

THE IMPACT OF THE MARKET ECONOMIC INSTITUTION TO THE DEVELOPMENT OF THE PRIVATE SECTOR

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Summary: *The private sector is an important driving force for the development of most economies in the world. A fast-growing and sustainable economy always has a developed private sector. Recognizing this, the Party and the State have paid much attention and have had important policies to promote the development of the private sector, most recently Resolution No. 10 – NQ / TW on the development of the private sector to become an important part of a socialist-oriented market economy.*

The private sector has had many positive changes in recent years. However, the development issues of the private sector have persisted for a long time, such as small scale, technological level, poor management, low competitiveness, linkages between private enterprises, and limitation on the participation of the global value chain. Therefore, shortly, it is necessary to have reasonable solutions to promote the development of the private sector to become a driving force for economic growth.

Keywords: *Institutions, institutional improvement, market economy, market economy institution, private economy.*

The development of the private economy is an important driving force of the economy. The dynamic development of private sector has created jobs, contributed to increasing budget revenues, and increasing production and productivity of the economy. Recognizing this, over recent years, the Party and the State have had guidelines and policies to encourage the private sector though the development of this economic sector is still limited. The scale of private enterprises is generally small, technology is backward, management capacity and labor skills are poor, and the ability to participate in the global value chain is limited. Thus, to develop the private sector in terms of quantity and quality (technological capacity, innovation, and participation in the global value chain), the guidelines and the policies consider the private sector as “an important driving force of the economy” which needs to be specifically institutionalized.

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This paper aims to show the policies of the socialist-oriented market economy institution (SOCC) towards the development of the private sector followed by an analysis of the impact of the market economy institution towards socialist orientation. Also, both the success, and the limitation in the development of the private sector is referred to, and some solutions are suggested to promote the development of this sector.

1. The socialist-oriented market economy in Vietnam

On June 3, 2017, at the 5th Plenum of the Central Committee of the XII Legislature issued Resolution No. 11 – NQ / TW on “*Perfecting socialist-oriented market economy institutions*”. The resolution has outlined some achievements over 30 years of the renovation as follows:

- The modern and integrated market economy, the legal system, mechanisms, and policies are more consistent with international law and meet international integration commitments.

- Market factors and market types are formed in a more synchronized manner, linked to regional and world markets. Most types of prices of goods and services are set by the market mechanism. Investment and business environment is improved and more open; freedom of business and fair competition among enterprises of all economic sectors is more guaranteed.

- International economic integration is increasingly extensive on many levels, diverse in forms, gradually adapting to the principles and standards of the global market.

However, according to the assessment in the Resolution, over 30 years of renovation, the system of socialist-oriented market economy institutions has revealed some limitations.

- Some laws, mechanisms, and policies are overlapping, conflicting, unstable, and inconsistent; there are also signs of local benefits, not making a breakthrough in mobilizing, allocating, and effectively using development resources.

- The effectiveness of economic entities and types of enterprises in the economy are still limited. Access to some social resources is unequal to economic entities. Administrative reform is still slow. Investment and business environment is not open, transparency and stability are not high. Business freedom has not been fully respected. Property rights are not strictly enforced.

- Some types of markets are slowly formed and developed, operating with many obstacles and inefficiencies. Prices of some essential goods and services have not been set based on the market mechanism.

The resolution has pointed out the causes of the limitations, which are mainly subjective: *The awareness of the socialist-oriented economy is not clear enough. Subsidies based thinking is also heavily influenced. The capacity of building and implementing institutions is still inadequate, not keeping up with the development of the market economy. Thoroughly grasping and organizing the implementation of the Party's undertakings, policies, and laws of the State at all levels and branches, especially the head of lack of drastic, low efficiency and not serious. The roles, functions, and modes of operation of agencies in the political system are slow to innovate under the requirements of farming economic development in the context of international integration. That the decline in political ideology, morality, lifestyle accompanied by increasing, bureaucracy, corruption in*

a significant number of cadres and party members reduces the effectiveness and efficiency in implementing the Party's guidelines, policies, laws of the State.

