

Private economy - An important and basic driving force of economic growth and development in Vietnam

Vũ Hùng Cường

Associate Prof. and PhD., Institute of Social Sciences Information, Vietnam Academy of Social Sciences

Email: vuhungcuong07@gmail.com

Received 30 Junly 2017; published 25 August 2017

Abstract: *The documents of XIIth National Congress of Party (2016) showed clearly that private economy is an important driving force of national economy. The Resolution No. 10-NQ/TW dated 3rd June 2017 of Party Central Committee has confirmed more clearly the role of private economy as well as the conception on facilitating the development of private economy. However, for the Resolution to be applied in real life, and for the private economy to have the opportunities of development and be the really important driving force of development, it must evaluate exactly its capability of being the driving force, point out the barriers to it, thence propose the conceptions and solutions for promoting the important and basic role of driving force of private economy in economic development of Vietnam.*

Keywords: Private economy^(*), Driving force of development, Barrier to development.

1. Criteria for assessing the role of driving role in economic development

Vũ Hùng Cường (2016) has showed some major criteria for assessing the driving force role of ownership economic sector in economic development as follows:

i) *Contribution to increase of gross domestic product (GDP) and of total factor proucivty*

(*) In this paper, the author uses the concept of private economic sector consisting of non-state economic sector and foreign investment economic sector (FDI sector).

(TFP): One of the most important expressions of driving force role is the contribution of each ownership economic sector to the economic growth. This contribution is expressed by the two indexes that are contribution to GDP and contribution to TFP growth. The contribution to TFP has begun to be used recently, when the issue of growth quality and of public investment effects began to be interested. The contriuiion index to TFP will overcome the liitations of contribution index to GDP. This

index can reflect the sustainass and efficiency of growth. TFP usually reflects the changes of major spheres: changes in technological level; in technical efficiency of economic activity; in mode of production, that is combination of input factors based on comparative price; and in production scale of economic activity.

ii) *Contribution to development investment capital, to efficiency of investment (ICOR coefficient)*: The development investment capital of whole society is one of major material factors determining the economic growth, the social stability and development, the protection and improvement of environment. Along with other criteria, the contribution ratio of each ownership economic sector to development investment capital structure is an important criterion for defining the role of this ownership economic sector in promotion of economic growth. Moreover, the efficiency of investment is also an important criterion for evaluating the efficiency of each ownership economic sector, being the basis of redistributing more capital to which sector that has more effective investment.

iii) *Contribution to exportation*: The contribution of ownership economic sectors to exportation is expressed by the criteria such as: contribution ratio to exportation turnover, structure of merchandise exports, technological content of merchandise exports, exportation market of merchandise. These criteria have contributed to determine the quality of exports, of the growth of economy and the integration into the international economy.

iv) *Contribution to creating jobs and creating the quality jobs*: Contribution to creating jobs for society is one of the important criteria to define the role of driving force for development, but the criterion of developing the quantity of jobs is not sufficient for evaluating the role of driving force of ownership economic sector because it doesn't ensure the quality of economic growth. That's why the choice of criterion of quality job is necessary to evaluate the role of driving force of ownership economic sector.

v) *Criteria of the role of foundation and driving force to promote the reform, to increase competitiveness and integration ability of economy*.

**Table 1: Contribution ratio in GDP increase (real)
by ownership economic sector (2006-2016)**

Unit: %

Economic sector	2006	2010	2011	2012	2013	2014	2015	Prel. 2016
State	36.7	33.6	32.8	32.6	32.3	31.9	31.9	32.0
Non-state	47.2	49.1	49.5	49.6	48.4	48.2	48.0	47.3
- Collective	6.4	4.6	4.5	4.4	4.5	4.5	4.5	4.4
- Private	9.0	7.9	8.3	8.8	8.7	8.7	8.8	9.1
- Household	31.8	36.6	36.7	36.4	35.2	35.0	34.7	33.8
FDI	16.1	17.3	17.7	17.8	19.3	19.9	20.1	20.7

Source: Statistical Yearbook of Vietnam, 2013, 2015, 2016.

2. Evaluation of the role of driving force of private economic sector for economic growth and development in Vietnam for the period 2001-2016

2.1. Contribution to GDP and TFP

The role of driving force is first considered by its contribution to economic growth on both scale and quality. In three ownership economic sectors, the non-state economic sector has the most contribution to GDP of the period 2006-2016 (in both absolute value and contribution ratio).

