

# THE PRIVATE SECTOR IN THE SOCIALIST-ORIENTED MARKET ECONOMY IN VIETNAM: POSITION, ROLE, LIMITATIONS AND PROPOSING SOLUTIONS

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## Abstract

*In recent years, awareness of the position and role of the private sector has made important and positive strides. The legal system, mechanisms, and policies have been gradually improved. Property rights and freedom of business of individuals and organizations are institutionalized and protected by law. The State's management method for the private economy has been renewed to be more consistent with the market mechanism. Administrative reform, especially administrative procedure reform, has been promoted; The investment and business environment has been gradually improved, more open and favorable. Democracy in socio-economic life is increasingly being promoted. This study focuses on analyzing the role of the private sector in the socialist-oriented market economy. From there, propose solutions to further promote the role of this economic sector in the future in Vietnam.*

**Keywords:** Private sector, position and role, socialist-oriented market economy, Vietnam

## INTRODUCTION

Developing a multi-sector economy with many economic types has been proposed by the Communist Party of Vietnam since the VI Congress (1986). This is the consistent and long-term policy of the Communist Party of Vietnam. So far, having undergone nearly 35 years of renovation (starting in 1986), the practice has proven that this is a thesis, a policy that is completely consistent with objective requirements is a strategic decision. correct and creative contributions to the “great and historically significant achievements” of the Vietnamese nation (Communist Party of Vietnam, 2021).

During the economic transformation in Vietnam, non-state economic sectors in general and economic sectors based on private ownership and individual ownership of means of production have been encouraged to develop. has gradually affirmed its important role in national economic development (Communist Party of Vietnam, 2016 & 2021). The type of private economy has developed widely throughout the country and localities, making an important contribution to economic development, mobilizing resources for production and business, creating more jobs, improving people's lives. population, increase accumulation, contribute to maintaining socio-political stability.

In the current globalized economy and international integration, there are also many opportunities and challenges for Vietnam (Communist Party of Vietnam, 2021). In order to promote and develop Vietnam's economy and society, and to implement the Party and State's policy of industrialization and modernization, it requires great efforts of the Party and State. economy and the whole people (Communist Party of Vietnam, 2016 & 2021). In which, the role of the private economic sector must be mentioned, it is an integral part of the economic system of our country. The contribution of this sector to the economy is not small in recent years.

The private sector not only contributes greatly to the country's GDP but also helps create jobs for a large number of workers (World Bank, 2015 & 2016). But in the current process of international economic integration, the private sector also faces many difficulties, challenges, and opportunities. Part of the reason is that our country's starting point is still low, and the State's policies are still inadequate. In addition, it is also due to the habit of relying on, the old thinking of the centralized planning institution and the incorrect thinking of a part of public servants about this area. That leads to the urgent requirement that there are reasonable solutions to develop the private economic sector before integration is approaching.

In the development process of Vietnam's economy today, it is very important to mobilize all economic sectors and economic types in various fields, including the private sector. Investment capital from this type contributes to the development of the country, bringing the country out of poverty and backwardness is an objective and necessary need.

In fact, in recent years, the scale and number of private economic sectors across the country have been increasing every year; investment firms are increasingly diversified; increasing production and business efficiency; contribute to economic growth, create jobs for thousands of workers, contribute to the state budget, etc. However, besides the achieved results, the development of the private sector also revealed many weaknesses and limitations. The type of private economy lacks the basic resources necessary for expansion and development; the business environment still faces many difficulties; has not well implemented the provisions of the law, the policies of the State, etc. Therefore, focusing on and paying attention to the development of the private sector is the work of many branches, levels, and localities.

## **OBJECTIVES, SCOPE AND METHOD OF THE STUDY**

Research objectives: To examine the development status of the private sector in Vietnam in the Innovation period, the necessity, difficulties, and problems. On that basis, proposing policy amendments to create a market-oriented business environment, thereby promoting the development of the private sector in Vietnam.