From the analysis on current situation, the Resolution has set general views and goals, specific goals to 2020, and 2030 vision to perfect the socialist-oriented socio-economic institution.

The tasks and solutions stated in the Resolution, if well implemented, will be a strong driving force for the development of the private sector. For example, regarding the awareness of a socialist-oriented market economy, the Resolution defines “the socialist-oriented market economy that our country builds as a fully and synchronously operating economy according to the laws of the market economy, while ensuring the socialist orientation suitable to each stage of development of the country ”; “*The Private economy is an important engine of the economy*”; “*The subjects of all economic sectors are equal, cooperative and competitive, and develop together according to the law. The legal enrichment is encouraged.*”; “The State plays the role of orienting, building and perfecting economic institutions; creating an environment of fair, transparent and healthy competition; using the State's tools, policies, and resources to guide and regulate the economy, promote production, business and protect natural resources and the environment; developing cultural and social fields. The market plays a key role in mobilizing and effectively allocating resources, which is the main driving force to free up production power; The State's resources are allocated according to strategies, planning, and plans suitable to the market mechanism. “

Regarding the content of institutional improvement of economic sectors, types of businesses, the Resolution stated: “*Consistent implementation of a legal business regime for enterprises, regardless of ownership form and economic part. All enterprises of all economic sectors operate under the market mechanism, equality, and fair competition according to the law. Creating favorable conditions to promote the development of businesses and the Vietnamese business persons truly become the core force, leading the career of industrialization, modernization, and economic integration, ensuring the independence and autonomy of the economy. Continuing to perfect the institution, facilitating the development of the private sector has become an important driving force of the economy. It is necessary to promote the formation and development of strong private-sector corporations with modern technology and advanced management capacity. Completing policies is to support the development of small and medium enterprises.* “

The 5th Conference of the 12th Central Party Committee also issued Resolution No. 10-NQ / TW on the development of the private sector becoming an important driving force of the Knowledge-based economy oriented to socialism. This is an important and breakthrough resolution to develop the private sector so that the private economy “contributes more and more to the process of socio-economic renovation and development of the country”.

To institutionalize the policy of private sector development in Resolution No. 10 – NQ / TW, the National Assembly adopted the Law on SME Support (Law No. 04/2017 / QH14) on June 12, 2017; The government then issued Decree No.

39/2018 / ND-CP dated March 11, 2018, detailing some articles of the SME Support Law. Based on the Party's great guidelines and orientations, the government has concretized the actual guidelines. The government's Resolution No. 19 / NQ-CP on the main tasks and solutions to improve the business environment, enhance national competitiveness has had a positive impact on the business environment, and enhanced the competitive capacity of the economy.

In general, since the 12th Central Conference to date XII so far, many guidelines and policies have been issued to develop the private sector, making the *private sector become an important driving force of the economy*, creating a major contribution to the economy. The sector plays an important role in job creation,