The Table 1 shows that, despite the negative effects of world economic crisis or the macroeconomic unstableness of Vietnam, the private economic sector (consisting of non-state and FDI sectors) has still affirmed its great superiority in contribution to stable increase of GDP (nearly 70%) as compare to the state economic sector. While the contribution ratio of FDI sector is progressively increasing to GDP, the non-state sector has still contributed with nearly 50% to GDP. Particularly, the contribution ratio of household sector to GDP made up approximately 33-37% during the period 2010-2016, always higher than that of state and FDI sectors, showing that Vietnamese economy is not only a processing economy but also small and dispersed. With this scale, it can be seen that the non-state economic sector is unstable, vulnerable to diverse shocks.

Analysing the contribution to growth of each production factor of ownership economic sectors will allow to evaluate more properly the role of driving force of each ownership economic sector. Analysis based on TFP shows that the state economic sector is the one which has the most technological transfers among the three ownership

economic sectors. During the period 2007-2012, although the contribution of TFP to growth reduced to 6.4%, but the contribution of TFP of state economic sector to growth was still highest (17,4%), while the contribution of TFP of non-state and FDI sectors was negative. Thus, in fact the non-state economic sector operated in small-scale manner and had slow changes, and the FDI sector didn't introduce the new technologies or applied only the old technologies, taking unfair advantage of tax incentive, low land rent and cheap labour of Vietnam (Vũ Hùng Cường, Bùi Trinh, 2014: 38-44).

2.2. Contribution to development investment capital and the problem of investment efficiency by analysing the Incremental Capital-Output Ratio (ICOR coefficient)

The role of contribution to development investment capital is considered by those criteria: the size of development investment capital, contribution ratio to total social development investment capital, increase speed of development investment capital of each ownership economic sector.

As for the size of development investment capital, Table 2 shows that, the size of investment capital (at current prices) of non-state enterprises increased continuously during the period 2001-2016. This size increased strongly (in comparison with that of enterprises in other ownership economic sectors) after Vietnam entered the WTO. Despite the difficulties of economy, the interest rate increased high, the size of development investment capital of non-state enterprises has increased to 412.506 trillion VND in 2013, due mainly to the increased number of enterprises in this sector. Estimatedly, in 2016 the size of development investment capital of non-state enterprises

will reach 579.7 trillion VND. The size of development investment capital of FDI sector increased continuously during the period 2001-2006, particular high in 2007-2008, and then decreased slightly in 2009 because of the impacts of world economic crisis. Since 2009 to 2015, except 2012, The size of development investment capital of FDI sector increased constantly, in 2016 estimatedly reaching 347.9 trillion VND.

As for contribution ratio to total social development investment capital, the contribution ratio to annual investment capital of enterprises in the three ownership economic sectors has changed considerably during the period 2001-2016. Table 3 shows that, contribution ratio of non-state economic sector to total social development investment capital increased strongly in the period 2001-2006, from only 22.6% in 2001 to 38.1% in 2006, and thence continuously increased in the period 2006-2016, estimatedly reaching 39% in 2016, becoming the

Table 2: Total social development investment capital by economic ownership sector, period 2001-2016 (at current prices)

Unit: Bill. VND

Year	Total	State economic sector	Non-state economic sector	FDI sector
2001	170,496	101,973	38,512	30,011
2002	200,145	114,738	50,612	34,795
2003	239,246	126,558	74,388	38,300
2004	290,927	139,831	109,754	41,342
2005	343,135	161,635	130,398	51,102
2006	404,712	185,102	154,006	65,604
2007	532,093	197,989	204,705	129,399
2008	616,735	209,031	217,034	190,670
2009	708,826	287,534	240,109	181,183
2010	830,278	316,285	299,487	214,506
2011	924,495	341,555	356,049	226,891
2012	1,010,114	406,514	385,027	218,573
2013	1,094,542	441,924	412,506	240,112
2014	1,220,704	486,804	468,500	265,400
2015	1,366,478	519,878	528,500	318,100
Prel. 2016	1,485,096	557,496	579,700	347,900

Source: *Statistical Yearbook of Vietnam, 2016*,
<http://www.gso.gov.vn/default.aspx?tabid=716>, accessed 9 Jul 2016

Table 3: Structure of development investment capital by economic ownership sector, period 2001-2016

Unit: %

Year	State economic sector	Non-state economic sector	FDI sector
2001	59.8	22.6	17.6
2006	45.7	38.1	16.2
2011	37.0	38.5	24.5
2015	38.0	38.7	23.3
Prel. 2016	37.5	39.0	23.5

Source: *Statistical Yearbook of Vietnam, 2016*,
<http://www.gso.gov.vn/default.aspx?tabid=716>, accessed 9 Jul 2016

biggest contributor among the three ownership economic sectors in total social development investment capital. The contribution ratio of FDI sector to total social development investment capital also strongly increased from only 17.6% in 2001 to 16.2% in 2006, 24.5% in 2011, and, estimatedly, slightly decreased to 23.5% in 2016. Thus, contribution ratio of private economic sector has strongly increased from 40.2% in 2001 to 62.5% in 2016, representing the role of important driving force in promotion of economic growth of Vietnam during the recent period, once the growth model of Vietnamese economy was mainly based on capital.