Research scope: The situation of private economic development in Vietnam can be viewed from many different angles. However, the topic is limited to analyzing the situation of the private sector in aspects such as the number of businesses, the amount of registered and implemented capital, the role and contributions of the private sector in the economy, and the situation of private production and business establishments in general. In addition, the data and analysis and evaluation in the topic on the private sector are limited to domestic enterprises, except for the

non-agricultural non-state sector. This sector includes individual production and business households, private enterprises, limited liability companies, joint-stock companies, partnerships, and non-state agricultural economic divisions.

Research methods: Methods of dialectical materialism, historical materialism of Marxism - Leninism, and other scientific research methods such as synthesis, analysis, statistics, comparison, etc. based on data collected on the private economy.

## **LITERATURE REVIEW**

Research situation Private economic development is an outstanding issue in the economic transition in Vietnam. During the period of central planning, the economic model that abolished the private and individual economy and collected all economic activities has brought the country into a socio-economic crisis since the late 1970s. Therefore, in the process of transition to a market economy, the role of the private economy has received special attention and research attention. There has been much research works on the private economy in the form of scientific research topics, dissertations, and articles, specifically:

MPDF. (1997). "Emerging private sector and industrialization in Vietnam"; Tran Ngoc Hien. (1999) "Policy to develop the private capitalist economic sector in accordance with socialist orientation (until 2010)"; Tran Tien Cuong. (2000). "Analysis of the interplay between SOE reform and non-state economic development in Vietnam". Ministry of Planning and Investment, 2000; Nguyen Van Huong. (2001). "Analysis of policies and measures to support investment under the law on encouraging domestic investment for the non-state economic sector"; CIEM-JIBIC. (2001). Proceedings of the Conference "Development of the private economic sector: legal barriers and solutions"; Tran Ngoc But. (2002). "Development of the private economy with socialist orientation". National Politics These studies have highlighted the need for private sector development and the difficulties in doing so.

In 2017, the Resolution of the 5th Conference of the 12th Party Central Committee was issued, confirming the importance of promoting the development of the private sector to become a driving force of the market economy. socialist orientation school in Vietnam. This is an important milestone because, in the past, private enterprises in Vietnam had to go through a turbulent development process. During the previous period of the centrally planned economy in Vietnam, private enterprise was not officially recognized. However, during that time, the private sector still existed, filling the gaps left by the state sector. In 1986, the "Innovation" policy was promulgated at the 6th Party Congress. With the Innovation policy, the private sector was officially recognized as an integral part of the determined market economy. socialist direction and of the multi-sector economy. The Enterprise Law enacted in 1999 led to an explosive growth of domestic private enterprises in Vietnam. Since then, the legal and policy environment for the private sector has been continuously improved.

In addition, there are research works such as Nguyen Huu Son. (2017). "Developing private sector in Vietnam: Constraints and solutions". Journal of Economics and Management; Vu Van Phuc. (2019). "Private economy: Concepts and development solutions". Journal of Political Theory; Do Van Anh. (2019). "The private sector in the

Vietnamese market economy". Banking Journal, Special topic.Chu Minh Anh. (2020). "Improve business environment, support business development, and promote international integration" and Pham Nguyen Quynh Huong. (2020). "The quality of human resources in small and medium enterprises: Current situation, reason, recommendations on solutions". Journal of Natural Remedies , etc.

These articles cover various aspects of private economic development in Vietnam. However, in-depth and up-to-date research on the current state of private economic development in Vietnam, along with comparisons and lessons learned from transition economies, is always necessary and topical for the country. with the current economic development of Vietnam.

## **RESEARCH RESULTS AND DISCUSSIONS**

### **Results and efficiency of production and business of the private economic sector**

The private economic sector is an important part of the economic establishment in the process of social production. The development of this type of economy is an important driving force to contribute to economic growth and transformation. speed up economic structure, including structure by economic sectors, structure by industry, and structure by economic region, in order to promote the capacity of the whole society to ensure the successful implementation of the industrial cause. to modernize and modernize the country, improve production and business efficiency, create competitive advantages, enhance the ability to integrate into the international economy, contribute to economic growth and social progress (Communist Party of Vietnam). Vietnam, 2017).