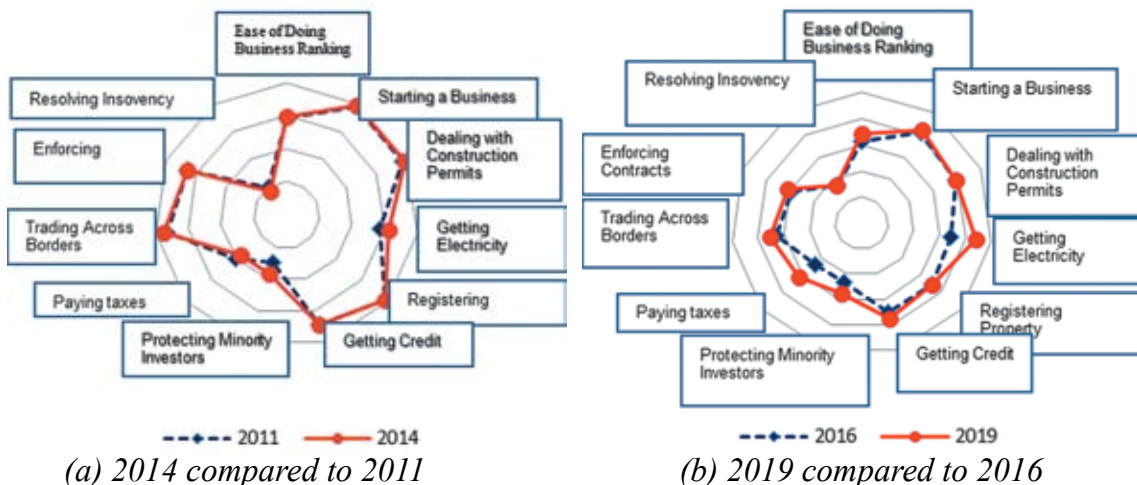
boosts productivity, competitiveness, and connects the domestic economy with the international economy through the value chain and global production network.

2. The impact of socialist-oriented market economy institutions on the development of the private economic sector

2.1. The results of perfecting socialist-oriented market economy

The Business Environment with different indices of Vietnam varies from time to time. Business Environment in 2014 compared to 2011 (Figure 1.a) did not have a strong change; The index had almost no significant improvement; The index of getting electricity and minority investor protection was improved slightly, but the index reflecting tax payment declined.

Figure 1. Vietnam's Business Environment



(a) 2014 compared to 2011

(b) 2019 compared to 2016

Source: Doing Business, World Bank Group

However, in 2019 compared to 2016, the Business Environment changed greatly. Getting electricity index was significantly improved. Other indicators, such as tax payment and minority investor protection, drastically changed. Getting credit, property rights registration, contract enforcement, and cross-border trade all improved. No indicators in 2019 decreased compared to

2016. The Business Environment in 2019 improved significantly compared to 2016, reflecting the State's efforts, determination, and actions in the period 2016–2020. Thus, it can be seen that the Business Environment in recent years has more greatly improved than in 2011. However, the actual improvement remained strong and clear from 2016 to 2020 compared

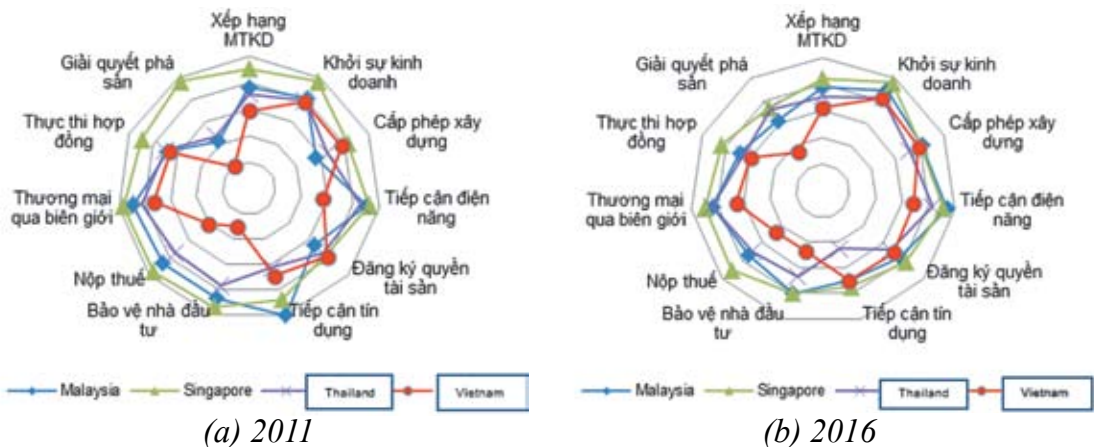
to the period 2011–2015. Improving Business Environment partly reflects the process of improving the market economy institution, creating favorable conditions for businesses in general and private enterprises in particular to develop.

