

DEVELOPMENTAL GOVERNMENT WITH THE DEVELOPMENT OF THE PRIVATE ECONOMIC SECTOR IN VIETNAM

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Abstract: *The developmental government plays an important role in building institutions and policies as well as creating an environment for economic sectors to develop. This article highlights some views about the development government and the private economic sector; analyzes the status quo of the role of the Government in creating the development of the private economic sector and points out the barriers to the private economic sector in the current period. On that basis, the article proposes some recommendations to promote the development of the private economic sector.*

Keywords: *development government, private economic sector, private economic sector in Vietnam.*

1. Introduction.

The private economic sector in Vietnam has proven its significant role in the national economy. It makes a great contribution to the GDP and the State budget as well as generates jobs for the society. However, at present, the private economy is still developing below its potential since there are still many barriers preventing the development of this area. The developmental government plays a crucial part in promoting sustainable and inclusive private sector-led growth. To ensure the private sector can thrive, the Government needs to further enhance its role in creating a favorable business environment, improving governance capacity, and reforming administrative procedures to remove barriers that constraint on private-sector development.

2. Developmental government and the private economic sector

2.1. Developmental government.

In his book “MITI and the Japan Miracle: The Growth of Industrial Policy 1925–1975” published in 1982, Chalmers Johnson pointed out the active role of the Japanese State in ensuring a high growth rate after the second world war which attributes to the orientation, planning and administration of the economy, in leading and modernizing the national industry. From the achievements of the Japanese economy with the role of the State, Chalmers Johnson called it the Developmental State¹. The “developmental government”, according to Chalmers, refers to “a development model between the free market capitalist economic system and the centrally planned economic system” - a “neutral” model that Woo - Cumings M. identified as a “combination of private ownership and state direction”².

¹ Chalmers Johnson (1982), *Miti and the Japan Miracle: The Growth of Industrial Policy 1925–1975*, Stanford University Press.

² Woo - Cumings (1999), *The Developmental State*, Cornell University Press.

Since the term “developmental government” was created by Chalmers Johnson, there have been other studies that have defined this matter. According to R. Rostow, “A developmental government is the government that has power and is properly organized to achieve its development goals.”³ Vincent Wei-cheng Wang considered a good developmental government as the one that places a high priority on the economic development. To achieve that goal, the state actively intervenes in the market through orienting, setting rules, coordinating, allocating resources and using other diverse policy tools⁴. H. Schimiz said that the developmental government is the state capable of designing and executing its development goals in an imposing and authoritarian way to trigger economic growth ...⁵ Meanwhile, Chang (2002) pointed out that economic development requires the government “to be able to create and adjust economic and political relations so that they together ensure a sustainable industrialization process, that means a developmental and developmental government is demanded”⁶.

In the direct questioning session on the parliament (afternoon of 18th Nov 2017), for the first time, the Prime

Minister himself stated his views before the National Assembly forum and shared the definition of developmental government in Vietnam including four main points:

Firstly, the developmental government is the one that proactively designs a good legal system, good policies and good institutions to nurture a developed economy, rather than passively cope with actual happenings.

Secondly, the State does not change the market, the State does not intervene in the areas that the market and private companies can be self-managed, but instead, creates conditions for businesses to do so. The State will only invest in areas where private enterprises cannot invest.

Thirdly, the government must establish a favorable business environment, not only leading among ASEAN countries, but also striving to reach the criteria of OECD group.

Fourthly, the government must also work with the talk, tighten the disciplines, replace officials who fail to meet the job’s requirements in particular, couples with building from e-government, e-commerce to electronic courts and so on. All of these are salient factors to build a developmental government⁷.

³ Excerpted from Dung, N.D. and Duy, N.D. (2017), *Chính phủ kiến tạo và những điều cần phải cân nhắc*, Proceedings of the Conference “The State of Constructing Development of Theory and Practice in the World and in Vietnam”, Faculty of Law, Hanoi National University.

⁴ Vincent Wei-cheng Wang (2002), *Globalization and the Developmental State: Reflections on the Asian Financial Crisis*, Political Science, Political Science Faculty Publications.

⁵ H. Schimiz (2005), *State Capacity and Donor Proliferation*. Sussex: Institute of Development Studies.

⁶ Chang, Ha-Joon (2002), *Kicking Away the Ladder: Development Strategy in Historical Perspective*, London.