Thanks to the renewal of the economic management mechanism and the policy of international economic integration of the Party and State, in recent years, the private economic sectors across the country have been increasingly developed, especially the number of enterprises. Private equity, limited liability companies have developed significantly, contributing to unleashing the full potential of production of the private sector, creating jobs and incomes for workers, creating momentum for economic growth, increase export turnover, increase budget revenue for the State, and at the same time contribute to socio-political stability.

In the economy, the type of enterprise in general, and the type of private economy in particular, have a particularly important position as the main part that generates and accounts for a large proportion of the gross domestic product. Therefore, the role of this type is increasingly confirmed in the economic development strategy of the country in general and the locality in particular in the current period.

Along with the rapid growth in quantity, the production and business results of the private sector in the whole country also have important developments. The policy of renovating the mechanism, developing the economy according to the socialist-oriented market mechanism, is an important breakthrough to create a fair development among the developed economic sectors, the resources in the society, and the economy. associations are mobilized for the construction of the country; with the competition of the market economy, the quality of goods and services is increasingly improved, many products and services dominate the domestic market; Business competition also makes people increasingly benefit from the products and services provided by businesses. On the other hand, the

export market has also been expanded, the role of non-state enterprises and foreign-invested enterprises has been increasingly confirmed in the new mechanism.

The number of registered enterprises increased sharply, reflecting both the formalization of business households as well as the establishment of new businesses (GSO, 2018). However, there is a widening gap between the number of registered businesses and those that are actually operating. Besides enterprises registered under the Enterprise Law, foreign-invested enterprises and business households have become an important component of the private sector in Vietnam. The expansion of the private sector in Vietnam has been accompanied by a decrease in the number of state-owned enterprises and with the slow growth of the cooperative (collective economy) sector (the Communist Party of Vietnam, 2017). The increase in the number of private enterprises has led to strong growth in the total capital of private enterprises. The private sector has made great contributions to the formation of fixed assets and long-term investment of the business sector in particular and of the entire economy in general.

The private sector has been an important contributor to Vietnam's economic growth in recent years. The domestic private sector accounted for 38.6% of GDP in 2016 (in this proportion, officially registered enterprises accounted for 8.2%, the household business sector accounted for 30.43%). The foreign private sector (FDI) contributes 18.95% to GDP. The private sector is a major contributor to job creation, poverty reduction, improved living conditions, and sustainable and inclusive growth in Vietnam. Excluding the household business sector, domestic private enterprises and foreign-invested enterprises created 3.35 million new jobs between 2010-2015, which is an average of 557,000 new jobs per year. Private enterprises have overtaken the SOE sector in terms of income generation for workers and this gap is widening. Jobs created by private sector businesses have helped millions of workers move from lower-paying agricultural jobs to higher-paying, more productive industries. Private enterprises contribute significantly to the expansion of coverage of social security and social insurance programs. Enterprises contributed about \$39 billion to the State Budget in 2016, accounting for 79.8% of total budget revenue. The share of domestic private enterprises in total State budget revenue has increased from 11.9% in 2010 to 14.3% in 2016, ie from about 3 billion USD to 7 billion USD per year in the calculation in absolute value (GSO, 2018).

Private sector development has contributed significantly to women's economic empowerment, especially through employment opportunities and income streams. In 2015, women accounted for 46% of jobs in the entire formal enterprise sector. Some studies estimate that 25% of businesses in Vietnam are owned or led by women, higher than the South Asian average of 8%. About 5% of the general directors and executives of companies listed on the Vietnamese stock market are women. The trend of female leadership in the private sector has promoted the formation and operation of business associations and female entrepreneurs.