However, in the context of international economic integration, Vietnam's Business Environment needs to be compared with other countries. Figure 2 compares Vietnam's Business Environment with that of some ASEAN countries (Singapore, Thailand, and Malaysia) over three important periods: 2011, 2016, and 2019¹. Accordingly, most of the indicators reflect a lower Business Environment in our country than that of ASEAN 3. The resolving insolvency index has almost no improvement compared to other countries. Resolving insolvency quickly and at low cost will be an important way for resources to allocate more efficiently (from where the low efficiency quickly circulates to the highly effective place).

Slow bankruptcy resolution, high costs will cause the congestion of resources (finance, technology, labor). The largest number belongs to domestic private enterprises and they are the most bankrupt (Nguyen Hong Son, 2017), so they will bear the biggest costs because of the weak bankruptcy process. Vietnam's minority investor protection and tax payment in 2011 and 2016 not only had low scores but were far behind ASEAN 3, but in 2019 these two indicators of Vietnam improved significantly and narrowed the gap between Vietnam and ASEAN countries 3. Getting electricity energy in 2011 and 2016 was low, but by 2019, there were great strides, catching up with ASEAN countries 3.

Thus, the indicators of the Business Environment improved significantly in the period of 2016–2019, but compared to ASEAN 3 countries, Vietnam's Business Environment remained a "stable" gap with such countries as Singapore, Thailand, and Malaysia.

Graph 2. Vietnam's Ease of Doing Business Rankings compared to these of ASEAN 4



¹ ASEAN 4 includes Singapore, Thailand, Malaysia, and the Philippines, but when it comes to the Philippines, the picture graph will be much more complicated because it has many component indicators of the Business Environment inferior to Vietnam. To have a high goal to rise shortly, when compared to some countries in Southeast Asia, the Philippines is taken out of the comparative picture.



(c) 2019

Source: *Doing Business*, World Bank Group

Since 2014, when implementing the Resolution 19 / NQ – CP as mentioned above, our business environment and competitiveness have continuously improved. According to the assessment in Resolution No. 02 / NQ-CP *on continuing to carry out the main tasks and solutions to improve the business environment, improve national competitiveness in 2019 and orientations to 2021* of the State, January 1, 2019, “Implementing the State’s Resolution No. 19 on improving the Business Environment, enhancing national competitiveness, ministries, branches, and localities have been increasingly aware of this. Responsibilities and participation are increasingly active and proactive to improve scores and rankings of specific indicators and criteria under their management responsibilities. Many ministries, branches, and localities have appointed focal points, established a monitoring mechanism for the implementation of Resolution No. 19 as well as monitored the provision of information and evaluation results and rankings of international organizations, such as Ministry of Industry and Trade (Access to electricity); Ministry of Finance

(Tax payment); Ministry of Science and Technology (Innovation) ..., Vietnam Social Insurance (Social Insurance), Quang Ninh Province, Dong Thap Province, Hanoi, and Ho Chi Minh City.

Thousands of unreasonable business conditions have been abolished. The specialized inspection of import and export goods has been fundamentally renovated according to the risk assessment principle, from pre-inspection to post-inspection for many types of goods. The number of online public services has increased ... “More than 50% of businesses have assessed that the Business Environment is open and significantly more favorable. The ministries, branches, and localities that actively implement Resolution No. 19 are also the ministries, branches, and localities that continue to maintain their high rankings or make significant improvements in the rankings. (published by Vietnam Chamber of Commerce and Industry), PAR Index (published by Ministry of Home Affairs); ...”

