

# THE CHANGE IN POLICY TOWARDS VIETNAM'S PRIVATE ECONOMY: NECESSITIES, DIFFICULTIES, AND PROBLEMS RAISED

Chu Minh Anh\*

University of Transport and Communications, No.3 Cau Giay Street, Lang Thuong Ward, Dong Da District, Hanoi, Vietnam

## Abstract

*Since 1986, policies towards all economic sectors of Vietnam have changed a lot. In which, affirming a multi-sector economy, with many different forms of ownership. In particular, the importance of the private sector is emphasized. "The private sector has become a solid "part" of the Vietnamese economy" [1]. Over the past 35 years, Vietnam's policy towards the private sector of Vietnam has undergone many changes. This study focuses on analyzing the need for policy changes for the private sector, difficulties, and problems raised.*

**Keywords:** Private economy, necessities, difficulties, problems raised, policy of Vietnam

## I. INTRODUCTION

After 35 years of implementing the national Innovation policy (starting in 1986), Vietnam has issued many guidelines and policies to create conditions for the private economy to develop. Along with the state economy, the private economy has gradually become an important driving force of the economy [1, 2]. In order to continue promoting the development of Vietnam's private economy in the socialist-oriented market economy, Vietnam has synchronously implemented a number of solutions such as creating a favorable business environment; take measures to support technology, human resource training, investment environment, business environment, etc.; developing the relationship between the State and the private sector, between domestic and foreign private individuals; renovating financial and banking mechanisms and policies; renew the management, inspection, and supervision of the State overproduction and business activities of the private economy.

The XIIIth National Congress of the Communist Party of Vietnam (January 2021) took place in the context of the world and regional situation evolving rapidly, complicatedly, and unpredictably; the country is facing opportunities, advantages but also many difficulties and challenges intertwined; cadres, party members and people have high expectations for the correct and strong decisions of the Party so that our country can develop faster and more sustainably. The document of the XIIIth National Congress of Deputies (2021) of the Communist Party of Vietnam affirms: "Comprehensively and synchronously completing institutions, developing a socialist-oriented market economy in which private economy is considered the driving force importance of the economy; Encouraging the development of the private economy is a breakthrough thinking, a transformative impact of the Party on the development of a socialist-oriented market economy in the socio-economic development strategy" [1].

This is important content, which is of interest to the domestic and foreign social community. It proves that after 35 years of implementing the Innovation policy, from an unrecognized position, with limited development, the private economy in Vietnam has had significant changes, with the gradual "unloading tied up" and gradually became an indispensable part of the economy [3, 4]. However, the policy mechanism for the private economy still has many issues that have not been clarified in the Document of the XIII Congress as well as the policies of the State.

## II. 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.

### III. 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 have 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 addition, there are research works such as Nguyen Huu So. (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.

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.

### IV. RESEARCH RESULTS AND DISCUSSIONS

#### The situation of private economic development policy

In the process of economic transformation in Vietnam, non-state economic sectors in general and economic sectors based on private ownership and individual ownership of means of production, in particular, have been encouraged to develop. development [4, 5]. Therefore, in just over 15 years, the private sector has affirmed its important role in national economic development. The private economy has developed widely throughout the country, making an important contribution to economic development, mobilizing resources for production and business, creating more jobs, improving people's living standards, and increasing savings. contribute to maintaining political and social stability. But the development of the domestic private sector is a very slow and unstable process. This is partly because the business environment and economic policy continue to favor the state economic sector [6].

In recent years, Vietnam has made considerable efforts to improve the legal and business environment for the private sector, thereby contributing to the development of the domestic private sector [5]. However, the reality shows that Vietnam's private economic sector still has many limitations and weaknesses: most of them are small in size, with little capital, outdated production technology, weak management level, and efficiency low efficiency and competitiveness, little investment in the manufacturing sector, especially in the large manufacturing sector.

The 90-year history of the development of the Communist Party of Vietnam has recorded breakthroughs in economic development thinking. The Communist Party of Vietnam acknowledges that the market economy is the most dynamic economic development method that mankind has discovered, a product of human civilization, not just a product of capitalism alone. copy. This is a turning point in the renewal of the Party's thinking on economic development, paving the way for the country to develop and for the people to exercise their right to do business.