⁷ VnEconomy, “*Chính phủ kiến tạo*” tại Việt Nam qua định nghĩa của Thủ tướng – <http://vneconomy.vn/chinh-phu-kien-tao-tai-viet-nam-qua-dinh-nghia-cua-thu-tuong-2017111816395712.htm>.

2.2. Private economic sector

In economics, the private sector is defined as an important part of the national economy, run by private groups or by individuals. Private enterprises often refer to the ones that operate for profits and are not subjected to the direct control of the state.

Trotman and Dickenson (1996) in “Economics of the Public Sector”⁸ discussed the ownership sector of the economy, whereby the economy is divided into 6 groups of subjects and consists of 3 main sectors: the private sector including households and businesses, the public sector including the central state, local state and national industries, and foreign economic sector.

The concept of the private sector can be accessed from many different angles, but in consideration of the scope of a country’s economy, the economy will be divided into two sectors: the private economic sector and the state economic sector. The division of the economy into the two sectors mentioned above is based on one or three criteria including property owners, management forms and financial resources (Karen G. Foreit, 1992)⁹.

When classified by the criteria of property owners, the private sector contains all of the economic components that are not state-owned.

When classified by the management forms, the private sector is the part of the economy that is privately-managed.

When classified by financial sources, the private sector is the component of the

economy operating for profit purposes through the production of goods, services or commercialization.

Ngoc, N.T. (2018) considered that the private sector in a broad sense includes domestic private enterprises, agricultural cooperatives, non-agricultural enterprises, and foreign invested enterprises in the form of joint venture or with 100% foreign owned capital¹⁰.

The private sector is an economic sector outside the state (outside the state economic sector), including domestic and foreign enterprises, in which the private sector holds more than 50% of the capital. The private sector refers to all business establishments that do not rely on state ownership of the factors of the production process.

At a narrower level, the private sector consists of individual economy and private capitalist economy. Through the above understanding, we can come to a specific and clear awareness of the private sector: The private sector is an economic area associated with the type of private ownership including individual economy, small business owners and private capitalist economy, and if based on private ownership of means of production it exists in the form of private enterprises, limited liability companies, joint stock companies and individual business households (Nga, N.T.V., 2019)¹¹.

3. Developmental government with the development of the private economic sector in Vietnam

Before the Renovation period, private

⁸ D.I. Trotman – Dickenson, *Economics of the Public Sector*, Macmillan 1996.

⁹ Karen G. Foreit (1992), *Private sector Approaches to effective family planning*, World Bank Working paper. No WPS 0940.

¹⁰ Ngoc, N.T. (2018), *Kinh tế tư nhân – yếu tố nòng cốt cho tăng trưởng kinh tế Việt Nam?* Proceedings of the national conference: “Vietnam’s economy in 2017 and prospects in 2018 with the theme of removing barriers to business development, Hanoi, 2018.”

ownership in Vietnam was dismissed. The state only recognized two forms of ownership in the economy: state ownership (state-owned) and collective ownership (cooperatives). Therefore, the private economy was not considered important and not promoted to develop. Along with the economic reform in 1986, the concept of “private economy” was officially used from the 6th Conference of the 6th Party Central Committee (March 1989). Later, the first legal frameworks for the formation of the private sector were promulgated, namely the company Law (1990) and the Private Enterprise Law (1990). Through the Party congresses, the position and role of the private sector have been gradually asserted and emphasized.

The fifth plenary meeting of the 9th Communist Party of Viet Nam Central Committee issued Resolution 14/2002/NQ-TW on “continuing to renew mechanisms and policies, encourage and facilitate private economic development”, which acknowledges the important role of the private economy as “making great contribution to the country’s socio-economic growth, mobilizing social resources into production and business, creating more jobs, improving people’s living conditions, increasing the state budget, and contributing to maintaining the socio-political stability of the country”.

At the 10th National Assembly Congress, the Party’s document also reaffirmed “the

private economy plays a crucial role and is one of the drivers of the economy. The state plays the leading role, creates an environment to effectively develop enterprises under the market mechanism, fosters, trains and honors talented, virtuous and successful businessmen”¹².

