JONES DAY

COMMENTARY

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IN SHORT

The Situation: Vietnam, like other developing countries, is challenged by the prominence of state-owned enterprises throughout its economy.

The Development: The Vietnamese government has directed that state ownership in a variety of state-owned enterprises be divested.

Looking Ahead: Vietnam is an attractive emerging market economy in many respects with the World Bank and the Asian Development Bank projecting Vietnam's GDP growth to be 6.3 percent in 2017. This state-directed divestment program offers opportunities for investors wishing to enter or grow their presence in Vietnam.

On August 17, 2017, the Prime Minister of the Socialist Republic of Vietnam issued Decision No. 1232/2017/QD-TTg approving a list of state-owned enterprises to be divested from 2017-2020 ("Decision No. 1232/2017").

Decision No. 1232/2017 is the latest in a series of decrees and decisions issued by the Prime Minister aimed at restructuring and divesting state ownership in a variety of state-owned enterprises ("SOEs") across multiple sectors. Commentators have identified a need to address the increasing gap between Vietnam's state revenue and expenditures as well as a push to integrate Vietnam into the global economy as key driving factors behind this move towards divestment of state ownership.

Prior decrees and decisions that affect the divestment process include:

- Decrees No. 59/2011/ND-CP, No. 189/2013/ND-CP, and No. 116/2015/ND-CP, which relate to the conversion of wholly state-owned enterprises into joint-stock companies.
- Decision No. 58/2016/QD-TTg ("Decision No. 58/2016"), which specified certain categories of enterprises to be restructured from 2016 to 2020 and state ownership ratios in various SOEs and sectors.
- Decision No. 707/QD-TTg issued on May 25, 2017, which approved the restructuring scheme for SOEs and required the relevant SOEs to provide equitization plans.

> A need to address the increasing gap between Vietnam's state revenue and expenditures as well as a push to integrate Vietnam into the global economy are key driving factors behind this move towards divestment of state ownership.

Decision No. 1232/2017 approves a list of 406 SOEs to be divested and specifies divestment targets for those SOEs at various points in time in an effort to expedite the divestment process. There are 135 SOEs with divestment targets in 2017, 181 in 2018, 62 in 2019, and 28 in 2020 across multiple sectors, including agriculture, airlines, construction, electronics, engineering, finance, food, infrastructure, industry, manufacturing, natural resources, oil and gas, pharmaceuticals, rubber, technology, tourism, trading, and transportation. We have a full list of the relevant SOEs in Decision No. 1232/2017 with English translations and can supply this list to any interested readers.

In addition to specifying targets and timelines that need to be met, Decision No. 1232/2017 also requires various parties to, among others, actively expedite the divestment process and provide timely and regular reporting to the steering committee and ministries responsible for monitoring the divestments. This appears to be aimed at improving the efficiency of the divestment process and addressing concerns regarding delays and lack of clarity that have been raised by investors.

In the oil and gas industry, Decision No. 58/2016 specifies that the state is to retain its 100 percent ownership in the Vietnam Oil and Gas Group ("Petrovietnam"). It also states further that certain subsidiaries of Petrovietnam are to have their state ownership reduced, including the following subsidiaries:

- Petrovietnam Oil Corporation—state to hold less than 50 percent ownership

- Petrovietnam Power Corporation—state to hold less than 50 percent ownership
- Binh Son Refining and Petrochemical Company Limited—state to hold less than 50 percent ownership
- Dung Quat Shipyard—state to hold less than 50 percent ownership
- Petrovietnam Exploration and Production Corporation—state to hold more than 65 percent ownership

Decision No. 1232/2017 further states that there is a divestment target of 24.86 percent by 2018 for Vietnam National Petroleum Group. Press reports are following some of these processes and further developments could be expected.

There will obviously be questions around the ability of the Vietnamese government to fully realize a project of this ambitious nature. Further, there are many important factors for investors to consider, including investment structuring, capital requirements, governance arrangements, restrictions on future divestment, and other due diligence matters. Nevertheless, there are clearly opportunities for those with attractive proposals for any of the assets identified in the divestment program.

THREE KEY TAKEAWAYS

1. A movement to assimilate Vietnam into the global economy is a key driving factor behind the coming divestment of state ownership of certain enterprises.
2. Hundreds of state-owned enterprises across multiple sectors are targeted for divestiture through 2020.
3. The state will retain complete ownership of the Vietnam Oil and Gas Group but will reduce its ownership in some of its subsidiaries.

AUTHORS

Darren Murphy
Singapore

Kok Jin Ong
Singapore

All Contacts >>>

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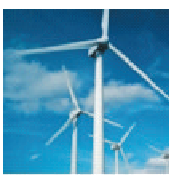

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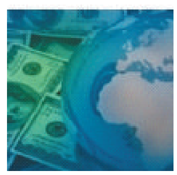

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