As for increase speed of capital of each ownership economic sector, during the period 2005-2009, the all three ownership economic sectors have high average speed of capital increase, non-state economic sector having a speed of 16% and FDI sector having that of 27%, while the state

economic sector has the speed of 8% (Table 4). In this period, along with Vietnam's joining the WTO and signature of free trade agreements (FTA), the number of private enterprises has eruptively developed, leading to strong development of capital size of private enterprises. During the period 2010-2016, the increase of development investment capital of all three sectors has dynamic changes. This increase of private economic sector began to decrease only in 2010 and actually decreased in 2011, when the Government restarted the programme of reorganization of state enterprises and deployed the realization of Resolution 11/NQ-CP of Government dated 24 Feb 2011 on the main solutions for containing inflation, stabilizing macroeconomy, ensuring social security. Despite that, in 2012, development investment capital of private economic sector has strongly augmented by mean speed of 13.5%. The average speed of

Table 4: Capital size and increase speed of capital of three ownership economic sectors during the period 2005-2016

Capital size (at constant price of 2010), unit: 1,000 bill. VND									
Sector	2005	2009	2010	2011	2012	2013	2014	2015	Prel. 2016
Private	233.9	318.5	316.3	287.2	325.9	351.0	379.7	397.3	430.3
Non-state	137.6	249.4	299.5	298.1	309.3	328.0	366.1	403.9	447.1
FDI	75.6	195.0	214.5	184.8	177.5	193.1	211.8	243.2	267.6
Average capital increase speed (%)									
Sector	2005 - 2009		2010	2011	2012	2013	2014	2015	Prel. 2016
Private	8		-0.7	-9.2	13.5	7.7	8.2	4.6	8.3
Non-state	16		20.1	-0.5	3.8	6.0	11.6	10.3	10.7
FDI	27		10.0	-13.9	-3.9	8.8	9.7	14.8	10.0

Source: *Statistical Yearbook of Vietnam, 2016*,
<http://www.gso.gov.vn/default.aspx?tabid=716>, accessed 9 Jul 2016

increase of development investment capital of private economic sector since 2013-2014 reduced in comparison with that of 2012 and strongly reduced in 2015, but in 2016 it fast increased again. Besides that, the absolute value of development investment capital size in private economic sector was still continuously increasing annually (see Table 2). This again shows that the programme of equitization of state enterprises reached only one objective, that of reduction of state enterprise number. The objective of drawing state capital from state enterprise was not realized. Not only that, the State still had to continue to add investment capital. The consequences of this are that it not only deteriorates the markets (due to the augmentation of state enterprise size), but also makes the state enterprise losing its ability of controlling activity (due to weakness of management as well as of policy framework, leading to the issues of mutual ownership, virtual capital, bad debt...).

In the years 2014-2016, the non-state economic sector had the average speed of increase of development investment capital above 10% (Table 4). The result is that, since 2015, the non-state economic sector has had the development investment capital size higher than that of state economic sector. The cause of this size increase is the fast augmentation of enterprises number, as well as the fact that the equitization of state enterprises added

some enterprises with big size to non-state economic sector. Although the total development investment capital of non-state economic sector continuously augmented, but the increase speed of investment capital is still lower than augmentation speed of number of enterprises, and there is a trend of reducing the size of investment capital of each enterprise.

The FDI sector decreased development investment capital in 2011 and 2012. This was the result of reorganization of multinational corporation (MNC) after the world economic crisis. In 2013, although the development investment capital of FDI sector increased again, but its absolute value and its contribution ratio to total social development investment capital is still far from those of state and non-state economic sectors.

