established</i>
1995	<i>Established Vietnam Aviation Corporation</i>
	<ul style="list-style-type: none"> • The Government adopted the decision No. 328/TTG to merge 20 companies in Aviation to constitute Vietnam Aviation Corporation, with Vietnam Airline to be a core business • Vietnam Airlines admitted Pacific Airlines as a member by receiving the shares of this airlines from CAAV, held 86.49% stake.
2002	<i>Introduced the new brand symbol</i>
	<ul style="list-style-type: none"> • The Golden Lotus • VNA began the strategy program of brand and improved its service quality
	
2003	<i>Operated as Parent company - subsidiaries model</i>
	<ul style="list-style-type: none"> • On 4th April 2003, the Prime Minister issued the Decision No. 372/QĐ-TTĐ on reorganizing the operation model of VNA. Accordingly as Parent company - Subsidiaries, whereas VNA is the parent company. • The first Boeing 777 was exploited as an opening for modernization of its fleet
2006	<i>Joined IATA</i>
	<ul style="list-style-type: none"> • VNA achieved the IOSA (IATA Operation Safety Audit) Certificate and has become an official member of IATA.
2010	<i>Joined SkyTeam</i>
	<ul style="list-style-type: none"> • On 10th June 2010, VNA became the 10th member of the Worldwide Alliance Management Team – SkyTeam. The route network has been extended into more than 1000 destination worldwide. This remarked the integration of VNA to the world market and demonstrated that it has met standards to be on par with other airlines in the region as well as around the world • One more time, VNA changed its form of operation into a limited liabilities company with one member, governed by the state
2013	<i>Began the equitization process</i>

Source: BSC (2014b); Vietnam Airlines (2017)

2.3.2. Equitization plan and business operation in 5 years before equitization: 2008-2012

The equitization plan of the company planned to implement the privatization of Vietnam Airlines under the method that remaining all the state capital and issuing new securities to increase the equity. The main purpose of the process is to transfer into a mixed ownership and call out for capital from domestic and foreign investors. The proportion of state ownership is planned to be 75%, then reducing to not lower than 65% following the approval of the Prime Minister. The proportion of shares sold to strategic foreign investors was defined as 20%, and

the 5% of shares can be sold to other investors, including local and foreign institutions, individuals, unions and employees of the company.

In the years before privatization, the revenue streams of Vietnam Airlines mainly came from the following sources: (1) passengers transport, (2) freight and parcels, (3) air transport auxiliary and (4) financial investment, among which passenger transport contributed the most. Table 6 shows the revenues during the period 2008-2012.

Vietnam Airlines' steady growth could create a solid financial foundation for equitization, because it helps the public to decide whether they wanted to buy its equity. Except for a dip in 2009, due to the world economic recession, Vietnam Airlines experienced large increases in net revenues of about 20.3% during 2008-2012. Revenues from air transports accounted for an average of 95.5% of the total. The growth rate in revenue was even 53.5% in 2010, in which the growth of air transport contributed approximately 97%. With the rapid growth in air transport volume, Vietnam Airlines expanded into 7 more international routes and 3 more domestic routes.

Table 4: Revenues of Vietnam Airlines in the five years before privatization (billion VND)

	2008	2009	2010	2011	2012
Total revenue	25,277	23,203	35,604	44,875	49,577
<i>Revenue from air transport (including revenue from passenger transport, luggage transport and other revenues)</i>	23,980	21,922	33,943	43,234	47,936
<i>Revenue from transport auxiliary</i>	1,297	1,280	1,661	1,641	1,641
Revenue deduction	(84,708)	(141,814)	(262,584)	(347,161)	(434,895)
Net Revenue	25,192	23,060	35,342	44,528	49,142
Percentage change in net revenue		-8.46%	53.25%	26%	10.36%

Source: BSC (2014b)

Since 2008, Vietnam Airlines' monopoly seemed to be at risk when the aviation market started to change its structure with the new appearance of private airlines. Vietjet Air was a private airline established in 2007. The airline was formed under a Joint-stock company, with three main shareholders, i.e., T&C Corporation, Sovico Holdings and Ho Chi Minh City Housing

Development Bank. Vietjet Air is known as the first private airline in Vietnam approved by the Vietnamese government. The airline officially came into operation in 2012. In 2008, Indochina Airlines was established and quickly officially operated in the same years, mark by the first commercial flights from Tan Son Nhat Airport in Ho Chi Minh City to Noi Bai Airport in Hanoi on 25th November. It therefore became the first private airline to fly within Vietnam. The founder and chairman of Indochina Airlines was Mr. Ha Hung Dung, a Vietnamese musician (VienamNet 2015). In 2009-2010, the market once again witnessed the birth and operation of the third private-owned airline, Air Mekong, operated mainly from Phu Quoc Airport to Tan Son Nhat and Noi Bai Airport.

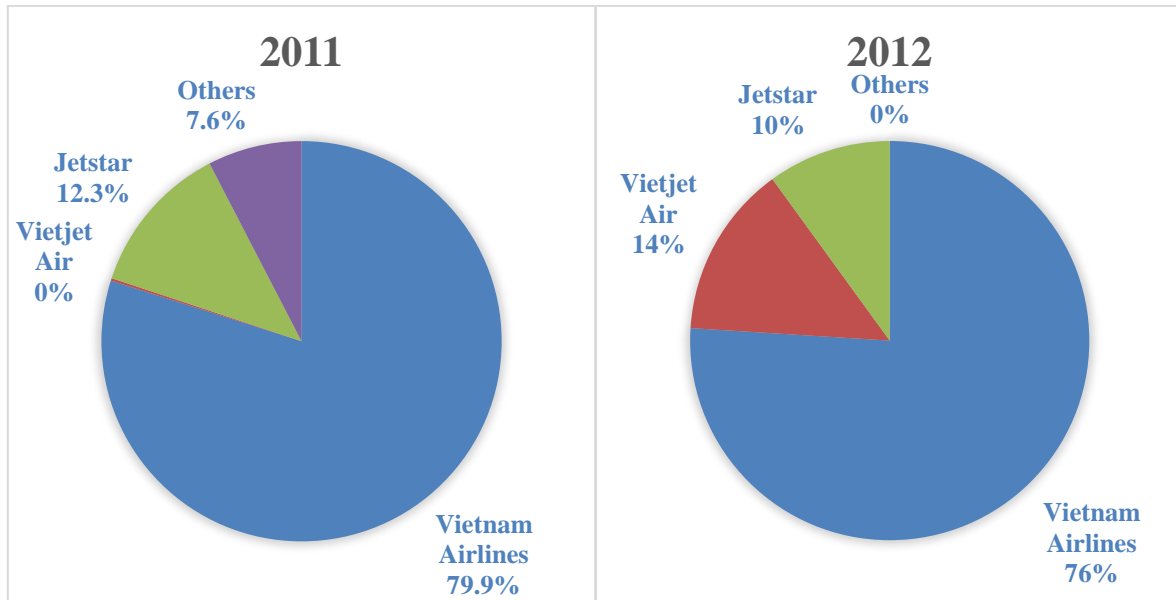
However, the expected greater competition in the domestic aviation market did not happen because two of the new private airlines were decommissioned. After just only one year of operation, Indochina had to suspended because of financial difficulties due to significantly increasing fuel prices in 2008. In 2013, Air Mekong also followed the footsteps of Indochina Airlines, and its operation license was revoked in 2015. Many reasons were provided to explained the failure of the two airlines, including the competition with the big competitor Vietnam Airlines when there was no policy mechanism to support for private airlines, such as guarantee loans.

As a particular sector which requires large capital and therefore is riskier, the aviation market seems not to have been expanded with more firms without incentives from policies that support entry into the market. In Vietnam, there was not enough support from the government to private airlines when they first entered the market. On the other hand, Vietnam Airlines was dominant on the domestic market, with huge financial support from the government coming as operating capital. Hence, Vietnam Airlines is likely to hold its monopoly position. It remained profitable in 2009 even as many airlines in the world got into financial troubles with the international financial crisis and the volatility of fuel prices. However, with the survival of Vietjet Air, the market has been shared mainly between Vietnam Airlines and Vietjet Air.

Figure 12 shows a change in market structure, in which Vietjet Air quickly captured the market share in one year and lowered both Vietnam Airlines' and Jetstar shares. Up until 2011, Vietnam Airlines accounted for about 80% market share, based on passenger volume. Jetstar, as Vietnam Airlines' subsidiary, accounting for 12.3%. However, Vietjet Air had grown stronger and became a formidable opponent to Vietnam Airlines. In 2012, Vietjet Air flew its maiden voyage, starting its official operation in the domestic market. Vietjet Air was quickly

took over for 14% of market share, defeated the Vietnam Airlines’ low-cost subsidiary Jetstar and made Vietnam Airlines’ share decreased to 76% (ACBS 2016). The fierce competition between Vietnam Airlines and Vietjet Air began.

Figure 12: Structure of passenger volume by airlines



Source: ACBS (2016)

To sum up, the Chapter 2 describes the economic context of Vietnam under the government’s key policies, in which the privatization process is taking place. Vietnam was successfully in improving and stabilizing the macroeconomy, shifting from one of the poorest countries in the world before 1986 into a low middle-income country in 2011. The achievements contribute to accelerate the privatization process in the country. However, the process occurred very slowly, showing the cautiousness in Vietnamese government’s perspectives in transferring ownership from public to private sector. That perspective is reflected in privatization process of large companies, as Vietnam Airlines. So far, Vietnam Airlines as well as the aviation industry are considered as important nation assets because of a relation to the nation security and defense (according to the Report on Summary of 6 years of implementation of Law on Civil Aviation of Vietnam 2006 (Vietnam Aviation Department 2012)). As a long-standing monopoly airline on the domestic market, Vietnam Airlines was able to maintain its steady growth to prepare for the privatization, with expansion of both international and domestic routes. However, the airline’s domination is losing gradually due to increasing competition with the private low-cost carrier, Vietjet Air. In that context, the privatization of Vietnam Airlines is implemented partially under the form of equitization. The next chapter build a theory framework of

understanding and evaluating of the general concept privatization and equitization in particular for Vietnam's case, along with the reason for privatization, in which the reason for partial privatization is mentioned for Vietnam Airlines' circumstance.

III. Theory of privatization and related literature

3.1. Conceptual understanding of privatization

There are many ways or definitions to understand privatization, but in general, it involves the shift of ownership from the public sector to the private sector in assets, resources and accessibility. It also involves a belief that to creating a free market is an economic improvement over the control over external impacts from state intervention. The term “privatization” itself evokes a sense of the relationship between the public and private sector. To understand the meaning of privatization, the distinction between public and private in the ownership of assets is needed.

According to Starr (1988), there are two ideas: the first is that public means open while private means closed; and the second is that public means the whole while private means the part. Under the first sense, private shows the restriction in accessibility and viability, like a private house, cabin, or an exclusive relationship. Public in this aspect is like in a communal space or public telephone for common use. On the other hand, the second sense illustrates public as common, for example, public interest or public view. The community is considered as the whole as opposed to the part of an individual or group of individuals. However, the common is not necessarily governmental.

Today the concepts of public and governmental have become closer and in some contexts, can be considered as one. For example, in a country’s context, the state often represents all the people, citizens or domestic enterprises in international relations, trade and investment law, provision of services and movement of labor. In term of economics, the concern about public-private relationships is all about the state-market relationship (Starr 1988). Therefore, the term privatization in this context relates more to the second sense of the distinction and it indicates the mobility of assets from the state sector to the private sector. The mobility refers to the ownership and property rights of resources, capital or assets.

In a capitalist economy perspective, the market is private. Any interference of by a government for political or social purposes may create operational constraints and distortions (Tran et al. 2015). The term ‘privatization’ came from an attempt to eliminate or reduce the state sector and move towards a market-oriented system. So, to speak of privatization is to refer to a reduction in state activities (Starr 1988). Filipovic (2005) supposed that privatization is a method of transferring resources from the state to the private sector. Similarly, in Hadizadeh

(2010), privatization is considered as tool to improve the economy by strengthening the market by selling 50% or more of the state shares to the private sector.

3.2. Forms and methods of privatization

There are many ways to categorize the various forms of privatization. However, privatization can often be classified into two main typologies. Based on the conceptual understanding of privatization as being stated above, the typologies are divided according to how ownership is transferred: full and partial privatization. Full privatization is a form in which the states, either central or local agencies, divest their whole capital of the public enterprises and let the private sector take over the ownership. In partial privatization, the states gives up only a part of their capital or assets to private sector while they still retain their control over or ownership of the companies (Tetteh 2013). States can also sell part of their share, without retaining control over ownership or executive decision making, holding only some golden shares in the firm.

Privatization can be implemented under a variety of methods: sale of property by the state's, reinstitution and voucher or mass privatization (Sjöholm 2006). Cass (1987) grouped methods into some groups, including divestiture, contracting, increasing choices and direct dollar choices.

Divestiture proposes that the government terminate its formal ownership of an asset. By doing so, the decision-making power over business operation of the government – such as decision on quality or quantity of the products, pricing or means of distribution, and so on – will be transferred to the non-government buyer. In other words, it is the elimination of governmental control. State sales of SOEs to investors belongs to this group and is the dominant method of privatization. This method brings benefit to the state by helping to generate revenue for the state budget from the privatization proceeds. Moreover, there is an expectation of more efficient business operation of the privatized firms due to more incentives and the means of investing as well as restructuring of the private investors (Filipovic 2005). The sale of state property requires a good preparation of SOEs, which are to be privatized, and a tight legal framework with well-defined property rights so as to ensure a favorable privatization process (Cass 1987; Sjöholm 2006).

Increasing choices includes deregulation and vouchers. Deregulation describes the situation in which the government regulates a particular private behavior. Specific regulation previously imposed on, for example, entry into business will be eliminated or modified (Cass 1987).

Voucher privatization is a widely-applied method, especially in Eastern Europe in the 1990s as state property was being returned to the public through assets sales and transfers. The government distributes vouchers to its eligible citizens at nominal cost or free of charge, then the citizens can use the vouchers to bid or exchange for shares in other institutions being privatized (Filipovic 2005; Sjöholm 2006).

Contracting is one category under the partial privatization (Tetteh 2013), which involves the contractual rearrangement of control over some but not all aspects of an activity. There are two methods in this group: leasing and contracting out. Leasing means renting out public assets to private firms in a specific period, while in contracting out, the government appoints another party to supply goods or services. The private company may bid for it in return for payment (Cass 1987; Tetteh 2013).

Restitution, which is not mentioned by Cass (1987), relating to a concept of nationalization, means to give back the property rights on the public firms to the former owner. This method depends on how long since the nationalization occurred and it is mostly for small assets, usually land. Liquidation and share floatation are considered methods for full privatization. The formation of a joint venture is considered a method for partial privatization by Tetteh (2013). Internal privatization can be understood as “employee or management buyout” (Filipovic 2005). Franchising allows the granting of monopoly licensing rights to one or a number of private companies to supply goods or services.

In Vietnam, the most common mode of privatization is equitization. It is a form of state property sale. The state property is the capital of the government or its agencies, which is divided into equities. The state can sell all or just a proportion of its shares to private sector, and the SOE are transferred into a joint-stock company. In fact, equitization mostly is partial privatization in Vietnam. To date, equitization in Vietnam has not had any law which regulates the framework or details of equitization, but is mainly based on decisions of the government, the Prime Minister and ministries in each period and for each case. The operation of equitized firms which retained state’s equity are adjusted under both general provisions on state-owned enterprises and on joint-stock companies. One individual will be appointed by the government to be a representative for the state’s shares. The shareholder meeting decides all decisions of the equitized firms, including establishing board of management, through voting (65% or more). In case that the state’s share is 75% or more in an equitized firm, the state still has rights to decide all decisions of the company.

3.3. Why privatize?

Although SOEs were often used as tools for implementing macroeconomic, fiscal and social policies, excessive subsidies and other governments' interventions in support a SOE became a problem in term of fiscal budget and economic development in many countries. While the operation of SOEs disclosed many drawbacks, which cause wasting of government's support and ineffective policies, privatization reveals more advantages in financial as well as political costs and benefits. There are many studies on privatization and its impacts to the firm itself and to the sub-sector in which it operates (a microeconomic implication) and to the economy (a macroeconomic implication). The reason why governments decide to go for privatization are clarified while studying the failures of SOEs' sector and the impact of privatization on the economy.

