



Economic institutional renovation in Vietnam from 1986 to the present: An analysis of liberalization, equitization, and administrative reform

Nguyen Dinh Ngan

Institute of Vietnam and World Economy, 1 Lieu Giai Str., Ngoc Ha Ward, Hanoi, Vietnam

Abstract

The article analyzes the process of economic institutional renovation and reform in Vietnam from 1986 to the present, focusing on three principal pillars: economic liberalization, equitization of state-owned enterprises, and administrative reform. Drawing upon major economic theoretical frameworks, the study clarifies the role of institutions in reducing transaction costs, protecting property rights, promoting innovation, enhancing productivity, and strengthening national competitiveness. Prominent reforms include the equitization of state-owned enterprises, the restructuring of the public sector, the simplification of administrative procedures, the reform of the legal framework, and commitments to international integration. These measures have played a critical role in transforming Vietnam from a centrally planned economy in systemic crisis into one capable of sustaining high growth rates, deeply integrating into global value chains, and improving its Human Development Index. The findings suggest that sustaining development trajectories will require continuing to refine its economic institutions toward greater transparency, coherence, and adaptability amid globalization, the Fourth Industrial Revolution, and digital transformation.

Keywords: Doi Moi (Renovation), economic institutions, liberalization, administrative reform, integration.

JEL classification: P21, O43, P31, F13, H11.

1. Drivers of economic institutional reform from the perspective of modern economic theories

Economic institutional reform refers to the process of adjusting and refining the “rules of the game” governing the economy - including laws, policies, market mechanisms, property rights, and regulatory agencies - to create a transparent, fair, and competitive business environment; enhance the efficiency of resource allocation; and promote sustainable economic growth (North, 1971). In Vietnam, such reform has focused on completing the legal framework for a socialist-oriented market economy, emphasizing freedom of enterprise, protection of property rights, and reducing administrative interventions (Nguyen, 2016), while aligning institutional development with sustainability, innovation, and digital transformation (Ngo, 2024). Drawing upon modern economic theories, the principal drivers of reform include the following:

New Institutional Economics (NIE) underscores the role of institutions in shaping economic behavior and determining efficiency outcomes. Reform efforts are directed toward: reducing transaction costs (including information search, negotiation, and contract enforcement), thereby stimulating investment and business activity (Coase, 1992); safeguarding property rights to encourage long-term investment and innovation (North, 1971, 2005; Stough, 2001); improving the allocation of resources toward high-productivity sectors (Williamson, 1985, 2000, 2010); and fostering innovation through the protection of intellectual property and the reduction of administrative barriers (Coase, 1992; North, 1971, 2005).

Endogenous Growth Theory emphasizes that economic growth is driven by knowledge accumulation, technological progress, and human capital formation. Institutions contribute to growth by promoting R&D investment through intellectual property protection and enhancing productivity (Lucas, 1988), as well as by improving the quality of human capital through institutional frameworks governing education, training, and healthcare systems (Romer, 1990, 1994).

Theories of Institutional Development and Change posit that institutional evolution is shaped by both endogenous factors (such as social pressures) and exogenous forces (including globalization and technological transformation) (Bush, 1987; Lin, 1987). Accordingly, reform aims to: adapt to emerging contexts such as the Fourth Industrial Revolution and the digital economy; liberate and efficiently mobilize productive resources; and strengthen national competitiveness, attract investment, and integrate into global value chains.

In short, economic institutional renovation is driven by the need to reduce transaction costs and create a transparent environment; protect property rights and encourage investment and innovation; promote sustainable growth through productivity, technology, and human capital; and adapt to global transformations to enhance national competitiveness. In the absence of reform, the economy would risk stagnation and relative decline.

2. Major phases of economic institutional reform in Vietnam (1986-present)

2.1. Initial renovation and economic institutional reform (1986-1995)

Between 1976 and 1985, Vietnam implemented a centrally planned and subsidized economic model nationwide, a system previously applied in the North before 1975. In essence, this model represented a command economy in which private enterprise was abolished and all economic activities were subject to strict state control. Economic entities, including cooperatives and state-owned enterprises (SOEs), operated under administrative directives and centrally imposed production targets. The consequences of this model were severe, giving rise to a deep socioeconomic crisis. Domestic production failed to meet consumption demand, leading to acute shortages and a heavy reliance on foreign aid and external borrowing. The crisis culminated in hyperinflation in 1986, when inflation surged to 453 percent and remained at double- or triple-digit levels until the early 1990s (Bui, 2015; World Data, 2025). One direct cause of runaway inflation was the failure of the 1985 “price-wage-currency” reform, which aimed to abolish the subsidy system and transition toward economic accounting mechanisms. The reform package included price adjustments, wage increases, and currency redenomination. However, the absence of coordinated policy measures, excessive wage increases beyond projections, and monetary expansion to finance fiscal deficits triggered rapid price escalation, plunging the economy into disorder. This episode became widely regarded as the final “failed experiment” of the old economic model (Cao & Hoang, 2017).

In response to these urgent circumstances, the Sixth National Congress of the Communist Party of Vietnam (December 1986) introduced the Doi Moi (Renovation) policy, marking a historic turning point. The Congress openly acknowledged past shortcomings, particularly in economic management, and articulated a comprehensive reform strategy encompassing economic, political, organizational, ideological, and cultural domains. Economic reform was identified as the central priority, focusing on several core pillars: (i) agricultural reform through Resolution No. 10-NQ/TW (“Contract 10”) and land reform to unleash productive forces; (ii) fiscal and monetary reform to combat hyperinflation and stabilize the economy; (iii) international openness and integration, highlighted by the 1987 Law on Foreign Investment; and (iv) SOE reform and the development of a multi-sector economy, marked by the promulgation of the Law on Private Enterprises (1990) and the Company Law (1990) (Nguyen, 2006; Nguyen, 2017).