Considering the efficiency of investment by ICOR coefficient (Table 5) shows that, for the whole period 2000-2016, the state economic sector had the lowest efficiency and this situation was less improved. For the period 2000-2012, the non-state economic sector was the one which had the highest efficiency of investment. However,

Table 5: ICOR coefficient by ownership economic sector for the period 2000-2016

Period	Total	State economic sector	Non-state economic sector	FDI sector
2000-2006	4.92	7.17	3.01	4.95
2007-2012	7.09	9.30	3.89	14.42
2013	6.67	10.50	6.54	6.49
2014	6.29	12.74	5.64	6.15
2015	5.80	9.66	5.45	5.13
Prel. 2016	6.41	10.26	6.49	5.72

Source: Own calculation of author based on data of General Statistics Office.

in recent years, the investment efficiency of non-state enterprises has reduced. FDI sector had the lowest investment efficiency for the period 2007-2012, due mainly to the report of false losses despite the real gains (the transfer pricing) and the part of value added of this sector is mainly the processing, that's why the content of value added is very low. The investment efficiency of FDI sector was improved since 2013, due partly to the fact that Vietnam has tightened the mechanism of controlling the prices and taxes in order to limit the transfer pricing tactic of FDI enterprises^(*).

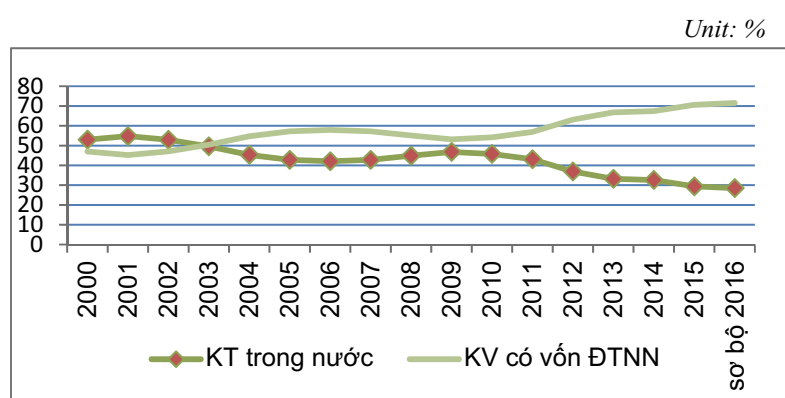
2.3. Contribution to exportation

Figure 1 shows that, the year 2003 is the turning point of “transfer” of decisive role in contribution to exportation between domestic economic sector and FDI sector. Despite the slight reduction of contribution ratio to

exportation of FDI sector in 2008-2009 due to world economic crisis, but the FDI sector has more and more clearly represented the decisive role in promoting exportation of Vietnam with its more and more increased contribution ratio to exportation, since 2015 having contributed more than 70%. The rest is part of non-state and state economic sectors. In 2011, exportation ratio of FDI sector was 56.9%; in 2013 was 61.4% and in 2016 estimatedly is 71.5% of total exportation value of Vietnam.

Because the economic structure of Vietnam is still unreasonable, and the growth is still based on processing industries, so the results of production and business and exportation, or the achievements of growth, still depend on the results of importation. Being an economy having less developed supporting industries, to increase products and exportation scale, Vietnam had to

Figure 1: Exportation structure by domestic economic sector and FDI sector for the period 2000-2016



Source: Statistical Yearbook of Vietnam, 2016.

^(*) There is the fact that not every study has the same results of ICOR coefficient calculation, due to the possibility of different calculation methods and approaches to concepts (capital/stock, or investment) as well as data used (see more: Vũ Hùng Cường, 2011).

import more much the raw materials and semifinished products from world market, especially from China. The FDI enterprises has played an major role in promoting the importation for Vietnamese economy, with an importation ratio above that of domestic economic sector. This expressed the dependence of Vietnam on foreign investment instead of development based on domestic capacities. Most FDI enterprises import raw materials, process merchandises for exportation, having low content of value added and low use of domestic components.

The FDI enterprises invested in Vietnam mainly to benefit from the policies of tax incentive, low land rent and cheap labour. The more and more great contribution to exportation of FDI enterprises in Vietnam shows that Vietnamese economy is more and more depending on FDI sector, while the role of domestic enterprises is more and more limited.

2.4. Contribution to creating jobs and creating the quality jobs

The role of enterprises of each ownership economic sector in creating jobs is different. Table 6 shows that, in the sphere of *agriculture*, the state and non-state economic sectors play the decisive role in creating jobs for labour. *Mining* is a specific sphere, in which state enterprise plays the decisive role, thus jobs created by state

mining enterprises are much more than those by private economic sector. *Industry* is the only sphere in which there was a relative equality in creating jobs between three ownership economic sectors in the period 2001-2006, but since 2010 the non-state and FDI sectors were clearly superior in this matter, in which the private economic sector having created more than 90% of total jobs in 2015. Since 2006, the *service* activity has witnessed a boom of jobs by enterprises in non-state economic sector, making this sector become the main force in creating jobs in service sector. On the whole of essential economic activities, the private economic sector is a superior force in creating jobs for society. However, due to specific small size and low technological competence, the quality of jobs created by

