



Aus4Reform Program

RELATIONSHIP BETWEEN THE STATE AND THE MARKET AND INSTITUTIONAL REFORM IN VIETNAM



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FOREWORDS

The relationship between the state and the market and institutional improvement of the socialist-oriented market economy in Vietnam have been associated with the transition from centrally planned economy to market economy. Over more than 30 years of “Doi Moi”, the state-market relationship has had many adjustments, especially in determining the roles of the state and of the market in the economy. However, the state-market relationship still has many issues that need to be addressed. In addition, improving institutions of socialist oriented market economy was considered by the XIth Congress of the Communist Party of Vietnam as one of three strategic breakthrough missions in the 2011-2020 period. After almost 10 years of implementation, the strategic breakthrough mission of improving economic institutions has generated many positive outcomes but economic institutions are still recognized as one major obstacle for the socio-economic development. For having basis to propose suggestion on the state-market relationship and the improvement of institutions of the socialist-oriented market economy in coming time, especially for the 2021-2030 period, it is critically important to summarize, evaluate the implementation results of the 2011-2020 period and then construct goals and propose effective solutions for the next period.

This report studies and analyzes the state-market relationship and the implementation of economic institutions in Vietnam for the period of 2011-2020 in order to enrich the discussion on the state-market relationship; on fulfilling the economic institutions and proposing solutions, directions to upgrade the market economy institutions and to properly solve the state-market relationship for the 2021-2030 period.

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All views, opinions in the Report are solely of authors and may not necessarily reflecting those of the CIEM and/or the Aus4Reform Program.

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ABBREVIATION

CIEM	:Central Institute for Economic Management
CPTPP	: Comprehensive and Progressive Agreement for Trans-Pacific Partnership
EVFTA	: EU-Vietnam Free Trade Agreement
FTA	: Free Trade Agreement
GDP	: Gross domestic product
GSO	:General Statistics Office
ICOR	: Incremental Capital-Output Ratio
MPI	: Ministry of Planning and Investment
S&T	: Science and Technology
SOE	: State owned enterprises
TFP	: Total factor productivity
WTO	: World Trade Organization

SUMMARY

1. Vietnam's socio-economic development during the 2011-2020 period has been negatively affected by the global financial crisis, especially at the early years. The economic growth tended to slow down compared to the previous period. The scale of GDP and GDP per capita has improved but has been still modest compared to many countries in the region. The quality of growth has also significantly improved, which could be shown by TFP, ICOR or labor productivity index but the gap in labor productivity between Vietnam and other countries has continued to increase. Some macroeconomic balances such as the state budget revenues and expenditures, trade balance, savings and investment have been stabilized and had more positive signs. Social issues such as labor, employment, people's living standards and social security have been well addressed and achieved certain results. However, there still remains many issues to be addressed. The limitations and weaknesses of Vietnam's socio-economic development were partly due to the inadequacies of economic institutions and in the state-market relationship in the economy.

2. Theoretically, the state-market relationship has sparked many debates among economists along with the introduction and development of economics doctrines, theories and views of economic development, associated with many models of the state and economy. The state-market relationship is not a simple choice between the state or the market; but they are symbiotic relationship with mutual supports. In general, it is widely recognized that both of the market and the state play indispensable roles and functions in the market economy, especially after the 2008 global financial crisis. The state-market relationship and reforms of economic institutions are interrelated. The state-market relationship determines the corresponding, appropriate economic institutions. In fact, the market does not exist in a vacuum, it is governed by institutions which are formal rules such as norms, laws and regulations and informal rules.

3. Studies on economic models find that: In a social market economy (typically Germany), the state (government) only intervenes where competition is not effective and where competition need to be protected and promoted efficiently. The social market economy requires a strong government; however, the government should only exercise its tasks where necessary and its interventions must base on two principles: the principle of support (answer the question of whether the government should intervene and to what extent?) and the principle of compatibility (answer the question of how to intervene?). In the "developmental state model", the state plays an important role in stabilizing macroeconomics, ensuring reasonable interventions in the market's operation in order to achieve expected targets. The state/ government focuses on implementing basic functions, which are to identify strategic economic development objectives; developing and implementing policies to support enterprises; connecting and facilitating cooperation among businesses to achieve strategic goals.