2.2. Regional integration and preparation for World Trade Organization membership (1996-2006)

The 1996-2006 period represents a significant milestone in Vietnam’s development trajectory and may be characterized as a second comprehensive economic restructuring phase (“Doi Moi 2.0”). Whereas the initial renovation focused on dismantling the centrally planned system, this period was distinguished by efforts to consolidate market institutions

and proactively integrate into the global economy. Two principal drivers shaped institutional reform during this phase: regional economic integration - particularly within the ASEAN Economic Community framework - and the protracted negotiations for accession to the World Trade Organization (WTO). The accession process functioned not only as a policy objective but also as a powerful catalyst, generating external pressure and strategic direction for domestic reform.

a. Macroeconomic and legal reforms

Between 1996 and 2006, Vietnam undertook substantial macroeconomic reforms and enacted foundational legislation to construct a modern institutional framework compatible with market economy principles and international integration. Key legislative instruments included the Commercial Law (1997, amended 2005), Resolution No. 07-NQ/TW (2001) on international economic integration, the Ordinances on safeguarding, anti-dumping, and countervailing measures (2002, 2004), the Competition Law (2004), the Electricity Law (2004), and the WTO Accession Protocol (2006). Collectively, these measures reflected a systematic effort to replace administratively oriented regulations with a coherent and rules-based legal framework. These efforts have reshaped the economic landscape, from trade and competition rules to the regulation of key industries.

Notably, the Enterprise Law of 1999 constituted one of the most transformative institutional reforms of the period. While the 1990 Company Law and Law on Private Enterprises formally recognized the private sector, it was the 1999 Enterprise Law that introduced a fundamental shift in regulatory philosophy by establishing the principle that citizens may engage in business activities in all areas not expressly prohibited by law (VNA, 2025b). This reform significantly reduced market entry barriers, simplified business registration procedures (thereby lowering transaction costs), and triggered a surge in entrepreneurial activity. By substantially lowering transaction costs and reducing administrative barriers to market entry, the 1999 Enterprise Law created the institutional conditions necessary for private sector expansion - a development that would serve as a primary engine of Vietnam's sustained economic growth in the subsequent decade.

b. Financial and banking institutional reform

In parallel with perfecting the legal framework for businesses, Vietnam initiated restructuring efforts in the financial and banking sectors. The establishment of the Ho Chi Minh City Securities Trading Center in July 2000 marked the emergence of a modern channel for capital mobilization, promoting greater transparency and efficiency among enterprises. However, financial and banking reforms proceeded too slowly and were not comprehensive enough, resulting in persistent structural bottlenecks. According to the International Monetary Fund (IMF), structural reforms - particularly within SOEs and state-owned commercial banks - were uneven and sluggish (IMF, 2006). Consequently, the public sector retained a dominant role, and the transition toward a fully market-based financial

system remained incomplete. Although the Law on Credit Institutions (1997) represented an initial step forward, it lacked clarity regarding operational autonomy and regulatory scope, limiting supervisory effectiveness and posing systemic risks amid rapid credit expansion (Le *et al.*, 2006). These structural deficiencies indicate that, despite initial legislative steps, financial and banking sector reform during this period fell short of establishing a fully market-based system capable of supporting Vietnam's expanding economy.

c. Institutional commitments under WTO accession

Vietnam's WTO accession required the country to undertake a series of significant multilateral commitments, consolidated in the Report of the WTO Working Party. These commitments were designed to align Vietnam's legal system and trade regime with the general standards and principles of the WTO. One of the most consequential commitments concerned state-owned enterprises. Vietnam pledged that SOEs would operate fully based on commercial considerations; the State would neither directly nor indirectly intervene in their operations and would act solely as an equal shareholder alongside other shareholders (Nhan Dan, 2006). This commitment represented a decisive institutional shift, compelling SOEs to compete more fairly in the market. Another notable commitment related to business rights. From the date of accession, Vietnam granted foreign enterprises and individuals the right to export and import goods on the same basis as their Vietnamese counterparts, except for certain items subject to state trading or classified as sensitive goods. This undertaking helped create a more level playing field, thereby enhancing competition and economic efficiency. With respect to the legal framework, Vietnam committed to ensuring the uniform application of WTO provisions throughout its territory and to maintaining the independence and impartiality of judicial bodies in reviewing administrative decisions in areas governed by WTO rules. These measures not only ensured legal consistency but also reinforced the rule of law within the economic system.

Sectorally, beyond commitments on trade in goods, Vietnam undertook to liberalize its services market through a clear, detailed roadmap for each sector. This process was not merely about permitting foreign participation; it also functioned as a mechanism through which Vietnam could absorb modern governance standards, technologies, and business models from international partners. In the legal services sector, Vietnam committed to allowing foreign law firms to operate through subsidiaries, joint ventures, or branches. However, these entities were not permitted to participate in litigation as defense counsel or representatives before Vietnamese courts, reflecting a cautious and controlled approach to liberalizing sensitive sectors (Do & Nguyen, 2018). As for banking, Vietnam committed to permitting foreign banks to establish branches and wholly foreign-owned subsidiary banks five years after accession. This phased approach provided domestic banks with a transitional period to strengthen their competitiveness. Similarly, the telecommunications sector was liberalized under a specific roadmap, allowing joint ventures with foreign capital

contributions of up to 50 percent in value-added services and 49 percent in basic services (Nhan Dan, 2006). Allowing foreign investors to participate in key service sectors - such as banking, telecommunications, and professional services - generated competitive pressure that compelled domestic enterprises to innovate to survive and grow. At the same time, limitations on ownership ratios and operational forms (e.g., joint ventures) demonstrate Vietnam's strategic calculation to ensure that the transition occurred in a controlled manner, maximizing the benefits of integration while minimizing potential economic shocks.

The WTO accession negotiations functioned as an external commitment mechanism, generating reform pressure and providing strategic direction that enabled Vietnam to overcome internal barriers and reform inertia. Rather than directly confronting resistance from vested interest groups or entrenched institutional mindsets, the Government could invoke WTO requirements as a legitimate rationale for necessary reforms. For example, the processes of policy clarification and multilateral and bilateral negotiations compelled Vietnam to review and revise its entire commercial legal framework comprehensively. This rigorous alignment created a clear roadmap and external discipline, facilitating reforms in sensitive areas such as SOEs and trading rights, and ultimately establishing a solid legal foundation for deeper international integration.

2.3. Deep integration and SOE reform (2007-2015)

The 2007-2015 period represented a phase of deepened reform consolidation, building on the institutional groundwork laid during the preceding two decades of Doi Moi. By the end of 2006, the Vietnamese economy had achieved considerable macroeconomic progress, providing a foundation from which more ambitious structural reform initiatives could be pursued. During the five years from 2001 to 2005, the average annual growth rate of gross domestic product (GDP) was 7.51 percent. This strong momentum was sustained in 2005 (8.44 percent) and 2006 (8.23 percent), demonstrating the economy's dynamism and potential (GSO, 2011). In 2006, nominal GDP reached USD 66.37 billion (Macrotrends, 2025), a modest figure by regional standards, yet representing substantial progress compared to previous decades.