In addition to reducing administrative procedures, improving the Business Environment - creating an environment

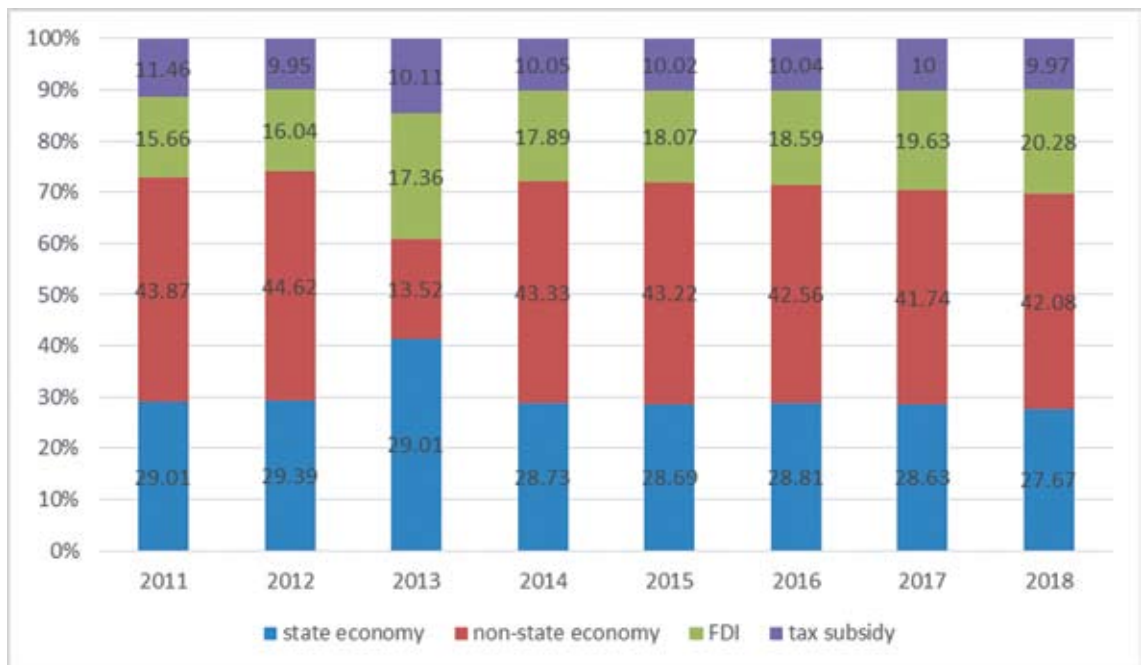
of fair competition both horizontally (between economic sectors) and vertically (between enterprises and other scales), the equitization process of state-owned enterprises is also promoted, contributing to creating an environment of fair competition.

2.2. Private economic development

The guidelines, policies, and laws in recent years have showed that the Party and the State attach great importance to the development of the private sector, consider to the private sector as a driving force of growth. Figure 3 shows the distribution of GDP across the economic sectors. GDP of the non-state economy accounted for the largest proportion, about 42% in 2018. GDP of the state economy ranked second, accounting for about

28% of the total GDP of the economy in 2018, but the proportion of state-owned economic sectors has tended to decrease, from 29% in 2011 to 28.6% in 2015 and 27.7% in 2018. Notably, the proportion of GDP of the FDI sector (FDI) had a sharp increase, from 15.7% in 2011 to 18% in 2015, and reached 20.3% in 2018. With the trend of equitization of state-owned enterprises in the coming period and the economy of international integration more deeply, the FDI economic sector is likely to account for a larger proportion in the coming years. Despite its importance, from 2011 to 2018, the GDP of the non-state economic sector did not increase, but decreased slightly from 43.8% in 2011 to 43.2% in 2015 and continued to decline to 42% in 2018.

