

# PRIVATE ECONOMY IN THE SOCIALIST ORIENTED MARKET ECONOMY IN VIETNAM IN THE PAST AND DEVELOPMENT SOLUTIONS

## ECONOMIA PRIVADA NA ECONOMIA DE MERCADO ORIENTADA PARA O SOCIALISMO NO VIETNÃ NO PASSADO E SOLUÇÕES DE DESENVOLVIMENTO\*

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**Abstract:** After 15 years of implementing the 5th Central Conference of the IX term (March 2002) on private economic development, the Party organized the 5th plenum of the 12th Central Committee (June 2017) to continue to set forth guidelines and solutions measures to develop the private economy in the new context. The 13th Party Congress (January 1, 2021) advocates: “Create all favorable conditions for the private economy to develop quickly, sustainably, diversifying both in size and quality. Forming and developing large domestic private economic groups with strong potential and regional and international competitiveness in association with building corporate brands”, together with the 2020 Enterprise Law, which has taken effect force. It is these guidelines and policies of the Party and the State of Vietnam that have continued to promote the development of the private economy with many positive results, but there are also certain limitations. This study goes into understanding the influencing factors as well as the development status of the private economy in Vietnam over the past time, and on that basis, proposes recommendations to further develop the private economy in Vietnam shortly.

**Keywords:** Private economy. The market economy. Enterprise.

**Resumo:** Após 15 anos de implementação da 5ª Conferência Central do IX mandato (março de 2002) sobre desenvolvimento econômico privado, o Partido organizou a 5ª plenária do 12º Comitê Central (junho de 2017) para continuar a estabelecer diretrizes e medidas de soluções para desenvolver a economia privada no novo contexto. O 13º Congresso do Partido (1º de janeiro de 2021) defende: "Criar todas as condições favoráveis para que a economia privada se desenvolva rapidamente, de forma sustentável, diversificando tanto em tamanho quanto em qualidade. Formar e desenvolver grandes grupos econômicos privados nacionais com forte potencial e competitividade regional e internacional em associação com a construção de marcas corporativas", juntamente com a Lei Empresarial de 2020, que entrou em vigor. São estas diretrizes e políticas do Partido e do Estado do Vietnã que têm continuado a promover o desenvolvimento da economia privada com muitos resultados positivos, mas também existem certas limitações. Este estudo aprofunda a compreensão dos fatores de influência, bem como do estado de desenvolvimento da

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economia privada no Vietnã no passado, e com base nisso, propõe recomendações para desenvolver ainda mais a economia privada no Vietnã em breve.

Palavras-chave: Economia privada. A economia de mercado. A empresa.

## 1. INTRODUCTION

In Vietnam, after 1975, the private economy was no longer recognized nationwide. It was not until the period of comprehensive renewal of the country (1986), that the view of the private economy was gradually formed and developed again. With the policy of comprehensive renovation of the country, in December 1990, the National Assembly of Vietnam passed the Law on Companies and the Law on Private Enterprises (effective April 1991), starting a strong development process of the private economy in Vietnam in the 90s of the twentieth century. After a period of practical implementation of the above two laws, in 1999, the National Assembly continued to pass the Enterprise Law in 2000 (supplemented and amended in 2005, 2015, and 2021) which continued to create momentum for the private economy to develop more strongly in the first two decades of the twenty-first century.

These legal foundations along with the Party's policies and guidelines in recent years, it has created favorable conditions for the private economy to develop widely, making an important contribution to the economic development process improving people's lives, increasing state budget revenues; at the same time contribute to liberating the labor force, promoting the social division of labor, transforming the economic structure towards industrialization and modernization, developing a socialist-oriented market economy, increasing increase the number of workers, laborers, and entrepreneurs, implement the policy of socializing health, culture, education... and contribute to stabilizing the political and social situation of the country. With the important contributions of the private economy in recent years, the XIII Congress of the Party (January 2021) has set the target: "Strive to 2025, there will be about 1.5 million enterprises operating; The proportion of the private sector's contribution to GDP is about 55%" (Communist Party of Vietnam. (2021). pp.125-126) and "striving for at least 2 million enterprises by 2030 with the proportion of the private sector's contribution to GDP reaching 60-65%" (Communist Party of Vietnam. (2021). pp.240).