3.3.1. *Failure of SOEs*

According to Nellis (2005), from the beginning of the 20th century, state intervention was spread throughout the world, along with the rise of socialist ideology and the imposition of communism in the Soviet Union. At that time, state enterprises grew significantly, through nationalization and confiscation of existing private assets, as well as the creation of new establishments. It was believed that state ownership of assets protected better the national economy, especially in a developing country. Therefore, SOEs were established and developed to help government in policies to stabilize the macroeconomy, reduce poverty, increase employment, increase social security and ensure accessibility to essential goods and services for citizens. Some SOEs still did its business well and at the same time supported the above-mentioned government's goals. The national electricity company in France, the steel company in South Korea, the Indonesia's fertilizer company can be taken as examples (Kikeri et al. 1994). However, the number of well-run, profitable and efficient SOEs seems to be a minority. The state ownership of resources or assets or hegemony revealed many problems.

Most of the SOEs in the world performed disappointingly. Despite needing to fulfill their synthesis goals, which include both economic goals such as maximizing profit, political goals such as macroeconomic policies or international relations objectives, and social welfare (i.e., ensuring accessibility of goods and services for its people), the state sector often encounters obstacles due to the mixed goals themselves. Most these SOEs failed to meet the purposes.

They are multiple, ambiguous and conflicting purposes which weaken managerial autonomy, commercial performance and efficiency (Nellis 2005).

Many SOEs showed their economic inefficiency through their heavy financial losses. About 30% of SOEs in China in 1991 experienced losses, causing a consolidated government and enterprise deficit of 8% of GDP. The losses were estimated between 1989-1991 in Argentina as 9% of GDP. While in Turkey, the return on capital of SOEs was 12% compared with 20% of the private sector during 1985-1991 (Kikeri et al. 1994). Instead of raising state budgets, SOEs drained them. There is a so-called soft budget constraint problem to SOEs. Being backed by the government and the state budget, SOEs in general do not have a sense of bankruptcy. The government bails out a SOE through the national budget in the case of financial distress (Sheshinski & López-Calva 2003).

Moreover, SOEs are more likely to get easy credit and more accessibility to investment. In China, both investment and working capital of SOEs came from free-interest financial allocations (Lin et al. 1998). In the case of Vietnam, more than a half of total investment in 2004 (56%) was invested in SOEs (Hakkala & Kokko 2007). The more credit provided for SOEs, the less credit the private sector gets. The private sector in Russia finds it hard to access to financing when credit allocation is dominated by the directed state credits to SOEs (Kikeri et al. 1994). Despite receiving a governments' support, SOEs failed to provide a sufficient quantity as well as an appropriate level of the quality of goods and services.

The expansion of SOEs results in less competition on the market. It is also hard for private companies to access the market. As Kikeri et al. (1994) found, the government often block the entry of private firms into fields in which the SOE operates. Especially, in core industries such as mining, electricity, and energy the market can be dominated by SOEs rather than private firms. For example, there was a time in Peru when private firms were prohibited to produce their own electricity; or in India in 1988, where entire industries and its sub-sectors were reserved only for SOEs.

Another problem of SOEs is the principal agent problem, or the separation of ownership and management in business operation. The problem is when cooperating parties, in this case the state as the owner and the manager of an SOE, have different goals and interests. This separation raises issues between the owners (or the state and its agencies) and the managers of the operations, which involve incentive incompatibility and information cooperation (Lin et al. 1998). Tran et al. (2015) argued that those managers could be dictated in relation to their

political interest. The managers find it easy to run a business and thus it leads to low productivity. Low productivity is not only found in managers but also in staff. Under loose management, so the argument goes, the staff does not put much effort in working and as a result productivity becomes lower and lower. Thus, the long-time consequences of SOEs' inefficiency is worsened economies. Meanwhile, privatization can be considered as a solution to reverse the situation through its advantages of private ownership and property rights, competition, efficiency and productivity.

3.3.2. Private ownership and impact of privatization on the economy

The right of the individual to own property is fundamental to understanding the reason for privatization. Mankiw in Filipovic (2005) stated that, while low transaction costs contribute to an efficiency of market system, well-defined and formal property rights help to decide an efficient transaction costs, which is handled by a competitive market. Property rights, in particular private ownership, are believed to build up strong individual incentives which is necessary for long-term growth or sustainable development in economic goals. This was also recognized by Adam Smith in term of property right on land. He argued that "When the crown lands had become private property, they would, in the course of a few years, become well improved and well cultivated" (Yarrow et al. 1986).

Besides considering the failures of SOEs as a reason for privatization, it is reasonable to look at the benefits which is brought by privatization to aspects of the economy. The effects of privatization on micro-, macroeconomic and other socio-political aspects also become criteria to assess whether the privatization succeeds or not.

Microeconomic effects: Firm performance

Private ownership reveal its advantages over public ownership in term of the firm performance (Sheshinski & López-Calva 2003). The Coase Theorem indicates that efficiency could be derived from privatization. The private sector is effective in dealing with externalities. Coase argued that the private sector tends to bring a more efficient outcome if there is no government intervention and there exists an externality. Accordingly, the initial allocation rights can be ignored. The efficient outcome comes from bargaining among private parties (Filipovic 2005). Davis et al. in Wood (2004) also proposed that privatization leads to gains in economic efficiency under unsuccessful performance of state firms; it finances and controls over deficit because of public enterprises; and it can be a means of developing domestic capital market.

Furthermore, the improvement in efficiency in privatized firms is considered to be able to induce a spillover effects of competition because better performance of privatized firms force other SOEs to operate more efficiently as well (Omran 2004). The situation is that without entry restriction for private sectors, there will be more competitors on the market. SOEs with less or without protection of the government find it necessary to be more competitive to exist on the market. Therefore, the privatization process is supposed to result in a system of incentives with lower production cost and more market orientation through the creation of new private institutions, replacing the old state-run system and erasing or reducing market distortion (Schusselbauer 1999).

The following researches approached effects of privatization on the firm performance in different ways and indicator of efficiency, which brings ideas for the analysis of the Vietnam Airlines' privatization in this thesis. Specifically, Martin and Parker (1995) studied privatization and economic performance by analyzing the UK's business cycle. They examined 11 UK companies which were privatized in 1981-1988 in term of two indicators, the profitability as measured by the rate of profit before interest and tax on total capital employed, and the value-added per employee hour. Therein, the latter would provide information of the company's productivity. Five surveys for each company were conducted, which are distinct in periods: a nationalization period, pre-privatization period, post-announcement period, post-privatization period and four-year period after that. The surveys help them to have comprehensive assessment by putting the change of ownership in those companies into a context, which is the economy's position. The result was mixed: 6 of the 10 companies (for which data were available) had improved value-added growth in the third period; however, after privatization, the improved performance was found in less than half of the companies.

Despite the above study's result, many studies argue that privatization has positive effect on profitability and efficiency of the firm. Ehrlich et al. (1994) showed that the shift of ownership from state to private sector does raise productivity growth and reduce cost. The result is based on their analysis of 23 international airlines in different situations of ownership, in which some were changing, in 1973-1983. The author used a model of endogenous, firm-specific productivity growth and testing its implication on panel data to analyze the firm's unit cost, in which using fixed-effect regression in estimating cost and input demand functions. The results show that the cost can decline 1.7-1.9% a year, while the productivity growth can increase by 1.6-2% a year in long term. While Ehrlich et al. (1994) stated that they separated the long-run effects from the short-run, they proposed that the result for short-run is ambiguous. Besides,

they found that partial privatization has negligible effect on improvement of productivity growth than full privatization.

La Porta and López-de-Silanes (1998) analyzing privatization in Mexico, studied 26 sectors with 218 enterprises privatized during 1983 and 1991. They found that profitability, as measured by income on sales rate, increase by 24%. They assessed the profitability through three indicators, price, employment and productivity. Accordingly, the 24% increase in profit was shown by the increase in price, accounting for 10%; the reduced number of worker, accounting for 33%; and the largest proportion of productivity, 57% (Sheshinski & López-Calva 2003).

Like the studies of Martin and Parker (1995) and La Porta and López-de-Silanes (1998), studying on profitability and productivity of the airline was also applied for the analysis in this thesis to evaluate the privatization of Vietnam Airlines in term of microeconomic aspect. Meanwhile, the research of Ehrlich et al. (1994) brings idea of assessing cost efficiency as a sign of improvement due to privatization.

Macroeconomic Effects

The effects of privatization on firms' performance relate to microeconomic effects of privatization, which in turn contributes to effect on macroeconomic issues. The more efficient the companies perform, the more they contribute to the GDP of the nation. To some extent, privatization has positive impacts on economic growth in term of GDP. Privatization is believed to improve fiscal health of the economy. As SOEs turn out to be burdens to the state in term of budget deficit, privatization can solve the problem, firstly from the privatization proceeds, the revenue from SOEs' stake sales, then from taxes and obligations of private firms as well as the reduction of subsidies for those transformed SOEs. As a result of improvement in both micro- and macro- economic aspects, privatization is also believed to reduce unemployment rates. However, no strong evidence shows the effect of privatization at macroeconomic level (Sheshinski & López-Calva 2003).

Growth

Within the framework of studying a specific firm as Vietnam Airlines, it is difficult to discuss its separate privatization on a growth of a whole economy. However, the growth of the firm in micro-aspect clearly contributes to the nation's growth. As mentioned that privatization of firms has spillover effect on other SOEs to improve their performance, which creates

development of the whole country. Therefore, impacts of privatization on growth of a country are still discussed below.

Plane (1997) used aggregate data and found a significant positive effect of privatization, under divestiture, on economic growth (Estrin et al. 2009) as measured by the growth rate of GDP. The data were collected for a sample of 35 developing market economies in the period 1988-1992. Plane applied tobit and probit models to identify the determinant of successful privatization, and claimed that privatization has more effect on industry than in other sectors (Plane 1997). Gylfason (1998) used a two-sector general equilibrium model with full employment to show that privatization can increase a country's GDP in the context that there is no price distortion.

Berkowitz and DeJong (2003) studied the regional reform policies in Russia to find out if different policies connect with the differences in growth rates. They used the data of growth, new enterprise formation, initial conditions and policy reforms for a sample of 48 regions in which the population of capital city is at least 30% of the region over the period from 1993: IV to 1997: IV. The two-stage least square (2SLS) method of estimation was used to deal with the potential simultaneity between the new formation of enterprises and growth. The finding is that more large-scale privatization reveals strong positive correspondence with growth.

Filipovic (2005) in his study about the relationship between privatization and the growth of economy, however, claimed that privatization alone will not promote growth, but in accompaniment with appropriate structure reform, it can create incentives for economic efficiency. Filipovic examined 90 developing countries for how the effect of competition, foreign direct investment, national debt, and property rights interact with privatization, which brought idea for this thesis to considers those indicators while analyze the privatization of Vietnam Airlines under the country's context. For analysis, Filipovic used the basic ordinary least square regression model on cross-country data, in which the GDP per capita growth rate is explained by a set of macroeconomic indicators, privatization variable, Barro-repressors and an interaction term. After taking six different regressions with and without economic factors, the results show that the coefficient of privatization is sensitive to changes in the inclusion or exclusion of other economic variables. Therefore, privatization should necessarily be implemented together with other reform policies. Kikeri and Nellis (2002) based on the IMF's study of developing and transition economies said that privatization when accompanied by

other policies and factors such as price and trade liberalization, deregulations, financial disciplines, property rights will create rapid and robust growth.

Fiscal health

Privatization is considered a solution for improving fiscal health of the economy for several reasons. First, privatization helps to reduce state budget deficit which is caused by SOEs' debts. Instead of using the budget to support (i.e., subsidize) inefficient SOEs, the government can raise income from private enterprises' contribution (including taxes and other obligations). Therefore, the government can improve its financial situation. Furthermore, proceeds from privatization of SOEs also brings substantial income for the state budget. Davis, Ossowski, Richardson and Barnett studied 18 OECD countries and found that privatization brings income amounting to about 2% of GDP to the state budget, according to Kikeri and Nellis (2002). Based on the researches, Vietnam Airlines' privatization is also considered in term of contribution to the state budget.

Sheshinski and López-Calva (2003) based on theoretical arguments and other studies, examined countries at low-, middle- and high-income level from 1975 to 1996 and showed that the privatization helps to improve financial health of public sector. The researchers found that there is a positive trend in fiscal deficit, meaning that the deficit decreases during the reform. The most positive trend is found in upper middle-income countries which implement reform most aggressively. The budget deficits decline due to reducing the transfer to SOEs, and in the long term it can receive revenues as taxes from private firms (Hadizadeh 2010).

However, there is no consensus. Katsoulakos and Likoyanni (2002) analyzed the panel data of 23 OECD countries during 1990-2000, and found that there is no significant correlation between privatization proceeds and budget deficit. They found that privatization proceeds have statistically significant but had a negative impact on public debt.

Barnett (2000) studied 18 countries, including Argentina, Bolivia, Cote d'Ivoire, Czech Republic, Egypt, Hungary, Kazakhstan, Mexico, Mongolia, Morocco, Mozambique, Peru, Philippines, Russia, Uganda, Ukraine and Vietnam to examine contemporaneous impact and dynamic impact of privatization on macroeconomic and fiscal issues. Privatization proceeds as a part which is transferred to the budget and the total privatization proceeds are considered corresponding to contemporaneous and dynamic impacts. The analysis of contemporaneous impact is based on the first difference regression and for the other one, Barnett runs the first

difference on level of privatization. It seems that privatization proceeds to budget does not affect the budget deficit because it tends to be saved.

The above studies help to define the criteria to discuss on how Vietnam Airlines' privatization contributes to the state budget, in which proceeds from privatization of Vietnam Airlines and its tax status are considered along with the government's support for the company.

Unemployment

This criterion is also considered in the analysis of privatization in Vietnam Airlines to see how the number of workers in the firms was influenced because studies showed that privatization does affect the employment. Some critics argued that privatization can lead to higher unemployment due to the restructure from an SOE to a private firm. Normally, old employees will not be retained or will be downsized because a new manager often prefers his own staff (Tetteh 2013). Kikeri and Nellis (2002) argue that privatization is not a main cause of the perceived overall increase unemployment and wage differentials. Barnett (2000) also found that the total the total privatization has a net effect of lowering unemployment in his study of relation between privatization and fiscal and macroeconomic performance. Similarly, Katsoulakos and Likoyanni (2002) came up with the result that the current privatization proceeds leads to decrease in the current unemployment rate, while it makes the rate in the previous period increase. In this thesis, the human resource status of Vietnam Airlines is mentioned along with its process of equitization, to support for the analysis of the privatization on the firm.

Other socio-political issues

With the ownership in the states hands, managers in SOEs are typically appointed by the government or the government agencies that own the enterprises. The selection of the firm's chief executive officer (CEO) or the governing board is based mainly on political relationships and for political purposes rather than on the performance of the individual or the management capacity of the board members. Due to the connection between the CEO, directors or manager in SOEs and the authorities, corruption is more likely to appear and therefore create more other socio-political and also economic problems. Tran et al. (2015) argued that those managers could be dictated in relation to their political interest. Furthermore, the companies' benefits are not directly related to those managers' benefits. In other words, the interests are inconsistent between the companies and their leaders. Because of that, managers find it easy to run a

business for his own purposes and thus lead it to low productivity. Low productivity is not only found in managers but also in staff at lower levels. Everybody's business is nobody's business, so in the loose management, apparently, the staff would not put much effort in working and then the productivity is lower and lower.

Privatization is expected to be a cure for corruption in SOES, as a socio-political issue, since it eliminates the political connection between enterprises and the government. At lower level of monitor, the corruption is less likely to exist in relationships between managers and staffs in private companies. However, Arikan (2008) argued that privatization can lead to increasing corruption in the case that privatization fails to sever the connection between the firm management and the officials. Arikan examined a sample of 73 countries from 1985 to 2005 (which however has a lot of missing variables) and used smaller sample of former Soviet Union countries and Central and Eastern Europe countries, using the index from International Country Risk Guide to measure the perceived corruption. The regression results show that higher privatization level seems to increase corruption if the firm-official ties is not severed. Therefore, it is still controversial. Even though this thesis does not discussed how privatization of Vietnam Airlines affects or is affected by the country's corruption, however, it considered corruption is one of the country conditions in which the privatization process of the firms is taking place.