Table 6: Labour number in enterprise by economic activity and ownership economic sectors for the period 2001-2015

Unit: Thousand persons

Economic activity	Ownership economic sector	2001	2006	2010	2011	2012	2013	2014	2015
Agriculture	Total	270.4	255.2	352.3	347.0	355.7	340.1	333.6	341.1
	State	238.1	210.6	177.9	178.6	188.5	180.6	173.6	171.4
	Non-state	30.3	36.7	162.7	160.1	158.2	149.7	149.7	158.4
	FDI	2.0	7.9	11.8	8.3	9.1	9.7	10.4	11.3
Mining	Total	170.0	179.3	214.8	233.6	227.9	242.3	244.4	243.0
	State	147.8	114.8	126.4	131.6	139.3	161.0	174.5	169.3
	Non-state	19.7	55.8	77.9	82.5	76.9	66.7	64.8	62.3
	FDI	2.5	8.7	10.4	19.5	11.7	14.5	5.1	11.4
Industry and construction	Total	2,472.3	4,552.8	6,157.1	6,882.8	6,920.5	7,193.7	7,595.8	8,209.5
	State	723.2	1,022.7	693.3	661.1	616.2	634.5	582.8	562.9
	Non-state	816.8	2,183.2	3,463.5	3,854.4	3,826.4	3,805.1	3,914.8	4,210.2
	FDI	932.3	1,346.8	2,000.3	2,367.2	2,478.0	2,754.1	3,098.3	3,436.4
Service	Total	1,804.0	1,714.3	3,002.0	3,367.3	3,421.8	3,502.9	3,521.9	3,865.4
	State	1,005.2	549.5	525.6	398.9	375.3	468.8	347.6	322.6
	Non-state	761.3	1,085.5	2,323.9	2,778.7	2,842.6	2,802.7	2,914.2	3,255.5
	FDI	37.5	79.3	152.5	189.7	203.9	231.4	260.1	287.3

Source: Synthesizing the annual survey data on enterprise by General Statistics Office.

enterprises of non-state economic sector is still low. With the policy of exploiting cheap labour, FDI enterprises introduced low technologies in Vietnam, inducing the quality of job not as expected.

2.5. Evaluation of the role of promoting reform, enhancing competitiveness and integration of economy

The relative number of those enterprises having left the market and those recently joining the market during the period 2001-2016 showed that, the natural selection by market has made the non-state enterprises more accommodative and more competitive. In parallel with this, the increased number of FDI enterprises which have high competitiveness put pressure of reform to enhance the competitiveness of state enterprises. At the same time, the increase of private enterprises and the more and more augmentation of role of private economic sector in economic development also pressure on State to promote administration reform, to perfect the investment and business environment in the sense of equality and convenience. Besides that, FDI enterprises have the decisive role in exportation and investment in Vietnam with supplying chain and production network having inherent high international integration and whose products have the place in international market, thus those small and medium enterprises which progressively associated with multinational corporations have contributed to promote the process of international proactive integration.

In sum, considering the role of driving force of private economic sector in economic growth and development of Vietnam for the period 2001-2016 shows that, this sector has

great contribution to GDP (representing nearly 70%, in which non-state economic sector contributing 50% of GDP); great contribution to total development investment capital (representing nearly 70%, almost by non-state economic sector); having effective use of capital equivalent with region; great contribution to exportation (in which there is an essential role of FDI sector); getting the superiority in creating jobs for society (essentially by non-state enterprises). With growth model based on capital and cheap labour in Vietnam, it can be confirmed that private economic sector is an important driving force for economic growth and development. The role of private economic sector is more important when it is the driving force to promote reform, enhance the competitiveness and international integration capacity of Vietnam. However, the sustainability of driving force role of private economic sector is not clear yet, due to the fact that although having superiority of capital, technology and inherent supplying chain with high international association and integration, but the FDI enterprises applied the investment strategy on essential exploitation of favours (of tax, land renting price) and of advantages (natural resources, cheap labour) of Vietnam. Besides that, although the FDI enterprises have the main contribution to exportation, but they essentially import many materials and low technological equipments, therefore they do not help to improve the trade balance of Vietnam, but contribute to push Vietnam into the trap of low technology; at the same time, most of non-state enterprises have small size of capital and labour, while there lack the

enterprises of big size, so they are actually not able to assume the role of leading the move of economic structure, being weak in association, so they do not uphold yet the role of “foundation” for development; the private enterprises do not represent yet the role in creating quality jobs for society due to the limitations of capital size and unstableness of participation in market (of non-state enterprises) and to the processing strategy (by FDI enterprises).