## 2. FACTORS AFFECTING THE DEVELOPMENT OF THE PRIVATE ECONOMY IN VIETNAM OVER THE PAST TIME

## **2.1. World situation**

In the early 90s of the twentieth century, when the Soviet Union and Eastern Europe collapsed, the bipolar order came to an end, with dominant features that dominated both economic and international politics. Those features so far have not only not faded, but on the contrary, have grown stronger. It is these characteristics that have made the modern market economy more and more developed and spread all over the world, regardless of the political regimes of countries.

At the end of the twentieth century, the emergence of globalization accelerated the process of linkage - integration and deepened the interdependence between economies and regions. Which, many countries that have maintained isolation policies for a long time have opened up and integrated into the global economic network.

The deeper and more comprehensive the process of international integration, the more complicated problems need to be solved that require synchronous coordination not only in the economy but also in the political and social system. The opening up and integration of market economies today is not limited to economic and trade activities. Vietnam has changed from a policy of proactive and active international economic integration to a policy of proactive and active international integration. The next job is to perfect the coordination mechanism for international integration in general. International economic integration involves many localities, many industries, and many different fields. With the large scope of modern international trade in general and the WTO in particular, it can be said that there are very few industries that are not related to integration work.

In addition, in the first two decades of the 21st century, the world situation also witnessed major events affecting the development of the private sector in Vietnam, such as the global financial crisis in 2008 – 2012, public debt problems in other countries, the US-China trade war, new generation trade agreements were signed more and more between countries and most recently the Covid-19.

All of the above issues have had a great impact on the socio-economic situation in Vietnam and on the development of the private sector in Vietnam over the past two decades.

## **2.2. Vietnam situation**

As a constituent part of the national economy in a socialist-oriented market economy, the transformation of the private economy in Vietnam is influenced by many factors such as the environment, conditions for domestic and foreign production, and business, especially under the leadership of the Party and the management of the State.

Thoroughly grasping the Resolution of the Ninth Congress (April 20011) on the development of the private economic sector, the 5th Plenum of the IXth Central Committee (March 2002), determined: “The private economy is important component importance of the national economy. The development of the private economy is a long-term strategic issue in the development of a socialist-oriented multi-sector economy, making an important contribution to the successful implementation of the central task of economic and industrial development. modernization and improvement of the country's internal resources in international economic integration” (Communist Party of Vietnam. (2002). pp.26-27). Thus, the Resolution affirmed to continue to renew mechanisms and policies, to encourage and facilitate the development of the private economy.

From the Party's point of view and policy towards the private economy, the State has also made changes in the mechanism for the private sector, with the most focus being the promulgation of the Enterprise Law in 2000 (amended, added in 2005, 2015, and 2021). The introduction of the Enterprise Law marks a new milestone, a turning point in promoting the strong development of the private economy. The Enterprise Law has created favorable legal conditions for the private sector to establish and organize a business. In addition to the Enterprise Law, in the past two decades, the National Assembly has also promulgated and revised many laws related to the private economy such as the Law on Credit Institutions of 1997 (amended and supplemented in 2003), Law on corporate income tax (2003), Law on domestic investment encouragement 1997 (amended in 2002), ...

To continue to develop the private economy, the 12th Party Congress (January 2016) determined: “Complete mechanisms and policies to strongly develop the private economy according to planning and regulations of law” (Communist Party of Vietnam. (2016). pp.110-111). After the 12th National Congress, at the 5th Plenum of the 12th Central Committee (June 2017), the Party took another step forward in its policy of continuing to develop the private economic sector when it identified: “Develop a healthy private economy strong market mechanism is an objective, urgent and long-term requirement in the process of perfecting institutions and developing a socialist-oriented market economy in our country; is an important means to liberate productive power; mobilize, allocate and effectively use development resources”, “the private economy is an important driving force for economic development” and the policy of “encouraging the private economy to contribute capital, purchase shares of state-owned enterprises upon equitization or divestment by the State. Promote the development of all forms of

association in production, business, and supply of goods and services along production networks and market value chains between the private economy and the state economy, the collective economy, and enterprises foreign-invested enterprises to receive, transfer, and create a wide spread of advanced technology and modern management, increase added value and expand the consumption market” (Communist Party of Vietnam. (2017). pp.94, pp.97). With this policy, the Party aims at: “Developing a healthy, efficient and sustainable private economy, truly becoming an important driving force of the socialist-oriented market economy, contributing to the development of a socialist-oriented market economy part of rapid and sustainable socio-economic development, constantly improving people's living standards, realizing social progress and justice, ensuring national defense and security, and soon turning our country into an industrialized country towards modernization” (Communist Party of Vietnam. (2017). pp.97).