Despite the above study that privatization can lead to increasing corruption, opposition to privatization may result in welfare losses or inefficiency. The negative impact of privatization is proportional to the market failure such as externalities, public goods, natural monopoly or high information costs (Sjöholm 2006). In case of market failure, the economy loses its competitiveness, which is a condition for a positive effect from privatization. The natural monopoly is more to be handled by the state than the private sector due to accessibility of resources. Some critics argued that privatization can lead to higher unemployment, or can bring local monopoly to the economy. Tetteh (2013) supposed that high unemployment rate derives from the restructure of an SOE to a private firm, and that local monopolies can harm consumers by using their market power to increase price for high profit. Hence, a public monopoly is more efficient than a private one in term of social welfare, because profit maximization is not at the first order in a public monopoly's objectives. They are more about the mixed objectives of the state as being mentioned above.

3.4. Why partially privatize?

Most full privatizations started as partial privatization, and most privatizations of large-scale firms has been under the partial form, as Vietnam Airlines in this thesis. According to Jones, Megginson, Nash, and Netter (1999), more than 88.5% of the firms in 59 countries examined privatized partially, in which less than 30% of the total firms sold more than 50% of their capital in IPO (Gupta 2005). So, why they go for partial privatization?

As mentioned in the sub-section 3.2, one of the reasons for a company to be privatized is a principal agent problem. In which, there is a separation between ownership and controlling, between the owners who own capital and assets of the company and the managers who are hired run a business. This problem can be seen in most SOEs. In SOEs, the state is the owner but they are not involved in the business operation. Hired managers do the job. Thus, it is difficult for the state to control the managers' behavior and personal interest. Privatization can help to solve this problem because it facilitates participation of the shareholders, who own the company, to engage in business decisions, which directly affect the shareholders' benefits. Decisions on the company will be made through voting by all shareholders who have voting rights, regardless of the number of shares they hold. If the shareholder holds a vast majority of the shares, he can manipulate the decision at his discretion. On the other hand, in case that the shares are divided into many small portions, the result of decisions is more unpredictable in voting. If many small shareholders incorporate, the decisions are made not according to the wish of the initial owner, who now just hold several shares as a shareholder. Therefore, if the owner is afraid of over-monitoring on his assets, he will go for a partial privatization. SOEs go for partial privatization because the state does not want to lose the control power, especially over large and strategic SOEs as they are tools for macroeconomic and social policies. It is also true for the case of Vietnam Airlines, as it is a large-scale strategic enterprise to Vietnamese government and its equitization is form of partial privatization.

Pagano and Röell (1998) wrote about the optimal ownership structure as an involvement of measure of dispersion. The research brings a sense to understand the reason for partial privatization. Accordingly, the ownership structure depends on the wish of the initial owner. The concentration of the stakes of outside shareholders will decide the discretion of the initial owner in running the company. The owner always faces a trade-off between the principal agent problem and the over-monitoring in choosing how to privatize. It is a shift from a conflict between the owner and the manager to a conflict between majority stakeholders and minority stakeholders. In contrast to many small stakeholders, a large stakeholder will want to monitor their stake more strictly. Pagano and Röell (1998) also suggest that changing structure of

ownership by going public is a way for raising equity capital without conflicting with other large stakeholders in monitoring. Hence, the choice of how to structure ownership depends on whether the owner accepts a degree of monitoring or just want to raise financing funds. In term of partial privatization, the government does not want to lose their controlling power over its assets or it is a pilot step of the whole process. The more they still want to control, the less proportion of shares tend to be transferred to private sector.

3.5. Conditions for privatization to be successful

While public ownership and SOEs can reveal more potential problems than their benefits, privatization is more efficient in solving those problems. Furthermore, its disadvantage can be adjusted by combining the privatization process with other liberalization policies and ensuring a well-functioning market. Many studies recognized that privatization might not be a success in term of positively influencing firms and the economy if it is on its own. An accompanying policy reform is needed (Estrin et al. 2009). In transition economies, privatization is more likely to be successful as a part of liberalization process. To assess whether the privatization of Vietnam Airlines is good or bad, this thesis' framework based on Kikeri et al. (1994) who proposed two conditions for a successful privatization, which are country conditions and market conditions.

Country conditions are mainly about the policies and regulatory systems. In which, macroeconomic policies and regulatory framework ensure free entry and free trade, friendly environment for investment, and well-developed regulatory capacity. Those conditions are both for competitive and noncompetitive SOEs to be privatized more easily and can result in financial and economic advantages. Developed countries witnessed more good results of privatization because their macroeconomies are better functioning than those in developing country and least developed countries. These countries tend to generate low income, have unstable macroeconomies and have a loose regulatory framework. Thus, they are more sensitive to any change, such as an opening of the market.

To take examples of successful privatization in countries with advantages of country conditions, Kikeri et al. (1994) took Chile and Mexico. The countries succeeded because of well implementing macroeconomic and public-sector reforms before privatization. Chile reversed its budget deficit by tax reforms and expenditure cutbacks, while at the same time reduced tariff cross the board. With efforts to stabilizing the economy, inflation in Chile was

curbed from 380% to 38% in 5 years (1974-1979). Because of those improvements, investors found it more attractive to invest and privatization expanded the market, facilitate competition and motivated the government to complete its regulatory system. Hence, a well-functioning economy with a tight and effective regulatory framework plays a vital role in success of privatization.

Along with countries conditions, *market conditions* also contribute to privatization's success. A competitive market and privatization have a mutually supportive relationship. On the market where monopoly is prevented, privatization is more likely to expand competition, facilitate to expand the market, increase the number of competitors and therefore increase competitiveness. Less or no government involvement ensures competitiveness and there is trivial or no market distortion, so that privatization can improve efficiency to companies on the market. Because privatization reduces budget deficits caused by SOEs, a weak market economy can still benefit. In this case, countries conditions, as trade liberalization and strong institutional and regulatory framework, combined with market conditions, such as price liberalization, matter (Kikeri et al. 1994).

In another paper, Kikeri and Nellis (2002) mentioned more specific factors which guide to a successful privatization. There are five factors mentioned, but four of them are more appropriate for this thesis. The first one is a *commitment*. Accordingly, privatization requires a strong commitment. There are both gains and costs for privatization, but we heard more about gains as it exists in long-term together with the success of the privatized firms. Meanwhile, the unsuccessfully privatized firms may go bankrupt and end in a brief time. Only small groups may experience the losses, such as labor, and it causes disaffected. Therefore, it is necessary to have firm commitment and high-level decision relating to transferring ownership, such as selling assets, discovering prices, setting the terms and conditions, and so on. However, it is just a necessary condition. The sufficient condition is to develop a public information program, with key available information on the financial and economic situation of the SOEs, benefits as well as costs to be seen, and acknowledging the principle fears and concerns. It should not be just a campaign or making too many promises that leads to more disappointment as the case of Russia, but a good and clear strategy, flexible implementation, open, competitive and transparent manner must be ensured.

Competition is a second factor, which is consistent with the market condition stated above by Kikeri et al. (1994). As privatization is often a part of liberalization policy or other reform

policies, it is more likely to depend on competition. Empirical evidence of poor performance in SOEs' reform in 1980s and before does not show good result but shows a stubborn resistance to change. The governments seemed not ready or willing to reform and always spent much time to change their incentives and behaviors. Even when implementing reform, SOEs still get support from government so that they will not go out of business if the reform fails. In such cases, it often implies a new political intervention. Meanwhile, privatization reveals more success with competition, which means free access to the market, and freedom to opt out. Different from the situation of SOEs which when fail is still kept afloat through the national budget, the private firm is unable to compete in the market and will go bankrupt. The free entry of firms ensures competition. The competition will help firms to perform better. Poland is an evidence of how effective exit mechanism and hard budget constraints create a successful privatization. It is a mutual relationship between privatization and competition (Kikeri & Nellis 2002).

Transparency contributes to a success of privatization due to it helps to control over corruptions and other difficulties relating to the privatization process and it should be ensured by an effective institutional framework. Privatization lost its support in Argentina and Latin America due to weak economic conditions and appearance of corruption. The transparency term is also consistent with the commitment term in creating an enabling environment for privatization (Kikeri & Nellis 2002).

Another factor to pay attention to is *reducing the social impact of privatization*. As described previously, privatization in the short-term could bring a negative effect on employment. Increasing unemployment rate was found because of restructure in privatized firm. It causes discontent and controversy of the labors who are dismissed and leads to loss in social welfare and thus privatization is not favored by some group of citizens. The way to deal with the problems is to build a good provision of retirement and severance benefits as well as compensations. In some cases, such as Morocco, the new manager agreed to retain all the employment, but it turned out that the employment exceeded 8% more than needed. The redundancy in employment caused less productivity, therefore it reduces the positive impact of privatization on firm performance (Kikeri & Nellis 2002).

3.6. Reviews of other case studies on privatizations of airlines

Ehrlich et al. (1994), studied 23 international airlines in different situations of ownership in 1973-1983, found that privatization increase efficiency of those airlines. The cost can decline

1.7-1.9% per year, and the productivity growth can increase by 1.6-2% a year in long term. Furthermore, partial privatization is found to have negligible effect on improvement of productivity growth than full privatization. Vietnam Airlines also privatizes in partially form. Therefore, this study can be one of a reference in analyzing Vietnam Airlines case.

There are also some case studies on privatization of an airline in other countries to assess the privatization process of them. The four airlines British Airway, Air Canada, Kenya Airway and LAN Chile are chosen to review because as they are typical for different form of privatization. Therein, British Airway and LAN Chile was fully privatized, while Kenya Airway and Air Canada was privatized partially. Looking through those cases forms a basis for comparing with and discussing the case of Vietnam Airlines in term of how the government applied the privatization.

Gillen et al. (1989) examined the privatization of Air Canada, in which the researcher clarified how continued state ownership would affect the efficiency as Air Canada was partially privatized. It also explained the need for more deregulated environment. The researchers used panel data of Canadian airlines during 1964-1981, which aimed to compare Air Canada with other private airlines in Canada through two approaches: total factor productivity and cost function analysis. The analysis results that maintaining crown ownership in Air Canada had a negative effect on its productive efficiency. In particular, the results show the loss of productive efficiency was of 23% of total cost or \$ 805 million of total revenue per year. Not only Air Canada, but also the whole industry was affected by the crown ownership of Air Canada. It reduced the allocative and market efficiency because of creating entry and exist barriers. After it completed the privatization, Air Canada still encountered many difficulties such as financial crisis and pilots' strike and experienced bankruptcy and restructuring during 2000s. The case of Air Canada has some similar aspects to the case of Vietnam Airlines, which is to retain a majority of state ownership.

The case of Kenya Airway is considered as a successful privatization. After being privatized, Kenya Airway is operated under public-private ownership, with 23% shares of the Kenyan Government. Oyieke (2002) gathered the data on financial situation based on the financial statement during 1990-2002 of the airline. The analysis is carried out on the financial variables such as liquidity (current ratio), solvency (debt to asset ratio), profitability (return on equity), financial effectiveness (asset turnover ratio) to prove the positive effects of privatization. The researcher also use survey for 37 random staff of Kenya Airway. Oyieke (2002) found a

positive improvement of the airline after privatization. Kenya Airway has become profitable ever since. The employment declined after privatization and both firm's performance and financial effectiveness increase.

Eckel et al. (1997) analyzed effect of privatization on British Airway' performance using airfares and competitors' stock prices to be criteria. The authors treated privatization of British Airway as a regulatory event, analyzed the returns to a portfolio of rival firms for each event, observed spurious abnormal performance and estimate an econometric model using a seemingly unrelated regression (SUR). The results show that the stock price of British Airway competitors fell 7%, according to which they supposed that privatization improves efficiency and erodes the profitability of rival firms. The data of airfares were collected from the Department of Transportation Origin and Destination, excluding the tickets of first class, flights of more than two transiting points, tickets with missing carrier codes and abnormally high fares, and on all routes that British Airway provided services. They also found that privatization results in lower airfares of British Airway, which proves the increase in productivity after privatization.

Roecker in 2013 wrote about LAN Chile airline and also considered it as a successful case of privatization. LAN Chile was fully privatized in 1994. Even after being partially privatized 51% of the company in 1989, LAN Chile still achieved benefits, such as a sharp increase in revenue from USD 7 million in 1988 to USD 75 million in 1989. Roecker (2013) pointed out the theoretical benefits of privatization, showed the military regimes policies in Chile during the time of 1970s and 1980s, and looked at the history and the process of privatization of LAN Chile. Accordingly, LAN Chile is a typical case to describe the applications of policies into the privatization (Roecker 2013).

The study of Air Canada brings ideas to set out a comparison of country conditions and market conditions of other airlines in the market, as well as consideration of the public ownership still held in analysis of Vietnam Airlines. Besides, the methods of studying privatization in British Airway and Kenya Airway bring ideas for the analysis in this paper, which is study on Vietnam Airlines' financial situation and performance during pre- and post-privatization (as in Kenya Airway), and assessment on the change in stock price of Vietnam Airlines, compare with its rivals (as in British Airway).

To summarize, chapter 3 provides the theoretical framework of privatization which provides a foundation for the analysis of Vietnam Airlines' privatization. The privatization of Vietnam

Airlines is analyzed with a research question: *How successful has the Vietnamese government been with privatizing Vietnam Airlines?* The research question can be answered when refer to the follow up questions:

1.1.Has privatization brought efficiencies to Vietnam Airlines' performance?

1.2.Does privatization make Vietnam Airlines a strong competitor on the domestic market?

1.3.How do the country conditions in Vietnam affect privatization of Vietnam Airlines and compare with British Airway's, Air Canada's, Kenya Airway's and LAN Chile's?

The theory and literature discussed in Chapter 3 help to define criteria and build a framework of analysis of Vietnam Airlines' privatization. Accordingly, the framework of the analysis includes three parts corresponding to the three follow-up questions. In which, the first part assesses the performance efficiency of the firm under privatization through looking at the airline's business and financial situation. Therein, improvement in operation and finance is reflected by an increase in profitability and productivity of the airlines. The second part analyze the market conditions through competition on domestic market and stock exchange, in which the competitiveness of the firm is reflected by its market shares and stock prices compared to its rival's, Vietjet Air. The last part evaluates and compares the country conditions and the privatizations process of Vietnam Airlines and the other four national airlines. The criteria mainly reflect country conditions that considered the countries' macroeconomy situation, the countries in privatization period and the governments' perspectives. In addition, as privatization's main target is to reduce the government's intervention into a firm, the assessment also used criteria on the roadmap of state's divestment from the firm, in which promptitude and low proportion of the remaining state's equity reflect a success. In chapter 4, the methodology will be designed to answered the questions.

IV. Data and Method of Analysis

4.1. Data

In the thesis, I use secondary data for the analysis that help to reflect the process of privatization of Vietnam Airlines. There are basically 9 years of data, from 2008 until the end of 2016. The reason for this period of study is that Vietnam Airlines was intended to embark privatization process in 2008, following the Prime Minister's decision on privatization of 53 state owned corporations in 2007. Due to time-consuming preparation and planning, Vietnam Airlines launched its IPO in November 2014, marking the implementation of privatization. The data in early 2017 can be collected depending on the availability and because the process is still ongoing.

To assess the privatization process of Vietnam Airlines, indicators of market conditions are needed. I used data for microeconomic analysis (firm performance) and market analysis (competition on the domestic market as well as stock market between the firm and its main rivals - Vietjet Air) before and after privatization was embarked. While looking at the firm performance, I looked at the airline's growth and operation efficiency through indicators of its assets, liabilities, equity, net revenues, costs, profits, debt and profitability ratios, and employment. The competition was analyzed based on the market share on the domestic market and price of stocks on the stock exchange. The data on firm performance and operation were synthesized and collected from the company's financial statements in each year of the period of study 2008-2016, and annual reports provided by the company itself and financial institutions as Deloitte and KPMG since they audit Vietnam Airlines and Vietnam Airlines Corporation. These are official and reliable sources. Business analysis report on Vietnam Airlines from stock companies as BIDV Securities (as known as BSC, a stock companies under the system of Bank for Investment and Development of Vietnam), Vietcombank Securities (VCBS, under Commercial Bank for Foreign Trade of Vietnam and ACB Securities (ACBS, under Asia Commercial Bank) provides data on the market situation and competition. Other information and data on Vietnam Airlines' business, such as passenger volume and number of fleets and routes, were collected from statistics of Civil Aviation Administration of Vietnam (CAAV), General Statistics Office of Vietnam (GSO), from organization as the International Civil Aviation Organization (ICAO) or the International Air Transport Association (IATA) which Vietnam Airlines is a member, and from analysis of Centre for Aviation (CAPA).