4. In Vietnam, policy on the state-market relationship has been closely linked to the transition of the economy from the centrally planned to a socialist-oriented market economy, associated with the process of developing institutions of the socialist-oriented market economy. The requirement of properly solving the state-market relationship was introduced at the XIth Congress of the Communist Party of Vietnam and continued to be strongly emphasized at the XIIth Party Congress. The Party's official documents also identify functions and roles of the state and the market.

5. The policy on improving economic institutions was firstly introduced at the Xth Party Congress. Improving economic institutions was considered as a strategic breakthrough at the XIth Party Congress with a focus on creating a fair business environment and administrative reform during the 2011-2020 period. The XIIth Party Congress further affirmed that improving institutions of the socialist-oriented market economy is a strategic mission and critically important breakthrough. The content of strategic breakthrough mission on completing economic institutions for the 2011-2020 period is to focus on three groups of issue: (i) developing institutions on improving investment and business environment; ensuring freedom of business, fair competition among economic sectors; (ii) improving institutions on the synchronous development of market elements and factor markets in order to efficiently mobilize, allocate and use resources; and (iii) renovating, strengthening the effectiveness and efficiency of state administrative functions (including solving properly the state-market relationship).

6. The main contents of economic institutional reform have basically been legalized.

- Mechanisms and policies on improving business, investment environment; ensuring freedom of business and fair competition among economic sectors have been introduced. The 2013 Constitution has established the fundamental legal framework for developing competition laws, ensuring fair competition in access to resources, business freedom, fostering development of all sectors, all types of enterprises.

- The policy framework on creating synchronous market elements has initially been developed. Accordingly, the market price mechanism has been implemented consistently. The institution of market competition and enforcement of competition policy, anti-trust in business have been also completed, the monopoly control has paid special attention to strategic and sensitive industries, such as electricity, coal, petroleum, etc. The legal framework, which enable synchronous and proper development of all markets, have also formed, from good and service market to financial market, labor market, land market, science and technology market, etc.

- The policy system which designed to promote innovation, improve the effectiveness and efficiency of state administrative management, has also been improved, especially in performing the functions of the state; clearly determining the state-market relationship; completing state apparatus; creating significant changes in administrative reform; preventing and combating corruption and wastefulness.

7. Given adequate institutionalization of the policies and actively implemented, the implementation of strategic breakthrough mission on economic institutions has achieved many results. The fair competition environment has been initially established. The business and investment environment have made great progress, contributing to rapid development of various types of enterprises and economic sectors, especially in the private sector, the number of newly established enterprises increases rapidly year by year. Market elements and factor markets have been gradually established and smoothly operated. Domestic markets have also initially connected to regional and global markets. The effectiveness and efficiency of state administrative management have been improved; administrative procedure reforms have achieved many positive results. The state-market relationship has been basically harmonized.

8. Although many results achieved, they did not meet the requirements, as follows:

- Business and investment environment have not been really open, healthy, fair and secured. Improvements do not apply equally among sectors. There are still a lot of business barriers, many overlaps and frequently changes in the legal system.

- The goal of creating a fair level playing field among enterprises and economic sectors has not been achieved yet. Besides, some negative phenomenon such as "interest group", "crony businesses" are quite common.

- There remain many limitations in the development of enterprises and economic sectors. Enterprises are mostly small and medium-sized. SOEs' performance is not really commensurate with invested sources. The FDI sector has not been as good as expected. FDI's spill-over effect is limited while their technology is not advanced, even backward.

- Some key market elements are not fully functioning and factor markets are still underdeveloped. Financial and monetary markets are not inclusive. Land market, real estate market is not sustainable and lacks transparency. The labor market has developed unevenly, supply-demand relationship is unbalanced and the quality is limited. The science and technology market is still at a low level, its constituent elements have not developed synchronously.

- The effectiveness and efficiency of state management have not been improved significantly; administrative reform did not meet requirements reflected by low governance index; reorganization of the state apparatus and streamlines of staffs is mainly formalistic.

9. Besides the causes identified in the Resolution of the 5th Plenum of the XIIth National Congress of the Party, some causes should be paid attention, namely:

- The transition to a market economy is slow, and institutional reform is not sufficiently breakthrough in term of both quantity and quality;

- There is still a big gap between the Party's direction, Government's policy and implementation;

- The functions of the state and the market are not clearly defined, the state-market relationship is not well resolved; the state management methods and tools are in favor of the state control and the state ownership, creating power and opportunities for civil servants to intervene in market activities with the lack of mechanisms to control the abuse of power.