The increase in the number of private enterprises has led to strong growth in the total capital of private enterprises. The contribution of the domestic private sector to the total capital of the enterprise sector increased from 9.25% in 2000 to 49.77% in 2015. If the foreign private sector is included in FDI enterprises, this figure will be 32.9% in 2000 and 68.6% in 2015. The total capital of domestic private enterprises will increase from 98.3 trillion VND in 2000 to 11,020.9 trillion in the year. 2015. In other words, about \$546 billion has been mobilized by Vietnamese businesses

and put into the economy in just 15 years, an average of \$36.4 billion per year. This figure far exceeds the annual amount of registered and realized FDI and ODA disbursed in Vietnam during the same period. Private enterprises have been making a great contribution to the general efforts of mobilizing capital and resources being hoarded by people, including in the form of gold and foreign currency, for productive purposes. and for production and business activities. Although in terms of absolute value, the total capital of SOEs still increased, the proportion of total capital of SOEs in the total capital of the enterprise sector has decreased from 67.1% to 31.4 % in 2015. This is mainly due to the impressive growth in the share of the private sector.

### **Limitations and existence of the private sector**

Although it has developed very quickly and developed in all places and industries, but due to its low starting point, from the difficulties left by history, due to the general circumstances of the economy, the type of economic The private sector also has many limitations, specifically:

The development of enterprises in the form of private economy in recent years, especially private enterprises and limited liability companies, is still heavily formal, developing breadth, not paying attention to quality and surface. deep (Anh, 2019). Therefore, a series of small and micro enterprises formed each year are actually from households (hotels and restaurants, gold business, food technology, etc.) leading to results. The number of established units is many, but in reality, production and business activities are unstable, sustainable, and production and business efficiency is not high.

The expansion of production and business, implementation of good business ideas of the private sector is often difficult and inadequate in accessing credit because of their small scale, so they only participate in industries that do not need much. capital such as commercial activities, hotels, and restaurants (Son, 2017; Phuc, 2019). To ensure their business operations, units must rent assets from organizations, agencies, etc. Therefore, their infrastructure is not stable, due to lack of capital, they often do not have the trust of their partners, and do business in a fragmented fashion, without long-term strategies because of lack of funds. capital.

The competitiveness of the private sector unions in Lam Dong is low, the development ability is slow, products and services have not achieved high competitiveness even in the domestic market. This is also the cause of rampant development, lack of planning, and not paying attention to technical and technological factors and business advantages, thus reducing the competitiveness of units in the whole province.

Regarding the quality of labor, the type of private economy with mainly small and medium enterprises, the number of employees working in these enterprises is very small, with an average of about 16 employees per unit one of the main reasons why small and medium-sized enterprises do not develop quickly is because the labor level of these enterprises is low, these enterprises lack good human resources, often the laborers are not trained. methods, maybe only short-term courses, so it is difficult for them to absorb scientific advances, as well as their skills are not high, so labor productivity is not high. students are not interested in these types because they do not meet their

ambitions. Unstable labor, a high percentage of apprentices, violations of the labor regime in salary payment, social insurance contributions, working days and hours, etc.

Science and technology level: In the current era, science and technology are extremely important to all aspects of social life, developed countries around the world have successfully applied modern technologies to their activities. In terms of the general level, our country's technological level compared to the world's, our country's technological level is low on average, and the economic sector is at a very low level. Private is no exception. The scientific level is backward partly due to the common ground and partly due to the lack of capital of enterprises in this area, they do not have enough capital to buy advanced technologies, but the technology is not high leading to labor productivity. The low dynamics lead to low competitiveness of enterprises in the market, including domestic and foreign markets, but competition is a fundamental factor to ensure survival and development and is a vital element of enterprises. (Communist Party of Vietnam 2017).

Management level: The management level of business owners is still low. The majority of business owners, growing up from practice and learning from customers, it is estimated that over 80% of business owners grow up from practical experience, only a few have received formal training in business administration or education. general economic management (Son, 2019). About 85% of private enterprises are developed on a household basis (VCCI, 2016) Because management and operation are based on accumulated experience, lack of training, and no professional qualifications, it is difficult to difficulties in competition, moreover in the current integration conditions. The above business type will no longer be suitable because it is now a barrier to the development of enterprises, such as doing business in a snatching style, difficult to absorb new things. With the thought of having legal status to borrow capital and sign economic contracts, he lacks an understanding of laws and economic relations, especially with foreign partners (VNPI, 2016). There is still a situation where "ghost" businesses register, receive registration papers, receive tax codes, receive invoices, do not participate in production and business activities, disappear from the area (Son, 2019).