However, these aggregate growth figures obscured persistent structural weaknesses and underlying institutional vulnerabilities. The SOE sector remained operationally inefficient and continued to benefit from preferential policy treatment, producing a distorted competitive environment. Although the legal system and market-oriented institutions had undergone reform, they remained incomplete, internally inconsistent, and insufficiently transparent. The economy continued to rely heavily on labor-intensive industries, raw resource extraction, and foreign direct investment (FDI), while the competitiveness of the domestic private sector remained limited. Moreover, the country's development trajectory was abruptly disrupted by the 2008 global financial crisis, which rapidly caused Vietnam's GDP growth to decline sharply to 6.31 percent in 2008 and to a low of 5.32 percent in 2009.

Inflation surged to an alarming 19.89 percent in 2008 and remained high at 18.13 percent in 2011, revealing underlying macroeconomic instability (GSO, 2016).

Consequently, institutional reform during the 2007-2015 period did not proceed smoothly. Rather, it was shaped by the complex interplay between two major forces: on the one hand, the strong reform impetus generated by commitments under the World Trade Organization (WTO); on the other hand, the challenges and uncertainties arising from the global financial crisis. This period constituted both a rigorous test of economic governance capacity and a complex policy environment in which short-term macroeconomic stabilization priorities at times slowed the implementation of sensitive, long-term structural reforms. Navigating between fulfilling international commitments and crisis management became a central policy challenge for Vietnamese decision-makers throughout this period.

Restructuring the state-owned enterprise sector, with privatization as its focal point, emerged as the most significant reform pillar during 2007-2015. This restructuring effort was a complex process, carrying not only economic implications but also substantial political dimensions, aimed at addressing structural weaknesses within the SOE sector and creating a more level playing field consistent with integration requirements. To implement this policy, the Government promulgated a series of legal instruments - primarily decrees - detailing the equitization process. These regulations established fundamental principles, including the eligibility criteria for SOEs to undergo equitization; the establishment of steering committees for equitization; the engagement of independent advisory organizations to determine enterprise valuation; the formulation of equitization plans; and the development of post-equitization labor arrangements. The legal framework also addressed complex financial issues such as debt settlement, disposal of redundant assets, and, importantly, the transfer of rights and obligations from state-owned enterprises to joint-stock companies following conversion.

2.4. Structural reform, digital economy, and deep integration (2015-2025)

The 2015-2025 period marks a pivotal decade in Vietnam's development trajectory, characterized by a transition from a production- and export-oriented economy toward a knowledge-based, innovation-driven, and deeply integrated development model. Within this context, four principal policy pillars - administrative reform, streamlining of the state apparatus, deep integration through new-generation free trade agreements (FTAs), and digital economy development - have been identified by the Vietnamese Government as the key institutional drivers of this transition. These pillars do not operate independently; rather, they constitute a deliberate and coherent strategy in which internal reform serves as a prerequisite for effectively seizing external opportunities, while international commitments generate reform pressure that accelerates domestic transformation. The digital economy, functioning both as an objective and as an instrument, plays a central role in modernizing governance and enhancing national competitiveness.

Vietnam's efforts in administrative reform and streamlining the state apparatus during the 2015-2025 period have been shaped by a series of significant policy documents. From 2015 to 2020, the focus was placed on intensifying the implementation of Resolution No. 30c/NQ-CP on the Master Program on State Administrative Reform for the 2011-2020 period. Decision No. 225/QĐ-TTg, issued by the Prime Minister on February 4, 2016, approved the State Administrative Reform Plan for this phase and specified reform tasks across various domains of public administration. The plan aimed to ensure unified, professional, transparent, and effective governance capable of meeting socio-economic development requirements in the context of international integration. Subsequently, for the 2021-2025 period with orientation toward 2030, the Government promulgated Resolution No. 76/NQ-CP dated July 15, 2021, approving a new Master Program on State Administrative Reform. This program focuses on six core areas: institutional reform; administrative procedure reform; reorganization of the state administrative apparatus; civil service reform; public finance reform; and the development of e-government and digital government. Over the ten-year horizon, priority is placed on institutional reform, the development of a professional civil service, and the advancement of digital governance (Government of Vietnam, 2021).

Vietnam's path toward deep international economic integration began with its accession to ASEAN and the WTO. From 2015 onward, a strategic turning point emerged as Vietnam proactively negotiated and concluded a series of deep integration FTAs characterized by broader scope and deeper commitments than traditional agreements. This process not only opened access to new markets but also served as a powerful catalyst for domestic institutional reform, an essential factor in enhancing competitiveness and achieving sustainable development. Deep integration FTAs, including the Comprehensive and Progressive Agreement for Trans-Pacific Partnership (CPTPP), the Vietnam-European Union Free Trade Agreement (EVFTA), and the Regional Comprehensive Economic Partnership (RCEP), exhibit several defining features. First, they eliminate most tariff barriers, creating a highly liberalized trade environment. Second, their scope extends beyond trade in goods to encompass services, investment, intellectual property, labor, environmental standards, public procurement, and state-owned enterprises. Third, these agreements establish new legal mechanisms, including investor-state dispute settlement provisions, which were largely absent from earlier-generation FTAs.

The development of Vietnam's digital economy has not been spontaneous but has followed a deliberate, top-down institutional reform roadmap characterized by continuous refinement. The process began with the articulation of foundational national strategies and subsequently evolved into the construction of a comprehensive and specialized legal architecture governing the digital sphere. In 2019, the Politburo issued Resolution No. 52-NQ/TW, identifying the Fourth Industrial Revolution as a strategic imperative. This vision was operationalized through national action programs such as the National Digital

Transformation Program (Decision No. 749/QĐ-TTg) and the National Strategy for Digital Economy and Digital Society Development (Decision No. 411/QĐ-TTg). These documents established an overarching framework structured around three pillars - digital government, digital economy, and digital society - along with ambitious quantitative targets, including the objective of the digital economy contributing 30 percent of GDP by 2030 (To, 2025). Concurrently, Vietnam has enacted a range of foundational legal instruments. This legislative evolution reflects significant shifts in policy thinking, initially prioritizing security concerns through the 2018 Cybersecurity Law, and subsequently moving toward a more enabling and trustworthy business environment through the modernization of the Law on Electronic Transactions and the promulgation of the 2023 Decree on Personal Data Protection. Institutional reforms have also been implemented across specialized sectors to foster key areas such as e-commerce, financial technology (Fintech), logistics, high-tech agriculture, and smart tourism. Notably, the introduction of a regulatory sandbox mechanism for Fintech demonstrates a flexible and adaptive governance approach designed to accommodate innovation while managing associated risks.