To help assess the success of the privatization and the method, country conditions are considered in the context of the privatizations of British Airway, Air Canada, Kenya Airway and LAN Chile. The analysis of privatization processes aims to create a general context of privatization among countries because they are in different forms of privatization, level of the economy, and different results. British Airway and Air Canada belong to the developed countries United Kingdom and Canada, while LAN Chile and Kenya Airway represent the national airlines of developing country. The assessment of Vietnam Airlines' privatization is set within the context for a comparison to evaluate the Vietnam's case. The situation of the above macroeconomies during the privatization period, the importance of the firm from the governments' perspective, time of privatization, the proportion of state-held shares, and their performance before and after being privatized for each airline are derived from previous studies, scientific journals and reports from the companies. The above-mentioned information provides an overview as well as details in privatization of the airlines, helps to form the criteria on which Vietnam Airlines' privatization is considered.

Table 5 reports and describes the data sources, criteria and indicators used for the analysis. The criteria are based on country conditions and market conditions as stated in chapter 3, which I defined by some indicators: ease of doing business, business extent of disclosure index (World Bank Data's indicators), and corruption perception index (Transparency International 2016) to assess how successful is the privatization of Vietnam Airlines in a comparison with the reviewed airlines.

Table 5: Indicators and Data sources

	Criteria	Indicators	Sources of data
1	Firm performance (profitability, productivity and growth)	Net revenue/Profit/Cost Profitability ratios Volume of passenger Employment Total assets/liabilities/equity Debt ratios	Financial statements of Vietnam Airlines from 2008 until 2016, Equitization plan of Vietnam Airlines (BSC 2014b), Business analysis report (BSC 2014a)
2	Competition	Market share Stock prices	Business analysis report (BSC 2014a), Vietnam aviation brief (ACBS 2016), CAPA analysis (CAPA 2016), Website of Hanoi Stock Exchange, Website of Hochiminh Stock Exchange

3	Country conditions and Market conditions	Corruption perception index Ease of doing business Business extent of disclosure index	The World Bank data, Transparency International (2016)
4	Other criteria relating to privatization of Vietnam and other airlines	Government's perspective Time of privatization process Proportion of state-held shares	Equitization plan of Vietnam Airlines (BSC 2014b), Website of Hanoi Stock Exchange, Website of Hochiminh Stock Exchange Studies as reviewed in Chapter 3

Besides, the facts and the evidence in the practice of Vietnam Airlines are also collected in reliable electronic articles, reviews, and analysis from official sources, as the website of Ministry of Transport and Ministry of Finance, the securities organization such as BSC and VCBS, and official Vietnamese e-journals such as Vietnamnet and VnExpress. The discussion on Vietnam Airlines' privatization from those sources contributes to the analysis as I can consider also the insights around it. The next part of this chapter provides more details on how to the analysis is undertaken.

4.2. Methods of analysis

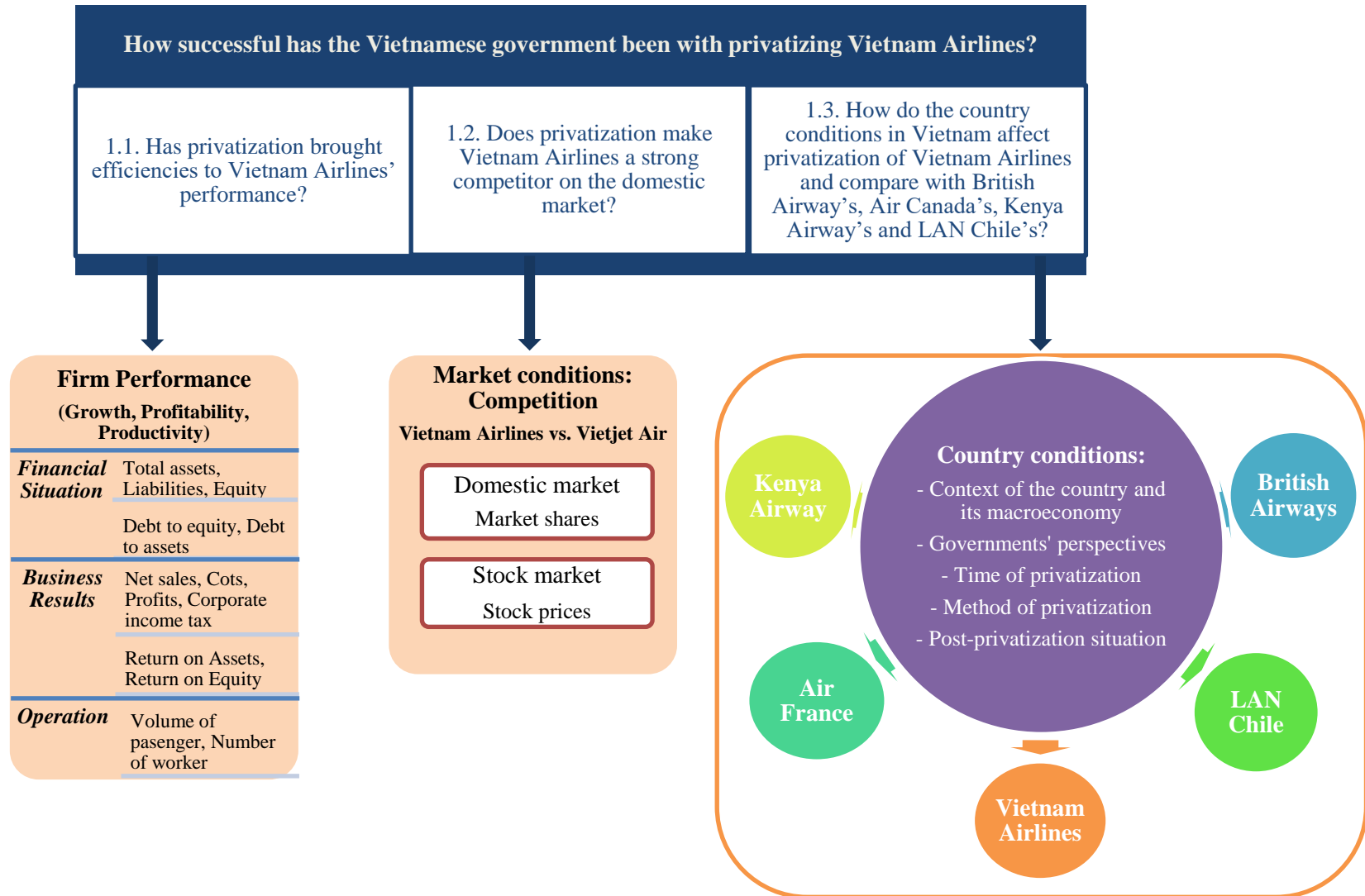
A case study method is used to assess the privatization of Vietnam Airlines. As Yin (2013) noted, the case study method is preferred to others when dealing with "how" or "why" research questions. Moreover, a case study is used for a contemporary event, like the equitization of Vietnam Airlines. It helps to explain the real situations which may not be mentioned in other methods (Zainal 2007). In other words, it allows to describe the specific context of the issue. As this thesis intends to describe and explain the privatization process in Vietnam and aims to look deeply at one sector, using the case study method is reasonable. A qualitative approach is applied within the thesis framework because it is most appropriate for a case study. The qualitative method allows to create a comprehensive view on Vietnam Airlines's equitization by considering and looking at the context and its business operation.

In the below Figure 13, the framework of the analysis is illustrated, whereby the research question is investigated through finding answer for each follow-up question. Each question was raised to investigated different aspects of the airlines privatization. Specifically, question 1.1 looks at the impact of privatization on the firm performance, which is evaluated by analyzing the airline's growth, profitability and productivity during the time of privatization. Question 1.2 investigated the position of Vietnam Airlines on the market under the privatization, by which to assess if the privatization is success in increase the airline's competitiveness. The

final question aims to create a general context of privatization by looking at country conditions, which are about policies and regulatory framework, in a comparison with other airlines' privatizations. Thereby, the method of privatization of Vietnam Airlines (equitization) is considered if it is a good or bad. The comparison also provides a comprehensive look of the Vietnam Airlines' privatization, through which to access how efficient the Vietnamese government implements privatization. From the all above, Vietnam Airlines' privatization under equitization is described and evaluate on various aspects, from firm level to the domestic market, to a broader context with other airlines in the world so as to clarify the main research question of whether the process is successful.

First, to assess whether privatization, or more precise equitization, has brought efficiency to the firm's performance (question 1.1), analysis on the firm's growth, profitability and productivity before and during the equitization process was conducted by looking at operation, financial situation and business results. To assess the firm's growth, this thesis considered total assets and its components – liabilities and owner's equity. Increase in total assets reflects the growth, while contribution of liabilities and owner's equity show how the assets are financed (from debts or from owner's capital), reflecting liquidity and solvency. Debt ratios are examined to support the analysis as they indicate financial leverage of the company, which also influences investor's decision on buying the company's shares. The equitization can help to increase equity of the firm, therefore it increases the assets and contribute to the growth. In this case, Vietnam Airlines is equitized by issuing new shares to call for investment, so if equitization contributes to a firm's growth, which is more attractive to investors, it can be inferred to be a success. Profitability was analyzed based on development in profit in consideration of net sales. Based on data of sales and profits, net profit margin (= net profit after tax/net sales) is calculated for the assessment. Higher profit margin shows that if the sales increase, the profits increase even further, the firm is more able to manage expense and therefore it operates more efficiently. Besides, income tax and other profitability ratios (return on assets and return on equity) also show the company's ability to make profit. Therein, the ratios indicate the efficiency of management in term of using the company's resource to make profits. Volume of passengers and number of workers through years are combined to present labor productivity of the airline.

Figure 13: Analysis framework



For question 1.2, the equitization process was assessed if it helps Vietnam Airlines to improve its competitiveness on both domestic aviation market and stock exchange through analyzing changes in market share and stock prices compare with its rivals. Although increase in competition can also affect the market shares, since Vietnam Airlines is expected to become more efficient after privatization, its market share is expected to remain at a high level. The analysis is based on looking at the competition between Vietnam Airlines and its main competitor in the domestic market. The competition is assessed mainly by comparing the market share of the two airlines from 2008 until now. Privatization is believed to improve a firm's performance, it therefore can help the firm remain or gain more shares on the market. Furthermore, through changes in market share of the firms, it is possible to assess the market competition. On the stock exchange, it is expected that Vietnam Airlines is more attractive to investors, which is reflected by the stock prices. The stock price from 3rd January 2017, when Vietnam Airlines was officially traded on the stock market, until now are identified and compared with Vietjet Air from 28th February 2017 when this airline's stake was listed. The data are graphed and the differences are calculated for assessment. The competition of Vietnam Airlines on aviation market and stock market tells how Vietnam Airlines is valued to investors, and if equitization make Vietnam Airlines stronger than before. The analysis also reflects changes in the domestic aviation market to show how privatization improves the market.

Finally, to answer question 1.3, the comparison among privatization processes of the airlines is tabled. Table 6 describes the frame of the comparison with criteria. Privatizations of the five airlines were considered under the context of the countries and their economies because it is an environment in which privatization was implemented. The indicators, as corruption perception index, ease of doing business index and business extent of doing business index present the economic health, showing how efficient of laws and regulations and how opened the economy is for development of private sector. Methods, time and especially government's perspective on privatization was studied to understand the insight of the way privatization was implemented in each country. Results of assessment of the firm performance and competition previously were used to put into the comparison table.

Table 6: Analysis framework - Comparison table

	British Airway	Air Canada	LAN Chile	Kenya Airway	Vietnam Airlines
Context of the country and macroeconomy - Corruption perception index - Ease of doing business - Business extent of disclosure index					
Government's perspective on privatization					
Main privatization form/methods					
Time of privatization					
State's shares after privatization					
Firm's performance before and after privatization					

To clarify how main indicators help to understand and evaluate the equitization of Vietnam Airlines, Table 7 below provides more details on their definitions and descriptions based on which they can be analyzed.

Table 7: Definitions and descriptions of main indicators

<i>Criteria</i>	<i>Indicators/ unit value</i>	<i>Definition</i>	<i>Description</i>
Growth	Total assets (value in billion VND)	The sum of all cash, investments, furniture, equipment, fixtures, receivables, intangibles and any other items of value owned by the company (Evans & Evans 2007) The total assets show all the assets the company used, regardless of how they are financed.	Total assets = liabilities + owner's equity, or Total assets - liabilities = owner's equity. In general, an increase in total assets is a sign of company's growth. In case of equitization, capital from sales of shares to stakeholders can become the owner's equity, which contributes to increase total assets. Therefore, the growth is reflected.
	Liabilities (value in billion VND)	Liabilities are financial debts or obligations which arise for business operation. Liabilities are used to finance the assets and other operation activities of the company (<i>Investopedia</i>).	When assessing a growth of a firm, it is necessary to consider the change in liabilities and equity to assess the change in total assets. The two terms give investors valuable information on the liquidity and solvency of the firms, which are the ability to repay loan, interest and long-term debts. If the increase in assets reflects the increase in liabilities more than in equity, investor may find it risky to invest. Therefore, these indicators somehow also show attraction of the firm to investors, which will influence the equitization.
	Equity (value in billion VND)	Equity refers to the investment in business of	(<i>Investopedia</i>)

		the owners and any retained earnings (<i>Investopedia</i>).	
	Debt to equity ratio (D/E) and Debt to total assets ratio (D/A)	$D/E = \frac{\text{Total liabilities}}{\text{Stockholders' Equity}}$ $D/A = \frac{\text{Total liabilities}}{\text{Total assets}}$	<p>D/E and D/A measure financial leverage of a company. D/E and D/A indicate how much debt is using to finance the company assets in term of shareholders' equity and the total assets, respectively.</p> <p>High ratios generally mean that a company has been aggressive in financing its growth with debt. Aggressive leveraging practices are often linked with elevated levels of risk.</p>
Profitability	Net sales (value in billion VND)	Net sales are the amount that the company receives from the sale of its products, after deducting discounts, returns of products by customers, and damaged, missing, or stolen products (Farlex Financial Dictionary 2009)	<p>Net sales or revenues reflect the ability of selling products to the customers. An increase in net sales is a sign of the attraction of the firms to the customers.</p> <p>Based on data of sales, costs and profits, profitability of the firm is examined.</p>
	Profits (value in billion VND)	The amount of revenues after deducting cost of goods sold and total operating expense. (<i>Investopedia</i>)	
	Corporate income tax expense (billion VND)	The corporate income tax expense is the amount a company recognizes in an accounting period for government tax relates to its taxable profit.	An increase in corporate income tax expense tell us about the growth in taxable profit. Therefore, it means that the company has earned more profit.
	Return on asset (ROA), value as a %	$ROA = \frac{\text{Net income}}{\text{Total assets}}$	The ratio measures the profitability of the company relatives to its assets. It allows investors to judge how efficient management is in using the company's assets to generate earning. Higher ratio is preferred (<i>Investopedia</i>).
	Return on equity (ROE), value as a %	<p>Return on equity is the return of net income as a proportion of shareholder equity. It indicates how much the shareholders earned for their investment in the company.</p> $ROE = \frac{\text{Net income}}{\text{Shareholder's equity}}$ (<i>Investopedia</i>)	The ratio measures the profitability of the company relatives to shareholder's equity. The higher the ratio, the more efficient management in utilizing the equity and attracting investors. (<i>Investopedia</i>)
Productivity	Volume of Passengers	The number of passengers fly during a year	Based on these indicator, the labor productivity of the airline can be calculated.
	Number of workers	The number of workers work in the company recognized in the company report through years	As privatization is expected to lower employment in short-term because of restructure and cut of excessive labor,

			productivity tends to increase. Higher productivity reflects improvement of the firm.
Competition (Market conditions)	Market share on the domestic market (%)	The market share represents the proportion of market's sales (measure by volume of passengers) which is earned by the airlines through years. <i>Investopedia</i>	Increase or decrease in market share can be a sign of the relative competitiveness of a firm. When a firm increase its market share, it means that the firm has taken from other rivals. Therefore, increase in market share implies that a firm become more competitive compared to its rivals. On the contrary, decrease in market share implies that the firm is losing its influence, and can lead to decrease in sales.
	Stock prices (on the stock exchange)	Prices of the company's security	Increase or decrease in stock prices reflects the supply and demand on the stock market. Upward trend in stock prices shows that there are more buyers on the market who believe that the company has a long-term earning potential, while downtrend of the stock prices may reflect a poor outlook. By comparing the stock prices, it is possible to see how attractive the company is to investors.
Country conditions	Corruption perception index	Corruption perception index (CPI) ranks countries by their levels of corruption, which is determined by expert assessment and opinion surveys. The scale is ranged from 0 to 100, with higher degree reflecting lower corruption.	Due to the connection between the government and SOEs, it is believed that privatization is implemented more slowly and in a less transparent way. The index helps to describe and compare country conditions among the airlines studied in this thesis. Country with higher CPI is more friendly for privatization.
	Ease of doing business index	Ease of doing business index ranks country from 1 to 190 by how conducive the regulatory environment is to business operation. A higher ranking (a lower numerical rank) shows more business-friendly regulation	This indicator helps to understand the business environment in a country. More friendly business environment, which is aggregated by laws, regulations and institutional arrangements, facilitates more for privatization.
	Business extent of disclosure index	Disclosure index measures the extent to which investors are protected through disclosure of ownership and financial information. The index ranges from 0 to 10, with higher values indicating more disclosure.	Similar to the ease of doing business index, the disclosure index also reflects how friendly the business environment is. Protecting investors through disclosure of ownership and financial information contributes to develop investment in the economy, especially foreign investment. More friendly environment for investor can promote privatization and make it successful.