3. Some main barriers to private economic sector in upholding the driving force role for development

Vũ Hùng Cường (2016) pointed out some main barriers to private economic sector in upholding the driving force role for development during the recent period. These barriers consists of:

i) *Viewpoint and thought of the role of private economic sector*: Although having affirmed the private economic sector as an important driving force for economic development of Vietnam, but the documents of XIIth Congress of Party did not define yet what important driving forces the whole economy has, whether these driving forces have the concord and affect actively in common development direction the economy or in different directions, even in mutually annulling directions; although there was a policy of narrowing the decisive role of state economic sector, but there is still an uncertainty about the function of business of state economic sector.

ii) *Business environment being not equal and favourable yet*: Despite many efforts to improve business environment, there are still the barriers to non-state enterprises such as informal cost, complicated procedure of joining the market,

transparence in policies and mechanisms (especially in public purchase, access to credit capital, access to land rent), there still being more priority to state enterprises and more favour to FDI enterprises over non-state enterprises.

iii) *Inherent weaknesses of non-state enterprises such as*: Most of these enterprises are small and very small, with limited capability to compete and resist the shocks of economic and financial crises, so the number of enterprises which stop running and dissolve are more and more, the sustainable standing in market of enterprises is uncertain, lack big enterprises with financial and technological potentials to be leading driving force for development of economy, lack medium enterprises to make associate and to create foundations for economic development and for development of supporting industries; the association capability of non-state enterprises is weak; activity framework of enterprise loses balance, lacking those enterprises which run in agriculture and production supporting service.

iv) *Limitations in strategy of FDI enterprises*: Most of FDI enterprises focus on exploitation of natural resources and cheap labour, taking advantage of incentive policy (of tax, land renting price), some take advantage of gaps in the law to evade taxes (through transfer pricing), contributing not as expectably to leading the economic restructure, the technological and modern management transfer, as well as to making association with domestic enterprises in order to enhance the quality and efficiency of international economic integration of Vietnam.

v) *The non-state enterprises still encounter the difficulties in access to development*

resources such as capital, land and widening area, trained labour and input materials.

4. Some viewpoints on development of private economic sector in Vietnam

First viewpoint: Ensuring the social consensus is the prerequisite for upholding the role of private economic sector.

Although having been formally recognized as an important driving force, but so far there has been still some doubt and worry about the role of private economic sector. Thus, lacking the social consensus on the role of private economic sector will lead to the unstableness of policies and mechanisms, barring the development of private economic sector and the upholding of its role of driving force for development, as well as to the reserve in signing contract with private businesses.

Second viewpoint: It is necessary to uphold the role of private economic sector in the mutual relation with state economic sector, and the role of non-state economic sector in mutual relation with state and FDI sectors. In multi-componential economic structure, each component has its own nature and characteristics which need to be used in conformity with the demand of mobilization, distribution and management of effective resource use of the whole society in order to most actively contribute to realization of common targets of entire national economy. The role of driving force of private economic sector in socioeconomic development of the country is upheld only when it is put in the mutual relation with state economic sector. Besides the policies and mechanisms of State, the favourable infrastructure is the important foundation to strong development of the private economic sector. If the investment of

State and the development of state economic sector focus on comprehensiveness and quality of infrastructure system, they will contribute to clear away the barriers of infrastructure to socioeconomic development of country. On the other hand, in the market economy, the non-state enterprises run in an environment of competition and association with each other and with the enterprises of other types of ownership. The competitive relation with state and FDI enterprises creates the pressure on non-state enterprises to renovate themselves comprehensively in order to exist and develop. Associative relation of non-state enterprises with the enterprises of other ownership economic sectors put forward the requirement of reasonable “playing role” between various ownership economic sectors to actually make a strong “synthetic force” in order to uphold the role of every ownership economic sector in most active contribution to common development without creating the impulse that is to bar, even annul each other.

Third viewpoint: It must enhance intrinsic capability based on upholding the strong point and limiting and overcoming the weak point of private economic sector. The weak point of non-state economic sector which need to be overcome first is the problem of size: it is needed to create many medium and big enterprises; take advantage of strong “foreign elements” of FDI sector consisting of capital, modern technologies, advanced management; attract the transnational companies, creating associative relation between small and medium enterprises and FDI enterprises in order to take advantage of the role of “pulling force” of FDI sector for the national economy. At the same time, it must overcome the limitations of today FDI

sector concerning the low technologies and the problem of transfer pricing and tax evading.