TABLE 1: Summary of the process of economic institutional reform in Vietnam (1986-present)

Period	Primary institutional reform focus	Key policies/ legislation	Notable economic outcomes
1986-1995	Initiation of Doi Moi; abolition of the centralized bureaucratic subsidy mechanism; price liberalization; domestic trade liberalization; granting autonomy to state-owned enterprises	6th National Party Congress Resolution (1986); Law on Foreign Investment (1990); Company Law (1990); Land Law (1987, 1993)	Average GDP growth 6.6% per year (1986-1995); inflation reduced from triple digits to 12.7% (1995); emergence of rice exports
1996-2006	Regional integration and preparation for WTO accession; continued trade liberalization; encouragement of private sector development	Accession to ASEAN (1995); AFTA (1996); APEC (1998); Enterprise Law (1999); Investment Law (2005)	Stable economic growth; increased FDI inflows; rapid expansion of export-import turnover
2007-2015	Deep WTO integration; business environment improvement; acceleration of equitization	WTO accession (2007); Enterprise Law (2005, 2014); Investment Law (2014); Land Law (2013)	Average GDP growth 6.7% per year (up to 2023); rising GDP per capita; strong FDI attraction

2016-Present	Acceleration of administrative reform and state apparatus streamlining; deep integration through new-generation FTAs; digital economy development	CPTPP (2018); EVFTA (2020); RCEP (2022); Enterprise Law (2020); Investment Law (2020); Resolution 18-NQ/TW on apparatus streamlining; Resolution 68-NQ/TW on private sector development	Export turnover reached USD 750 billion (2023); disbursed FDI USD 31.15 billion (2023); improved international competitiveness ranking
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Source: Author’s compilation.

3. Analysis of the three pillars: liberalization, equitization, and administrative reform

3.1. Liberalization and improvement of the business environment

The process of deregulation and economic liberalization in Vietnam has been both extensive and profound. Liberalization has aimed to reduce transaction costs, enhance production and business efficiency, and stimulate economic growth. The need to mobilize productive resources and adapt to evolving domestic and international contexts has served as the primary driver of this process. At the same time, additional political and economic motivations have also exerted an important influence.

From 1986 to 2025, each reform phase has been characterized by distinct policy philosophies and focal priorities. One of the most transformative deregulation measures during this period was the “Contract 10” policy (Resolution No. 10-NQ/TW), issued in April 1988. Widely regarded as the formal “liberation” of the agricultural sector, this policy released labor productivity and generated remarkable outcomes. The success of Contract 10 established a credible reform model, laying the groundwork and building confidence for the extension of similar policies to other sectors. The productive forces unleashed in agriculture not only improved rural livelihoods but also generated essential resources - particularly food security and capital accumulation - that supported subsequent industrial and service-sector reforms. Such agricultural liberalization demonstrated the significant spillover effects of a breakthrough institutional reform. As a result of these measures, Vietnam’s economy experienced marked improvements and gradually emerged from a socio-economic crisis. Structural transformation occurred, initially at a modest pace but in the intended direction. In 1986, agriculture, forestry, and fisheries accounted for the largest share of GDP (36.76 percent). By 2024, this share had declined to 11.86 percent, becoming the smallest sectoral contributor. Meanwhile, industry and construction increased from 24.74 percent to 37.64 percent, ranking second, and services rose from 29.18 percent to 42.36 percent, becoming the largest sector (Nguyen, 2025; Ninh, 2013; Vu, 2018).

Immediately following the launch of Doi Moi, Vietnam undertook a strategic step by promulgating the Law on Foreign Investment in 1987. As one of the earliest legal instruments of the reform era, it was widely considered forward-looking. Prioritizing the establishment of a legal framework for attracting foreign direct investment - even before fully completing the domestic private-sector legal framework - reveals that Vietnam's early liberalization strategy was closely linked to international integration, aimed at compensating for domestic shortages of capital and technology. The FDI sector has since played a positive and demonstrable role in achieving national socio-economic objectives, affirming the importance of foreign investment legislation (Hang Nga, 2020).

To support the emerging market-oriented model, the financial system underwent systemic deregulation. In the late 1980s (1988-1989), the monobank system serving the centrally planned economy was restructured into a two-tier banking system. The State Bank of Vietnam assumed central banking and regulatory functions, while the four state-owned commercial banks were established to conduct commercial operations. This transformation shifted credit allocation from a subsidized administrative mechanism to a market-based system in which capital allocation depended on efficiency rather than bureaucratic directives, laying the institutional foundation for the subsequent development of the financial system. A milestone in capital market development occurred on July 28, 2000, with the establishment of the Ho Chi Minh City Securities Trading Center (now HOSE). Although the inaugural trading session involved only two listed stocks (REE and SAM) and modest transaction volume, it marked a critical turning point by creating a modern channel for mobilizing capital in the economy. The promulgation of the Securities Law in 2006 provided a comprehensive legal framework governing public offerings, listing, trading activities, and related services. This legislative step was not incidental but rather a necessary institutional consolidation following the market's establishment in 2000 (Nguyen, 2001), reflecting the Government's commitment to formalizing emerging market institutions, enhancing transparency, and attracting both domestic and foreign investment. In the banking sector, liberalization opened the market to foreign financial institutions. Singapore's UOB became the first foreign bank to establish a branch in Vietnam in 1995, and HSBC became the first to establish a wholly foreign-owned subsidiary in 2009.