Chapter V provides analysis of the above indicators in a relation with equitization of Vietnam Airlines using comparison methods between the two periods before and after the airline was privatized, the two airlines Vietnam Airlines and Vietjet Air, and among Vietnam Airlines and

other national airlines – British Airway, Air Canada, Kenya Airway and LAN Chile. Based on the aggregate results, Chapter V discusses answer for the research question: whether Vietnam Airlines' privatization is considered as a success or a failure.

V. Analysis and Discussion

The analysis begins with study on changes in Vietnam Airlines' performance according to its growth, profitability and productivity in 2008-2016. It continues by evaluating the competition on both domestic aviation market and stock market between Vietnam Airlines and Vietjet Air, and ends with the comparison table of five airlines using the results of the two previous parts. The analysis and discussion revolve around the equitization of Vietnam Airlines which embarked in November 2014.

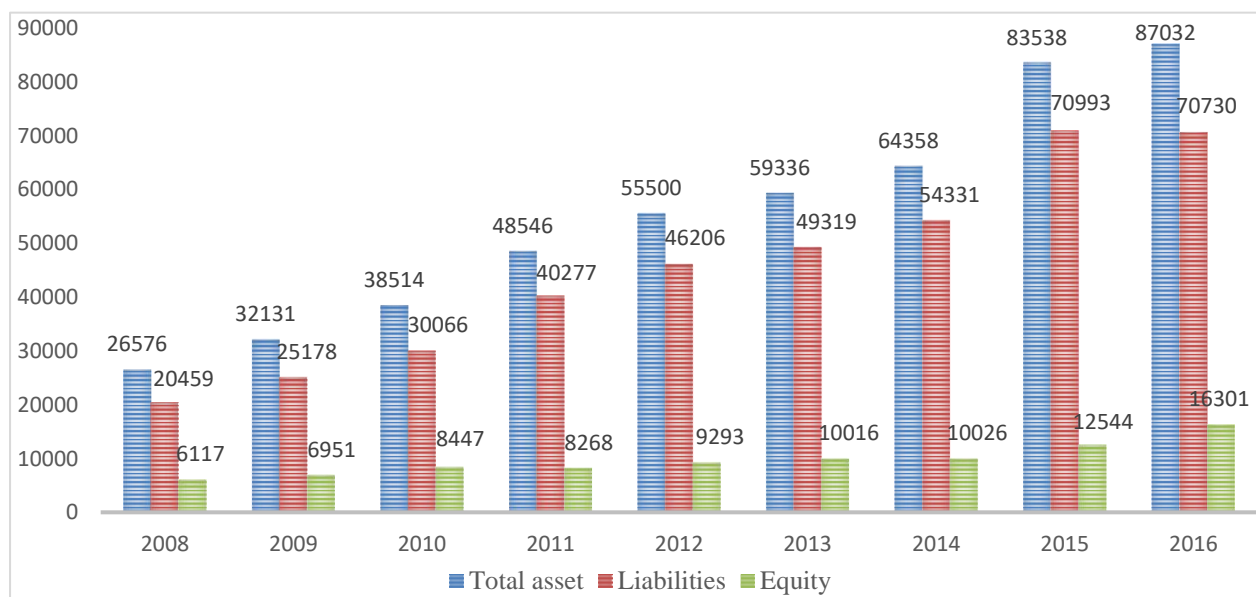
5.1. Impact of privatization on Vietnam Airlines' performance

5.1.1. Privatization and growth of Vietnam Airlines

Growth of the airline is presented by its total assets and the components. Figure 14 shows the structure of total assets of Vietnam Airlines and how the indicators changed during the period 2008-2016, with 2014 being a milestone of the equitization. Accordingly, the total assets of Vietnam Airlines continuously increased during 2008-2016 from VND 26,576 billion to VND 87,032 million. This illustrates a continuously upward trend of the growth of the airline both before and after the equitization started. However, it can be seen clearly from the graph that the total assets suddenly surged after 2014.

Figure 14: Structure of total assets of Vietnam Airlines in 2008-2016

Billion VND



Source: Deloitte (2008-2016)

Before equitization, the growth of Vietnam Airlines' total assets slowed down. The rate fluctuated with a downward trend before 2014, from 20% in 2008-2009 to 8.46% in 2013-2014. Late in 2014, Vietnam Airlines started its equitization, the total assets boomed to more than VND 83,500 billion, soared by about VND 20,000 billion in 2015. The growth rate was almost 30% in 2014-2015. In the context that Vietnam Airlines is equitized by issuing new shares to the public to raise its capital, it seems that equitization made Vietnam Airlines grow strongly in that year. Is the reason really stemming from the equitization?

It is necessary to look at the structure of the total assets, liabilities and equity. They also had an increasing trend which implies that the total assets were financed by both debts and owner's equity. However, the graph shows that increase in liabilities contributes the most to the increase in total assets in 2014-2015, accounting for a large proportion of 86.87%, comparing to only 13.13% of the increase in equity. It means that the abnormal growth may not be created mainly by the shares sales but debts. The large increase was due mainly to the increase in the long-term liabilities (Deloitte 2014; Deloitte 2015). Though, when looking at the development of the owner's equity, impact of privatization on the firm's growth was still shown. Indeed, during 2008-2014, the rate of increase in owner's equity was low and decreasing, averaged 8.89% per year. In 2014-2016, the rate was increasing from 0% in 2013-2014 to 25% in 2014-2015 and 29% in 2015-2016. According to the Financial Statement of Vietnam Airlines for the quarter IV in 2016 (Deloitte 2016), the increase in equity was recognized from the issuance and sale of equity to the public (increase in both issue share capital and equity surplus). Thus, there was a remarkable change in owner's equity under equitization. Though, it is known that in fact, the airline proposed to the government for retaining the share surplus after the stock sales, and was approved. Therefore, in some way it can be inferred that Vietnam Airlines' equitization contributed to the company's growth by increasing their assets. However, it seems that Vietnam Airlines still get supports from the government for its equitization.

To look further on the financial situation, the debt to equity ratio (D/E) and debt to assets ratio (D/A) are considered, with the values are shown in Table 8.

Table 8: Debt to Equity ratio (D/E) and Debt to Total assets ratio (D/A) of Vietnam Airlines in 2008-2016

	2008	2009	2010	2011	2012	2013	2014	2015	2016
D/E	3.4	3.76	3.56	4.87	4.97	4.92	4.08	4.70	4.34
D/A (%)	76.98%	78.98%	78.07%	82.97%	83.26%	83.12%	84.42%	85%	81.27%

Source: Deloitte 2008-2016

According to the table, the D/A ratio shows that Vietnam Airlines has a very high debt in the assets' structure with the proportion of more than 80% around the time of equitization. The high D/E and D/A ratios shows that Vietnam Airlines was aggressive in financing by debt. As a financial leverage can be a double-edge sword, Vietnam Airlines' shares seems to be riskier for the investor to buy. Evidence from the fact also indicates that in the initial public offering (IPO) in November 2014, Vietnam Airlines failed to attract foreign institutions and organizations as investors (Nguyen 2014). Only 0.2% of the total investors are foreign investors and all of them are individuals (Vietnamese BBC 2014). The failure can come from the market condition, as competition on the domestic aviation market (which is described in the second part of the analysis), or country's conditions, as economic environment (which is described in the third part of the analysis). At this point, the equitization of Vietnam Airlines although could be successful in generating revenues for the company and contributed to the growth, it still had limitations in term of attracting investors so as to fulfill the privatization.

5.1.2. Profitability

Profitability is the most important criterion to assess the firm's performance. Impacts of privatization on Vietnam Airlines' performance can be seen by looking at the change in business results of the firm after equitization, in which net sales and profits are considered. In Table 9, except for a dip in 2009 because of the crisis due to sharp increase of fuel prices, net sales of the airline increased during 2008-2016 by an average growth rate of 11.9%.

Table 9: Net sales and profits before tax of Vietnam Airlines during 2008-2016

Indicator <i>Billion VND</i>	2008	2009	2010	2011	2012	2013	2014	2015	2016
Net sales	25,192	23,060	35,342	44,527	49,142	52,460	53,512	53,432	56,518
Growth rate in net sales	-	-8.46%	53.26%	25.99%	10.36%	6.75%	2.01%	-0.15%	5.77%
Net profit after taxes	151.7	134.6	314.1	36.6	138.2	157.6	171.7	277.5	1703.2

Profit margin = Net profit/Net sales	0.60%	0.58%	0.89%	0.08%	0.28%	0.3%	0.32%	0.52%	3.01 %
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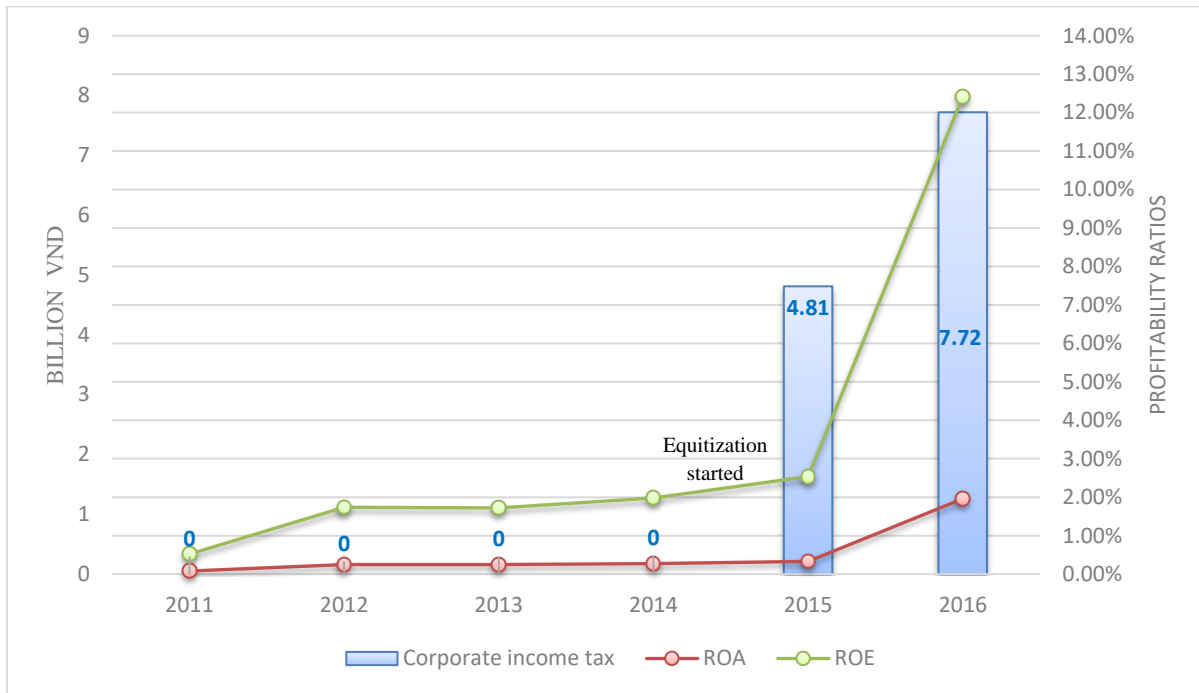
Source: Deloitte (2008-2016)

According to the table, net sales increased steadily but its rate experienced a decreasing trend, from more than 50% in 2010 to 0.15% in 2015. After that, there was a sign of recovery in the growth rate of net sales but it was still low (5.77%). The downward trend and low level of net sales may come from a decrease in market share of Vietnam Airlines, relating to the market condition as will be discussed later. In general, there was no spike in the increase of net sales, even around and after equitization. However, the profit had another pattern. In the first 4 years of the period, the profit fluctuated remarkably due to external factors as the economic crisis in 2009, the recovery of the domestic economy after that, the increase in both domestic and foreign passenger volume due to new routes was opened in 2010, and the adjustment of ceiling price policy to rise 20% in 2011 (BSC 2014b). In 2011, the profit bottomed out at the lowest level of only VND 36.6 billion because strong increase in VND/USD exchange rates made the company's expenses increase. The profit grew steadily at the rate of about 11.5% until 2014. It then skyrocketed in just two years after equitization, surging almost tenfold to more than VND 1,700 billion. (Table 9). Therefore, besides the contribution of steep fall in fuel price in 2014, it seemed that equitization helped to rise the profit of Vietnam Airlines significantly though its sales were decreasing.

In general term, profits of Vietnam Airlines could be shown by the function: $\pi = P \cdot Q - C$. In which, (P.Q) represents the revenues and C regards the cost. Even though, the revenues come from both domestic and international market, therefore it is hard to assess if the increase in the sales was due to the increase in which market. However, as the profit increase faster than the sales, it could be due that Vietnam Airlines controlled better over costs and expenses of operation. Therefore, it could be that Vietnam Airlines showed cost efficiency under equitization. Besides, significantly increasing net profit margin also demonstrated that Vietnam Airlines performed more profitably and cost-efficiently.

To support the demonstration above, ROA and ROE are considered. In Figure 15, the two ratios rose significantly after 2014, which presents improvement of profitability of Vietnam Airlines after equitization. Moreover, Vietnam Airlines seemed not to pay corporate income tax during 2011-2014. The tax was recognized from 2015.

