# Vietnam's Private Sector after Ten Years of the Country's WTO Membership

**Vu Hung Cuong**

Assoc. Prof., Dr., Institute of Social Sciences Information, Vietnam Academy of Social Sciences

Email: vuhungcuong07@gmail.com

Received 9 October 2018; published 25 November 2018

**Abstract:** *The development of private sector can be seen as one of the positive and important results of Vietnam's official accession to the World Trade Organization (WTO) in 2007. The sector has become a significant force contributing to economic growth and international economic integration, which is a major driving force of the Vietnamese economy. This paper evaluates the development of private sector enterprises after 10 years of Vietnam's WTO membership and the challenges to their role as an important and fundamental driving force of economic growth and development in Vietnam, especially in the context of the Fourth Industrial Revolution.*

**Keywords:** Private Sector, Private Sector Enterprises, Non-state Enterprises, FDI Enterprises, WTO, Engine of Growth, Industry 4.0

## 1. Introduction

Vietnam has posted important achievements in economic growth, foreign direct investment (FDI) attraction, balance of trade, and so forth after ten years of its World Trade Organization (WTO) membership. The efforts in institutional reform and business environment improvement to create conducive conditions for enterprises have spawned opportunities for the development of the private sector[*]. Following the international trend, the private enterprises have grown in number and expanded their operation in almost all economic industries, in comparison with the public sector, increasing their contribution to the national economic growth, investment, employment creation, exportation, and so forth. Nevertheless, judged from the perspective of enterprise development quality and the potential contribution to economic growth, the private sector in Vietnam still lack sustainability in their development and in their performance as the driving force of the economy. They also face numerous challenges as

[*] The private sector in this article includes both the non-state sector and the FDI sector.

the Fourth Industrial Revolution (4IR) unfolds in the world.

**2. Development of Vietnam's private sector ten years after the WTO accession**

The development of the private sector was evaluated based on the following criteria: the number of enterprises, the numbers of newly-established as well as closed-down enterprises, the size of enterprises in terms of the capital volume and the number of employees.

*i) Number of enterprises*

**Table 1: Number of operating enterprises across sectors by type of ownership in 2007-2016**

| Year | State sector | Non-state sector | FDI sector | Total |
|---|---|---|---|---|
| 2007 | 3,494 | 147,316 | 4,961 | 155,771 |
| 2008 | 3,286 | 196,779 | 5,625 | 205,690 |
| 2009 | 3,506 | 238,495 | 6,547 | 248,548 |
| 2010 | 3,281 | 268,831 | 7,248 | 279,360 |
| 2011 | 3,264 | 325,773 | 10,176 | 339,213 |
| 2012 | 3,174 | 346,419 | 8,966 | 358,559 |
| 2013 | 3,199 | 359,794 | 10,220 | 373,213 |
| 2014 | 3,048 | 388,232 | 11,046 | 402,326 |
| 2015 | 2,835 | 427,710 | 11,940 | 442,485 |
| 2016 | 2,662 | 488,395 | 14,002 | 505,059 |

Source: Statistical Yearbooks of 2010, 2015, 2016, and 2017[*].

As shown in Table 1 on the number of operating enterprises in Vietnam in the period of 2007-2016, the total number of enterprises, particularly the number of the non-state enterprises, increased steadily even in the difficult times of the global economic crisis and national macro-instability. This expansion was induced by the state efforts in institutional reforms, for example, the amended Laws on Enterprises and on Investment in 2005, which created more favourable investment environment. The opening of the stock market and the SOE reform also helped promote the development of non-state enterprises. Particularly, the accession to the WTO was an important contributing factor to Vietnam's more efforts in the reforms of institutions and policies for economic development, investment, and trade in conformity with international practices and the WTO commitments. A series of barriers to doing business have been lifted, allowing the presence of the private enterprises in any business sectors that are not forbidden by laws. The national efforts in improving the investment climate and the FDI attraction policy have drawn the attention of foreign investors to Vietnam. The country's accession to WTO has also spawned opportunities for domestic enterprises. Thanks to the inherent business acumen of private sector, the number of newly-established non-state enterprises increased rapidly. The year 2007 witnessed a record high number of newly-established enterprises of 60 thousand and heralded a boom in the development of the private sector (http://www.trungtamwto.vn/tin-tuc/viet-nam-sau-10-nam-gia-nhap-wto-nhung-thanh-tuu-kha-quan). That record, turned out to