Fourth viewpoint: It must enhance the role of private economic sector together with renovation of state management in concordance with principles of market economy. Without proper renovation of economic state management, the subjective efforts of entities in private economic sector will not bring the desirable results.

Fifth viewpoint: It's necessary to promote international integration of private economic sector. The entities of private economic sector must have the right to participate widely in inter-business and associative relations with foreign investors in Vietnam, to participate in global value chain and production network.

5. Some basic solutions for private economic sector to enhance the important and fundamental role of driving force for economic growth and development

5.1. Solutions to changing the viewpoint and thought about the role of ownership economic sectors

Development trend and law of modern market economy show that, the private economic sector has a particularly important role in the period of promoting international integration. The Party Central Committee has promulgated the Resolution 10-NQ/TW dated 3 Jun 2017 on "Developing private economic sector for it to be an important driving force of socialist-oriented market economic sector". Hereby the Resolution affirms "Private economic sector is an important driving force for economic development... It's to promote, create favourable conditions for private economic sector to develop fast,

sustainably and diversely, with high growth speed both in quantity, scale, quality and contribution ratio to GDP; abolish all barriers and prejudices, creating all favourable conditions to develop private economic sector soundly and in proper orientation... Private economic sector is allowed to develop all of those activities and spheres that are not banned by law". The viewpoint and policies of Party on the role of private economic sector are clear, adequate to the contribution of this sector in recent time as well as to its potential to be an important driving force for economic growth and development, but it seems necessarily to point out more clearly which important driving forces are in the economy, and which ownership economic sector is the basic driving force for development.

It's most important that it must make strong and consistent changes in viewpoint and thought about reasonable "playing role" between various ownership economic sectors for the national economy to have new motivation. In mutual relation between the three ownership economic sectors, the state economic sector has to reduce gradually the function of business in order to focus on ensuring essential infrastructure conditions, playing the role of leading investor or helper role. It will play the role of "orchestra conductor" or "supporter" in the market economy, construct the developmental State to ensure conditions for the other ownership economic sectors to highest enhance their role and contribute to economic growth and development. In these conditions, the non-state economic sector will be allowed to develop unlimitedly both in scope and scale in order to assume simultaneously both the role of pulling and

pushing driving forces for national economy. As for FDI sector, with its advantages of big size, high technological level, modern management, and deep international integration capability, if it is attracted selectively, in concordance with developmental strategy of country, if the domestic small and medium businesses are able to create the association with FDI enterprises, then the FDI sector together with non-state economic sector will make up an actually strong private economic sector, becoming the actual basic driving force for development of country. Perception of the important and basic role of driving force of private economic sector for development is the primarily important factor, influencing not only the developmental scale, speed and efficiency of private economic sector, but also directly the growth scale, speed and efficiency of economy, determining directly the planning and effectuation of mechanisms and policies of State.

5.2. Solutions to continuation of renovation, perfection of legal environment, making up the favourable and equal business environment

The construction of an equal and favourable business environment for the enterprises of all types of economic ownership is the urgent and decisive demand to development of ownership economic sectors, especially to private economic sector. State must give the importance to the construction of comprehensive, explicit and consistent legal system, avoiding the framework laws. The legal system has to embrace the long-term policies, easy to be understood, for the enterprises to be reassured to build the medium and long-term investment and

business strategy; at the same time the legal system must have the short-term and specific policies, connected with developmental targets of every period to affect immediately in a certain short period. It must consult and selectively apply the experiences of Japan in construction of institutions group with specific policies having deep speciality in every profession, also the experiences of Korea and Taiwan, in order to prevent the big corporations and enterprises from operating by closed and self-supplying mode, from operating in those activities which are in the competence of small and medium enterprises, in order to give the opportunities for these enterprises to freely develop and compete.

5.3. Solutions to stabilization of macroenvironment and sociopolitical environment

An economic macroenvironment and a stable sociopolitical environment have active impacts on the psychology and investment decision of investors. During many recent years, the stable sociopolitical environment is a competitive advantage of Vietnam in attraction of foreign investment. To attract the investors back to Vietnamese market after world economic crisis, State must put forward the favours and incentive moves to more clearly encourage the businesses; must focus on investment in important economic infrastructure, leading investment; must put forward the message about the mechanisms and the clear, stable and long-term policies, in order to restore the psychology of investors so that they feel secure to continuously invest in widening the scale of production and business. In the trend of globalization, the more and more increased dependence of national economy

on foreign factors is becoming inevitable. The strategy of close connection in economic interests with other countries in the world and in the region, through the bilateral and multilateral trade agreements, attracting investment of transnational companies in Vietnam, is credible guarantee for economic interests and sociopolitical stability of country.