10. There are many influencing factors such as, global cooperation and competition (especially the US-China trade war), the technology revolution, the rise of new business model, the extensive international economic integration, the rapid development of domestic private sector and the rising trend of digital economy, which require the reposition of the state-market relationship. In this context, it must focus on reforming economic institutions in order to exploit opportunities as well as overcome weaknesses, challenges for the 2021-2030 period.

11. Toward national goals, including boosting up country's robust development, escaping from the middle-income trap by 2025, becoming the upper middle-income country by 2030 and high-income country in 2045, it is necessary to focus on improving the quality of socialist-oriented market economy institutions, forming a modern inclusive institution; harmonizing the state-market relationship to promote innovation and creativity in order to enhance the productivity of the economy.

12. In order to achieve those goals, it is suggested to implement major orientations and solutions, as follows:

- Clarifying the content and promote common awareness of the socialist-oriented market economy; fostering the transition toward a full and modern market economy in accordance with international best practices; clearly defining the roles and functions of the state and the market in order to harmonize the state-market relationship; establishing a developmental state which nurture the development of the market, enterprises and citizens.

- Innovating the understanding of institutional breakthrough, which is considered as a basis for implementation of proposed solutions. It should be well understood that institutional breakthrough should be great, fast and strong enough to remove the institutional bottlenecks and create a quantum leap of a transition to a full and modern market economy.

- Determining clearly the focus of strategic breakthrough on economic institutions and solutions for implementation. Promoting domestic private enterprises, solving bottlenecks that obstruct the production, investment and development of private sector; conducting review and eliminate all business conditions which are no longer appropriate; focusing on promoting and improving the quality of SOE reform, completing the SOE restructuring; promoting the rapid development of factor markets; reforming state governance; harmonizing the state-market relationship; building a developmental state to enhance market operation; promoting innovation, creativity; designing and implementing mechanisms to control the abuse of power.

INTRODUCTION

In two recent congresses, the Communist Party of Vietnam has identified institutional reform as one of the strategic breakthrough missions of national development⁵⁴. However, in principle, institutional breakthrough can only occur if appropriate set of institutions are well established in a timely manner with the scale of change large and strong enough to remove “ties” and “bottlenecks” of the transition toward market economy. Whether or not a breakthrough happens, depends on whether the state is fully aware of the impact scale and severity of “ties” and “bottlenecks” of the transition. In many cases, the “bottlenecks” of economic institutions are caused from the roles and functions of the state. Therefore, in order to gain institutional breakthrough, it is necessary to clarify the roles and functions of the state, the market and harmonize the state-market relationship in the context of Vietnam.

The fact shows that for almost 30 years of reform toward the market economy in Vietnam, the state-market relationship has basically solved and gradually improved in a modern way. However, this is still a complicated issue. How much is the role of market and the state to ensure an optimal operation of the economy and to utilize our own advantages? In many cases, the role of state and the state-market relationship is unambiguously defined, thus, causing limitations. Report on 30 years of Vietnam’s reform and development found that the limitations of the state-market relationship is “the state’s roles in the market economy are not clearly defined due to unambiguous functions of the state and the market. The state still carries many functions which have better done by the market, such as capital allocation, corporate governance while it does not pay enough attention to its critical functions, such as issuing and implementing the “administrative-legal framework”, providing public goods and services, supporting development, etc.” (Dinh The Huynh et al., 2015). Accordingly, although economic institutions continue to be improved, the investment-business environment and competitiveness have been improved, the implementation results are still in slow progress; there are no substantive and formal changes in the strategic breakthrough on institutions. Many regulations of the legal system do not base on rules of the market economy, such as regulations on resource allocation, price intervention, public goods provision, etc. Markets operate with many obstacles and their efficiency is not sufficiently high. The state management doesn’t meet requirements of market development and international integration. In addition, administrative reform and the construction of inclusive institutions which foster the freedom of doing business for citizens, enterprises and fair competition in the market economy, also have limitations. Those limitations raise requirements and demands on clarifying the roles of the state, the market and harmonizing the state-market relationship. In other words, the institutional reform can only happen if the state-market relationship has been solved properly.