### **Proposing solutions to develop the private sector in the coming period**

Orientation to develop the number of private economic types: In order to further promote the role of the private sector, it is necessary to respect and ensure the right to freedom of business according to the law, to protect the property rights the legitimacy of citizens. Renovate the economic management method of the State in the direction of creating conditions and equality for all economic sectors.

The development of the private sector should focus and give priority to industries with local advantages and large scale. as a driving force for industrial development; creating conditions for the development of supporting industries, industries serving agriculture and rural areas; develop industries and trades that the province needs and industries that attract a lot of labor, using local and local labor. Continue to accelerate the process of equitization of state-owned enterprises.

Completing mechanisms, policies, and legal systems to ensure adequate legal corridors, create conditions for the private sector to develop, improve and strengthen the management role of the combined State with the better promotion of the role of other socio-political organizations.

The study proposes support policies, which focus on solving the difficulties of the private sector in terms of land, production and business premises, capital, scientific-technological and market capacity... housing support for employees working in the private sector. Developing businesses will attract high-quality and skilled workers.

Create favorable conditions for capital, land, tax, etc. for units of this type, new investment in technology, machinery, and equipment in the fields of local advantages in the processing industry of tea, coffee, vegetables, and flowers; High-tech agriculture; Vocational training, tourism, and convalescence, etc. access to investment capital for production, technological innovation to improve product competitiveness, trademark registration of products, proactively in the period of joining TPP. Create more favorable conditions for trained human resources, equality in access to preferential credit capital, land, etc. In addition to the mechanisms and policies of the Government, there needs to be strong involvement of professional associations, banks and moreover, the units themselves must find a way to save themselves before calling for help to the bank byways to raise capital from different channels, recalculate their production and business plans to avoid market risk and interest rate risk, etc.

Promote business linkages between enterprises to enhance competitiveness in the context of globalization. Businesses need to be more aware of economic linkages. Strengthen the role of associations in diversifying forms of horizontal and vertical linkage. Set up financial support funds, scientific research funds to carry out joint research projects of enterprises, strengthen cooperation to expand markets instead of competing for market share.

Consistency and transparency in investment attraction policies; clarify the rights and obligations of State management agencies in the management and operation of enterprises. implement appropriate sanctions for activities that violate the law and policies of the Party and the State. At the same time, the State also needs to have education and training programs on science and technology, as well as a timely and appropriate reward system to encourage, encourage, honor, and replicate the typical examples of such activities private economic sector in the market economy.

## **CONCLUSION**

The economic development practice of many countries around the world shows that the private sector plays a very important role in creating jobs, mobilizing capital, exploiting natural resources to create more wealth to improve living standards. live and contribute to the socio-economic development of the country. Private economic development, therefore, is one of the conditions for sustainable development.

The Party and State have identified the role of the private sector in the guidelines, guidelines, and major policies, initially creating the conditions and environment for the development of this type of economy. this and have achieved certain achievements. The private economy of the country as well as Lam Dong has recently played an active role in socio-economic development.



In parallel with the achievements, the private sector has not developed properly and has many limitations: the growth rate is not commensurate with the available potential, the production scale is still small, fragmented, due to the lack of many conditions, the achievements of science and technology have not been applied, the products produced are of low quality, poor design, and low competitiveness.

The development prospects of the private sector are positive. Sustained solid economic growth, ongoing economic restructuring, and institutional reform efforts will create a favorable environment for the private sector to thrive. Political determination and commitment to private economic development have been continuously reaffirmed. The government is becoming more and more adept in its role of “creating” and creating a favorable business environment for domestic private enterprises to start up, operate, and prosper. Vietnam's geographical location as well as its accession to regional and international trade agreements present many opportunities for the private sector in Vietnam.

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