[*] The data on enterprises might have discrepancy across annual Statistical Yearbooks due to adjustment. The presented data are the ones published in the most recent yearbooks.

be just the beginning. In 2017, the number of newly-established enterprises reached a new record high level at 126.9 thousand, up 15.2% compared to that in 2016 (General Statistics Office, *Statistical Yearbook 2017*: 13). As of December 31, 2016, the number of the non-state enterprises was three times higher than that in 2007. The same period also saw a threefold increase in the number of FDI enterprises.

Considering the composition of enterprises, the percentage of the non-state companies rose gradually from 94% in 2007 to 96.7% in 2016 while the proportion of the FDI firms slightly fell from 3.1% in 2007 to 2.7% in 2016. The state policy for the SOE equitization was the main reason behind the decline in the number of SOEs. The percentage of the number of SOEs also decreased from 2.2% in 2007 to merely 0.5% in 2016. The big difference in the percentage of enterprises across sectors by ownership type will be discussed more thoroughly alongside the analysis on the composition of national investment capital for a better view of the development quality of Vietnam's private sector.

A deeper analysis on the number of newly-established, inactive, and closed-down companies would provide a clearer picture of the quantity of enterprises. Only after the government promulgated the Resolution 14/NQ-CP dated March 18, 2014 on major measures for improving business environment and enhancing national competitiveness and other similar resolutions were issued in the subsequent years, the data on the number of newly-established, revived, inactive, and closed-down companies began to draw genuine interest. The establishment and dissolution of the private enterprises reflect the natural selection in the development process. After 2009, when the economy of Vietnam faced with instability and recession due to the impact of the world economic crisis, the abnormalities of the economy were revealed through the number of enterprises still in operation. Firstly, the percentage of newly-born yet non-active businesses was on a rise. Secondly, the number of companies leaving the market also increased and reached over 40 thousand per annum (Vu Hung Cuong, 2016: 113-114). The number of inactive enterprises stayed at a high level between 2014 and 2017, ranging from 58 thousand to more than 60 thousand. To make up for that, the number of newly-established enterprises also climbed up in the same period. There was considerable improvement in the ratio of inactive to newly-established businesses which decreased from 77.9% in 2014 to 7.7% in 2017. The number of newly-registered enterprises in 2017 was 1.7 times higher than that in 2014, with a rapid climb recorded in 2016 and 2017 (Table 2). This resulted from the

**Table 2: Number of newly-established, revived, inactive, and closed-down enterprises in selected years**

| Year | Newly-established | Revived | Inactive | Closed-down |
|---|---|---|---|---|
| 2014 | 74,842 | 15,419 | 58,322 | 9,501 |
| 2015 | 94,754 | 21,506 | 71,391 | 9,467 |
| 2016 | 110,100 | 26,689 | 60,667 | 12,478 |
| 2017 | 126,859 | 26,448 | 60,553 | 12,299 |

Source: Statistical Yearbooks of 2014, 2015, 2016, and 2017.

efforts of the government in stabilizing the macro-economy, improving business environment, and encouraging start-ups. However, the high number of inactive and closed-down companies also indicated the weak competitiveness and resilience to market shocks of the non-state enterprises, mostly attributed to the small capital size and short-term business strategies.