Continuing to affirm the position and role of the private economic sector, the resolution of the 11th National Party Congress in 2011 emphasized “the completion of mechanisms and policies is for encouraging and facilitating the development of the private economic sector in most economic branches and fields, turning it into an important driver of the economy.”¹³

The fifth plenum of the 12th-tenure Party Central Committee issued Resolution 10/NQ-TW (June 2017) on developing the private economic sector into a salient driving force of the socialist-oriented market economy.

The resolution defined the general goal of developing the private economic sector “in a healthy, effective and sustainable manner, turning it into a principle driving force of the socialist-oriented market economy; helping achieve rapid and sustainable socio-economic development, constant improve the people’s living conditions, realize social progress and equity, ensure national defence-security and soon propel the country to become an industrialised nation towards modernity.”

¹¹ Nga, N.T.V. (2019), *Phát triển kinh tế tư nhân nhìn từ góc độ cải cách thủ tục hành chính*, Finance Magazine, <http://tapchitaichinh.vn/tai-chinh-kinh-doanh/phat-trien-economics-recognition-recognition-management-operation-management-operation-management-309320.html>.

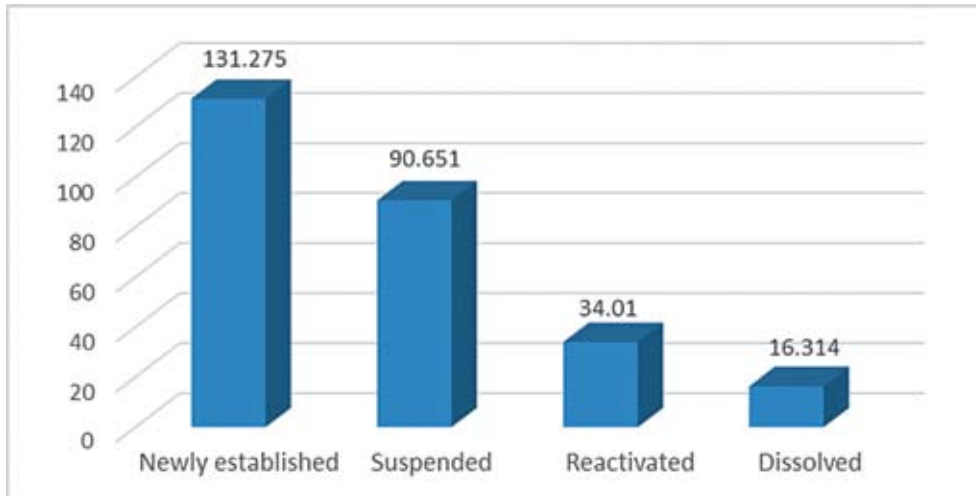
¹² The documents of the Party Congress in the period of renovation and integration (Congress VI, VII, VIII, IX, X) - National Political Publishing House, 2008, page 635.

¹³ The documents of the Party Congress in the period of renovation and integration (Congress VI, VII, VIII, IX, X) - National Political Publishing House, 2008, page 470.

Resolution 10 set specific targets as “striving for 2020 to have at least 1 million businesses; by 2025 there will be more than 1.5 million businesses and by 2030, there will be at least 2 million businesses

... Striving to increase the proportion of the private sector’s contribution to GDP so that by 2020 it will be around 50%, about 55% in 2025, and about 60–65% in 2030 ”¹⁴.

Figure 1: Business performance in 2018 (compared to 2017, Unit: Enterprise)



Source: Mai, L.H. (2019), *Vietnam’s economy in 2018: Pictures with bright spots*, *Journal of Social Science Information*, February 2019

Resolution 10 shows the determination of the Party and the Government in building a developmental government to promote the development of the private economy. With the mindset of the Government in the spirit of entrepreneurship and creation to serve the development of businesses, by the end of 2018, the Government issued and submitted to the National Assembly the promulgation of 28 legal documents to officially cut down 3,346/6,191 business conditions (reaching 108.1%, exceeding 8.1% of the set target). The Government,

ministries and branches issued 21 legal documents to reduce 6,776/9,926 types of goods that need to be under specialized examination (reaching 136.5%, exceeding 36.5% compared to the set target)¹⁵.