The Resolution of the Fifth Conference of the Central Committee (the IX session) determined: “The private economy is an important component 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 development and industrialization. , modernize and improve the internal resources of the country in international economic integration” [8, p. 42]. “The private economy here includes the individual economy, small owner, and private capitalist economy. In terms of ownership relations, the individual economy, the smallholder economy, and the private capitalist economy all belong to the same type of private ownership, which is different from the people’s ownership and collective ownership. Although theoretically, the view of the individual economy, the small owner and the private capitalist economy are two different economic components, differing in the level of development of the productive forces and the nature of production relations” [8, p.57].

The difference in the nature of production relations is reflected in the key point that the individual economy, the smallholder is based on private ownership, but is the private ownership of the producer of small goods; while the private capitalist economy is based on private ownership, but is the large capitalist private property of the bourgeoisie. However, when the capitalist obtains a large amount of surplus-value, then uses most of that surplus value to invest in expanded reproduction, to ensure the welfare of workers, etc., if they spend only a fraction of that surplus value on private consumption, they are a progressive, active master, not a capitalist in its own right.

With the above concept, in our country today, private business owners are investing a lot of capital in their business, hiring a lot of workers, and of course earning a large profit, but they are still direct workers. Direct: directly manage the enterprise, directly produce a part to make goods, in order to enrich themselves and the society. Such business owners are actually just small owners at different levels and levels. Therefore, in our country today, we should not use the term private capitalist economy, but only use the term private economy, including individual economy, smallholder economy, a private company, responsible company limited liability, the joint-stock company without state shareholders.

### **The change in policy towards the private economy**

Over the years, the role and position of the private economy have been increasingly affirmed and clearly demonstrated through its contributions to socio-economic development. Changes in state management thinking for the private sector have seen many changes, gradually turning into specific policies and actions so that this sector can develop.

According to the Central Institute for Economic Management (CIEM, 2019), this sector contributes up to 42.68% of the national GDP structure, higher than the state economic sector by over 14%, the sector with high capital investment foreign direct investment (FDI) 25%. This is also a significant contributor to new job creation, attracting about 85% of the labor force.

In an economy with a socialist-oriented cooperation regime, all economic sectors that do legitimate business contribute to the construction of socialism to varying degrees, all in their multi-sectoral association and cooperation relationship socialist orientation [9, 10]. That is consistent with the very basic Marxist thesis: Small private economic forms are never an independent mode of production; their character is determined by the character of the dominant relations of production (or mode of ownership) in a given mode of production.

However, from the stigma of the market economy to the recognition and development of the market economy, we cannot avoid the situation of “cautious, looking for rocks across the river” when developing the domestic private economy, especially in a private enterprise. One of the great strides in awareness and innovation of the Party's thinking is to make the private sector an important driving force of the economy.

For a long time, private business was looked down upon and discriminated against. The private sector remained a taboo term, let alone officially recognized, and was often referred to as the “non-state sector” in official Party and Government documents until the late 1990s. Even Party members were not allowed to engage in business [6].

Through each period of the Party Congress, the existence and development, as well as the role of the private economic sector, have been gradually affirmed and emphasized. In 1986, the Sixth Party Congress with the policy of “Innovation” set a very important milestone for the development of the private sector. Accordingly, the private sector is officially recognized as a constituent part of the socialist-oriented market economy and of the multi-sector economy [6]. The change in the Party's perception has created a major turning point for the private sector, illuminating and guiding a new path for this potential economic sector.

From the point of view that the new economy is a multi-sectoral, socialist-oriented economy under the leadership of the Party, we inevitably acknowledge that all economic sectors are equal before the law and are located in the same



place in the revolutionary people's union, in the cooperative regime led by the Party; The party must include advanced, economically, and politically active people of all economic sectors. The Party admitted to its team pioneers from all walks of life, honest workers, and had a positive impact in mobilizing mass organizations to advance into the economic front [7].

### **The problems raised**

Although the domestic private sector plays an increasingly important role in the economy, these results are still far below potential; its share is still inadequate and stagnant, competitiveness is still low. There is almost no interaction between FDI and domestic private enterprises, the opportunity to create spillover effects are very limited [1]. Large-scale FDI enterprises still mainly serve foreign markets and operate according to modern methods and technologies, in contrast to many small and medium-sized enterprises serving the domestic market, hardly joining the chain value to large enterprises.