Overall, deregulation and liberalization since 1986 have reflected a gradual transition from "comprehensive control" to "controlled openness". The process has centered on restructuring state governance institutions, constructing commercial and financial legal frameworks compatible with a market economy, and integrating into the global economy. Vietnam's institutional transformation has evolved from a highly centralized, license-based administrative regime toward a more open and globally integrated economy, reinforced by WTO accession and numerous FTAs, alongside cautious liberalization in the financial sector. While deregulation and liberalization have stimulated growth, strengthened

competitiveness, and expanded economic opportunities, their long-term success depends on continued improvements in institutional quality, financial risk governance, and fair distribution of integration gains. Systematic deregulation, combined with strengthened ex post oversight, enhanced transparency, and improved regulatory capacity, will be critical for Vietnam's transition to a new development stage characterized by sustainability, inclusiveness, and greater resilience in the context of intensifying global competition.

Vietnam's accession to the WTO on January 11, 2007, created an external policy anchor that established a binding legal framework and reform roadmap. Extensive commitments on market access for goods, services, and investment, along with transparency obligations, generated strong reform pressure, compelling Vietnam to accelerate domestic institutional reform, particularly in legal system development, administrative reform, and state-owned enterprise restructuring. WTO accession thus functioned as a catalyst, overcoming inertia and triggering a new wave of reforms that reshaped the country's socio-economic landscape. Implementing WTO commitments required an enormous effort to review, amend, and enact domestic legislation in conformity with global trade standards and principles. This process of "internalization" translated international commitments into legally binding domestic regulations, thereby creating a more transparent and predictable business environment. Vietnam's WTO commitments were comprehensive, covering most sectors of the economy, and may be categorized into three principal components: (i) General commitments that address macroeconomic and trade-related issues such as investment regimes, enterprise establishment forms, taxation policies, subsidies, equitization of state-owned enterprises, and the role of the State; (ii) Specific commitments include the opening of 11 major service sectors comprising 110 subsectors, as well as tariff reductions across thousands of product lines and participation in WTO sectoral liberalization agreements such as the Information Technology Agreement (ITA), textiles, and medical equipment; and (iii) Transparency and implementation commitments that include obligations to publicize trade- and investment-related legal documents and policies, such as publishing price-controlled goods lists in the Official Gazette (National Committee for International Economic Cooperation, 2006).

Deepened integration has further served as a foundation for improving the business environment. Vietnam has concluded numerous FTAs, notably the CPTPP (effective 2018) and the EVFTA (effective 2020). Unlike earlier agreements, these FTAs extend beyond tariff elimination to encompass commitments on non-tariff barriers, thereby transforming trade liberalization from mere tariff reduction to the harmonization of technical standards and sanitary and phytosanitary measures. To fully capitalize on these agreements, Vietnamese enterprises must meet higher production standards and comply with stringent labor, environmental, and intellectual property requirements. Nevertheless, these FTAs have yielded positive outcomes, particularly in export market diversification. Under the CPTPP framework, exports to previously untapped markets such as Canada and Mexico have grown significantly.

Alongside the implementation of international commitments, Vietnam has undertaken wide-ranging domestic legal reform. Central to this process has been the establishment of a unified, transparent, and equitable legal framework for investment and business activities, providing a solid institutional foundation for the market economy. Priority was given to consolidating the core triad of laws governing Enterprise, Investment, and Commerce. After nearly a decade of implementation, the Enterprise Law (2005) and Investment Law (2005) achieved significant progress. Still, they also revealed limitations, including overlapping provisions, procedural complexities, and corporate governance standards that lagged evolving economic dynamics and deeper integration requirements. These shortcomings necessitated a comprehensive revision, culminating in the adoption of the Enterprise Law (2014) and Investment Law (2014), thereby inaugurating a new cycle of legal reform.

TABLE 2: Legal documents aimed at strengthening liberalization and improving the business environment

Year	Principal legal/policy document	Core content and objectives
2006 (effective)	Enterprise Law (2005); Investment Law (2005)	Establishment of a unified and fair legal framework for all economic sectors; expansion of the right to freedom of business.
2007	Decree No. 23/2007/NĐ-CP	Detailed regulations on trading activities of FDI enterprises; internalization of WTO commitments regarding distribution rights.
2007	Decision No. 27/2007/QĐ-TTg	Approval of the Domestic Trade Development Scheme; strategic orientation for the development of the domestic market.
2011	Master Program on State Administrative Reform (2011-2020)	Comprehensive reform objectives across four areas: institutional reform, administrative procedure reform, organizational restructuring of the state apparatus, and public finance reform.
2014	Enterprise Law (2014); Investment Law (2014)	Comprehensive revision of the 2005 laws; removal of institutional constraints; further simplification of administrative procedures; clarification of conditional business sectors.

Source: Author's compilation.

The promulgation of new legislation constitutes only an initial step in the reform process. A more formidable challenge lies in translating statutory provisions into substantive changes in business practice. During the period 2007-2015, the Government made sustained efforts to improve the business environment while confronting entrenched obstacles to policy implementation. Recognizing these constraints, the Government launched a series of breakthrough action programs. Notably, beginning in 2011, the Master Program on State Administrative Reform for the 2011-2020 period was implemented systematically and rigorously. On an annual basis, the Government issued resolutions specifying concrete targets and tasks for ministries, sectors, and local authorities, with a focus on reducing and simplifying administrative procedures, particularly in taxation, customs, social insurance, construction, and land administration. Thousands of outdated or inappropriate regulations were abolished or amended, thereby contributing, at least in principle, to a more secure and fair business environment (Pham, 2014).

Overall, Vietnam is widely recognized as one of the fastest-improving business environments in the world over the past two decades. Revisions to major laws - including the Law on Land, the Law on Housing, the Law on Real Estate Business, and the amended Law on Credit Institutions - are expected to mobilize resources for key markets and strategic economic sectors. These policy measures are oriented toward reducing transaction costs, protecting intellectual property rights, fostering innovation, and enhancing the efficiency of human resource allocation. Nevertheless, Vietnam continues to face significant challenges, including burdensome administrative procedures, a persistent gap between policy formulation and policy implementation, and a lack of coherence within the legal system (Nguyen, 2006).

3.2. Equitization and state capital divestment

The restructuring of state-owned enterprises, particularly through privatization and divestiture of state capital, has been identified as a core policy measure aimed at unlocking resources, enhancing competitiveness, strengthening financial capacity, modernizing technology and management practices, and ensuring that SOEs operate fully in accordance with market mechanisms. Effective implementation of these two tasks is expected to improve overall economic efficiency and competitiveness, thereby contributing to national economic development.