Figure 15: Corporate income tax (billion VND) and the profitability ratios of Vietnam Airlines during 2011-2016



Source: BSC (2014b); Deloitte (2011-2016)

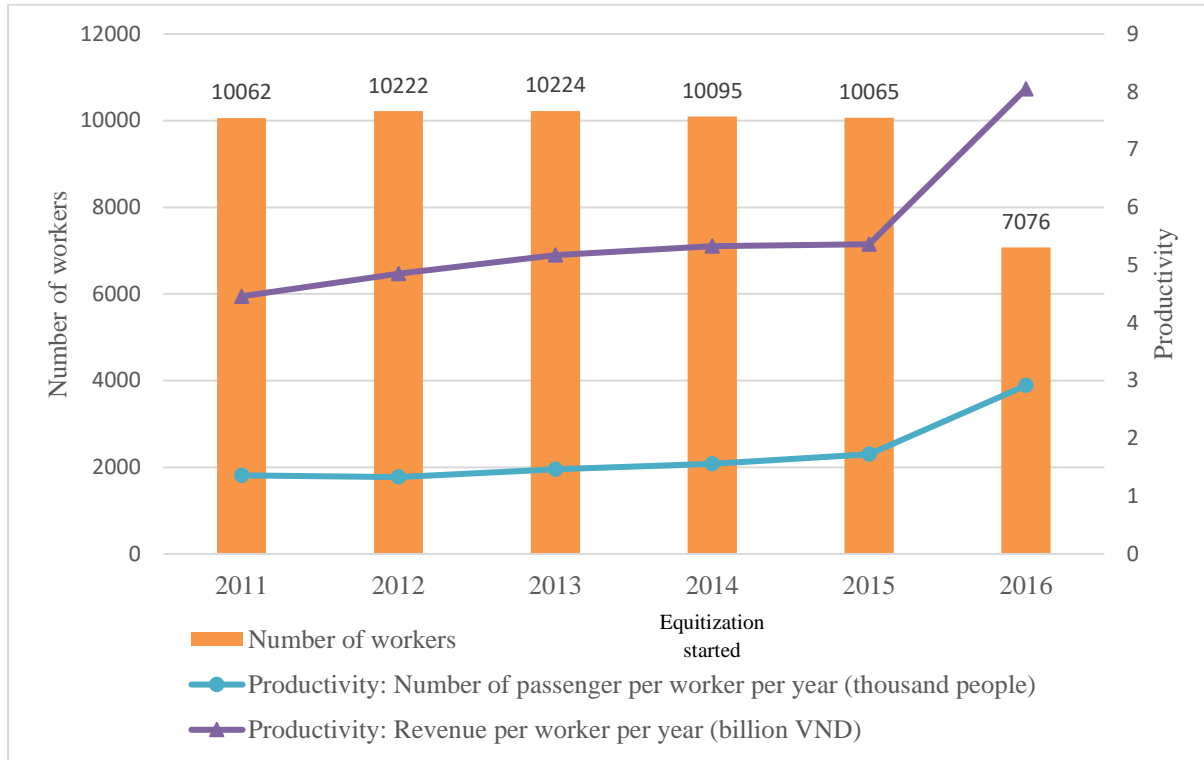
According to the figure, the taxes paid almost doubled from VND 4.8 billion in 2015 to VND 7.7 billion in 2016. The increase in corporate income taxes paid by Vietnam Airlines shows that the airline improved its profitability so that it was able to contribute to the state budget after equitization. This matches findings as stated in the chapter 3, that privatization helps to improve the profitability, contributing to the performance efficiency and generates revenue for the state budget, contributing to improve the country's fiscal health.

5.1.3. Productivity

Based on the data collected, this section assesses labor productivity of Vietnam Airlines which is measured by number of passengers per worker in a year and revenue per worker in a year. Figure 16 showed the employment of the company and the trend of productivity in two ways in 2011-2016. The employment remained almost unchanged during the period 2011-2015, anchoring around 10,000 workers. Due to the equitization at the end of 2014, the company restructured in 2016, planning to reduce its employment by 4,000 workers which accounted for 40% of the total employees in 2015. In fact, only about 30% of the total employees in 2015 were cut 2016, 10% less than the planned number. It can be seen clearly from the graph a

significant change in employment. This could be demonstrated that privatization does create unemployment as per the findings on impacts of privatization on economic aspects.

Figure 16: Number of workers and productivity of Vietnam Airlines in 2011-2016



Source: Vietnam Airlines (2015); Vietnam Airlines (2016), BSC(2014b), Deloitte (2011-2016)

Similar to the net sales or net revenue, total revenue of Vietnam Airlines increased gradually and continuously, from nearly VND 44900 billion in 2011 to almost VND 57000 billion in 2016. Increase in revenue was contributed by the increase in volume of passenger, which rose from 13.7 to 20.63 million people during the period. Even though the company's employment was reduced by the restructuring, the airline was still able to operate higher workload, represented by the volume of passengers, and generate higher revenue. Hence, it demonstrated improvement in productivity of the firm due to equitization. According to Figure 16, productivity under both two measurements rose sharply after the restructure, in which the number of passengers per worker per year increase by 68.7% and revenue per worker per year increase 50.2% in 2016.

To summarize, an effort was made to assess impacts of equitization process on Vietnam Airlines' performance in terms of the growth, profitability and productivity. I found similar results to what was discussed in the Chapter 3 on impacts of privatization on firms and an economy. All indicators showed an improvement after the event of equitization in 2014

regardless the change occurred right after or with some lags: higher growth, higher profitability, short-term unemployment but higher productivity created, increasing contribution to the state budget. Therefore, the follow-up question 1.1 could be answered that to some extents, equitization process helps to promote the airline's efficiency.

5.2. Competition on the domestic and on the stock market

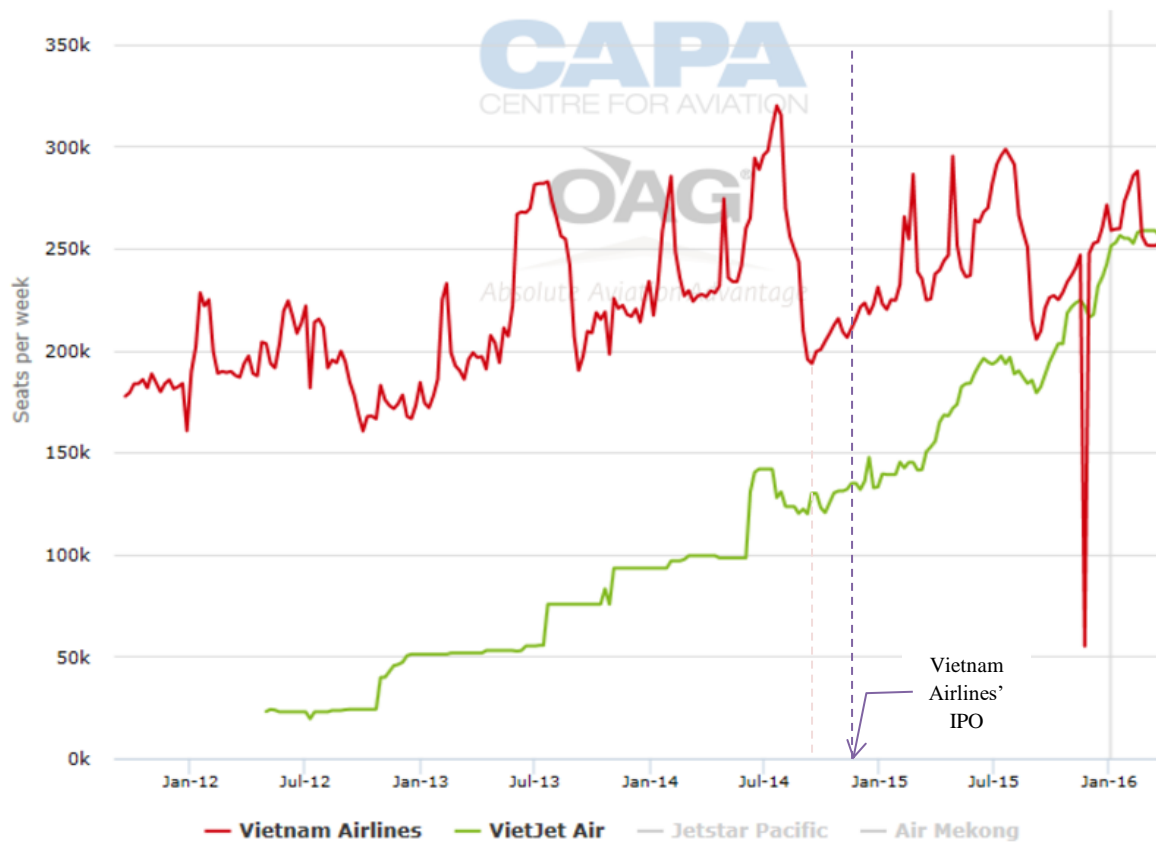
5.2.1. On the domestic market

The analysis of the competition on the aviation market shows how equitization affects not only the company's competitiveness but also the market competition itself and helps to examine the market conditions for an assessment of privatization of Vietnam Airlines. Market shares of the airlines was measured by proportions of the total volume of passengers.

Competition on the domestic market has been mainly between Vietnam Airlines and Vietjet Air. Vietjet Air started a race for market share with a starting point of only 14% in 2012, while Vietnam Airlines at that time accounted for a massive 76%² (ACBS 2016). It seemed hard for Vietjet Air to beat the competition because it was new and small and was the only private airline existed at that time. Meanwhile, Vietnam Airlines is a large-scale, traditional and national airline which is state-backed and has already held the market for a long time. However, the fact shows that Vietjet Air has succeeded in taking advantage of being a low-cost carrier to gradually gain market share. On the contrary, Vietnam Airlines has failed to maintain its large shares on the domestic market. The shares decreased from 76% in 2012 to 56% in 2014, 48% in 2015 and 42.5% in 2016. Meanwhile, Vietjet Air's market share rose more than three times to 41.5%, almost equal to the shares of Vietnam Airlines. Local economists predicted that Vietnam Airlines was at risk of being overtaken by its small private rival in the near future. It can be seen that even after Vietnam Airlines embarked privatization, Vietnam Airlines' competitiveness seemed not able to be improved. Although it is improved remarkably in financial health and operation (as proved in section 5.1), the airline's development was lower than the growth of the aviation market in Vietnam, which is the reason for a fall in market share. Figure 17 taken from CAPA (2016) shows the comparison between Vietnam Airlines and Vietjet Air in term of weekly domestic seat capacity from September 2011 until March 2016.

² Other airlines on Vietnamese aviation market include Jetstar Pacific Airlines with the market share of about 10% in 2012 and some other airlines which almost did not operate (Indochina Airlines, Air Mekong). However, as Jetstar is a subsidiary of Vietnam Airlines, in which Vietnam Airlines holds about 70% of stake, we do not take into account this airline into the competition.

Figure 17: Vietnam Airlines and Vietjet Air domestic weekly seat capacity: September 2011-March 2016



Source: CAPA (2016)

Accordingly, the seats per week of Vietnam Airlines went up and down strongly, showing the cycles at much higher level than Vietjet Air's from the beginning of the period until late 2014. Meanwhile, Vietjet Air's weekly seat capacity on domestic flights rose rapidly, upgraded to higher level every 3 to 6 months with a steeper trend compare to Vietnam Airlines. From late 2014, Vietjet Air witnessed a steeper and continuous increase while Vietnam Airlines suddenly fell to a lower level than before. Quang (2017) compared the value added of Vietnam Airlines and Vietjet Air pointed out that Vietnam Airlines has no longer shown economies of scale advantage. The IPO as an equitization of Vietnam Airlines was launched in November 2014. Although there was no evidence to say that the equitization is a reason for a level-fall of Vietnam Airlines, the process seemed not to create any special change or improvement to the airline. Vietnam Airlines continued to operate under its cycle at a low level and ended up with even lower number of seats than Vietjet Air in March 2016. Thus, it is not enough yet to conclude that privatization have impact on Vietnam Airlines' competitiveness.

Although the impact of equitization on Vietnam Airlines in terms of competition was not found, the analysis helped to reveal the market situation in the Vietnamese aviation sector. Particularly, it showed the market conditions for the privatization of Vietnam Airlines. As we can see, the market shifted it from a dominance of Vietnam Airlines before 2012 to a more competitive status at the present. The competitive market is considered as a good condition for the privatization of Vietnam Airlines to achieve some certain success. For example, it can urge the privatized airlines to operate more efficiently. The evidence is that, leaders of Vietnam Airlines showed their point of view that the company was not working with excessive labor (BSC 2014b) at the beginning of the equitization, but they came up with a restructure plan of reducing more than 40% of the employment to increase productivity.

5.2.2. On the stock market

The comparison between Vietnam Airlines and its rival – Vietjet Air on the stock prices showed a failure of Vietnam Airlines' equitization. Vietjet Air was officially listed on 28th February 2017. However, shortly after announcing its IPO plan, it had attracted 26 foreign investors (VietnamNet 2017). Meanwhile, Vietnam Airlines failed to find foreign investors in its IPO. Vietnam Airlines' success of selling all the shares was due mainly to two large domestic organizations as Vietcombank and Techcombank bought more than 98% of the issued shares. In which, the state indirectly bought the shares through Vietcombank, because the state holds more than 77% stake of the bank. Currently, there is only one foreign investor (ANA Holdings) that became a strategy shareholder of Vietnam Airlines, holding a modest 8.771% of the total shares. The state's shares remained at more than 86%, held by the Ministry of Transportation, and indirectly holds 1.8% through Vietcombank. The situation shows that the state remained its power of decision making and control over the airline.

It could be seen that there is a sign of principal-agent problem in Vietnam Airlines' case, in which, the state is the owner. The state goes for privatizing Vietnam Airlines, however, the state seemed to be afraid of losing its control power on the airline. Therefore, the privatization of Vietnam Airlines is implemented under equitization as a partial form. The two large banks bought the vast majority of the shares issued in the IPO, especially Vietcombank, might be a strategy of the government in terms of retaining monitoring even if the firm is privatized. However, it distorted the nature of privatization. Hence, Vietnam Airlines was less attractive to private and foreign investors and the privatization has become pointless because it failed in reducing the state intervention into the company.

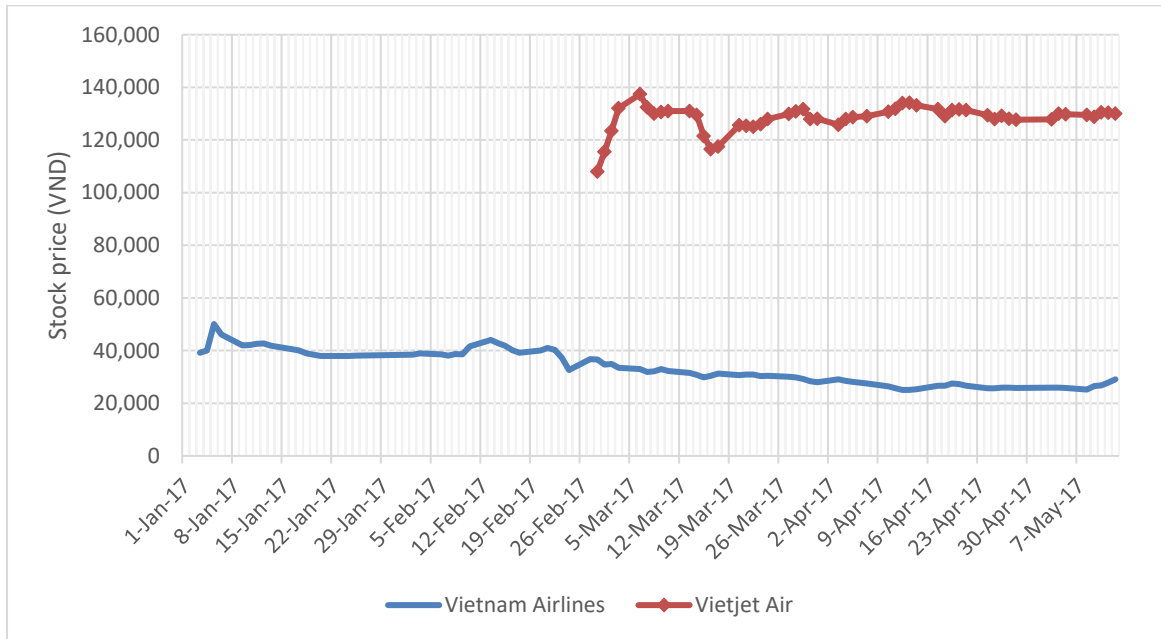
Since the airlines was listed on the stock market, it is possible to compare their stock prices. Figure 18 below describes the stock prices and market capitalization of Vietnam Airlines and Vietjet Air from 3rd January to 12th May 2017, in which market capitalization support for the analysis of stock prices.

According to the figures, Vietnam Airlines' stock price is much lower than Vietjet Air's during the period. The average share price of Vietjet Air is nearly four times higher than that of Vietnam Airlines, respectively VND 128,343 and VND 33,470. Moreover, while the price of Vietjet Air has had a slightly increasing trend, Vietnam Airlines' price of share has tended to decrease. Like the stock price, the market capitalization of Vietnam Airlines has also suffered a decline from VND 50,000-60,000 billion in the beginning to VND 30,000-35,000 billion. Meanwhile, Vietjet Air remains stable with the average market capitalization of VND 38,503 billion. From 24th March until 12th May 2017, Vietnam Airlines was over taken by Vietjet Air. Thus, in term of enterprise value, Vietnam Airlines has not been appreciated as Vietjet Air has. It could be inferred that investors did not believe in the development of Vietnam Airlines under government's management. The fact that recently Techcombank has withdrawn all 2.08% of the shares in Vietnam Airlines, equivalent to 25 million shares which this bank bought in the IPO, to restructure its investment portfolio could be an evidence.