The Productivity and Competitiveness Report of Vietnamese Enterprises, researched by the Vietnam Academy of Social Sciences (2019), shows that private enterprises have higher labor productivity than other types of economy cooperation, while much lower than that of FDI enterprises and state-owned enterprises. According to Nguyen Chi Dung (2019), the shortcomings and limitations of the private sector are partly caused by the limitations and weaknesses of the state management mechanism and methods of the economy.

To promote the role of the private economy as a development engine of our country's economy; To encourage the development of the private economy in all sectors and fields that are not prohibited by law, it is necessary to give higher priority to the task of perfecting the socialist-oriented market economy institution. Just like what's working is definitely not enough. The completion of the socialist-oriented market economy institution has been identified as one of the three breakthrough solutions right from the XIth National Congress, but so far it is still very slow due to obstacles from the inadequacy of energy power of the state management apparatus.

Faced with the inadequacies in the development of the private economy, the Ministry of Planning and Investment has developed and submitted to the Government a Project on Comprehensive Renovation of State Management in Private Economic Development in Vietnam, with the goal of reaching by 2030, fundamentally and comprehensively renovate the state management method in the direction of digital government, shifting from control to creation; from direct to indirect intervention; from inspection to supervision according to the principles of risk management; create a favorable and equal business environment among all economic sectors; accordance with international principles and practices.

The market economy requires that economic and social infrastructure services be provided sufficiently to create favorable conditions for the business activities of all enterprises of all economic sectors. In that sense, the provision of infrastructure services does not belong to anyone, not only the State has the responsibility to provide infrastructure services, but even the private sector must have responsibility. Therefore, the State should also have a mechanism to attract the private sector to participate in providing infrastructure services. This will have the effect of adding more investment capital to the society and reducing the burden of capital for the State; On the other hand, it will create competition in the infrastructure sector, encouraging the improvement of efficiency and quality of infrastructure services.

Dynamic, decisive, dare to do are characteristics of private business owners. However, the knowledge about business, management, and economic law, about the rights and responsibilities of business owners and employees is still limited. Therefore, the State needs to have a training program to support businesses to master the necessary knowledge. Only on the basis of the improved qualifications and capabilities of business owners and employees, can the Vietnamese private economy be able to participate effectively in the common development of the national economy, into the integration process of Vietnam with the region and the world, and at the same time meet the requirements of the market economy.

In the coming time, it is necessary to renovate the thinking to put the position of the private economy in proportion to its role. In terms of institutions, the policies of the management agencies need to focus on innovation from the attitude and service of the state management agencies. More importantly, this change has to be faster and stronger and compare with the region, not just compare us to ourselves.

In Vietnam's policy, "there has been a change in mindset, but not evenly. The Party's policy is very large but not synchronized, not to mention the localities. Businesses still reflect the inadequacies and attitudes of the government in handling procedures. The level of reform has not yet reached the level of creating a "push" for the private economy to develop. The quality of the institutional environment Vietnam ranks 6th in ASEAN (ranked annually by the World Bank) or some other indicators Vietnam has not yet achieved the level of motivational change" [10].

Up to now, the productivity and productivity growth rate of the private sector is still low and limited; limited scientific and technological capacity of enterprises; the level of corporate governance is still low; the linkage and cooperation among Vietnamese enterprises are still weak. Therefore, it is necessary to point out the shortcomings and limitations of the private economic sector, as well as to see more clearly the limitations, weaknesses, and existences of the state management method for the private economy, then clearly define the goals, the most appropriate and most important solutions for the organization to implement.

## V. CONCLUSION

Looking back at the process of awareness of the private economy from the 6th Congress (1986) of the Communist Party of Vietnam to the present, the Party has always focused on developing this economic sector. The process of changing the perception of the Party is also a stage of rapid change in the private sector. By emphasizing that the private sector is the “important driver” of the economy, the Party’s policy has removed all obstacles in perception, paving the way for this economic sector to transform and develop.

Over the past time, Vietnam's private economy, although the development is not strong, has shown that this is an area with a lot of potentials. Therefore, it is necessary to be consistent with the multi-sector economic policy, consistent with the views and policies on private economic development that the Party and the State of Vietnam have promulgated. Only then will the multi-sector economic policy come to life and we can achieve the policy's goal of liberating all production capacity and exploiting economic potentials for a developing country.

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