

## Private Economic Development: Limitations, Shortcomings and Recommendations for Solutions

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**Abstract:** In recent years, the private economic sector in Vietnam has grown in quantity and quality, playing an increasingly important role in a socialist-oriented market economy, contributing to effective socio-economic issues of the country. The private economy has made an important contribution to the gross domestic product, and has continuously increased over the years, specifically increasing from VND 371 trillion in 2005 to VND 2 trillion in 2018 [1]. The GDP contribution rate of the private sector in the 2005-2018 period reached from 40% - 45%, a higher level of contribution than both the state economic sector and the foreign-invested economic sector. However, this economic sector still has certain barriers in the development process. This study focuses on analyzing the difficulties and limitations and proposing solutions to develop the private economic sector in the coming time.

**Keywords:** Private economic, limitations and shortcomings, recommendations for solutions, innovation, Vietnam.

### INTRODUCTION

The Fifth Meeting of the Communist Party of Vietnam Central Committee (Session XII) promulgated Resolution No. 10-NQ/TW dated June 3, 2017 on "Private economic development becomes an important driving force of the economy "socialist oriented market", is a new step, creating a driving force to promote the development of the private economic sector and the whole economy, demonstrating the continued renewal of the Party's economic thinking to consistent with the development reality of the economy after 30 years of national innovation [2].

After more than 30 years of innovation, from an unrecognized position, limited development, the private economy in Vietnam has made significant changes, gradually being "untied" and gradually becoming one indispensable ingredients in the socialist-oriented market economy. "The private economy has become a solid" tripod "of Vietnam's economy", speaking at the Private Economic Forum 2019, Prime Minister Phuc Nguyen Xuan affirmed: The private sector in the country is creating about 40% of GDP, 30% of the state budget, attracting about 85% of the national workforce. The changes in institutions and policies have created achievements in the development of the private economic sector in Vietnam.

As noted by Mr. Raymond Mallon - economic advisor of the Aus4Reform Program in Vietnam, investment growth in the private sector has reached impressive numbers, up to 50-60% per year, while state sector rose 2.5% and foreign investment about 7%. This is a truly different result over the past two decades, when foreign investment has always played a key role in the country's economic growth. Therefore, the growth of the private sector is bringing good signals to the Vietnamese economy.

Assessing the factors that create the driving force for the development of the private economic sector, Mr. Jacques Morisset - chief economist of the World Bank (WB) in Vietnam - said that, in the past 10 years, Vietnam Nam has made remarkable progress in the World Bank's business environment rankings. Specifically, Vietnam has achieved impressive results, from 100 to 70, up 30 places.

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Although the private sector has made certain contributions to the country's economy, there are still some limitations that still exist. Research shows the role and importance of the private economy in Vietnam's economic development, outstanding problems, and barriers to development; from there, proposing solutions to develop this economic sector in the coming time.

### **The Role of the Private Sector in Vietnam's Economy**

After more than 30 years of reform, from an unrecognized position, limited development, the private economy in Vietnam has made significant changes, gradually being "untied" and gradually becoming one indispensable ingredients in the socialist-oriented market economy.

The first important milestone for the private sector is the Resolution No. 14-NQ/TW dated March 18, 2002 of the Fifth Conference of the Central Executive Committee (Session IX) "On continuing to reform institutions, policies, encouragement, and conditions for private sector development". The private sector has been officially encouraged to develop with many important solutions. The resolutions of the Party congresses continue to affirm and emphasize the role of the private sector [3]. The 5th Conference of the Party Central Committee (Session XII) issued Resolution No. 10-NQ/TW on June 3, 2017 on "Developing private sector to be an important driving force of the market economy socialist orientation" [1]. The changes in institutions and policies have created many achievements in the development of the private sector, including:

#### **First, in terms of the number of enterprises and employees**

By the end of 2018, the number of business establishments in the private sector (including private enterprises, individual business households) was about 6 million units, about 700 thousand enterprises. On average, in the 2011-2018 period, the number of properties increased by 3.4% each year [4, 5]. In the enterprise sector alone, the proportion of non-state (private) enterprises accounts for about 96-97% of the total number of enterprises in the period 2010-2018 and this proportion is forecasted to remain in 2019 and 2020. Meanwhile, the number of individual business households increased from more than 4.12 million in 2010 to over 5.14 million in 2018, an average increase of 3.25% per year in the whole period [4].