The reform of the business environment and the removal of the barriers to market entry have created an exciting atmosphere, encouraging the promotion of entrepreneurship and strengthening the confidence of private enterprises in the undertakings and policies of the Party and the State. The number of newly established enterprises has increased over

¹⁵ Chinh, H. (2018), *Văn phòng Chính phủ – những tâm huyết và dấu ấn cải cách 2018*, Government Office, <http://vpcp.chinhphu.vn/Home/Van-phong-Chinh-phu-nhung-tam-huyet-va-dau-an-cai-cach-2018/201812/25195.vgp>

¹⁴ The library of law - <https://thuvienphapluat.vn/van-ban/doanh-nghiep/Nghi-quyet-10-NQ-TW-2017-phat-trien-kinh-te-tu-nhan-kinh-te-thi-truong-dinh-huong-xa-hoi-chu-nghia-351478.aspx>

the years. In 2016, there were more than 110 thousand enterprises in the whole country. In 2017, it continued to increase to more than 126,000 newly established enterprises ¹⁶. In 2018, it reached the peak of 131,275 enterprises (Figure 1).

Currently, the private sector is performing a remarkable position in

contributing to GDP growth, creating jobs for the society and promoting export growth. In the period 2016–2018, the private sector contributed over 40% of GDP. In 2018 its contribution accounted for 42.08% of GDP, which was higher than that of the state sector (27.67%) and of the FDI sector (20.28%) (Table 1).

Table 1: Structure of GDP contribution of all economic sectors in the period 2016–2018 (%)

	2016	2017	2018
State economy	28.81	28.63	27.67
Non-state economy	42.56	41.74	42.08
FDI area	18.59	19.63	20.28
Product taxes minus product subsidies	10.04	10.00	9.97
Total	100	100	100

Source: Chi, V. (2019), *Comparing private sector and state economy: Who is the leader?*, VietnamFinance - <https://vietnamfinance.vn/so-sanh-khu-vuc-kinh-te-tu-nhan-and-kinh-te-nha-nuoc-ai-dang-la-chu-dao-20180504224222929.htm>

According to Hoa, H. (2019), in 2019, the number of employees working in the private sector accounted for 83.3% of the total number of employees aged 15 and above working in the country, equivalent to nearly 45.2 million people (2017: 44.9 million). Especially, in the two years 2017–2018, the number of newly established businesses generated nearly 2.3 million new jobs. The proportion of investment capital of the private sector in the total social investment capital increased rapidly and exceeded 40%: in 2017 accounted for 40.6% and in 2018 increased to 43.27%.

The private economy mobilizes a large amount of capital in society for

economic development. In the two years 2017–2018, the number of newly established enterprises had a total registered capital of 2.77 million billion dong (excluding nearly 4.28 million billion of additional capital of operating enterprises). The private economy plays an important role in Vietnam's import and export activities. In the two years 2017–2018, the private sector accounted for 25.3–26.3% of total merchandise exports and accounted for 34.7–34.8% of total merchandise imports, which were 10 times larger than exports and nearly 7 times larger than imports of state-owned enterprises (excluding crude oil) ¹⁷.

¹⁶ Electronic newspaper *Nhan Dan*, (2018), *Cải thiện môi trường kinh doanh, hỗ trợ phát triển doanh nghiệp*, http://www.nhandan.com.vn/kinhte/thoi_su/item/38445702-cai-thien-moi-truong-kinh-doanh-ho-tro-phat-trien-doanh-nghiep.html.

¹⁷ Hoa, H. (2019), *Kinh tế tư nhân từng bước khẳng định vai trò quan trọng của nền kinh tế*, Electronic newspaper *Dang Cong San* – <http://dangcongsan.vn/kinh-te/kinh-te-tu-nhan-tung-buoc-khang-dinh-vai-tro-quan-trong-cua-nen-kinh-te-520953>.

Although performing such a salient part in the economic development, the private economy still has barriers that prevent this sector from fulfilling its full potential.

First, the size of private enterprises is small. Since 1990 when the first Private Enterprise Law was enacted, Vietnamese enterprises have had 19 years of establishment and development. In the context that Vietnam has deep integration, Vietnamese private enterprises are still not “grown-up” to meet the requirements of integration. They are still insignificant in scale, outdated in terms of science and technology, and limited in information capacity. According to VCCI’s PCI survey in 2017, over 50% of businesses had fewer than 10 employees¹⁸. In addition, it is worrisome that microenterprises are the majority of vietnamese enterprises. Data from the General Statistic Office published in 2018 showed that among more than 500,000 private enterprises in the country, there were nearly 8.5 thousand medium enterprises (1.6%), 114.1 thousand small businesses (22%) and the number of micro enterprises accounted for the most proportion, reaching 385.3 thousand enterprises (74.4%)¹⁹.