Incidentally, at the 13th Party Congress (January 2021), the Party continued to emphasize: that “the private economy is an important driving force of the economy”. Compared with the XI Congress, which identified the private economy as “one of the important driving forces”, the XII and XIII Congresses have increased awareness of the position and driving role of the private economy. “The private sector makes an increasing contribution and becomes an important driving force for the country's economic development” (Communist Party of Vietnam. (2021). pp.210). To soon realize the position and driving force of the private economy, the XIII Congress advocated: “Create all favorable conditions for the private economy to develop rapidly, sustainably, diversify in both size and scale quality. Forming and developing large domestic private economic groups with strong potential and regional and international competitiveness in association with corporate branding. Building and developing financial institutions to support small and micro enterprises; support to convert production and business households into enterprises. Adjust business support activities towards unity, focus, and national level and show inter-sectoral and inter-regional character; develop a program to support digital transformation for Vietnamese enterprises. Striving to 2025, there will be about 1.5 million enterprises operating; The proportion of the private sector's contribution to GDP is about 55%” (Communist Party of Vietnam. (2021). pp.125-126) and “striving for at least 2 million enterprises by 2030 with the proportion of the private sector's contribution to GDP reaching 60-65%” (Communist Party of Vietnam. (2021). pp.240).

### 3. THE DEVELOPMENT PROCESS OF THE PRIVATE ECONOMY IN VIETNAM SINCE THE TRANSFORMATION OF THE ECONOMY

In the past time, to promote the development of the private economic sector, the highlight is the introduction and quick entry into force of the Enterprise Law 2000 (amended and supplemented in 2005, 2015, and 2021) created a strong impetus for the rapid development of the private sector in the first two decades of the twenty-first century. And it can be affirmed that, up to now, the private sector has established a position and an indispensable driving role in the national economy.

*Firstly, the number of enterprises with fast but unsustainable growth rates with high bankruptcy and shutdown rates.*

The number of non-state enterprises that have entered the market every year on average in recent years is very fast. In 2019, the number of non-state enterprises has reached 647,632 enterprises, a 20-fold increase after 20 years of the Enterprise Law 2000 taking effect (in 2000 there were only 31,950 enterprises) and 24 times the number of enterprises in 1991, there were 414 enterprises. The average annual proportion of the number of non-state enterprises has always accounted for the largest proportion of the total number of enterprises in the country (accounting for 96.1%) and has increased significantly compared to the period 1991 - 2006 (89.4%). In 2019, the number of large non-state enterprises in terms of capital size also increased significantly, increasing by 1.9 percentage points compared to 2000 (General Statistics Office. (2022)).

In addition, according to the Ministry of Planning and Investment, in recent years, the number of newly established and returning non-state enterprises has also increased rapidly. In the two years 2017 - 2018, there were 258,134 newly established enterprises and 60,458 temporarily suspended enterprises returned to operation; In the two years 2019 - 2020, the corresponding figure is 273,080 newly established enterprises and 83,517 enterprises returning to operation. Thus, the average number of newly established non-state enterprises per year during this period was 132,803 and 35,994 returned to operation (Ministry of Planning and Investment. (2021)).

Although there is a strong increase in the number of businesses, accounting for a large proportion, the bankruptcy and shutdown rates are also very high. This shows the unsustainable growth of non-state enterprises. On average in the period 2016-2020, each year the whole country has 28,810 registered enterprises suspending business, an increase of 110.5% compared to the average period of 2014-2015. Also during this period, each year

the whole country has 15,042 enterprises dissolved, an increase of 58.4% compared to the average period of 2014 - 2015 (Ministry of Planning and Investment. (2021)). This continues to be a worrying sign for the private sector, in which the biggest difficulty is the small household and individual production sector.

