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THE ROLE OF PRIVATE ECONOMY IN THE SOCIALIST-ORIENTED MARKET ECONOMY IN VIETNAM

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Abstract. The author discloses, through the prism of Vietnamese sources, the role of the private sector in the Vietnamese economy, showing that it has changed fundamentally during the 35 years of "Đổi Mới" implementation; analyzes its place in the structure of the Vietnamese economy and its evolution, as well as its position in comparison with two other sectors, namely the public sector and sector with the participation of foreign capital. The article, based on official Vietnamese sources, reflects the CPV's view of the private sector and the Communist Party's intention to use it in promoting the country's prosperity.

At the same time, the author introduces the idea that large Vietnamese private groups are "indebted" to political protection by the leadership of the country, emphasizes the existence of a "cronyism and patronizing" approach in relations between them. Thus, the private sector can therefore, contribute to economic development and the creation of economic champions but maybe not to a leveled playing field between sectors and within the private sector.

The paper aims at putting forward the fact that the State is actually piloting the private economy. In reality the Vietnamese authorities seem to adapt to it and take advantage of its development.

Keywords: Vietnam, Socialist-oriented market economy, private sector (kinh tế tư nhân), non-state economy, economic groups, economic components.

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Introduction

The private sector plays an important role in the Vietnamese economy and acts as an engine of economic development, despite the fact that the forefront by the Constitution is reserved to the public sector. The private sector accounts for about 43 % of GDP and absorbs approximately 85 % of the labor force.

However, the declining efficiency and economic returns of the public sector have forced the Vietnamese authorities to reconsider the importance of the private sector and to significantly increase its role in the development of a socialist market economy. The continuing budget deficit has caused the government to encourage greater private sector participation. In recent years, many articles have been published that see the private sector as the driving force of the economy.

At the same time, private sector development is putting significant pressure on the Vietnamese government, calling for more transparency, accelerating institutional reform and improving the business environment. Moreover, the predominance of small and medium-sized enterprises, which are often deprived of opportunities and incentives to invest in advanced technologies, leads to low labor productivity, which in 2018 was the lowest in the private sector among all sectors of the economy.

A certain problem is also the lack of strong links between the private economy and other sectors of the economy, in particular, enterprises with foreign capital. Most foreign businesses investing in Vietnam use the resources of international suppliers and export their products overseas. The involvement of domestic firms in these value chains remains low. For example, the domestic value added of electronics is expressed in single digits.

To achieve its goal of building a prosperous country by 2045, Vietnam must move towards an approach that promotes a fair and competitive business environment so that a “level playing field” can be created for all sectors in which it can compete.

The structuring of a private economy in a Socialist-oriented market economy and its evolution in the Vietnamese economy

The private economy is defined in Vietnam as a national “economic component” developed on the basis of private ownership of the means of production [Vũ Văn Phúc: 31.10.2020]. The more the means of production are concentrated in the hands of few shareholders, the less the company has a strong degree of “socialization” (*xã hội hóa*). This “socialization” notion indicates that the means of production are owned by “society”, namely the “community”.

The Renovation policy (*Đổi mới*) was launched in 1986 and aimed at developing a market economy in many components operating according to a mechanism Socialist-oriented market economy. The 6th Congress of the VCP specified that “the objective of the renewal of the economic management mechanism targeted the creation of powerful forces aimed at liberating the forces of production, developing the market economy with a view of moving towards socialism”. Developing the multi-component market economy was a long-term strategic recommendation to reach the stage of socialism [Văn kiện Đảng 2019: 355].

At the 6th Congress of the VCP (1986), there were 4 economic components: The National Economy bringing together all the state structures (budget, banks, state enterprises); The Collective economy (Cooperatives); The Capitalist economy (essentially joint ventures between the State and national or other private actors to promote the transition to “socialism”); The Production of small commodities economy. In 1991, the 7th Congress introduced a new component of the private capital economy to promote the creation of joint ventures between the state and foreign players. The 8th (1996), 9th (2001) and 10th (2006) Congresses maintained the same number of 5 components with a change of name for the National economy which became the State economy. It had the mission of “keeping a leading role” in the Vietnamese economy. In addition, the collective economy was renamed Cooperative during the 8th and 9th Congress. Two components evolved between the 9th and 10th Congress: the Individual, Artisanal economy and the Capitalistic economy merged into a private economy. And a new component appeared at the 10th Congress: the foreign owned economy. It is interesting to note that this component is distinct from the Private economy, which implies that structures from this component are only domestic-owned structures.