The equitization of SOEs was piloted during 1990-1991, formally initiated in 1992, and significantly accelerated from 1996 onward. Early reforms in this domain primarily focused on changes in ownership and governance structures, transforming SOEs from administrative units into business-oriented entities (Ho, 2021; Ngo, 2021). Initial legal instruments established basic principles for identifying enterprises subject to equitization and for methods of initial share issuance, including public auction, underwriting, and direct negotiation. Regulations also required enterprises to conduct asset inventories, classify

assets, and resolve outstanding financial issues upon receipt of equitization decisions (Government of Vietnam, 2011a; Tran, 2003). However, in the early stages, the absence of a comprehensive, coherent administrative reform program led to significant limitations. Equitization was implemented in a fragmented manner, lacking standardized procedures and uniform approaches to addressing complex financial matters, particularly in asset inventory and enterprise valuation. Reform efforts focused primarily on reducing the number of SOEs rather than fundamentally transforming ownership and governance structures. Although certain results were achieved, the operational efficiency of the SOE sector remained modest relative to the substantial resources allocated to it, leading to inefficient use of state assets and a failure to realize the sector's expected leading role fully.

The 2001-2010 period was marked by comprehensive administrative reform programs accompanied by more clearly defined responsibilities for the management and use of state capital. Institutional reform during this phase focused on administrative procedure, aiming to reduce bureaucratic complexity and unnecessary paperwork. In the context of equitization and state capital divestment, these reforms were significant in lowering compliance costs and shortening the time required for enterprise transformation procedures - effectively reducing transaction costs - from business registration changes to the organization of share auctions. Nevertheless, reform objectives during this stage were largely limited to facilitating equitization through procedural simplification rather than directly addressing the core technical and institutional challenges inherent in equitization. Administrative streamlining alone could not resolve complex asset valuation issues-particularly land valuation-which required deeper institutional and technical reform. Despite reductions in administrative procedures, preferential mechanisms and implicit subsidies persisted, resulting in an investment environment that remained insufficiently fair between SOEs and the private sector (Pham, 2006; Tran, 2017, 2020).

The process of equitization and state capital divestment intensified during the 2011-2020 period. The Master Program on State Administrative Reform (2011-2020) was implemented in parallel with the broader economic restructuring strategy. The stated objective was to accelerate the restructuring of SOEs, economic groups, and state corporations to ensure their full operation under market principles. To facilitate equitization and divestment, the Government continuously promulgated and amended legal instruments to address bottlenecks in capital and asset management. Decree No. 91/2015/NĐ-CP established a foundational framework for the management of state capital invested in enterprises. Subsequently, Decree No. 32/2018/NĐ-CP amended and supplemented provisions of Decree 91/2015/NĐ-CP (Government, 2018). The issuance of Decree 32/2018/NĐ-CP marked a reform effort to close legal loopholes and streamline divestment procedures. These amendments sought to prevent non-market-based divestment practices, such as share transfers through debt offsets or debt-to-equity conversions, which posed risks of asset loss.

Circular No. 36/2021/TT-BTC of the Minister of Finance further provided detailed guidance on capital and asset management and strengthened post-investment supervision (Minister of Finance, 2021).

One of the most significant organizational reforms supporting restructuring and divestment was the establishment of the Commission for the Management of State Capital at Enterprises in 2018. Prior to its creation, ministries and sectors often performed both state administrative functions and the role of capital owner representative concurrently. This overlap led to conflicts of interest and inefficiencies, and even raised concerns that SOEs could become “backyards” of supervising ministries, serving vested group interests (Thanh Nam, 2018). The new Commission centralized the representation of state ownership rights in 19 major economic groups and corporations. This institutional innovation constituted a strategic step in separating administrative regulatory functions from state capital management functions, thereby enhancing governance transparency and accountability.

In addition, the State Audit Office has functioned as an effective instrument of the Party and the State in overseeing public finance and public assets, becoming an integral component of institutional reform aimed at increasing transparency and efficiency, promoting equitization, and preventing corruption and asset misappropriation. Pursuant to Resolution No. 927/2010/UBTVQH12 on the Development Strategy of the State Audit to 2020, the State Audit Office played an active role in auditing enterprise valuation consultancy results and addressing financial issues prior to equitization. Auditing the determination of enterprise value before equitization has been particularly critical for large economic groups and corporations with substantial capital. As a result, 631 enterprises were equitized during the 2011-2015 period. Although fewer enterprises were equitized during 2016-2020 (178 enterprises), the focus shifted to large-scale groups and corporations, resulting in significantly higher total state capital value equitized and greater budget revenues compared to the previous period.

For the 2021-2030 period, Resolution No. 76/NQ-CP sets the objective of building a more democratic, professional, modern, streamlined, effective, and capable public administration. Institutional reform plans during this phase emphasize further restructuring of SOEs and reforming mechanisms for managing state capital invested in enterprises. Regarding institutional reform, Resolution 76/NQ-CP aims to complete a modern, integrated, and synchronized socialist-oriented market economy, with particular focus on factor markets, especially land-use rights, science, and technology markets. The prioritization of land-use rights market reform within administrative reform signals a strategic shift. This approach utilizes administrative and institutional tools to address technical and economic challenges, including establishing more accurate and transparent land databases and valuation methodologies. Such reforms aim to mitigate risks of state asset loss during divestment processes. Institutional reform also focuses on improving the investment and business

environment, eliminating barriers that restrict freedom of enterprise, and ensuring fair, transparent competition. These measures seek to remove preferential mechanisms, particularly regarding land and capital, that SOEs historically enjoyed, thereby addressing the persistent problem of unfair competitive conditions.

Overall, SOE reform remains one of the most complex and challenging areas of institutional reform. The pace of equitization and state capital divestment has frequently lagged behind planned targets. The underlying causes stem from tensions between economic objectives and broader political-social considerations. Key obstacles include difficulties in enterprise valuation, especially land-use rights valuation, which often causes controversy and risks of state asset loss. Furthermore, the intervention of ministries and sector authorities with their “supervisory” mechanisms creates multiple layers of management, reducing the autonomy and dynamism of enterprises. Vested interests and implementation inertia further contribute to delays. Consequently, despite decades of reform, the performance of the SOE sector remains disproportionate to the substantial resources under its control, representing one of the most significant challenges to the consolidation of a fully functioning market economy in Vietnam.