*Second, the size of enterprises is still very small in terms of both capital and labor size.*

For non-state enterprises, according to data from the General Statistics Office, as of December 31, 2019, the number of enterprises with less than 10 employees accounted for 78.1%, enterprises with 10 - 49 employees accounted for 21.1%, enterprises with 50 employees or more account for just over 0.7% of the total number of enterprises. According to the criteria for classifying small and medium-sized enterprises by labor size (Decree 56/2009/ND-CP of the Government), Vietnamese enterprises are mainly small and medium-sized enterprises, as of December 31st/ in 2019, the number of small and medium-sized enterprises accounted for 99.8% (in 2000 it was 99.3%) of the total number of enterprises, large-scale enterprises accounted for only 0.2% (in 2000 it was 0.7%), the total number of businesses (General Statistics Office. (2022)). In terms of capital scale, the number of enterprises with less than 1 billion VND accounted for 18.3%, enterprises with 1 billion to under 10 billion VND accounted for 55%, and enterprises with 10 billion to less than 200 billion VND accounted for 24.7%, enterprises with over 200 billion VND account for 2%. According to the criteria for classifying small and medium-sized enterprises by capital size (Decree 56/2009/ND-CP of the Government), Vietnamese enterprises are still mainly small and medium-sized enterprises, as of December 31, 2019, the number of small and medium-sized enterprises accounted for 98% (in 2000 it was 99.9%) of the total number of enterprises, and large-scale enterprises only accounted for 2% (in 2000 it was 0.1%) of the total number of enterprises (General Statistics Office. (2022)). Thus, although the Enterprise Law has been promulgated for more than 30 years, non-state enterprises in Vietnam still “have not grown up”.

*Third, operational efficiency is not high, labor productivity is low.*

In the period 2016 - 2019, the labor productivity of the private sector reached the lowest level compared to other economic sectors. Specifically, in economic sectors, the average monthly labor productivity of state-owned enterprises is always leading at 12.4 million VND; the FDI enterprise sector reached 9.4 million VND and the non-state enterprise sector reached 7.5 million VND (Ministry of Planning and Investment. (2021). pp.55). In terms of labor efficiency, the non-state enterprise sector reached 17 times, 18.9

times lower than the state-owned enterprise sector, but 13 times higher than the FDI sector (Ministry of Planning and Investment. (2021). pp.51).

Return on revenue in 2019 was the lowest in the non-state enterprise sector with 1.8%, while the state-owned enterprise sector was 5.8% and the FDI enterprise sector reached 5.3% (Ministry of Planning and Investment. (2021). pp.53).

*Fourthly, the private sector makes great contributions to the economy in terms of job creation, state budget payment, economic growth, and contribution to hunger eradication and poverty reduction, but it is not commensurate with its potential.*

The vast majority of Vietnamese workers in the private sector (including households and non-state enterprises) are 86%, while the foreign-invested economic sector contributes only 4% of the total employment and the state economic sector is 10% (General Statistics Office. (2015)).

With the number of over 5.2 million non-agricultural (General Statistics Office. (2022)) individual business and production establishments operating in all communes and wards nationwide, not only has it mobilized a large number of internal resources for economic development, but also helps to reduce the disparity in economic and social levels between regions, and areas in the country, especially in places where businesses do not want or cannot invest, such as mountainous, island, deep-lying, and remote areas.

With over 8.7 million employees, non-agricultural (General Statistics Office. (2022)) production and business establishments not only create jobs, but also increase incomes, and eliminate hunger and poverty directly for those who own, manage and work in this area, but also indirectly improve the lives of low-income, poor people in both urban and rural areas. Besides, the data also shows the positive contribution of farms to employment and poverty alleviation in rural areas in recent years. The farms have employed 134.7 thousand regular workers. The farm owner's labor is 75.8 thousand people, accounting for 56.3% of the total number of employees, the rest are regular hired workers.

On contribution to economic growth and the state budget. The private sector, including businesses and individual business households, contributes about 40% of GDP. However, most of this contribution comes from the private sector (30%) and only about 10% of GDP is contributed by non-state enterprises. That shows that the non-state enterprise sector is still very small. However, non-state enterprises make an increasing contribution to state budget revenues. The proportion of non-state enterprises' contribution to state budget revenue from all enterprises has increased from 10% in 2000



to 33% in 2014. Meanwhile, this share of state-owned enterprises has increased decreased from 50.6% to 39% in the same period mentioned above (Tuyen, N. (2016)).