*ii) Firm size*

As mentioned above, the non-state sector has by far the most number of enterprises among the three sectors by ownership type, accounting for 94%-96% of the total number of businesses in 2007-2016. The proportion of the non-state sector in the total national capital investment stood at 40.6% in 2017 (up from 38.5% in 2007). Although this sector was the largest among the others in terms of capital investment, the huge number of enterprises in the sector indicates problems with its development quality due mainly to the small capital size. The FDI enterprises made up only 3% of the total number of enterprises, yet accounted for over 20% of the national capital investment. Although the public sector constituted a

**Table 3: Composition of development capital investment by sector in 2007-2017 (%)**

| Year | State sector | Non-state sector | FDI sector |
|---|---|---|---|
| 2007 | 37.2 | 38.5 | 24.3 |
| 2008 | 33.9 | 35.2 | 30.9 |
| 2009 | 40.5 | 33.9 | 25.6 |
| 2010 | 38.1 | 36.1 | 25.8 |
| 2011 | 37.0 | 38.5 | 24.5 |
| 2012 | 40.3 | 38.1 | 21.6 |
| 2013 | 40.4 | 37.7 | 21.9 |
| 2014 | 39.9 | 38.4 | 21.7 |
| 2015 | 38.0 | 38.7 | 23.3 |
| 2016 | 37.5 | 38.9 | 23.6 |
| 2017 (preliminary) | 35.7 | 40.6 | 23.7 |

Source: Author's calculation based on statistical yearbooks.

**Table 4: Firm size in non-state sector in the period of 2007-2016 (based on capital-related criterion) (%)**

| Year | Small-sized | Medium-sized | Large-sized |
|---|---|---|---|
| 2007 | 92.33 | 5.15 | 2.52 |
| 2008 | 92.39 | 5.20 | 2.41 |
| 2009 | 91.09 | 6.18 | 2.72 |
| 2010 | 88.96 | 7.60 | 3.44 |
| 2011 | 92.16 | 5.13 | 2.71 |
| 2012 | 90.44 | 6.70 | 2.86 |
| 2013 | 90.38 | 6.72 | 2.90 |
| 2014 | 90.65 | 6.63 | 2.73 |
| 2015 | 87.88 | 8.51 | 3.61 |
| 2016 | 91.39 | 5.60 | 3.01 |

**Table 5: Firm size in non-state sector in the period of 2007-2016 (based on labor-related criterion) (%)**

| Year | Micro-sized | Small-sized | Medium-sized | Large-sized |
|---|---|---|---|---|
| 2007 | 63.98 | 32.21 | 1.99 | 1.82 |
| 2008 | 63.81 | 32..93 | 1.73 | 1.54 |
| 2009 | 67.33 | 29.70 | 1.55 | 1.42 |
| 2010 | 67.74 | 29.18 | 1.62 | 1.47 |
| 2011 | 67.68 | 29.15 | 1.72 | 1.46 |
| 2012 | 69.43 | 27.62 | 1.61 | 1.35 |
| 2013 | 71.32 | 25.85 | 1.56 | 1.27 |
| 2014 | 72.48 | 24.76 | 1.53 | 1.23 |
| 2015 | 73.62 | 23.70 | 1.48 | 1.20 |
| 2016 | 74.81 | 22.61 | 1.38 | 1.20 |

Source: Author's calculation based on statistical yearbooks.

small proportion of the total number of enterprises, its percentage in the national capital investment approximated to that of the non-state sector. This suggests the presence of large state-owned corporations operating with the state investment, which in turn pointed out the ineffectiveness of the SOE equitization process, particularly when facing difficulties caused by the capital divestment.

Regarding capital size and the number of employees, the non-state enterprises are mostly small- and micro-sized as shown in Tables 4 and 5. This further supports the statement that the development quality of the non-state enterprises is less than desirable. The lack of large firms heavily affects their performance as a "pulling force" of the economy. In addition, the small number of medium-sized enterprises also restricts the business linkages with large FDI and state-owned enterprises, limiting their capabilities to act as the "pushing force" and to link all economic actors. What is worrisome is that the non-state sector did not improve in terms of firm size after ten years of Vietnam's WTO membership, resulting in most enterprises being unable to invest in modern technologies and to build long-term business strategies. As such, the non-state enterprises face enormous challenges in participating in the global value chain in the context of the 4IR.