At the XI Congress (2011), small and handicraft production was included in the private economy. Thus, the number of economic components was reduced to four and remained unchanged at the subsequent XII (2016) and XIII (2021) congresses. The components of the Vietnamese economy at the present stage are the state economy, the collective economy, the private economy and the economy with foreign participation. Collective and private forms are often combined into one category

- non-state enterprises. These economic components are made up of companies of different legal forms and ownership which are gradually taken into account in the statistical reports (Fig. 1).

State Enterprise sector	***"Non-state" business sector***	***Foreign-funded Business Sector***
• Limited liability company with a sole 100% state member • Joint-stock company, • Limited liability company whose state capital is greater than 50%.	• Private company ; • Partnerships ; • Private Limited liability company; • Limited liability company whose state holds less than 50% of the capital ; • Joint-stock company without state capital; • Joint-stock company in which the state holds less than 50% of the capital.	• Companies with 100% foreign owned capital; • State enterprise in joint venture with foreign partner. • Other companies in joint venture with foreign partner.

Fig. 1. Structure of the Vietnamese economy

The place of the private economy in Vietnam

After 30 years of applying the economic "Renewal" (*Đổi mới*[1]) policy, the private economy in Vietnam has gradually been structured to fit into a "Socialist-oriented market economy" advocated by the authorities. A first milestone, or politically recognized as such, was the enactment of Resolution 14-NQ/ TW concerning "the further renewal of the mechanism, encouragement and creation of conditions for the development of the private economy". In June 2017, the Resolution 10-NQ/TW was published to "develop the private economy for it to become an important driver of the Socialist-oriented market economy".

This orientation needed to materialize in operational tools like legal forms or accounting principles to foster. Therefore, the National Assembly of Vietnam enacted the Law on Companies in 1990; the Law on Private Enterprises in 1990 (amended in 1995), the Law on Business (1999), amended in 2005 (providing for a common readjustment between State Owned Enterprises and Private Enterprises) and which was then amended in 2013, the Law on Enterprises in 2014 and then the one of 2020.

According to government officials, the private sector has become the "solid foundation" of the Vietnamese economy [Trịnh Đức Chiều: 26.01.2020]. In terms of number of companies, end of 2019 [GSO, Sách trắng doanh nghiệp Việt Nam năm 2020, Bộ Kế hoạch và Đầu tư 2020, Hiếu Công: 13.02.2020], the private sector as a whole counted approximately 6 million private structures, and around 700,000 private Vietnamese companies[2]. The total number of these "non-state" structures represented 96-97% of the total number of companies.

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[1] Policy of economic "renewal" advocated during the VIth Congress of the Vietnamese Communist Party in 1986.

[2] Registered by the Vietnamese authorities (*Sở Kế hoạch và Đầu tư*).

Table 1. **Ownership Ratio in Vietnam**

	2015	2016	2017	2018	2019
TOTAL (%)	**99,99**	**99,99**	**100**	**100**	**100**
State owned enterprises	**0,64**	**0,52**	**0,44**	**0,37**	**0,31**
100% State owned capital	0,3	0,25	0,21	0,18	0,15
Over 50% state owned capital	0,34	0,27	0,23	0,19	0,16
Non-state enterprises	**96,66**	**96,7**	**96,67**	**96,86**	**96,88**
Private	10,79	9,58	8,12	6,89	6,03
Collective name	0,13	0,17	0,13	0,13	0,13
Limited Co	65,04	66,7	68,6	70,23	71,2
Joint-stock company having capital of state	0,32	0,26	0,21	0,18	0,18
Joint-stock company without capital of state	20,38	19,99	19,61	19,43	19,34
Foreign investment enterprises	**2,69**	**2,77**	**2,89**	**2,77**	**2,81**
100% foreign capital	2,31	2,37	2,5	2,42	2,41
Joint venture	0,38	0,4	0,39	0,35	0,4

Source: Statistical Yearbook of Vietnam 2020. GSO, 2021: 333. URL: https://www.gso.gov.vn/wp-content/uploads/2021/07/Sach-NGTK- 2020Ban-quyen.pdf

The number of businesses reported per 1,000 inhabitants has grown steadily at 11.2% per year from 3.2 (2010) to 7.6 businesses/1,000 inhabitants. According to the General Statistical Office, in 2018 the number of people working in the non-state sector was 45.2 million people, that is, about 83.3% of the population over 15 years old.