3.3. Administrative reform, decentralization, and state apparatus streamlining

The objective of delineating authority is to ensure unified state management across institutions, policies, strategies, and planning across sectors and fields, while simultaneously promoting the autonomy and accountability of local governments within their respective administrative units. Since 1986, state administrative reform has consistently been identified by the Communist Party and the State of Vietnam as a central policy orientation, a core task, and a top-priority solution within the national socio-economic development strategy. This perspective has been consistently reflected in Party Congress documents and Central Committee resolutions (Pham, 2025; Thang, 2006).

The Sixth National Congress of the Communist Party of Vietnam constituted a historic turning point, reshaping not only the country’s socio-economic development trajectory but also initiating a profound and sustained process of reform of the state apparatus. Vietnam’s administrative reform, oriented toward streamlining the state apparatus, originated in 1986 alongside the fundamental transition from a centrally planned economy to a socialist-oriented market economy. This systemic transformation necessitated radical changes in the structure and functions of the state apparatus. In the initial phase, streamlining was not merely a matter of reducing personnel numbers; more fundamentally, it required a clear separation between state management functions (public authority) and production and business management functions (market activities). The inefficiency and bureaucratic expansion of the administrative system largely stemmed from overlapping roles, whereby the State simultaneously exercised macroeconomic governance and directly engaged in microeconomic activities. The incomplete separation of these functions during the 1990s

constituted a structural cause of cumbersome apparatus, eventually compelling the Government to undertake decisive and “revolutionary” organizational restructuring efforts in the 2020s. Historical analysis indicates that sustainable organizational streamlining (structural reform) can only be achieved once functional streamlining (clarification of mandates and responsibilities) has been effectively resolved (Nguyen, 2025).

The 1986-2000 period laid the foundational principles for modern public administration, serving as the formative stage for essential economic and administrative legal institutions that supported the emerging market mechanism. Although the organizational structure of the administrative apparatus remained suboptimal, the establishment of principles of public governance and the initial resolution of institutional overlap provided indispensable preconditions for subsequent reforms focusing on organizational restructuring and personnel management.

The Master Program on State Administrative Reform for 2001-2010, implemented under Decision No. 136/2001/QĐ-TTg of the Prime Minister (Prime Minister, 2001), marked the next phase. The principal focus during this period was on institutional reform and simplifying administrative procedures. Notable outcomes included increasing stability, coherence, and uniformity of the institutional system across multiple domains. Administrative procedures were streamlined, creating a more favorable legal framework and environment for citizens’ daily activities and business operations. This phase addressed the fundamental question of “what the State should do” (institutions and procedures) before proceeding to the subsequent stage of organizational reform. However, as Decision 136/2001/QĐ-TTg primarily emphasized procedural simplification, the objective of reducing organizational scale received limited attention. Consequently, while administrative operations became more procedurally efficient, the apparatus’s overall size and staffing levels were not substantially streamlined.

The 2011-2020 phase took place under Resolution No. 30c/NQ-CP (November 8, 2011). Initial objectives included defining job positions, piloting mergers of authority units, and reducing deputy positions to control staffing expansion (Government of Vietnam, 2011b). Despite the orientation provided by the Resolution, the overall outcomes during this period remained modest as administrative structures continued to exhibit tendencies toward expansion. The 2021-2030 period is guided by Resolution No. 76/NQ-CP (July 15, 2021), which serves as a strategic framework for the thoroughgoing restructuring and modernization of public governance (Government of Vietnam, 2021). Reform priorities during this time have shifted toward two principal pillars: organizational restructuring and payroll downsizing. The Government has also emphasized innovation in legislative thinking, promoted a developmental and enabling state role alongside regulatory functions, and advanced decentralization. To ensure the success of large-scale restructuring, consensus and unity in organizational reconfiguration have been prioritized (VNA, 2025a). As of July 15,

2025, the Government had promulgated 29 decrees on decentralization and delineation of authority, while ministries and sectors issued 63 circulars. In total, 1,248 tasks were reallocated through authority delineation, and 1,065 tasks were decentralized from central ministries and agencies to local governments (Thu Giang, 2025).

Organizational reform efforts in 2024 and the first quarter of 2025 have achieved significant breakthroughs with far-reaching structural implications. By the second quarter of 2025, the number of ministries and ministerial-level agencies had been reduced to 17, eliminating five ministries and three government-affiliated agencies. Internal restructuring within ministries was implemented rigorously to remove intermediary management layers: 13 out of 13 general departments (100 percent) were abolished; 519 departments and equivalent units were reduced (approximately 77.6 percent); 219 divisions and equivalent units were eliminated (54.1 percent); and notably, 3,303 sub-departments and equivalent units were removed (approximately 91.7 percent) (Pham, 2025). The complete abolition of general departments and near-total elimination of sub-departments constitutes strong evidence of a deliberate “flattening” strategy within the administrative apparatus. This approach aims to eliminate intermediary management layers prone to bureaucratic inertia and procedural complexity. By shortening command chains and delegating authority more directly to ministries and grassroots management levels, the system is expected to enhance flexibility, accelerate decision-making, and strengthen direct accountability (Nguyen, 2025).

Apparatus streamlining has also been implemented decisively at the local level. The current legal framework establishes clear organizational norms for local governments. Under Decree No. 45/2025/NĐ-CP, the number of specialized agencies (departments) under provincial People’s Committees is strictly limited. Specifically, provinces and centrally governed cities (excluding Hanoi and Ho Chi Minh City) may establish no more than 14 departments. This structural consolidation constitutes a critical reform measure aimed at developing a more streamlined local government model, including the implementation of a two-tier local government structure. Following administrative reorganization, the country now comprises 34 provincial-tier administrative units, including 28 provinces and six centrally governed municipalities, with a total of 3,321 commune-tier administrative units - a reduction of 6,714 commune-tier units (down 66.91 percent). The reorganization of specialized agencies in accordance with the two-tier local government model officially commenced operation on July 1, 2025 (Nhi Anh, 2025). The large-scale reduction in local administrative units represents a significant geopolitical and administrative restructuring. Although this process poses challenges for policy harmonization and resource management, it also creates opportunities to consolidate larger administrative regions with sufficient capacity and economic scale to implement decentralized functions effectively transferred from the central government.