In terms of capital size and the number of employees, Tables 6 and 7 clearly show that FDI enterprises have advantages with about 20% of large-sized enterprises for both criteria, owing to the presence of the world class corporations such as

**Table 6: Firm size in FDI sector in the period of 2007-2016 (based on capital-related criterion) (%)**

| Year | Small-sized | Medium-sized | Large-sized |
|---|---|---|---|
| 2007 | 37.52 | 33.02 | 29.46 |
| 2008 | 39.51 | 33.10 | 27.39 |
| 2009 | 40.65 | 31.78 | 27.58 |
| 2010 | 43.14 | 30.05 | 26.81 |
| 2011 | 48.92 | 26.92 | 24.16 |
| 2012 | 47.55 | 27.32 | 25.13 |
| 2013 | 48.89 | 26.75 | 24.35 |
| 2014 | 48.71 | 27.16 | 24.13 |
| 2015 | 48.41 | 26.66 | 24.93 |
| 2016 | 49.62 | 25.96 | 24.42 |

**Table 7: Firm size in FDI sector in the period of 2007-2016 (based on labor-related criterion) (%)**

| Year | Micro-sized | Small-sized | Medium-sized | Large-sized |
|---|---|---|---|---|
| 2007 | 11.85 | 54.15 | 9.35 | 24.64 |
| 2008 | 12.13 | 54.75 | 9.69 | 23.43 |
| 2009 | 15.68 | 53.79 | 9.00 | 21.52 |
| 2010 | 18.42 | 51.47 | 8.99 | 21.13 |
| 2011 | 23.90 | 48.21 | 8.22 | 19.67 |
| 2012 | 22.29 | 48.29 | 8.58 | 20.84 |
| 2013 | 23.93 | 47.34 | 8.38 | 20.34 |
| 2014 | 24.99 | 46.06 | 8.51 | 20.44 |
| 2015 | 24.97 | 46.51 | 8.18 | 20.34 |
| 2016 | 27.89 | 45.26 | 7.89 | 18.96 |

Source: Author's calculation based on statistical yearbooks.

Samsung, LG, Toyota, Honda, Canon, etc. Possessing a large amount of capital, FDI enterprises are more capable of investing in technologies and expanding business operation than non-state enterprises, not to mention that FDI firms have easier access to credit within and outside Vietnam. The percentage of medium-sized FDI companies based on capital-related criterion is much different from that based on labor-related criterion. Since the former have already invested in modern and automatic technology, they do not need to depend much on human labor. The percentage of small-sized FDI companies based on capital-related criterion was close to 50% and that of small- and micro-sized FDI firms based on labor-related criterion was over 70%. This implies that a majority of FDI companies still rely on low technologies for processing activities in order to take advantage of Vietnam's cheap labor. It is noteworthy that as far as the firm size attributes are concerned, there has not been any considerable change in FDI enterprises since Vietnam joined WTO ten years ago. Clearly, the lack of exceptionally favourable institutional conditions has made it difficult to attract the world class corporations to Vietnam.

**3. A number of issues for the private sector as an important and fundamental driving force of Vietnam's economic growth and development in the context of the 4IR**

*i) Non-state enterprises*

It can be seen that after ten years of Vietnam's WTO membership, non-state enterprises have not overcome their internal limitations, particularly the firm size attributes. Non-state enterprises, whose majority is made up by small- and micro-sized companies, still struggle to invest in technologies and switch to modern business models due to limited financial capacity. The lack of financial resources also affects their way of thinking, strategic vision and business culture, as well as the ability to establish linkages with large state-owned and FDI corporations. All these weaknesses have constrained the capability of the non-state sector to sustainably contribute to Vietnam's economic growth and development and to perform the role of an important and fundamental driving force.