The contribution of the private sector to Vietnamese GDP is quite significant. Over the period 2010–2018, the non-state sector contributed to 43% of the GDP. Over this period the private sector increased from 38% to 40.6%; at the same time, the share of the state economy grew from 27.7% to 29.4% and that of foreign-capital enterprises from 15.15% to 20.3%.

Regarding contributions to the State Budget, the “non-state” sector increased from 28.3% in 2010 to 33.2% in 2016, while at the same time the contribution of foreign-owned enterprises increased by 26.3% to 34.4% while the state sector saw its contribution fall from 45.4% to 32.3%.

Since 2015, the “non-state” sector has been the leading investor in terms of total Vietnamese investment, increasing from 38.7% to 43% in 2018. While the investment capacity of the public sector has dropped from 47.1% (2005) to 38% (2015) to stand at 33.3% (2018). The total business sector increased from 21.6% to 25% in the period 2010–2018.

However, according to statistics, the productivity of workers in the private sector remains low, especially that of the individual economy. The average income of workers pertaining to the individual economy is lower than the one of workers in the state sector and in the foreign sector.

Finally, the private sector, especially the individual economy, faces difficulties in obtaining resources for its production activities (financial capital and skilled workers), and especially real estate resources and access to loan.

The private economy between the state sector and the foreign owned economy

Article 51, paragraph 1 of the 2013 Constitution clearly states that Vietnam's economy is socialist-oriented within a market economy that includes many forms of ownership. The state economy plays a leading role. Then Clauses 2 and 3 of this same article stipulate that all the economic components are important elements of the national economy. The structures (legal forms) under each of its economic components are on an equal footing, cooperate and engage competition in accordance with applicable law. The State encourages and creates favorable conditions for entrepreneurs, businesses, individuals, and organizations to invest, produce and do business, durably develop industrial sectors to contribute to the national construction.

The private economy stuck between the state sector with its predominant political role but declining economic efficiency and the high-speed development of the foreign owned economy.

The position of the state sector remains important in the economy [Trần Kim Chung, Nguyễn Thị Luyên: 30.03.2021] since this component contributed to 30% to the GDP in 2020 while the number of companies amounts to about 2,200 (0.4% of the number of businesses overall). It is present in sectors considered as strategic in Vietnam (electricity, energy, transportation, etc.) via state owned groups or General Companies. This sector employs 1.13 million people (approximately 2% of the Vietnamese working population) and concentrates 28% of the total capital of companies in Vietnam.

Yet in terms of production and business results, the contribution to revenues and profits of state owned enterprises (SOE) have been decreasing. The share of net sales of the state-owned enterprises in 2015 reached 18.2%, in 2018 it fell to 14.5%. The ratio of pre-tax profit of SOEs in 2015 reached 28.4%. In 2018, it stood at 21.2%.

Along with the component of the state economy, the Vietnamese economy has relied on the foreign owned capital sector since the opening and the first Law on Foreign Investments came into force in December 1987. At the end of 2019, Vietnam had registered 30,827 foreign projects with a total capital of USD362.58 billion. The amount of capital spent for these projects is estimated at 211.78 billion dollars, or 58.4% of the total registered capital.

According to the financial magazine of the Ministry of Finance, the FDI sector saw its contribution to Vietnamese GDP increase from 13% in 2010 to 19.6% in 2019 [Việt Tùng: 13.02.2021]. The approximately 16,878 registered foreign-owned companies employ around 6.1 million people, or 11% of the Vietnamese workforce). The productivity of a worker in the FDI sector is around USD5207, a growth rate of around 8.7%/year (much higher than the labor productivity of domestic companies).

It should also be noted that these companies, most often located in dedicated Industrial Zones, account for around 75% of Vietnamese foreign trade. FDI companies are most often implemented in Vietnam for production activities of products which are then exported. They benefit from advantageous production costs and the share of the added value of production going to Vietnam remains generally relatively low (10% to 20% depending on the different products).

The private sector outperforms the state sector in terms of growth rates. The dynamics of the state sector has been marked by a downtrend and slowdown in recent years. At the same time, the private sector is inferior to the sector with the participation of foreign capital (table 2).

Table 2. **Growth rates by economic sector**

Economic sectors	2011–2015	2016–2019
State economy	4,9	4,1
Domestic private economy	6,1	6,9
Foreign invested economy	8,4	10,6

Source: [Lâm Thùy Dương: 18.04.2021]

The Vietnamese authorities wish to develop Vietnamese private companies which will be able, through their activities as tier 1 suppliers, to participate in the creation of Vietnamese value in the production activities intended for foreign countries to create a more powerful domestic force [Nhất Hạnh: 15.11.2017].