Figure 3. Distribution of gross domestic product (GDP) across the economic sectors from 2011 to 2018 (Unit:%)

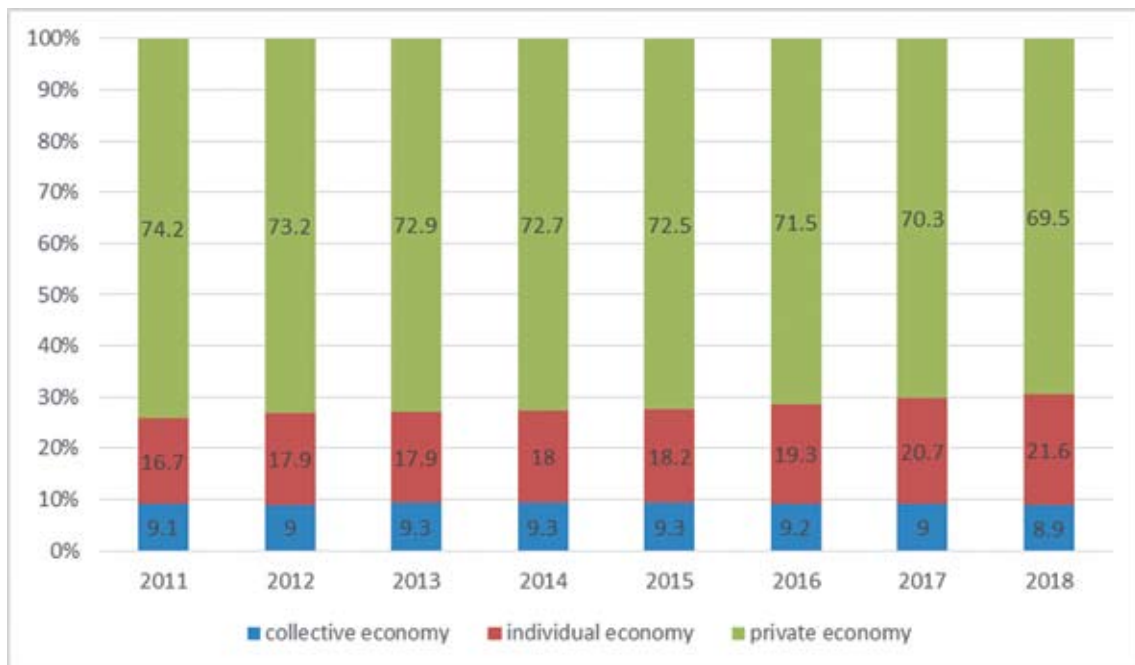


Source: General Statistics Office of Vietnam

Figure 3 shows that the non-state economic sector includes the collective economy, individual economy, and the private sector. In terms of the size of GDP in these three components, the individual economic sector accounted for the overwhelming proportion - 69% in 2018 (from 74% in 2011). Meanwhile, the private sector made up 21.6% in 2018 (an increase of 16.7% compared to 2011). The collective economic sector kept the smallest proportion, reaching 9% in 2018 and showed almost no significant reduction compared to 2011.

The proportion of GDP of the private sector to the total GDP of the non-state sector was steadily increasing year by year (from 16.7% in 2011 to 18.2% in 2015 and 21.6% 2018). If this pace is maintained, the private sector's GDP contribution rate will be even higher in the coming years. If there is a conversion of individual business households into businesses, the proportion of the private economy will be much higher. However, this does not indicate the development of private enterprises if it is merely a formal transformation from individual business households to enterprises.

Figure 4. Structure of non-state economic sectors (Unit:%)



Source: General Statistics Office of Vietnam

The limitation in developing the private economy in the past years is the lack of large private enterprises becoming pillars in the development of industries and fields; able to reach out to the world market; and have modern technology capability such as Korean Chaebol, Japanese Zaibatsu, technology

corporations in the USA, UK, China ... Meanwhile, many large enterprises in Vietnam originate from the real estate business, production and exploitation of natural resources.

Most private enterprises of Vietnam are small and medium scale, fragmented development, small, lack of cohesion. The

most worrying is that “individual business households lack the motivation to grow to become big businesses. The informal sector lacks the incentive to switch to formal activities “(Nguyen Hong Son, 2017). Without mechanisms and policies and solutions strong enough to stimulate individual business households into enterprises and small private enterprises into large private enterprises, the private sector may not thrive and compete with enterprises of countries in the region in the context of international economic integration are taking place widely and deeply in the present and coming time.