The average number of enterprises per 1,000 people continuously increased in the 2010-2018 period, from 3.2 enterprises (2010) to 7.6 enterprises/1,000 people (2018). The average growth rate is over 11.5%/year in the whole period 2011-2018 [5].

The number of newly established businesses continuously increased in the 2011-2018 period, averaging nearly 6.5%/year, of which the increase in the period 2011-2015 was 3.3% and the period 2016-2018 was 11.6%. In the period 2016-2018, it shows that the number of newly established enterprises has exceeded 100,000 enterprises/year. In addition, the number of decommissioned enterprises resuming operations in the period 2013-2018 averaged 30.6% / year (24.3% in the period 2013-2015 and 36.8% in the period 2016 -2018). Meanwhile, the average annual rate of the number of enterprises ceasing operations and dissolving is about 74.2% of the total number of newly registered enterprises in the period 2011-2018 (of which the 2011-2015 period was at 80.2%. and the period 2016-2018 at 64.3%) [5].

Divide by industry, statistics show that the number of businesses in the service industry accounts for 66% to over 70.6% in the 2010-2016 period. According to forecasts, the proportion of enterprises in the next service industry increase and account for over 71% in 2019 and nearly 72% by 2020. Meanwhile, the proportion of business households in the field of commerce and services accounts for over 80% [5].

According to the General Statistics Office [5], the total number of employees aged 15 and over who are working in the non-state economic sector in 2018 is about 45.19 million, accounting for 83.3% of the total number of employees aged 15 years or more are working in the economy (about 54.25 million people). Proportion of workers working in the non-state economic sector in the total number of workers over 15 years old working in the economy, in the period 2010-2018 ranged from 83.3- 86.3%. In the business sector alone (including businesses and business households), in 2017 the total number of employees working in this sector was about 23.2 million people (including 14.5 million people in enterprises and more than 8, 7 million people in household businesses) [5].

#### **Second, the private sector's contribution**

Contribution to GDP: In the period 2010-2018, the non-state economic sector's contribution to GDP (including the private sector and the collective economy) accounted for the largest proportion, about 43%, of which the private sector accounted for density from 38% - 40.6%. The state economic sector and the foreign invested sector in the same period accounted for 27.7% - 29.4% and 15.15% - 20.3% respectively [6].

In terms of contribution to GDP growth, the growth rate of the non-state economic sector in GDP was higher than the general growth rate of the economy in the period 2010-2012. This is lower than the overall growth in the period 2013-2017 [7].

Contribution to the state budget: The non-state economic sector accounts for an increasing proportion in the period 2010-2017, from 28.3% (2010) to 33.2% (2016). The foreign-invested business sector contributes more and more in the structure of state budget revenue, from 26.3% (2010) to 34.4% (2016) [7] and is currently a contribution highest. Meanwhile, the contribution to the state budget of the state economic sector has decreased rapidly, from 45.4% (2010) to only 32.3% and is the region with the lowest proportion.

Investment of the non-state economic sector in total social investment: Has risen to No. 1 since 2015, accounting for 38.7% and reaching over 43% in 2018. In contrast, billion Investment in the state economic sector tends to decrease sharply, from 47.1% (2005) to 38% (2015) and to 33.3% (2018). Foreign-invested sector accounts for 21.6% - 25% proportion in the 2010-2018 period. Taking into account only in the business sector (including state-owned enterprises, private enterprises and residents, the foreign invested sector), investment by the private sector accounts for 53% - 56.3% of the total investment of this sector in the period 2010-2018 and shows an increasing trend over time (the state-owned enterprise sector accounts for about 9% - 16%; the foreign direct investment sector accounts for about 30% - 38% in the same period [5] It is forecasted that by 2020, the private sector will account for about 60% of the total investment capital of the business sector. Investment capital growth is most stable in the three regions in the period 2011-2018, ranging from 7.14% - 18.86% (average 13.2% / year) and is forecast to continue to increase at over 16% in 2019 and 2020.

