

Vietnam Railways— Moving Forward to Market Economy

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With its *Doi Moi* (Renovation) policy commencing in 1986, the Vietnamese government has changed the fundamental economic structure of the country, leading to a transition phase from a centrally-planned to a market economy. A comprehensive program of adjustments and reforms in 1989, including decollectivization of agriculture, price liberalization, currency devaluation, and imposition of budget constraints on state

enterprises, has led to impressive results. In addition, the government also began reforming the country's legal framework to encourage private-sector development. These macroeconomic stabilization measures, combined with large export surpluses in agriculture, investment flows, and improved efficiency of public enterprises helped maintain an average annual growth rate in gross domestic product (GDP) of 7.8% from 1989 to

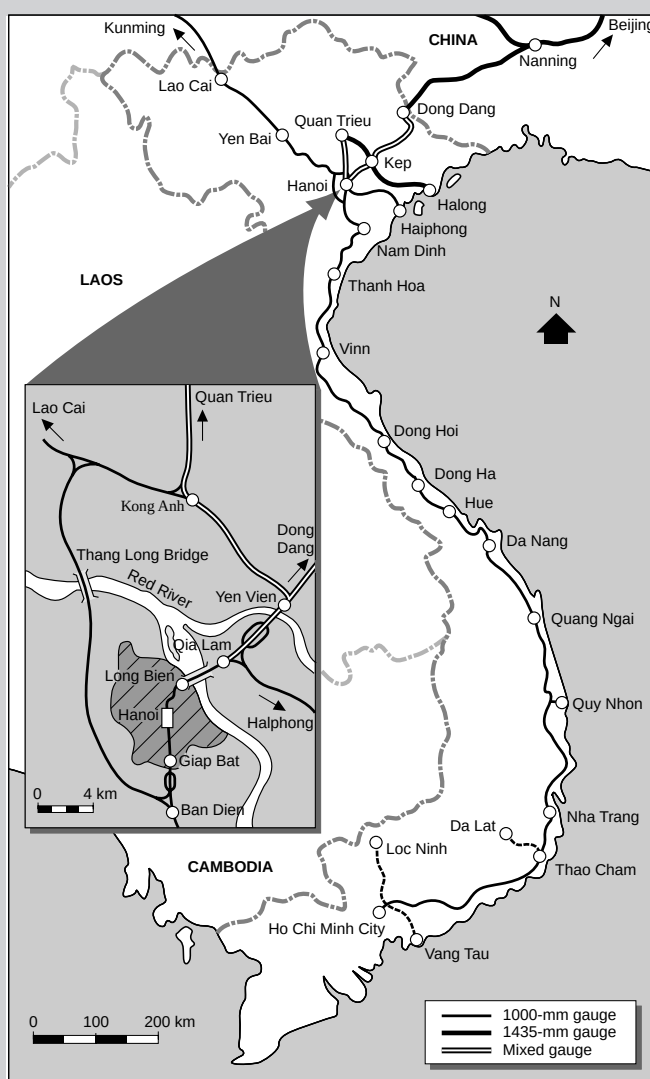
1995. Inflation since 1989 has been brought under control and is averaging around 14%. In overall terms, progress has been made in transitioning to a market economy.

The gradual transformation is seeing a radical reorientation of policies, reorganization of public administration, deregulation of industry and price liberalization in all sectors, including the transport sector and Vietnam Railways.

Renovation of Vietnam Railways has been implemented since 1989 with the main objective of returning the railway's assets to specified owners. After 20 or 30 years of management by a bureaucratic subsidy-based system, every meter of track, every bridge, every locomotive and carriage, etc., has to be assigned an owner with responsibility, obligation, authority and interest.

The centrally managed system has been replaced by a new decentralized system of three Unions who will be able to see the results of assets and daily operations in their individual business results. This is a remarkable change. Tables 1 through 4 summarize the main achievements in the last 10 years.

Figure 1 Vietnam Railway Network



New Solutions

Accounting

Vietnam Railways manages and operates the entire Vietnam railway network (Fig. 1). It is a 100% state-owned enterprise with characteristics of both a business and public utility.

Since 1 January 1995, the government has authorized Vietnam Railways to adopt vertical separation between infrastructure and operations (Figs. 2 and 3), and to establish enterprises with separate accounting to generate funds for maintenance of the railway network.