Payroll downsizing is an indispensable tool for managing redundant staff who no longer meet job requirements following mergers and large-scale organizational restructuring. The current legal framework governing payroll reduction is detailed in Decree No. 154/2025/NĐ-CP, issued on June 15, 2025 (Government of Vietnam, 2025). This decree specifies the subjects, principles, and policies of workforce downsizing, including provisions for early retirement and termination of employment. Its scope of application is extensive, encompassing the entire political system, from Party agencies, state bodies, public service units, and the Vietnam Fatherland Front to socio-political organizations at all administrative levels. The replacement of Decree No. 29/2023/NĐ-CP by Decree No. 154/2025/NĐ-CP underscores the urgency of the situation. The rapid pace of organizational reform in 2025 (as evidenced by the complete elimination of general departments) exceeded the adaptive capacity of the previous personnel framework. Decree 154/2025/NĐ-CP contributes to institutional completion by potentially expanding or adjusting financial support policies to encourage early retirement or voluntary exit, thereby facilitating a more expeditious and smoother streamlining process while minimizing social and legal tensions arising from restructuring.

4. Overall assessment and lessons learned

The process of economic institutional reform since 1986 has brought about remarkable economic and social achievements. From an economy in crisis, Vietnam has sustained impressive growth rates across successive periods: averaging 4.4 percent during 1986-1990, rising to 8.2 percent in 1991-1995, and remaining at relatively high and stable levels in the following decades. GDP per capita increased from below \$100 in 1986 to nearly \$4,700 in 2024 (Solieu kinhte.com, 2025). One of the most outstanding successes has been poverty reduction. The poverty rate declined sharply from 57 percent in the early 1990s to below 4 percent in 2023 (based on the World Bank poverty line). Other social indicators also improved substantially, with the Human Development Index (HDI) rising by 53.5 percent, from 0.499 in 1990 to 0.766 in 2023, placing Vietnam among countries with high human development (Nhat Anh, 2025; World Bank, 2025).

There exists a strong correlation between liberalization, economic growth, and improvements in social indicators. Economic development generated wealth, enabling the Government to mobilize resources for social policies, enhance living standards, and demonstrate the relative effectiveness of the socialist-oriented market economy model. Institutional reform provided the necessary legal and economic foundation for these structural transformations. Specifically, reforms facilitated the reallocation of labor from low-productivity sectors (agriculture) to higher-productivity sectors (industry and services), and from less efficient areas (state-owned enterprises) to more dynamic sectors (private

enterprises and foreign-invested enterprises). The rapid expansion of the private sector following the promulgation of the 1999 Enterprise Law is a vivid illustration of the effectiveness of reform. This sector has become a key engine of growth, promoting innovation, entrepreneurship, and competitive dynamism. Furthermore, adjustments to foreign investment policies have yielded tangible results; foreign direct investment projects have increasingly played a critical role in the national economy, enabling localities to focus on their comparative advantages and develop strategic, large-scale projects.

Despite these significant achievements, institutional reform continues to face substantial challenges. Institutional bottlenecks persist and may be categorized into four principal dimensions (Ngo, 2025):

(i) *Overlapping legal frameworks*: Existing laws and policies lack coherence and occasionally contradict one another, complicating implementation and increasing compliance costs for enterprises.

(ii) *Complex administrative procedures*: Administrative processes remain cumbersome and insufficiently transparent, wasting time and social resources while creating opportunities for bureaucratic inefficiency and rent-seeking behavior.

(iii) *Limitations in decentralization*: Ambiguities in responsibilities and authority between central and local governments result in overlapping management and policy implementation challenges.

(iv) *Weak implementation capacity*: A segment of public officials exhibits limited competence and insufficient accountability, thereby hindering reform progress and effective policy enforcement.

Assessments by international organizations reinforce these concerns. The International Monetary Fund observed that reform progress has been “uneven”, particularly in the state-owned enterprise sector and among state-owned commercial banks, which continue to play dominant roles and engage in quasi-fiscal activities (IMF, 2006). The Asian Development Bank (ADB) similarly noted that economic growth could have been higher and more sustainable had comprehensive institutional reforms been implemented more swiftly and effectively (Ky Thanh, 2025). Another noteworthy issue concerns the inconsistent enforcement of the 2004 Competition Law in the SOE sector, which remains strategically important. This discrepancy reveals an internal tension and hesitancy in fully applying market principles. Moreover, an ADB study indicates that economic growth has tended to increase income inequality, with gains disproportionately accruing to the wealthiest 10-20 percent of the population, highlighting the uneven social and regional impacts of reform (Sarma *et al.*, 2017).

In summary, Vietnam's economic institutional reform journey from 1986 to 2025 represents a comprehensive and transformative process that converted a centrally planned, crisis-ridden economy into a dynamic and deeply integrated market economy. This transformation laid the foundation for impressive economic growth, dramatic poverty reduction, and significant improvements in living standards.

Nevertheless, considerable challenges remain, particularly in transforming the growth model and addressing structural institutional constraints. Based on the analysis of reform phases and key reform pillars, several core lessons may be drawn to guide Vietnam's future development orientation:

First, institutional reform is the fundamental driver of growth. Vietnam's economic success was not incidental but the direct result of reallocating labor, capital, and technology from inefficient sectors to more productive ones. Such reallocation is only possible within a robust legal and institutional framework. Legal and institutional reforms are foundational prerequisites, not merely by-products, of economic growth.

Second, international integration serves as a powerful catalyst for reform. Commitments to international standards, such as WTO accession, created both pressure and opportunities to overcome internal resistance to reform. International integration can function as an effective instrument for adapting to new global contexts while accelerating difficult but necessary reforms that yield long-term economic benefits.

Third, reform must ensure fairness and inclusiveness across economic actors. Although rapid growth during the reform era substantially reduced poverty, it also contributed to rising income inequality. Policies are therefore needed to ensure that the gains of institutional reform and economic growth are more equitably distributed, address emerging social challenges, and secure sustainable long-term development.

Fourth, reform priorities should shift from formal compliance to substantive effectiveness. It is essential to address institutional bottlenecks and streamline administrative processes meaningfully. Rather than focusing solely on the promulgation of resolutions, stronger mechanisms are required to incentivize proactive leadership at the local level and to hold underperforming units and individuals accountable. With respect to international integration, continued refinement of the legal framework is necessary to ensure full and effective compliance with international commitments. Regarding the digital economy, the legal corridor for emerging business models must be urgently completed to create a safe and transparent environment that attracts investment and fosters innovation. Greater investment in digital infrastructure and cybersecurity is also essential to protect citizens and enterprises from emerging risks.

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