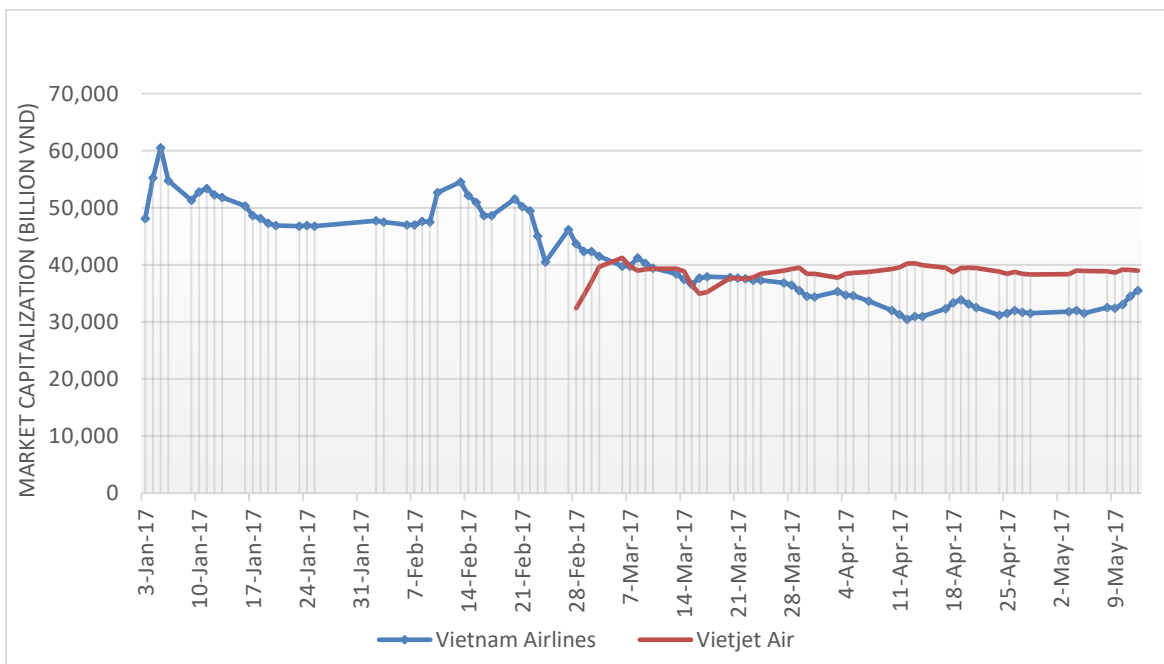
To conclude, Vietnam Airlines shows its disadvantages on both domestic aviation and stock markets, even though the equitization did show some signs of improvement in the airline's performance. Vietnam Airlines' equitization seemed not to be successful in withdrawing the state's hand and attract investors. The reason for the circumspect of investors could be that they find the reform of a large SOE as Vietnam Airlines are too slow and not radical.

Figure 18: Stock prices and market capitalization of Vietnam Airlines and Vietjet Air (3rd January-12th May 2017)

a. Stock prices



b. Market Capitalization



Source: Hanoi Stock Exchange (2017); HOSE (2017)

5.3. Vietnam Airlines' privatization in comparison with other cases

In this section, Vietnam Airlines' privatization is compared with privatization of British Airway, Air Canada, LAN Chile airlines, and Kenya Airway to help finding answer for the question 1.3. The privatization of the airlines is looked under the effects of country conditions as the context of the countries, the business environment and how the airlines were brought to privatization, based on criteria and indicators as mentioned in the previous chapter. For the comparison to be more clear, each case is going to be presented as below.

British Airway

Great Britain is a representative case for a developed and market-oriented economy. Britain was a leader in privatization, whose example spread throughout the world. Under the government of the Prime Minister Margaret Thatcher, privatization was embarked since 1979. It was the most important policy at that time and became an economic legacy (Edwards 2017). At the beginning (1979-1983), the government mainly partially transferred ownership. However, the government retained less than 50% in privatized companies, and there were still many SOEs outright sold all the equity. After that, the privatization was accelerated and expanded to public utilities industries. Although the British Conservative Party did not very support the private property, the party has always showed its distaste to the public ownership (Veljanovski 1987). The perspective of the government at that time, or of Prime Minister Thatcher, was strong belief in privatization. Therefore, the implementation was pursued to the fullest extent. British Airway is one of the large state-owned enterprises became the target of privatization policy.

British Airway, well known as a national flag carrier of Britain, decided to sell a minority of its share in 1979, as a part of Civil Aviation Bill. Due to the oil shock in 1979, the sale was postponed until 1983 because the severe crisis drastically reduced British Airway' profitability. Just three year later, in 1986, British Airway was approved for full privatization. British Airway was then a 100% privatized and was trading in stock on 11 February 1987 (Eckel et al. 1997). There was no share for the state, implying the government would divest entirely out of British Airway. The process of British privatization was implemented thoroughly and quickly in just three to four years.

After privatization, British Airway shown to be more competitive on the market. Stock prices of US competitors dropped 7% when British Airway was traded in February 1987. Its airfares

decreased significantly reflected improvement in the productivity. Specifically, the capital productivity improved by 3%, while labor productivity, as measured by employees per million available seat miles (ASMs) and employees per million revenue passenger miles (RPMs), increased by 8% and 10%, respectively.

Air Canada

Canada government started privatization since mid-1980s, followed the privatization in United Kingdom by the Margaret Thatcher government. The privatization in Canada has been slower and less extensive compared with many other countries because of moderate size of the public sector as well as complexity in political structure. Therein, the privatization process of government assets depends on the separate commitment of the federal, provincial, and local governments. Therefore, there was no formulated framework to guides the regime of privatization (Boardman & Vining 2012; Levac & Wooldridge 1997). Moreover, the privatization in Canada includes not only closure of state firms but also transfers of control among governments (Jørgensen & Hafsi 2003). The process was strongest during 1985-1995, with many privatized entities in natural resource, transportation or telecommunication. Air Canada was also privatized during that period.

Air Canada was established in 1937 under the name Trans-Canada Airlines. It was used as an instrument for political goal, especially in air transport. Is particular, the government used the airline as a regulator to influence subsidies and fare structure in Canada. Following the deregulation in air transport in 1988, which aimed to promote the economic efficiency, Air Canada was announced to have privatization plan. The airline was privatized 43% of the equity (Gillen et al. 1989). In 1989, the government sold its share to the public. However, individual or group of individuals were not allowed to buy more than 10%, while foreign investors cannot own more than 25% of voting shares.

Before privatization, Air Canada went through a period of low productive efficiency. According to Gillen et al. (1989), the airline's productivity reduced on average 23% of the total cost during 1964-1981. After privatization, Air Canada continued its financial losses. The losses were CAD 74 million in 1990 and CAD 218 million in 1991. Its passenger volume also decreased by 2 million in 1991. There was also a restructure in operations in 1992 with cuts of more than 350 positions from management level to administrative and technical support positions. Air Canada seemed to be hurt extensively by the competition with other international airlines (Encyclopedia.com).

LAN Chile (now LATAM)

Chile is one of the first developing countries to implement privatization in the economy. The Chilean economy had a long story of state intervention due to the crisis in 1920s. The state controlled over all aspects, from interest rates, exchange rates to prices of almost 3000 goods and services (Fischer et al. 2003). The state's protection on the economy was strict. The Chilean State Development Corporation (CORFO) was also established in 1939 to help the government increase intervention in investment, production and economic growth. "CORFO established firms that was deemed essential for Chile's development, including industrial production, telecommunications and utilities" (Roecker 2013, p.2). Under the administration of the socialist Allende, the state's intervention was stronger, accounting more than 40% of the GDP in September 1973 (Roecker 2013).

The privatization in Chile was a part of effort to liberalize the economy in 1974, but it experienced many interruption due to crisis in 1980s and the government's policy to stop it in 1990-1994. The privatization was first embarked aggressively by the military junta of General Augusto Pinochet, after this junta seized power in 1973. The government aimed to privatize SOEs and other firms under the previous authority, Allende. The transition of the economy was along with a shift in policy direction and political leadership. The new government launched policies to foster free competition, eliminate market distortions, and open to international trade and capital (Roecker 2013). Under the military government, the privatization was implemented strongly, with 259 formally or informally nationalized firms were restored to their original owner (Fischer et al. 2003).

The debt crisis in 1981-1983 was the first interruption which reversed the privatization, because Chilean government had to take over most financial firms and several banks during this time. In 1985-1989, the privatization program was accelerated. The government enacted a series of four privatization mechanisms, which focused on "the sale of shares in open international markets and the stock market, free market competition, diversity of ownership, and reduced government regulation" (Roecker 2013, p.7). The pre-1970s SOEs in Chile, companies in electricity and telecommunication sections, were privatized at that time. After the military regime, the privatization process was stopped almost completely by the first elected government in 1990-1994. However, the second elected government (1994-2000) woke up the process and accelerated it (Roecker 2013). The Chilean privatization process has been all-compassing with the support of the government.

LAN Chile was established in 1929 as a state-owned monopoly and a venture of Chilean Air Force. Under government of General Augusto Pinochet from 1973 until 1990, the country aggressively pursued privatization, though the military regime still wanted to retain its control on a number of firms which the CORFO created before, including LAN Chile. LAN Chile suffered a difficult financial situation with excessive debt and unprofitability, owing to inefficient allocation resources, over regulation, and unsustainable fiscal backing from government. The new policy, “Open Skies” in 1979, created competition by reducing regulations so that competing carriers could join the Latin America market. It exacerbated the bad situation of LAN Chile. It was found necessary for the airline to transform to survive, especially after its competitors, LADECO, went bankrupt. After trying some treatments as draconian cuts and massive layoffs, the situation seemed not improved. It could be due that LAN Chile was still wholly controlled by the state (Roecker 2013). In 1989, LAN Chile started privatization, which sold more than 50% of the state’s shares to private investors (Company history of LATAM Airlines). The leading global air group Scandinavian Airlines System (SAS) became its major stakeholder. In 1994, the airlines completed its privatization, with 0% state’s shares.

After privatization, LAN Chile’s productivity in term of passengers per km/worker decreased by about 41,4%, however, it is due that the airline has shifted its focus on successful cargo branch (Fischer et al. 2003). On the contrary, the revenue surged. LAN Chile has become one of the largest Latin American airlines, especially after its takeover of Brazilian TAM Airlines to form LATAM Airlines Group in 2012 (Company history of LATAM Airlines).

Kenya Airway

After independence in 1963, Kenya found it necessary to have the government control over all aspects of the economy, to achieve a variety of social, economic and political goals. SOEs were established and expanded from 1965 onward, became instruments for the government to intervene into the economy and develop the so-called Kenyanization. However, the participation of Kenyan government became too strong, leading to too much reliance of the SOEs on the government, which then became a fiscal burden. The privatization program was introduced in 1992 with the “Policy Paper on Public Enterprise and Privatization” and “Policy Framework Paper of 1993-96”, but it was intermittent due to lack of binding and regulation of privatization law. The privatization was implemented on the basis of politics, financial donor and commercial interests. Even though Kenyan government achieved 90% of its targets,

privatized 188 over the 207 SOEs planned to be privatized, most of the companies privatized were small and self-sufficient. In 2005, the Privatization Bill was enacted to boost the program in the period 2005-2007. Despite pressure and difficulties from abroad due to reliance into international aids and funding, Kenyan state still step by step withdrew from the economy (Kariuki 2006).

Kenya Airway became the Kenyan national airline since 1977 when it was incorporated, fully owned by the state. In the first 16 years of operation under the government control, the airline became a heavy burden to the government with significant financial losses. Meanwhile, the competition on the market was increasing, put more pressure on Kenya Airway and its government (Kariuki 2006). Therefore, when the country launched its privatization program in 1992, Kenya Airway was one of 45 SOEs to be privatized. The airline's privatization started in 1994 by the meeting with Privatization Committee, the government, and professional advisers, including International Finance Corporation and the investment banking department of World Bank, for the accountability and transparency of the privatization program. In late 1995, a foreign investor was invited to buy a majority of shares of Kenya, which is KLM. Kenyan government signed a partnership agreement with KLM in January 1996, to sell 26% of the shares of Kenya Airway. In the same year, the government sold 51% of its shares to the public, being considered as the largest offer to date on the stock exchange. The action reduced the state's share to 23% (Oyieke 2002).

After privatization, the airline showed an improvement in fiscal health. The after tax losses were reduced by 62% in 1993, after the plan of privatization was announced (Kariuki 2006). The airline began to pay taxes since 1996, implies that it was profitable and contributed to improve the state budget from financial burden. The taxes paid increased in 1996-1998, proves that the profit also increased.

The privatization process in Kenya, through the Kenya Airway case, can be seen that it was implemented with caution and fear. However, once the government bravely properly undertakes the privatization, it brings good outcomes.

The descriptions of the privatization processes in the above airlines were combined with the World Bank indicators for the comparison in term of country and market conditions in which the privatization was implemented, forms, how the process was and results of the privatization of the airlines. The comparison is made in the Table 10 below. The table first presents the context of the countries and their macroeconomy, including the country characteristics and

their commitment to the privatization. After that, the perspective of the governments on privatization, the main privatization forms or methods applied in each country are discussed. The last parts focus on the privatization of the airline in particular, including the governments' purposes to privatize the airlines, the process of privatization such as time, number of shares and situation in pre- and post-privatization.

According to the table, Vietnam seems to have a nearly weakest country conditions within the airlines studied (Kenya has been the weakest). It is shown by the lower level of corruption perception, less friendly business environment (ranked 91/190) and less disclosure of business extent compare to 3 over 4 other airlines. Vietnam embarked privatization more than 10 years later than Britain, Chile and Canada, but in the same year with Kenya. British and Chilean governments showed their unsupportive attitude to the public ownership and believed that it had caused problems to the economies. Therefore, their privatization was strongly implemented with clear targets in those countries, which are to divest the state ownership, eliminate market distortion and develop free competition. Vietnamese government realized the needs of a free market and free competition with less or without intervention, however, the ambition for controlling power or the belief in power of the state seems greater than the realization. Thus, Vietnam chooses equitization as a method of privatization, in which, the government decides how much share should be transfer to the private sector. The purpose is not to reduce the state's control (Cheshier et al. 2006)

The privatization of the airlines in this study somehow is a reflection of the government's vision. British Airway was privatized to eliminate public ownership. LAN Chile, Kenya Airway and Air Canada was privatized mainly to overcome the financial problems. Meanwhile, in Vietnam Airlines, the government aimed to increase capital scale from the outside and retain all state's capital. The offer for investors since its IPO until January 2017 accounted for a tiny part of the total capital. The process is very slow: 6 years of preparation for the plan and the next 3 years of sales of just more than 13% of the equity; while the other cases finished to be privatized in 2-5 years. 3 years after equitization was implemented, Vietnamese government still holds almost 90% of the shares, compared to just 23% in Kenya Airway and 0% in the others (Table 10)

Table 10: Comparison among privatization processes of Vietnam Airlines, British Airway, Air Canada, LAN Chile and Kenya Airway

	British Airway	Air Canada	LAN Chile	Kenya Airway	Vietnam Airlines
Context of the country and macroeconomy	*Developed country	*Developed country	*Developing country	*Developing country	*Developing country
-Corruption perception index (2012)	74	84	72	27	31
-Ease of doing business index (2015)	ranked 6	20	55	113	91
-Business extent of disclosure index (average in 2005-2016)	10	8	7.6	3.25	5.8
-When the general privatization started	1979	mid-1980s.	1974	1992	1992
-Commitment: General context of privatization in the country	The privatization program was extensively and strongly implemented.	The public sector was moderate The privatization was slow and less extensive than other countries. The process was strongest during 1985-1995	Privatization process had many interruption, but it was strong, extensive and comprehensive under the military regime	The state had controlled over all aspects after independence. The privatization program therefore began later and slower than other countries of study. The privatization was implemented passively and there was lack of regulation to support the process.	The privatization proces in Vietnam has been long. It was slow and in small scale at the beginning, strong in 2000-2005. It is still going on until today and not thorough. The privatization in Vietnam is prompted by a wish to integrate into the global economy.