The 4IR brings about breakthroughs in manufacturing and management mindset. With the emergence of new technologies, such as digital technology, 3D printing, Nano technology, new materials, and bio-technology (David Aikman, 2018), the 4IR spawns "startup" opportunities for the non-state sector in "smart" areas and paves the way for their deeper participation in regional and global production network. However, without appropriate approaches and catch-up strategies, non-state sector enterprises will face the risks of further technology lags and redundancy of low-skilled workers.

Non-state enterprises in Vietnam, characterized by small and micro firm size and due to the lack of capital, often face difficulties to invest in modern technologies, in both terms of hard and soft infrastructure which are the preconditions for the formation of production lines based on digital platform. Failure to develop and employ promising technologies would

**Table 8: FDI in Vietnam by industries at the end of 2017**

| No. | Industry | Number of projects | Registered capital (mil. USD) |
|---|---|---|---|
| 1 | Manufacturing | 12,460 | 186,514.2 |
| 2 | Real estate | 639 | 53,226.0 |
| 3 | Accommodation and food services | 644 | 12,004.2 |
| 4 | Construction | 1,481 | 10,846.5 |
| 5 | Electricity, gas, steam and air conditioning supply | 115 | 20,820.9 |
| 6 | Information and communication | 1,653 | 3,336.5 |
| 7 | Arts, entertainment and recreation | 133 | 2,781.6 |
| 8 | Transportation and storage | 666 | 4,646.7 |
| 9 | Wholesale and retail trade; repair of motor vehicles and motorcycles | 2,805 | 6,200.0 |
| 10 | Agriculture, forestry and fisheries | 511 | 3,521.2 |
| 11 | Mining | 105 | 4,876.0 |
| 12 | Professional, scientific and technical activities | 2,478 | 3,096.3 |
| 13 | Financial, banking and insurance services | 81 | 1,487.8 |
| 14 | Health care and social work activities | 134 | 1,867.0 |
| 15 | Water supply; sewage, waste management and treatment activities | 68 | 2,338.5 |
| 16 | Other services | 156 | 762.8 |
| 17 | Education and training | 376 | 759.9 |
| 18 | Administrative and support service activities | 298 | 527.1 |
| | **Total** | **24,803** | **319,613.2** |

Source: Statistical Yearbook 2017.

make them stuck in simple assembling activities of low value-added like the industries of garment, footwear, manufacturing, or electronics. As a result, they would be at risk of lagging behind in the global value chain as the 4IR unfolds. On the other hand, non-state enterprises often have good business acumen and the ability to swiftly change their business model. The 4IR will open up opportunities for non-state enterprises to switch to new models and to start business activities which suit their advantages and financial capacity. In that process, focused technological investment would help non-state enterprises establish their position in the global value chains, as the successful experiences of Japanese small- and medium-sized enterprises indicated. Specifically, the focus can be placed on areas in which Vietnam has advantages such as smart agricultural production, smart industrial production, or smart logistics, etc. It is necessary for non-state enterprises to renovate their business strategy mindset to "catch the 4IR train" and to bring about breakthrough changes in technologies and in the way they perform the roles of leading (pulling force) and connecting (pushing force) actors in the economy. Doing so, non-state enterprises, together with their FDI counterparts, can affirm their role as an important and fundamental driving force of economic growth and development in Vietnam.