The Operation Unit includes three Unions, each with its own rolling stock workshops and depots. Each Union is

separately accountable and generates its own profits and losses. Some enterprises belonging to the Industrial, Construction & Other Services Unit, also use separate accounting practices, and the Infrastructure Unit uses a cost accounting system. In addition, the Operation Unit has many members that are interdependent and cooperate with each other at different levels. Cost accounting is used at the unit level because it is very difficult to appraise the business as a whole since the economic norms depend on the location and operating lines. This is why it is necessary to establish a complete cost accounting system for each business operation and explains the need to reform the organization of Vietnam Railways as well as the management of the Operation Unit.

Decentralization

The independent enterprises have been decentralized but enterprises belonging to the Infrastructure Unit and the Operation Unit are closely related, so decentralization has many benefits for them too. The Infrastructure Unit includes the Railway Management Enterprises, and Railway Communication and Signalling Enterprises. They are provided funds for maintenance of bridges, track, tunnels, communications, signalling and other infrastructure. They use independent cost accounting because their product is related indirectly to the Operation Unit. They could be organized into vertical independent units, but at the moment they belong to the Unions (Fig. 2) because their main product still has to meet transport demand and public service requirements, entailing joint guidance. This conflict with a market economy can only be solved by restructuring the organization. At present, the government provides funding for the Infrastructure Unit. The organization of the Operation Unit is shown in Figure 3.

The Unions have been decentralized but are not independent cost accounting units.

Figure 2 Organization of Infrastructure Unit

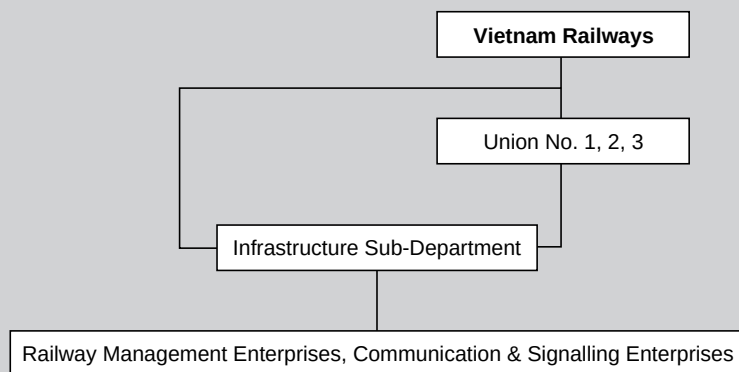
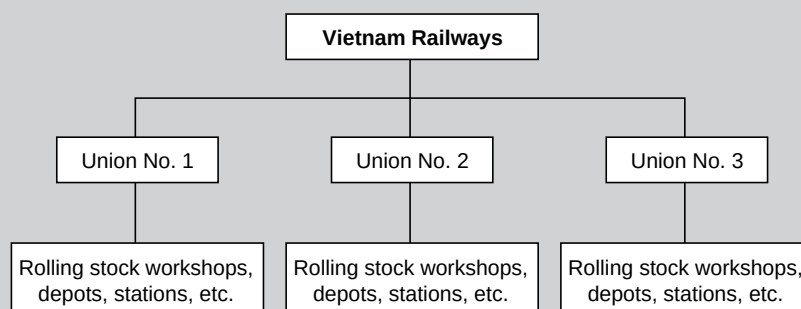


Figure 3 Organization of Operation Unit



Littered track and rundown station buildings typify some of the modernization problems.

(EJRCE)

Table 1 Traffic Trends

Year	Passengers		Freight	
	Passenger number (million)	Passenger-km (billion)	Tonnes (million)	Tonne-km (billion)
1989	11.768	2.109	2.432	0.743
1990	10.443	1.913	2.341	0.847
1991	9.518	1.767	2.567	1.103
1992	8.719	1.752	2.774	1.077
1993	7.816	1.725	3.187	0.978
1994	7.915	1.796	4.003	1.370
1995	8.829	2.133	4.516	1.751
1996	8.467	2.261	4.401	1.684
1997	9.306	2.476	4.752	1.533
1998	9.663	2.535	4.840	1.327

Their enterprises use internal cost accounting within the Unions. In order to have real independent control of their business, they must determine the exact cost of their product and can then sign contracts with their members. When this is achieved, the members can be really responsible for cost management and income.