In the next period, institutional reform will still play as a key driver of economic growth. In the context of the restructuring of the economy, renovation of growth model, enhancement of productivity, quality, competitiveness of the economy and the rapid development of technology in the 4th Industrial Revolution; the implementation of new generation FTA such as CPTPP, EVFTA; the robust development of private domestic sector, it is critically important to analyse the state-market relationship and evaluate the implementation of the institutional reform in the 2011-2020 period in order to address challenges, suggest policy directions, targets and solutions to truly institutional

⁵⁴ Identified in the Socio-economic development strategy for the period of 2011-2020 (XIth Party Congress), in documents of XIIth Party Congress and concretized in Resolution No. 11-NQ/TW on improving socialist oriented market economy.

breakthrough, upgrade the market economy in Vietnam and create a quantum leap of the transition toward the fully functioning, modern market economy by 2030.

The main objective of the Report is to assess implementation results of the economic institutional reform, to provide evidences of the need for adjusting the state-market relationship, and to promote breakthrough in institutional reforms in order to upgrade the market economy in Vietnam.

The Report focuses on clarifying the role of the state and the market in the market economy; the content, nature of the state-market relationship; the current status of the state-market relationship; the implementation of improving institutions of market economy and challenges in the 2011-2020 period in Vietnam. In addition, key objectives and solutions are proposed for the period up to 2030.

The study report consists of 4 main parts (excluding the Introduction and Conclusion):

- Part 1 is a general overview of Vietnam's socio-economic development in the period of 2011-2020.
- Part 2 analyzes the relationship between the state-market relationship and institutional reforms
- Part 3 reviews the implementation results of institutional reform and the state-market relationship in Vietnam in the 2011-2020 period.
- Part 4 presents the new context and proposes goals and directions, solutions to harmonize the state-market relationship and conduct institutional reforms for the 2021-2030 period.

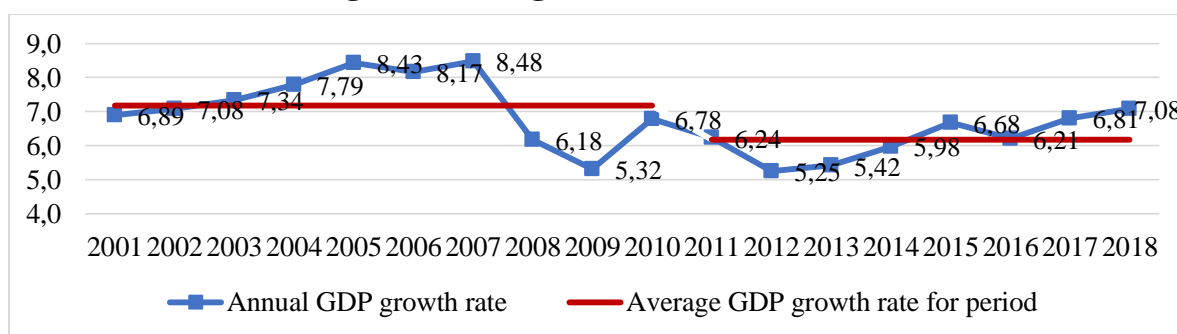
PART 1: OVERVIEW OF VIETNAM'S SOCIO-ECONOMIC DEVELOPMENT IN PERIOD 2011-2020

1.1. Economic growth

For the period of 2011-2020, especially in some beginning years, Vietnam's economy has been strongly influenced by global economic crisis since 2008. The growth rate has decreased sharply compared to the previous period. Average annual GDP growth rate in the 2001-2005 period was 7.49 percent, increased to 6.88 percent in 2006-2010 before fell down to 5.89 percent in the 2011-2015 period. However, the economic growth rate has recovered, from 5.25 percent (in 2012) to 5.42 percent (in 2013), 5.98 percent (in 2014), 6.68 percent (in 2015) and decreased to 6.21 percent (in 2016), raise up to 6.81 percent (in 2017) and 7.08 percent (in 2018). The remarkable improvement in the last two years (2017 and 2018) was largely due to the Government's timely policies to remove difficulties, promote domestic production and accelerate the implementation of trade agreements to find new markets.

However, if compared with the average GDP growth rate in the 2001-2010 period, the average GDP growth rate in the 2011-2018 period has decreased significantly. GDP growth rate tended to recover slowly, lack stability and be lower than the target set by the Socio-Economic Development Strategy 2011-2020 (about 7-8 percent per year). The economic growth rate is still low compared to a potential level and lower than many regional countries at their early period of industrialization.