Regarding total assets in business: The private sector has the highest proportion of total assets (ranging from 48.2% to 53.5% of total assets of the business sector). This sector generates the largest revenue of the 3 regions (ranging from 50.8% - 56.8%). The debt-to-equity ratio of the private enterprise sector in the period 2010-2017 fluctuated between 1.83 and 2.3 times, lower than the average of the entire enterprise sector (equal to about from 54.4% - 74% compared with the state-owned enterprise sector and about 108% - 148% of the foreign invested enterprise sector). The debt-to-equity ratio of private enterprises remained stable in the period 2010-2015 and tended to increase in 2 years (2016 and 2017) [5].

Business performance of the private sector, especially the private enterprise sector, has significantly improved. The rate of return on assets of the private sector for the period 2011-2017 ranged from 0.86 to 1.86%, while the rate of return on equity of this sector in the same period the segment ranged from 2.63% - 5.5% [6].

### **Problems Exist in the Private Sector**

Although the private sector has made certain contributions to the country's economy, there are still some limitations that exist as follows:

The labor productivity of the private sector is still low. Despite the large participation of the labor force, the participants in this economic sector are mainly small enterprises individual business households, households, which use a lot of labor, so the productivity is not high, lack of capital to invest in the application of science and technology in production, etc.

The performance of the private sector is not high. From 2011 up to now, the ICOR of the private sector has ranged from 5-6, which is basically equal to the ICOR of the whole economy. However, the ICOR of the private sector compared to the FDI sector is still higher, showing that the investment efficiency of the domestic private economy has not yet caught up with that of foreign enterprises [8].

Competitiveness is still limited, due to its small scale; many domestic enterprises are not competitive enough to export to foreign markets. At the same time, governance capacity and international economic integration are still limited, affecting the competitiveness of the private economy. Not to mention, the access to credit of the private sector is currently facing many difficulties, increasing the financial costs of capital, making it difficult for businesses in price competition.

The structure of products and industries is not diversified and sensitive to the market. The industry structure of the private sector is still inadequate when focusing on commercial and service activities, while only 1% is invested in the agricultural sector. In addition, the application of high technology to production is not much, leading to slow changes in product structure and industries consistent with the actual situation.

The contribution of private sector to economic growth is not commensurate with its potentials and expectations. The share of private sector in GDP has little changed over the past 10 years. The goal of contributing about 50% of GDP by 2020 faces many challenges.

The average size of domestic private sector units is small, mainly individual economies contribute up to 30% of GDP, and private enterprises only contribute about 9% of GDP [6]. The social labor productivity of the private sector is lower than the average level of the economy.

Financial capacity, technology level and business efficiency of private sector are not high; product quality and competitiveness are not outstanding; the ability to join the regional and global value chain. Most of private enterprises still operate in the domestic market, very few private firms reach foreign markets. Even in the domestic market, under the pressure of fierce competition, large private firms tend to withdraw from industrial production, cede the playground to foreign enterprises. This retreat also takes place in some service sectors such as distribution, retail is preferred and has great potential of the economy.

Lack of markets, lack of production and business premises are the biggest obstacles for private firms. The resolution of barriers to administrative procedures is compulsory, but for businesses to develop, the problem of "market", the issue of output and the formation of places of exchange and trade, forming a link, etc. Helping businesses thrive is very important. For private enterprise to be the driving force of economic development, it is necessary to promote complete market institutions, because the market is an opportunity to access business, to access land, to information, to policies and to planning, etc. is the association between small businesses and large corporations to consume products, creating a value chain and production network is limited, mainly concentrated in the low value-added stages.

### **Proposing Some Solutions to Developing Private Economy**

Vietnam aims to have 1 million enterprises (2020), more than 1.5 million enterprises (2025) and at least 2 million enterprises (2030). The growth rate of private sector is higher than the general growth rate of the economy; Strive to increase the contribution ratio of the private sector to about 50% of GDP (2020), about 55% of GDP (2025) and 60-65% of GDP (2030) [2]. To achieve the set goals as well as create favorable conditions for the private sector to become an important driving force in economic development, the article recommends the following solutions:

Firstly, building and completing the legal framework to create more favorable and equal conditions for private sector development.