5.4. Solutions to enhancement of intrinsic capabilities of non-state enterprises

It must affirm that, if private economic sector does not develop the big and medium enterprises, it can not assume the role of driving force for development. State must speed up the process of equitization of state enterprises, creating further the big domestic private corporations, having great financial potential and high technological competence in order to assume together with state corporations and transnational corporations the role of pulling driving force for the economy; adopt the institution and policy system, the transparent and understandable macroeconomic management to build the confidence of investors. State must have incentive policies, favourable conditions to attract the private investors into certain selected strategic activities. Government and the development assistance organizations for small and medium enterprises must construct the programme of training, consulting and providing informations for local suppliers. Government must assist by giving the policy to limit the activity scope of big enterprises for they to not encroach on the area of small and medium enterprises; must support them in developing technology, finance and training human resources.

Besides the expectation to assistance of

State, the small and medium enterprises must renovate themselves, enhancing their competitiveness. It must give importance to widening association, every enterprises having to identify its own advantage to invest, to choose one or certain parts of production and distribution network, proactively and actively accessing to transnational corporations in order to participate in value chain. Enterprise must construct the long-term investment and business strategy, proactively choose strategic partner to receive modern technologies and management skill, seeking the firm position in the market. Renovating business culture is key factor, deciding the success of today small and medium enterprises. Together with increasing the role of training, propaganda of State and professional associations, time the businessmen themselves must be self-conscious of the necessity to abolish the thought of snatch business and unsound competition.

5.5. Recommendations and solutions to enhance the role of FDI enterprises

We must affirm that the investment of transnational corporations into Vietnam is one of important channels helping Vietnam to fast and deep integrate in global value chain, making the breakthrough in development. It must reorientate the attraction strategy of FDI, construct the system of mechanism and policy, the special favourable conditions for attracting the leading multinational groups, the great foreign investors, making them to bring capital and technology in Vietnam to conduct the domestic investors in production network, conduct the domestic small and medium enterprises and train high

quality human resources. We have to have the strategy to receive the direct wave of foreign investment in Vietnam in order to proactively choose strategic partners to develop the supporting industries. At the same time, the provinces must change the think to “spread out the red carpet” to invite investment competitively, attracting FDI by any price. Government and every locality have to choose the strong point and developmental strategy based on specific advantages in order to make the policy of attraction and choice of FDI sources in concordance with development planning of the region and with the role distributed to the locality, thus avoiding the trap of low technology, avoiding the risk to make Vietnam become a processing arsenal of the world. If we choose rightly the partners to attract FDI, then FDI sector actually has the chance to contribute to development as a pulling driving force.

5.6. *Recommendations and solutions to strengthen the association between various enterprises of ownership economic sector*

It must put forward the specific policies on association with FDI enterprises in concordance with each country and each kind of activity; construct and deploy the programmes promoting association between multinational corporations and local enterprises, and make business connection or subcontractors; build database about small and medium enterprises, about the local suppliers for multinational corporations to easy find informations and choose local partners; develop specialistic industry cluster as one of primary priorities of supporting policy

for development of small and medium enterprises and for development of association vertically and horizontally by kind of activity; use public investment as leading investment in the common infrastructure inside the barrier of industrial parks, especially the infrastructure with environment treatment that exceeds the financial resources of small and medium enterprises □

References

1. Central Committee of Party (2017), Resolution 10-NQ/TW of 5th Conference of XIIth Party Central Committee on “Developing private economy for it to become an important motor of socialist-oriented market economy”, dated 3 Jun 2017.
2. Vũ Hùng Cường (Ed., 2011), *Private economy and the role of driving force for growth*, Social Sciences Publishing House, Hanoi.
3. Vũ Hùng Cường (Ed., 2016), *Private economy - a basic driving force of development*, Social Sciences Publishing House, Hanoi.
4. Vũ Hùng Cường and Bùi Trinh (2014), “Non-state enterprises: the role and real situation”, *Economic Studies Review*, No. 10 (437), Oct., p. 38-44.
5. *Documents of VIth, VIIth, VIIIth, IXth, Xth, XIth and XIIth National Congresses of Party*, <http://dangcongsan.vn/tu-lieu-van-kien/van-kien-dang/van-kien-dai-hoi.html>.
6. Website of General Statistics Office, annual Statistical Yearbook of Vietnam, 2006-2016.