

BARIERS IN DEVELOPMENT OF PRIVATE ECONOMIC SECTOR IN VIETNAM

Nguyen Thi Viet Nga *

Abstract: Over the past few years, Vietnam's private economic sector has developed in both quantity and quality. Although this sector has contributed 40% of GDP to the economy, the development of this economic sector in Vietnam is still facing many barriers and has not yet reached its full potential in order to play an important "motivation" role in the economy.

Based on the recognition of obstacles and challenges for the private economic sector, the article suggests some issues for the development of the private economic sector in Vietnam in the near future.

Key words: Private economy, reform of administrative procedures, legal framework.

1. Overview of policy for developing private economic sector

From Central Resolution 5 of 12th Party Committee to the reality:

In 2017, the Resolution of the 5th Plenum of the Party Central Committee of the 12th Party Committee was issued, confirming the importance of promoting the development of the private economic sector as a driving force of socialist-oriented market economy in Vietnam.

This is an important milestone because in the past (before 1986) the private economic sector was not recognized. Vietnamese private enterprises had to suffer from a severe development process.

With innovations, policy adjustments, the Vietnamese private economic sector has developed sharply not only in quantity but also has diversified in types of enterprises, from non-state enterprises to business households. The number of newly established enterprises and

registered capital has risen dramatically. The private economic sector has re-established the investment structure for each period of its development, which has helped to raise the proportion of industries and services in the overall structure of the national economy; contributed to arousing important potential of the country, strengthened internal resources, participated in economic development; contributed to building appropriate production relations, promoted the development of production forces.

Through the development of the private economic sector, people's ownership right first in economic sector, has been improved which makes a very important basis for extending their ownership right in term of culture, politics and society.

The private economic sector has contributed significantly to state budget revenues, growth and restructuring of the national economy; attracted a large part

* Faculty of Economics

of the labor force and trained new human resources for the labor market, create jobs, reduced unemployment, restricted migration to urban areas; promoted the country's international economic integration, as well as attracted external capital and technology.

Achievements

The 12th resolution of the 12th session has opened many new prospects for private economic sector development in Vietnam, namely:

Business environment has been gradually improved in mechanisms and policies to encourage the establishment of private enterprises, narrow conditional business lines, create conditions for the private sector investment and economic fields in the region under legal framework which is in line with the socio-economic development strategy. Many mechanisms and policies on supporting business development and improving the investment and business environment have been issued by the Government, such as the Government's Resolution No. 35 / NQ – CP of May 16, 2016.

This resolution has proposed many solutions to create a favorable business investment environment, support businesses in accessing credit capital, production premises, market access, as well as measures to reduce production costs. All of these have helped to improve national competitiveness, unfold resources, promote private economic sector development and form a number of private economic groups with great potential and scale through out the country.

Especially, the expanding of market access and promoting fair competition, the legal framework and policy have

been issued and amended in recent years, aiming to narrow the business fields and conditional business, enhance transparency for state monopoly; control, prevent and eliminate monopoly of enterprises; strengthen the reform and narrow business fields that the State owns, facilitate the investment and business environment in a more equal and favorable conditions for the private economic sector.

Basically, the regulations related to production and business activities no longer distinguish between economic sectors, including the access to business development resources.

The Government and the Prime Minister have issued regulations related to the restructuring of the SOE towards the reduction in industries and sectors in which the State holds 100% of charter capital, shares, and contributed capital that dominates in state-owned enterprises.

On that basis, the Government issued a Decree on transformation of state enterprises and one-member limited liability companies invested by state enterprises into shareholding companies to create more favorable conditions for private investors to participate in the equitization process of state-owned enterprises, including corporations involved in the provision of public services in many fields.

Private investors are also encouraged to become strategic investors for equitized SOEs through a more favorable mechanism.

In term of building synchronous and modern socio-economic infrastructure system, especially transportation, energy, telecommunications, urbanization, water supply and drainage, irrigation, waste

treatment, logistics , there have been changes in the legal framework, policies to create more favorable conditions for the private economy to access, use fairly at a reasonable cost, participate in investment activities, develop infrastructure systems through public-private partnerships, construction bidding ...