Although there has been continuous development, the private sector in Vietnam has not reached its full potential in recent years to play an important role as an indispensable driving force of the economy. The main reason for that situation is that this region is still facing many barriers in both theoretical thinking and legal framework, regulating the policy mechanism, and implementing the policy mechanism in practice as well such as the business environment and the internal capacity of the economic sector itself.

#### **4. PROPOSED RECOMMENDATIONS**

##### **4.1. Continue to perfect the theory and unify the perception of the private economy in the socialist-oriented market economy**

It is necessary to continue to be more aware of the functions of the State and the market in the socialist-oriented market economy. Perfecting the socialist-oriented market economy institution is a prerequisite for creating a favorable environment for the development of the private economy. First of all, it is necessary to clearly define the role of the State and the market as well as clarify the relationship between the State and the market in the economy.

Clearly define the functions and roles of the state economic sector and the private sector. The set goal is to create conditions, remove barriers, and promote the development of the private sector, which plays the role of an important driving force of the economy, towards becoming an “important driving force the most important part of our economy”, then it will strongly promote the spirit of entrepreneurship, create vitality and breakthrough in national development in the coming period of the private sector in Vietnam.

##### **4.2. Continue to promote the establishment of a basic foundation for the development of the private sector**

Continue to accelerate the process of economic restructuring in association with the renewal of the growth model to improve the efficiency and competitiveness of the economy. It is necessary to create conditions for the private sector to participate in the economic restructuring process, widely participate in the equitization process of state-owned enterprises, enjoy preferential interest rates, borrow capital, tax, space rental, administrative procedures, training, ... when participating in new fields of production and business.

Improve the institutional quality and governance of the private sector. Develop a healthy corporate culture, form a team of socially responsible entrepreneurs, accept clean and transparent standards and say “no” to bribery and corruption in business. In addition, it is necessary to pass business training programs on business management knowledge and skills to be able to practice modern corporate governance models.

#### **4.3. Complete solutions for each target group of the private sector**

Continue to develop and perfect solutions suitable for each group of businesses in the private sector (small and medium-sized enterprises, large enterprises, start-up enterprises) in the context of the revolution. The fourth industrial network and the context of digital transformation of Vietnam's economy.

For the informal sector, state agencies, on the one hand, do not force informal production and business establishments to convert into private enterprises by administrative measures instead of voluntary export and import arising from the needs and interests of these establishments themselves; on the other hand, it is necessary to improve the business environment to support the development of this area. Must reduce the burden of administrative procedures, inspection, inspection, ...; create favorable conditions for households to hire, recruit, fire, and terminate labor contracts, provide unemployment insurance, and appropriately support the informal sector in vocational training, especially short-term training, training associated with work needs.

For the group of enterprises in agriculture and rural areas, to create a breakthrough in development, they must switch from a closed, small, and unconnected agricultural production model, mainly at the household scale, to a model of agricultural production large-scale agricultural production, relying on enterprises and farms, operating under the market mechanism, and being competitive enough in international integration. To create favorable conditions for land accumulation, further research is needed to come to an official decision on the lifting of the land tenure and to have a favorable mechanism for farmers to lease agricultural land in the long term; local authorities need to support businesses in renting land from smallholder farmers.

## **5. CONCLUSION**

In the past time, the private economy has developed quite quickly, making more and more positive contributions to the economic growth rate; creating many jobs for laborers; making more and more contributions to the State's human resources; promoting

exports; promoting other economic sectors in the national economy to develop more dynamically... However, this economic sector still has certain limitations and weaknesses.

For the private economy to continue to develop strongly and in the right direction in the coming time, it is necessary to continue to pay attention to improving the leadership role of the Party and the management role of the State through recommendations and issues proposed topics, such as: Continue to perfect the theory and unify the perception of the private economy in the socialist-oriented market economy; Continue to promote the establishment of a basic foundation for the development of the private sector; Continue to improve solutions for each target group of the private sector. Well-implementing solutions to the private economy in the market economy will contribute to quickly realizing the Party's goal that the private sector will soon “become an important driving force in promoting the growth of the private sector economic development of the country”.

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