Proposed Railway Business Model

The following model has been studied for future development of Vietnam Railways.

Infrastructure

Since the railway infrastructure and facilities are still 100% state-owned assets, the infrastructure and operations will still be one organization managed by one board of directors. Although this arrangement cannot be changed, the state budget for maintenance is insufficient. Provision of funds from the Operation Unit to the Infrastructure Unit can only be implemented if there is a government-approved mechanism.

Operations

To create plans for the next 1 to 5 years, it is necessary to restructure the costing system for each line and each type of freight. These plans along with subsidies for PSOs will be submitted to the government for approval. A yearly transport

Table 2 Travel Times by Limited Express from Hanoi to Ho Chi Minh City

Year	1980	1988	1989	1991	1993	1994	1997	1999
Travel time (hours)	72.0	58.0	48.0	42.0	38.0	36.0	34.0	32.0
Max. speed (km/h)	60	60	60	70	70	80	80	90
Average speed (km/h)	24	33	36	41	45	48	51	54

Table 3 Railway Employment

Year	1988	1994	1995
Total staff	65,000	44,000	42,000

Table 4 Revenue and Expenditure

(Billion dong*)

Year	1989	1993	1994	1995	1996	1997
Revenue	85.903	469.835	607.100	808.679	897.869	948.008
Expenditure	95.712	530.407	758.290	808.679	897.869	943.723
Balance	-9.809	-60.572	-151.190	0	0	4.284

* US\$1 is about 14,000 dong.

plan for concluding contracts between railway members instead of assigning a plan within the Operation Unit will also be needed.

By separating the infrastructure vertically, the government will remain responsible for subsidies for managing, maintaining and repairing the railway infrastructure, while Vietnam Railways itself will be responsible for operations and paying fees to use the infrastructure. At present, this fee is 10% of the operating revenue. This new development will put the railway business on a market footing and matches recent developments in railways worldwide. However, due to the very bad conditions of the railway network and high number of PSO services, it is impossible for Vietnam Railways to purchase modern rolling stock and equipment using its very limited funds from domestic freight and passengers. Consequently, it will still require a financial support mechanism from the government. This is not exceptional and most modern railways obtain preferential financing to purchase trains. Typical examples are French National Railroad TGV trains, JR Group shinkansen, Deutsche Bahn ICE trains and Queensland Railways tilting trains.

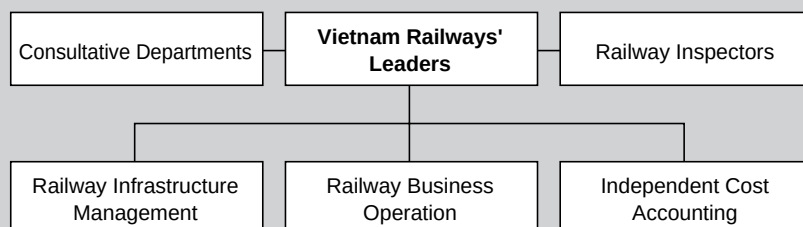
Organization

Many studies have been carried out by the government on restructuring state-owned enterprises, many of which have been reorganized under Decision No. 90/TTg of March 1994, State Owned Enterprise Law No. 39-L/CNT of April 1995, and Decree No. 56/CP of October 1996. However, one very important problem of restructuring is how to surmount the remaining old structure and develop the advantages of the new structure, which must be slim and responsive to the market economy regulated by the state within a socialist orientation.

The Vietnam Railway's organization model has to meet the following criteria:

- Slim organization with close relation to railway operations

Figure 4 Proposed Railway Organization



Stations form a thriving business chance for vendors.

(EJRCE)

- Right to business self determination
- Vertically separate Infrastructure and Operation Units with separate accounting systems, managed by one body located in one organization. (Vietnam Railways' top manager is authorized to manage these two Units based on the state's business policy.)
- Independently capitalized with right to increase capitalization
- Right to formulate short- and medium-term business plans in consultation with government
- Right to manage other non-railway business

Hopefully, these criteria will lead to the proposed railway organization shown in Figure 4, putting Vietnam Railways on the right track for the next century. ■



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