Indeed, developing the component of the private economy in Vietnam would have the definite advantage of ensuring the development of an independent and self-sufficient economy, in parallel with the state and collective economy. The individual economy that can "absorb" the mass of the workforce for "usual" economic activities if the authorities make sure to create real equality between the non-state economy and public enterprises, between small and large companies, and at the same time have policies to support small and medium enterprises and create a favorable environment for businesses and start-ups. This is not yet always the case as access to land and bank loans are difficult for structures that have no relations. In addition, to make a sustainable development of the private sector possible, it is important to put in place an effective system for the protection of intellectual property rights.

The emergence of large Vietnamese private groups

In the context of international economic integration and fierce strategic, economic and geopolitical competition, the Vietnamese authorities wish to promote the creation and development of powerful Vietnamese economic groups to defend the country's economic interests. At the 13th Congress, the need to develop large private economic groups with high potential and the regional and international competitiveness in a number of sectors and key areas of the economy was once more promoted.

Along with the establishment of state groups in certain areas such as Energy (EVN, PetroVietnam), Telecommunications (VNPT, Viettel), aviation (Vietnam Airlines), the Vietnamese authorities have encouraged private actors to invest, such as Sovico (Banking, Aviation, etc.), Vingroup (Real Estate, Automotive), Sun (Real Estate, Leisure), Masan (Retail), Techcombank, VID Bank (Banking Sector) in order to allow the emergence of private players that can take over from an often poorly efficient public sector.

The constitution of these groups follows more or less a common "pattern". Most of the founders of these groups were bright young students who studied in Eastern Europe (mainly Russia) before the fall of the USSR. They made their first profits thanks to import-export activities between present-day Russia and Vietnam. Once the profits were made in the host countries, these young millionaires (tycoons) returned to Vietnam to gradually invest in sectors of the Vietnamese economy that were experiencing strong growth when, at the same time, Vietnamese public enterprises were struggling to reorganize. These investments could be achieved only through the presence of a "political protector". These new groups or private banks invested in the real estate sector, tourism (golf courses), retail, finance, infrastructures. The shareholding and governance of these private groups were shared around a limited number of relatives [Nguyễn Hữu Nghĩa 2021].

This process was carried out in agreement with the national and local political authorities (access to financing by recommendations, access to land, access to public companies in the process equitization, etc.) who saw in these private structures a means of supporting the economic development of the country via Vietnamese structures (in competition with foreign structures). We can now see the Sun group financing and building in return airport infrastructures in special economic zones like Van Don; or VinGroup which engaged (among others) in the manufacturing of cars with BMW license, or even Sovico which ensures that the development of high-end tourism sector (including transportation) remains in the Vietnamese hands. In this process, private actors are indebted for their success to the political decision-makers who helped them "put their foot in the door" through corruption, cronyism, family members.

Conclusion

The private economy is under close scrutiny by the authorities considering it as a necessary engine for economic development. At the same time, the Constitution assigns a leading role to the public sector, which is gradually losing its effectiveness. The formal importance of the public sector justifies the continuous support to selected state owned enterprises as national champions.

Nevertheless, for several years the authorities and the Vietnamese press have highlighted the important role of the component of the private economy in Vietnam presenting it as a strong "pillar" of the Vietnamese economy, as it plays an important role in the country's gross production and employment. However, the sector is mostly composed of small and non-competitive companies with low productivity.

In the context of international economic integration and fierce strategic, economic and geopolitical competition, the Vietnamese authorities wish to promote the establishment of powerful economic groups to defend the country's economic interests. And this defense of interests will go through the establishment of private groups which will be able to take over the growth of a public sector whose economic efficiency remains limited. Hence the emergence of "tycoons" who have been able to invest in strategic economic sectors alongside state-owned enterprises. And these tycoons are often "mandated" by the political authorities to go and develop new sectors or sectors that Vietnam needs.

As Dr. Dinh The Thuan, head of the Department of Socialist Economics from the School of Political Officers stated, "if the Vietnamese economy was a ship, the private economy would be one of its engines. It would decide whether the boat sails fast or slow. Of course, the direction in which the boat is heading to and its destination is another matter" [Đinh Thế Thuan:12.09.2021].

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