3. Conclusion

In 2002, the Central Committee promulgated Resolution No. 14 – NQ / TW on continuing to renovate mechanisms, policies, encouraging, and facilitating private economic development. 15 years later, in 2017 the Central Committee promulgated Resolution 10 – NQ / TW on private economic development becoming an important driving force of the socialist-oriented economy. Both of these Resolutions have similar assessments on the limitations of private enterprise development, reflecting the lack of fundamental changes in private economic development.

Resolution 14 – NQ / TW 2002	Resolution 10 – NQ / TW 2017
<p>The private sector of our country currently has many limitations and weaknesses: most of them are small-scale, small capital, outdated production technologies, weak management skills, efficiency and weak competitiveness, little investment in the field. manufacturing sector; there are still many difficulties and obstacles in terms of capital, production and business premises, legal environment and psychosocial environment; Many private sector units have not implemented well the provisions of the law for labor; many units violate the law, evade taxes, trade frauds, and do illegal business.</p>	<p>The private economy is small in scale, mainly business household; technology level, management level, financial capacity, product quality, and low competitiveness; industry structure is still unreasonable, lack of links with each other and with other economic sectors; international economic integration capacity is still limited, not meeting the requirements of regional and global production value chains. Many private businesses stopped operating, dissolved, and went bankrupt.</p>

Thus, the limitations and weaknesses in the development of the private sector have not been resolved after many years of policies and policies for developing this component. To develop the private sector component, on one hand, it creates a strong private sector corporation, has the technological capacity, can compete on the international arena, and on the other hand to create a class of small and medium-sized private enterprises, but has the potential and opportunity to expand

quickly to become a large-scale private enterprise; Beside guidelines and major orientations (as mentioned in Resolution 10), the State needs specific and feasible solutions to create a fair, transparent and healthy business environment for all types of enterprises; minimize the informal costs that private enterprises incur (through surveys and surveys of private enterprises; through dialogues between policymakers and the business community); reduce

activities harassment, troubles that cause costly production and business activities of enterprises; For business establishments to “Do not discriminate against the private economy” and the State should “Commend, reward, even award the title of a hero for Private enterprises” (General Secretary, President Nguyen Phu Trong). Thus, the private economy has become an important driving force of the economy shortly./.

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TÁC ĐỘNG CỦA THỂ CHẾ KINH TẾ THỊ TRƯỜNG ĐẾN SỰ PHÁT TRIỂN CỦA THÀNH PHẦN KINH TẾ TƯ NHÂN HIỆN NAY

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Tóm tắt: Thành phần kinh tế tư nhân (KTTN) là động lực phát triển quan trọng của hầu hết các nền kinh tế trên thế giới. Một nền kinh tế phát triển nhanh và bền vững luôn có một khu vực KTTN phát triển. Nhận thức được điều này, Đảng, Nhà nước đã quan tâm và có nhiều chủ trương, chính sách quan trọng thúc đẩy KTTN phát triển mà gần đây nhất là Nghị quyết số 10–NQ/TW về phát triển KTTN trở thành một động lực quan trọng của nền kinh tế thị trường định hướng XHCN.

Thành phần KTTN đã có nhiều chuyển biến tích cực trong những năm gần đây. Tuy nhiên, các vấn đề trong phát triển thành phần KTTN vẫn còn tồn tại kéo dài, như quy mô nhỏ, trình độ công nghệ, quản lý yếu kém, năng lực cạnh tranh thấp, liên kết giữa các DN tư nhân và tham gia chuỗi giá trị toàn cầu hạn chế. Vì thế, trong thời gian sắp tới, cần các giải pháp hợp lý nhằm thúc đẩy thành phần KTTN phát triển, trở thành động lực cho tăng trưởng của nền kinh tế.

Từ khóa: Thể chế, hoàn thiện thể chế, kinh tế thị trường, thể chế kinh tế thị trường, kinh tế tư nhân.

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