Table 10: Comparison among privatization processes of Vietnam Airlines, British Airway, Air Canada, LAN Chile and Kenya Airway (continued)

	British Airway	Air Canada	LAN Chile	Kenya Airway	Vietnam Airlines
Government's perspectives of privatization in general	<p>The Conservative Party has not favored public ownership.</p> <p>The Prime Minister had a strong belief in privatization.</p>	<p>Because of the complexity in political system, the privatization commitments depends on each federal, province of local government who owns the firm</p> <p>There was no clear framework for the program</p>	<p>The military government advocates privatization to eliminate the administration of the previous authority.</p> <p>The government also favored free competition, international trade and capital, and against market distortion</p>	<p>The government privatized the economy in fear and caution, with pressure from international organization as World Bank or IMF who provided financial aids to Kenya.</p> <p>Most of privatized companies are small and self-sufficient</p>	<p>Vietnamese government still wants to retain the control over large and essential SOEs.</p> <p>The state's primary purpose in equitization is to call for capital from investors rather than reducing the influence of the government in SOEs.</p>
Main privatization form/methods	Divestiture, sales of stocks	<p>Complexity</p> <p>Transfers not only from the state to private sector but also among governments</p>	Divestiture, sales of stocks	Divestiture	Equitization, partial liquidation
Government's purpose of the airline's privatization	<p>The privatization of British Airway followed the perspective of the government at that time, which is to reduced public ownership</p> <p>Government retained less than 50% of shares in SOEs privatized.</p>	Due to financial losses in operation of Air Canada, the privatization of the airline aimed to promote economic efficiency	Similar to Air Canada, the Chilean government privatized the airline to eliminate financial problem and improve the efficiency of the firm	Kenya Airway was privatized with much consideration of the government, aiming to revive the loss-making airline	<p>Vietnamese government privatized Vietnam Airlines mainly for increasing capital scale of the airline.</p> <p>The government planned to retain at least 65% stake to keep it control power.</p>

Table 10: Comparison among privatization processes of Vietnam Airlines, British Airway, Air Canada, LAN Chile and Kenya Airway (continued)

	British Airway	Air Canada	LAN Chile	Kenya Airway	Vietnam Airlines
Time and route of privatization the airline	<p>Planned in 1979</p> <p>Approved in 1979</p> <p>Started in 1986</p> <p>Process: Fully privatized in 2 years: 1986-1987</p>	<p>Started in 1988</p> <p>Process: Fully privatized in 2 years: 1988-1989</p> <ul style="list-style-type: none"> - 1988: sold 43% of the state's shares - 1989: sold the remaining to the public 	<p>Started in 1986</p> <p>Process: Fully privatized in 5 years: 1989-1994</p> <ul style="list-style-type: none"> - 1989: privatized 51% of the shares - 1994: fully privatized 	<p>Planned in 1992</p> <p>Started in 1994</p> <p>Process: Privatized in 3 years: 1994-1996</p> <ul style="list-style-type: none"> - 1995: sold 26% to the foreign investor KLM - 1996: sold 51% of the state's shares <p><i>* The privatization was implemented in 1994, but the firm started to sell its shares in 1995.</i></p>	<p>Planned in 2008</p> <p>Approved in 2013</p> <p>Started in 2014</p> <p>Process: the privatization is ongoing</p> <ul style="list-style-type: none"> - 2014: IPO, sale of equivalently 3.48% stake - 2016: sold 8.771% of the stakes to foreign strategic investor, ANA Holding of Japan - January 2017: going public, sale of 1.59% stake of the stake
State's shares after privatization	After 1987: 0%	After 1988: 57% After 1989: 0%	After 1989: 49% After 1994: 0%	After 1995: 74% After 1996: 23%	After 2014: 96.52% After 2016: 87.75% In January 2017: 86.16%
Pre-privatization situation	The airlines operated as one of the biggest airlines in United Kingdom. It went through a short period of difficulties due to oil shock in 1979, and therefore the privatization was delayed. However, the airline quickly recovered.	The airline went through a significant financial losses. The productivity fell by 23% on average in 1964-1981	The airline had financial problems with excessive debts and unprofitability. The airline suffered a difficult time because new policy "One skies" had made the aviation market fiercely competitive	The airline suffered a long period in financial losses and had been vulnerable from competition on the market.	The airline grew steadily. Sales and profits increased year by year. However, its market share on the domestic market fell remarkably. The competition with the rival as a private airline was stronger.

Table 10: Comparison among privatization processes of Vietnam Airlines, British Airway, Air Canada, LAN Chile and Kenya Airway (continued)

	British Airway	Air Canada	LAN Chile	Kenya Airway	Vietnam Airlines
Post-privatization situation	<p>* Profitability: increased. Airfares decreased implies cost efficiency</p> <p>* Productivity increased: - The capital productivity improved 3% - Labor productivity increased 8-10%.</p>	<p>* Profitability: The financial losses continued and were increasing</p> <p>Passenger volume also decreased by 2 million in 1991</p> <p>There was a layoff of more than 350 labors to cut costs.</p>	<p>* Profitability: increased. The airline successfully built a cargo branch and increase the revenue.</p> <p>From a loss -making airline, it has become one of the largest Latin American airlines</p>	<p>* Profitability: increased The airline reduced the losses after tax by more than 60% outright after announced the plan of privtization.</p>	<p>* Profitability: increased Profit margin increased tenfold in 2 years after IPO.</p> <p>* Productivity: increased - Labor productivity increased about 51% in term of revenue/worker per year and 86.8% in term of number of pasengers/worker per year.</p>
				<p>* The airline started its contribution to the state budget by paying taxes, with increasing amount.</p>	<p>* The airline started to pay corporate income tax, with increasing amount</p>
	<p>* Stock prices: increased, made its rivals' stock prices decrease 7% on average.</p>				<p>* Stock prices: much lower than its rival and has had a slightly decreasing trend</p> <p>The market capitalization was surpassed by the rival, showing that the airlines is not attractive to investors</p>
	<p>No subsidies</p> <p>No influence from the state</p>	<p>Government still supports Air Canada</p>			<p>State's influences remained. The state still has power to make decisions.</p> <p>The representative to he state's capital was elected as Member of the Board of Director</p>

In comparison of the results among the airlines, it can be seen that excepted for Air Canada, all other airlines, including Vietnam Airlines, experienced a strong improvement in firm's performance: increase in profitability and productivity, losses reduction and increasing contribution to the country's finance. To compare the competitiveness of the airlines after privatization, it however can be seen that while British Airway became more stronger and made its rivals' stock price decline, Vietnam Airlines showed its weakness and less attraction than its rival. LAN Chile and Kenya Airway have also become strong competitors in the market.

The success of British Airway's and LAN Chile's privatization came from the friendly business environment of the respective country, which was reflected by less corruption, high and moderate level of ease of doing business as well as high transparency according to the disclosure index, the proper vision and decisive actions of the governments in these countries. Kenyan case was also considered to be successful when the government did privatize the airline decisively with caution even though Kenya's economy was the most disadvantage economic environment. On the contrary, Air Canada even 20 year after its privatization still experience many difficulties, including bankruptcies, court-ordered reorganizations, layoffs, shareholder wipeouts and waste of billion-dollar government bailouts (Corcoran 2010). Even Canada is considered the most advantage business environment according the indicators, the privatization of Air Canada seemed not occurred in a good way due to lack of specific guide from the government, and the shackles of the old culture (the crown monitor). Therefore, it shows that the government's perspective and policies are the most important key to the success of the privatization. To apply for the Vietnamese case, Vietnam Airlines' equitization so far has been successful in term of firm performance improvement, however, it is not considered as a success because it failed to reduce the state ownership and government's intervention, that was shown clearly in the perspective of the government and the policy of the state in term of privatizing the airline. Although the Kenyan case is also a partial privatization, but it still experienced a success compare to Vietnamese case. It could be inferred that, while Kenyan government supported the privatization of the airline under the right direction, which is to reduce the power of the state, Vietnamese government's objective for privatization of Vietnam Airlines seemed not to be reduce the state's intervention. Therefore, the nature of the privatization is distorted and the principal-agent problem which exists in Vietnam Airlines was not eliminated but remained.

To summarize, Vietnam seemed not to have a good country and market conditions with high corruption (ranked 113/176), unfriendly business environment and less transparency according

to the indicators mentioned in Table 10. Furthermore, in term of the market condition, the aviation market in Vietnam is still influenced by decisions of the state, including management of prices according to Clause 14 of Article 8, Law No. 61/2014/QH13 amending and supplementing a number of articles of the Vietnam Civil Aviation Law. Therefore, the case of Vietnam did not meet the conditions. Furthermore, the government showed its reluctance in privatizing Vietnam Airlines and desire of retaining its intervention that leads to very long, slow and ineffective.

VI. Conclusion

Privatization is part of the liberalization policies of Vietnam, and it plays an important role in the key renovation policy – Doi Moi reform, which contributed to stabilize the macroeconomy after long period of difficulties and crisis. Although the privatization in Vietnam was exalted in 1990s with the transform of many small and medium SOEs, it seems to slow down with the large SOEs as Vietnam Airlines and is continuing now. The study described the background of Vietnamese macroeconomy, macroeconomic policies and the privatization of the country as a general context, in which the development of Vietnam Airlines has been taken place and its privatization has followed the general process of the whole country. Concepts and theoretical aspects of privatization were considered for the basis of knowledge and help to understand some extents of the privatization in Vietnam and Vietnam Airlines, such as methods, impacts and reason for partial privatization. The objective of this study is to examine the privatization process Vietnam Airlines by using descriptive and qualitative analysis.

and its competition to assess the outcome of privatization of the airline.

The analysis was first made by examining the impact of the privatization on the airline's performance. In particular, the changes in many indicators as the total assets and its components, debts ratio, revenue, profit, profitability ratios, number of workers, number of passengers were combined to considered the changes in the firm growth, its profitability and productivity, with an improvement was expected for a successful privatization. Second, the analysis focus on the airline's competition on the domestic market with a consideration of the privatization event, using market conditions. The analysis used indicators as market shares and stock prices of the airline and its rival before and during the privatization to analyze. Finally, the examination of country conditions is done in part through a comparison ò privatization processes in the macro-environment in which it was undertaken. Other case studies of national airlines' privatization, as British Airway, Air Canada, LAN Chile and Kenya Airway, which represent for different countries, situations, governments' targets and actions and results of privatization process, were considered to make the analysis more comprehensive. Indicators of the countries as corruption index, ease of doing business index, disclosure index helps to understand the country conditions and business environment which contributes to the assessment of the airlines' privatization. Thus, the thesis used mainly simple comparison method, comparing pre- and post- privatization to identify the impact of the privatization on

some extents of the airlines and comparing among other airlines' processes to show how successfully or badly Vietnamese government has privatized Vietnam Airlines.

From the analysis, the research question and its follow-up questions on Vietnam Airlines' privatization are addressed. First, privatization, or more precisely equitization, does positively change Vietnam Airlines in term of performance. After the first moves toward equitization, the airline showed an improvement in its growth, profit and productivity. Indeed, the total assets increased due mainly to a rise in equity rather than in liabilities, showing an increasing scale in terms of capital, as per the government's purpose. The significant increase in profits after the IPO (by about 892%) directly showed the improvement in the airlines' profitability. Vietnam Airlines started to contribute to the state budget by paying corporate income tax in 2015. Furthermore, the net profit margin (on net sales) rose tenfold indicates that the profit increased with higher rate than that of the net sales, showing that Vietnam Airlines was able to manage better and therefore it operated more efficiently. Along with the firm growth and profitability, examination of the airline's labor productivity was also soared by 51% and 86.8% in terms of revenue per worker per year and number of passengers per worker per year, respectively. The increase in the productivity came from restructuring the employment of the company, ensuring that there was no excessive labor and promoting production capacity. Thus, on this criteria, it signals a success.

For the competition, the equitization seemed not to make Vietnam Airlines improve its competitiveness in the intense competition with Vietjet Air. On the domestic aviation market Vietnam Airline continued to lose its market shares to the rival, even after equitization which helped it to expand the capital. On the stock market, its stock prices and market capitalization had a decreasing trend while Vietjet Air's stock prices were much higher and its market capitalization increased remarkably and surpassed Vietnam Airlines'. So far, the equitization of Vietnam Airlines failed to attract investors, meanwhile the equitization of young and private airline Vietjet Air has still got the attention of both local and foreign investors. It is possible to think that the number of shares Vietnam Airlines offered to investors is not attractive enough. Vietnamese government remained its power through holding almost 90% of the shares that makes the privatization of the airline become nonsense. On the other hand, investors may not believe in the growth of Vietnam Airlines in the future under management of the government due to the principal-agent problem may still exist. On these others criteria, it is a failure.

Finally, looking at privatization of British Airway, Air Canada, LAN Chile and Kenya Airway allowed us to set the privatization of Vietnam Airlines into the broader context for a more comprehensive assessment. Accordingly, the privatization of Vietnam Airlines may not be considered as a success. The process was too slow and fragmented compare to the other cases. The country has a high level of corruption (scored 31/100) and the business environment is not so friendly and transparent in information, which can constraint the privatization process. Moreover, the government's perspective was to still keep its control over the large and strategic SOEs, as Vietnam Airlines. Therefore, Vietnam has not had any specific and details laws or regulation to instruct privatization or equitization. That contributes to the failure.

Through the study on the other airlines, some lessons can be learned. As in Kenyan cases, even though the government was cautious and hesitant in doing privatization, they still found it successful with effective supervision and assertiveness in reduce state ownership. Meanwhile, Air Canada eventually divested all of the crown ownership, but it seemed failed may be due to lacking flagrant regulatory framework of privatization (Gillen et al. 1989). Like Kenyan, Vietnamese government does privatization with caution and fear for losing control to Vietnam Airlines. Therefore, it partially privatized the state's equity with a small proportion of shares (maximum 35% in total). The maximum stake planned to offer for strategic stakeholders, as foreign institutions, is just 20%. The process has gone too slow with tiny offers (less than 5% in IPO, less than 2% to the public). However, it is non-sense compared to the action of Kenyan government, so it may not create effectiveness.

Even though it is too early to conclude about the success or failure of Vietnam Airlines' equitization because it is still just in the beginning of the process. However, the study still helps to clarify the research question to some extents. From the analysis, it is fair to say that, the Vietnamese government has handled the privatization of Vietnam Airlines more badly than successfully. Privatization through equitization as in Vietnam Airlines has contributed largely in increasing capital scale, growth and performance efficiency of Vietnam Airlines, however, too slow and fragmented implementation and distortion of the nature of privatization lead to ineffectiveness, reduce of attractiveness and weakening the firm.

Limitations

Although the study has reached its aim to answer the questions raised, it still has limitations and shortcoming. The study based mainly on qualitative methods is time-consuming descriptive-information intensive and could bring more subjective opinions. The simple

comparison may not cover all aspects of the problem, such as defining the real impact of the privatization event on the restructuring of the firm. Because the privatization of Vietnam Airlines has not been completed, and is on-going, the study cannot provide a comprehensive look and assessment of the whole program. Moreover, due to the difficulty of reaching out to the company's leaders, the study may not bring much insight of political issues in this privatization from the perspective of Vietnam Airlines. Even though, the qualitative method is more suitable for the specific case as Vietnam Airlines in short-time period. The research can be more complete with quantitative method in case that there is more time to observe and Vietnam Airlines finishes its equitization.

Recommendations

This study has taken the first step to describe and comment on the privatization of Vietnam Airlines in general, using only qualitative method, therefore, further studies can develop for a more detailed assessment by conducting surveys or interviews the company's staff and managers as well as using parametric method to clarify impact of privatization through equitization of Vietnam Airlines. In addition, further research can focus more on the political issues behind Vietnam Airlines' privatization to suggest proper policy direction for the program in the future, particularly as they relate to large-scale privatization.

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Norges miljø- og biovitenskapelig universitet
Noregs miljø- og biovitenskapelige universitet
Norwegian University of Life Sciences

Postboks 5003
NO-1432 Ås
Norway