*ii) FDI enterprises in Vietnam*

It is noticeable that while non-state enterprises are found in all economic industries, FDI companies tend to operate in manufacturing sector based on the number of projects and amount of capital registered (Table 8) to take advantage of Vietnam's low labor costs. As of the end of 2017, FDI companies were operating with 12,460 projects (accounted for 50.2% of the total number of FDI projects nationwide) and registered capital of US$ 186,514.2 million (made up 58.3% total FDI registered capital) in manufacturing sector. However, FDI enterprises have brought into Vietnam mostly low technologies for processing activities of low value added. FDI also flows largely into the real estate sector to exploit incentives related to land tax as the provinces/cities implement the policy of "rolling out the red carpet" in FDI attraction. Real estate is the sector in which the number of FDI projects is not high (only 639 projects, accounting for 2.5% the total number of FDI projects in Vietnam) but the amount of registered capital (US$ 53,226 million, contributing 16.6% to the total registered FDI capital) is second to only manufacturing sector. It seems that FDI enterprises are still much interested in taking advantages of cheap labor and preferential land tax policy in Vietnam while their contribution to the national economic structural transformation and technology transfer falls short of expectations.

In addition, although large corporations in the world possess huge financial and technological resources and integrated production networks, the world class corporates capable of bringing about breakthrough changes interested in investing into Vietnam are still few in number. Taking into account that Vietnam has envisioned the establishment of growth poles such as key economic regions and special administrative-economic zones, the attraction of the world class corporations remains a matter of decisive significance. If the selection and attraction of corporate groups is done properly, they will help Vietnamese enterprises participate in global production networks and value chains and enhance their competitiveness in international economic integration. Corporate groups with large financial resources would proactively engage in the digital economy based on the 4IR technologies. Therefore they can promote the technology transfer to Vietnamese enterprises involved in their production networks. Moreover, if directed to the right areas, these corporations will lead the structural transformation of the Vietnamese economy based on the mutual advantages and join hands with non-state enterprises in performing as the pulling force of economic growth and development in Vietnam.

**4. Conclusion**

The 4IR brings the opportunities for "leapfrog" development to all countries and enterprises but, at the same time, signals the risk of being lagged behind if they do not have proper strategies to avoid "missing the 4IR train". Effective support from the government and proactive innovation from enterprises are required if non-state enterprises are to seize the opportunities and overcome challenges generated by the 4IR. Non-state enterprises need to be highly conscious of developing a roadmap for actively participating in the 4IR. Businesspeople should dramatically change their entrepreneurial mindset and direct technological investment in activities and areas which fit their financial resources and management capacity to create the uniqueness in competition. It is necessary for the government to put in place more effective policies for encouraging start-ups through credit support, guidance on the directions for choosing business lines, and assistance in connecting with foreign partners.

Vietnam should have strategies for establishing exceptional institutional conditions in key economic regions and special administrative-economic zones as well as developing effective "filters" to attract the world class corporations to Vietnam. This will help create development breakthroughs and real growth poles for the economy and shape the national economic structural transformation and domestic enterprise development. Once that is the case, the private sector, including non-state and FDI enterprises, can become an important and fundamental driving force of economic growth and development in Vietnam in the context of the 4IR ❑

**References**

1. Alistair Nolan (2018), "The impact of the Fourth Industrial Revolution: Policy implications for Vietnam", *Proceedings of High-level forum and in international exhibition on Industry 4.0*, Hanoi, July 12-13, 2018.
2. Vu Hung Cuong (Chief Editor, 2016), *Private sector – A fundamental driving force of development*, Social Sciences Publishing House, Hanoi.
3. General Statistics Office, *Statistical Yearbooks* from 2007 to 2017.
4. Websites: http://www.trungtamwto.vn and http://www.gso.gov.vn

*(continued from page 29)*

15. *Viet Nam-China Joint Statement*, http://vnexpress.net/tin-tuc/the-gioi/toan-van-tuyen-bo-chung-viet-nam-trung-quoc-3669742.html
16. http://www.chinanews.com/gn/2018/07-04/8556592.shtml
17. http://www.xinhuanet.com/2017-11/14c_1121956391.htm
18. http://www.xinhuanet.com/2018-01/11/c_1122246811.htm