The Government has issued Decree No. 63/2018 / ND-CP on 4/5/2018 on investment in the form of public-private partnership. Land and real estate markets are paid great attention to develop more stably and synchronously, expand the rights and obligations of private economic entities related to land, create a favorable environment for domestic and foreign businesses and investors to expand investment and production and business scale.

The financial market has been restructured to ensure safety and efficiency, especially the currency and capital markets.

2. Challenges and obstacles to private economic sector

Firstly, the growth restriction of the private economic sector comes from within itself . Small-scale and informality limits the ability of domestic enterprises to make use of the advantages gained through economies of scale, specialize, improve sophisticated level of operation, increase investment in research and development, technology and innovation, creativity - all factors are critical to improving productivity.

Micro and small enterprises account for an overwhelming number of businesses in the country. If nearly 4 million business households are included, the picture of domestic enterprises in Vietnam is even more unbalanced because all business

households are micro and small ones. Micro businesses and household businesses play a very important role in Vietnam's economy as this region contributes one third of GDP, created millions of jobs, provided livelihoods for millions of people nationwide. However, if the business environment does not improve and become more favorable for these micro businesses to grow further in size, improve the production method, sales, and participation in the formal business sector, Vietnam will not be able to exploit its potential to improve its productivity.

The quality of laborforce in most SMEs is still low, mainly unskilled workers. There is lack of workers who have technical expertise, high skills etc.

On the other hand, the system of machinery, equipment and technology used in enterprises are mostly outdated, they are ineffective, with low productivity, fuel intensive and low safety, that has prevented the development of the enterprise.

Secondly, access to capital of the private sector still faces many difficulties, which is due to the fact that the private sector consists of most small and medium-sized enterprises (SMEs), so it is very limited in collaterals. Besides, the ability and management capacity of business owners are often limited, resulting in inefficient and unfeasible business plans. Many businesses do not have a business plan for 3-5 years. Many credit institutions have not yet “satisfied” to provide loans for SMEs ...

Thirdly, limited capacity to build and maintain an effective accounting, financial reporting and monitoring system is another obstacle to the development of private enterprises in Vietnam. All listed

and non-listed domestic companies must use Vietnamese Accounting Standards (VAS). In comparison with international financial reporting standards (IFRS), Vietnam did not apply IFRS standards, or IFRS standards for SMEs. Vietnam has not made public commitment to support the shift to higher quality global accounting standards.

Small and medium enterprises in Vietnam use the accounting regime for SMEs issued by the Ministry of Finance, which is simplified compared to Vietnamese Accounting Standards (VAS) (IFRS, 2016). There is a fact that almost of the private businesses use the two-accounting- reporting books, in which one is used internally for owners and managers, and the other for reporting to regulatory and tax authorities. Maintaining two accounting systems reflects the fact that business owners and managers are not willing to follow sound business practices, thus undermines the ethical foundation needed to ensure the sustainable development of the business. Moreover, these issues make it difficult to have access to capital, international markets, to connect with global supply chains, and ultimately the growth of private enterprises.

Fourthly, private enterprises are still facing many difficulties due to the limitations of the business environment and legal frame. The biggest obstacles of the business environment in Vietnam are related to financial access, business practices, inequality of the informal sector, lack of knowledgeable and highly qualified human resources, transportation and infrastructure, access to land, customs and trade regulations. In particular, pay attention to the following obstacles:

- Firstly, there is still discrimination between private enterprises and SOEs, between domestic private enterprises and FDI enterprises. Domestic private enterprises are still among the most disadvantaged ones. The Government's previous strategies to assign the leading role to SOEs have affected the ability of private enterprises to fully develop and exploit the opportunities brought about by globalization. SOEs are protected and not forced to face fierce competition due to their easier access to development resources and the restrictions imposed on private enterprises. State-owned conglomerates are given greater priority when it comes to access to land resources, import and export quotas, credit, opportunities to receive public sector contracts, and more favorable tax rates.