Second, the level of science and

technology of private enterprises is outdated. According to the Asian Development Outlook Report of the Asian Development Bank, currently only 21% of vietnamese small and medium enterprises participate in the global supply chain compared to 30% in Thailand and 46% in Malaysia. The investment cost for science and technology of Vietnamese enterprises currently accounts for only 0.2% - 0.3% of total revenue, which is very low compared to developed countries, and nearly 60% of enterprises are using technologies which are over 6 years-old²⁰.

Thirdly, private enterprises are still having difficulties in carrying out administrative procedures. According to Nga, N.T.V. (2019), private enterprises still face difficulties in administrative procedures when conducting business activities such as procedures on land access, finance, as well as production and business premises. A survey of VCCI (Vietnam Chamber of Commerce and Industry) shows that the areas where businesses are facing difficulties when carrying out administrative procedures include land (21%), social insurance (13%), construction (9%), environmental protection (6.5%), business and investment registration (6%)²¹.

¹⁸ Khanh, N. (2018), Chủ tịch VCCI: Doanh nghiệp tư nhân Việt Nam lại đang nhỏ đi, Electronic newspaper Dan tri – <https://dantri.com.vn/kinh-doanh/chu-tich-vcci-doanh-nghiep-tu-nhan-viet-nam-lai-dang-nho-di-20180322093626297.htm>

¹⁹ Anh, N. (2018), Doanh nghiệp Việt ngày càng nhỏ, Electronic newspaper Kinh te & Do thi – <http://kinhtedothi.vn/doanh-nghiep-viet-ngay-cang-nho-325593.html>

²⁰ Minh, N. (2019), Cạnh tranh nhờ khoa học và công nghệ, Electronic newspaper Nhan dan – <https://www.nhandan.com.vn/khoahoc-congnghie/item/39594702-canh-tranh-nho-khoa-hoc-va-cong-nghe.htm>.

²¹ Nga, N.T.V. (2019), Phát triển kinh tế tư nhân nhìn từ góc độ cải cách thủ tục hành chính, Electronic magazine Tap chi tai chinh - <http://tapchitaichinh.vn/tai-chinh-kinh-doanh/phat-trien-kinh-te-tu-nhan-nhin-tu-goc-do-cai-cach-thu-tuc-hanh-chinh-309320.html>

4. Conclusion and recommendations.

Building a developmental government that creates integrity, acts and serves people is the change of effective national governance towards compactness and transparency, creating effective institutions to promote the development of the private economic sector. For this purpose, the state needs to remove barriers for the private sector in the following areas:

Firstly, create a favorable business environment for the private sector to grow in both quantity and quality by reforming administrative procedures, and ensuring the transparency of land access procedures,

finance, production and business premises.

Secondly, build a streamlined and more efficient state apparatus to enforce the law effectively by encouraging the participation of the parties affected by the process of drafting legal documents.

Third, establish effective sanctions so that legal norms are enforced in life.

In conclusion, enhancing the business environment, reforming administrative procedures, and implementing e-government to improve the satisfaction of enterprises in public services are the expressions of the role developmental government has in promoting the development of the private sector.

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CHÍNH PHỦ KIẾN TẠO VỚI VIỆC PHÁT TRIỂN KINH TẾ TƯ NHÂN Ở VIỆT NAM

*Lý Hoàng Mai **

Tóm tắt: Chính phủ kiến tạo có vai trò quan trọng trong xây dựng thể chế, chính sách, tạo môi trường cho các thành phần kinh tế phát triển. Bài viết nêu lên một số quan điểm về Chính phủ kiến tạo và kinh tế tư nhân; phân tích thực trạng vai trò của Chính phủ trong việc kiến tạo phát triển kinh tế tư nhân, chỉ ra những rào cản đối với kinh tế tư nhân trong giai đoạn hiện nay. Từ đó đề xuất một số khuyến nghị thúc đẩy kinh tế tư nhân phát triển.

Từ khóa: Chính phủ kiến tạo, kinh tế tư nhân, kinh tế tư nhân ở Việt Nam.

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