Accordingly, the State needs to strengthen capacity building and effective implementation of policies, creating a favorable and safe business and investment environment for private sector to develop in a healthy and right direction. Enhance effectiveness of supervision, inspection and accountability of local governments at all levels for the observance of the Party's guidelines and State laws on private sector development. Strictly handle violations of law, affecting the production and business activities of enterprises. Strengthen an effective dialogue mechanism between state management agencies with enterprises in order to grasp and promptly handle problems related to private sector development.

The Law on Enterprises has created a relatively favorable legal framework for enterprises to enter the market, but there is a lack of synchronous legal bases to regulate operations in the market, namely, the adjustment of contractual relations regulates withdrawal from the market through dissolved bankruptcy. The fact shows that, only when we accept the bankruptcy of the enterprise as a normalized normal phenomenon can the private sector be able to develop its true nature. Accordingly, the essential issue for the private sector is to build a legal basis for the formation, implementation, monitoring, liquidation, dispute resolution of economic contracts and settlement of issues economic - finance when the enterprise goes bankrupt or dissolved market rules.

Secondly, there are policies to encourage and support the private sector to innovate and modernize technology. The State should strengthen the encouragement and support of private sector to invest in research and development activities; transfer of advanced technology. Ensuring effective enforcement of the law on intellectual property. Developing funds to support innovation and technology application. Apply tax policy, financial support, and access to preferential capital sources in accordance with technology research, innovation and modernization [9]. Improve the quality of education and training, especially vocational training, high-quality human resources to meet the demand for quantity and quality of human resources for private sector development. Strengthening cooperation and association between enterprises and training institutions. To attach importance to training, fostering and developing a team of businessmen with high professional qualifications, modern management skills, business ethics and high sense of responsibility.

Third, private enterprises need to proactively formulate a reasonable planning strategy on the basis of perfecting the organizational and managerial apparatus, promoting marketing activities; practicing business risk reduction measures and many measures improve other performance [6]. In order for a business strategy to be highly feasible, private enterprises need to carefully study the country's socio-economic goals, industry and career development strategies; at the same time, seize their ability to formulate strategies for the future. Each enterprise needs to develop its own strategy, in accordance with the ability of capital, human capacity, development goals, business lines, etc. To operate the business effectively as desired, the Private firms need to attach importance to the technology factor in the context of Vietnam's increasingly deep integration into the region and the world, with strong liberalization and new standards creating many opportunities for market expansion and participation global supply chain. Private firms need to carefully study and prepare an appropriate roadmap, not exclude joint ventures, association with other businesses as well as take advantage of opportunities from the State.

Fourthly, perfecting the organizational structure, managing and developing human resources, improving labor productivity.

In addition to the appropriate encouragement attention of the Party and State, in fact, the role of the private sector is largely decided by the private sector in an effort to improve efficiency and competitiveness through enhancing its financial potential major, managerial qualifications, equipping with modern technology machinery and equipment, training and employing a workforce. Private firms must constantly improve their organizational structure, manage, arrange and use resources appropriately; completing management methods and organizational structure; improve the qualifications of staff, employees, develop a healthy corporate culture. Enterprises and business households need to overcome a lack of methodical operation, management based largely on experience, following the market, lack of scientific analysis. The improvement of the organizational structure, management methods as well as staff training should be included in the plan according to a defined roadmap.

## CONCLUSION

The relationship between the private economy and the market economy is a parallel relationship, closely linked with each other, mutual institutions and promotes mutual development. The private economy is a development engine of the market economy and vice versa, the market economy is a favorable environment for the development of the private economy. Once the Party and State have decided to choose a market economy model to build and develop the country's economy, it must accept and create conditions for the private economic development.

The results of over 30 years of innovation that we have achieved in terms of growth, job creation and income enhancement, the transformation of the whole economy towards integration, modernization, etc. proves the correctness of the development of a market economy on the basis of many economic sectors, of which the private economy is an important part.

In recent years, the Vietnamese private economy, although its development is not strong, has shown that this is a potential area. Therefore, it is necessary to be consistent with the multi-sector economic policy, with the views and policies on private economic development that the Party and State have issued. Only then can the multi-sector economic policy come to life and we can achieve its goal of releasing all production capacity and exploiting economic potentials for land development country.

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