- Secondly, Vietnam's financial infrastructure is underdeveloped. Vietnam's financial system is dominated by commercial banks. Most of these commercial banks are still offering a limited number of traditional financial products. Capital investment products are limited, especially for SMEs and start-ups. A large part of the capital investment comes from family and friends. The situation of cross ownership in the banking system, including SOEs or state-owned commercial banks, which owns joint stock banks, is still quite common, making it difficult to implement regulations and principles of safety in banking operations, and leading to an increase in non-performing loans (VELP 2013). Business operations are primarily for repaying borrowed loans, while new businesses do not have access to credit.

- Thirdly, research and development infrastructure is generally of poor quality and funding for research and development is often scarce. Difficulties in infrastructure in communication, transport and energy distribution, lack of specialized laboratories and research equipment have limited the expansion of businesses, integration into global value chains and the ability to innovation and creativity. The WEF Global Competitiveness Index ranks the quality of vietnamese scientific research institutions at the 90th position globally, the cooperation between universities and businesses in the industry in research activities at 62nd (WEF 2017/2018). Only a small amount of FDI is invested in knowledge-based production or business activities or for R&D activities.

- Fourthly, informal spending is a serious problem that all businesses, especially private enterprises, are facing. The lack of transparent business environment in Vietnam has facilitated corruption increase. In addition, many businesses agree that “businesses often have to pay unofficial costs to avoid administrative burdens.”

Although this index has been improved in recent years, it is still considered to be much higher than the first years when the PCI was announced.

3. Solutions to promote the development of private economic sector

Continue to consistently implement the views and policies to promote the high role of the private economic sector in the socialist-oriented market economy in our country, turning those opinions and policies into specific policies and consistent mechanisms. Private economy and state economy are not two opposites, not “one-on-one” competitors but should

be complementary and supporting each other for mutual development. A growing private economy also means vietnam’s economic development.

The state should create an equal business environment without discrimination between the state economy and the private economy. The private economy operates in the spirit of the Enterprise Law, and it is necessary to remove barriers to the private economy.

Besides, it is a good idea to establish centers to support businesses in finding and providing information, as well as solving difficulties and problems in the implementation of policies and local regulations. In particular, the ministries, branches and localities should accelerate the implementation of administrative procedure reform, in order to create favorable conditions for enterprises in the process of accessing land, capital or applying for production and business licenses, business establishment, etc.

It is necessary to adjust the structure of private enterprises to have a healthier structure, in which the proportion of medium-sized enterprises accounts for a higher proportion. With more medium-sized businesses also means that there are more opportunities for businesses to grow in size and become big businesses in the medium-term future. As a result, more businesses will be able to take advantage of efficiency from economies of scale and be more productive. Large and medium-sized enterprises have greater capacity and opportunities to become part of the global supply chain, to connect and cooperate with FDI, SOEs and build their competitiveness on the base of knowledge, capital, research and development, technology and innovation

only depends on cheap labor and on the use of natural resources as in the case of most small and micro enterprises.

On the business side, each enterprise needs to focus on investing resources to renovate machines, equipment and

technology levels, as well as improve the management skills, management capacity and quality of human resources etc. to improve the efficiency of production and business, create high quality products with high competitiveness./.

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RÀO CẢN TRONG PHÁT TRIỂN KHU VỰC KINH TẾ TƯ NHÂN Ở VIỆT NAM

*Nguyễn Thị Việt Nga **

Tóm tắt: Trong những năm qua, khu vực kinh tế tư nhân Việt Nam đã có bước phát triển cả về lượng và chất. Dù đóng góp 40% GDP cho nền kinh tế, tuy nhiên sự phát triển của khu vực kinh tế tư nhân ở Việt Nam vẫn đang phải đối mặt với nhiều rào cản, chưa phát huy được hết tiềm năng để thực sự đóng vai trò là “động lực” quan trọng của nền kinh tế. Trên cơ sở nhìn nhận về những trở ngại và thách thức đối với khu vực kinh tế tư nhân, bài viết gợi mở một số vấn đề nhằm phát triển khu vực kinh tế tư nhân tại Việt Nam trong thời gian tới.

Từ khóa: Kinh tế tư nhân, cải cách thủ tục hành chính, khuôn khổ pháp lý.

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* Khoa Kinh tế – Học viện Tài chính.