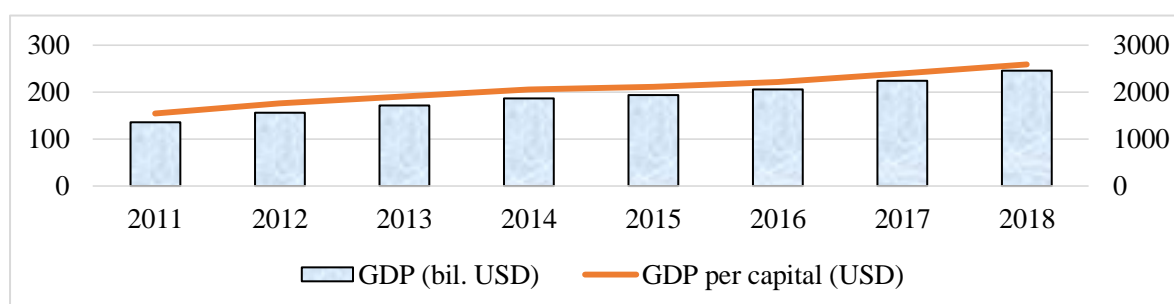
Figure 1. GDP growth rate in 2001-2018



Source: GSO and authors' calculation

The size of the economy at current prices has increased significantly, from VND 2,779.9 trillion (equivalent to USD 135.5 billion) in 2011 up to VND 5,542.3 trillion (equivalent to USD 245.2 billion) in 2018. Accordingly, GDP per capita has also increased steadily over the years, from 1,542 USD (in 2011) to 2,590 USD (in 2018).

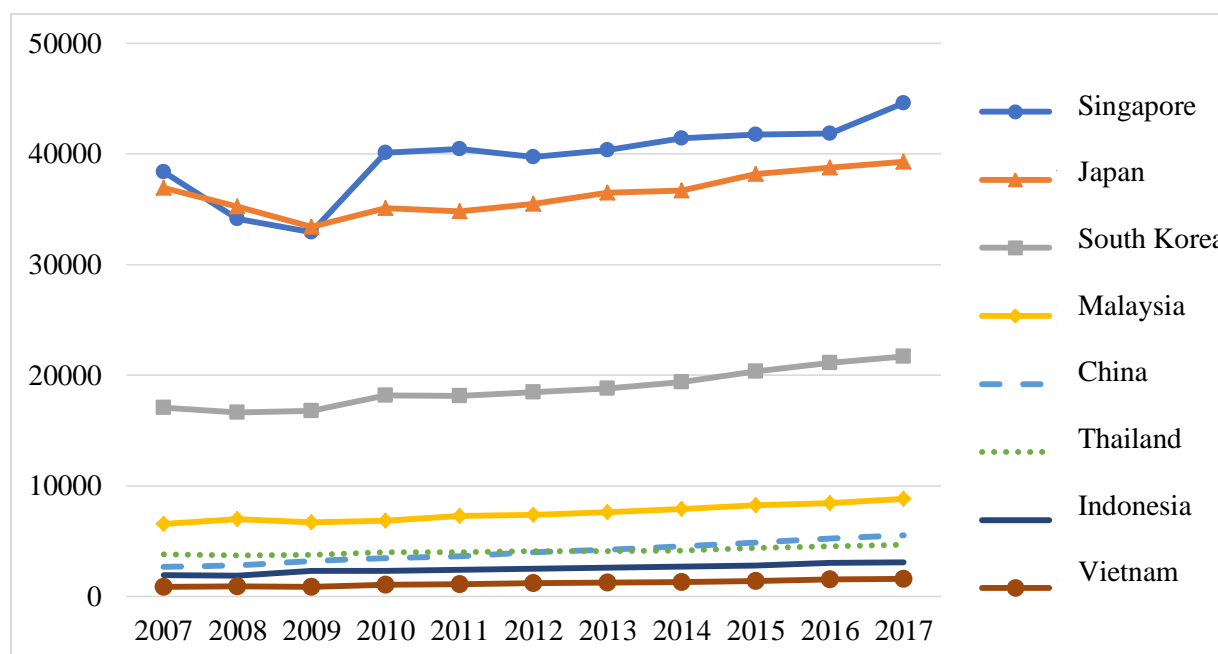
Figure 2. GDP and GDP per capita



Source: GSO and authors' calculation

However, compared to the successful economies in the region such as Japan, South Korea, Taiwan, and Singapore, the achievement of Vietnam's GDP per capita is very modest. In terms of absolute value, Vietnam's economy tends to lag far behind compared to other major economies in the region.

Figure 3. GDP per capita: Vietnam, South East Asian and North East Asian countries

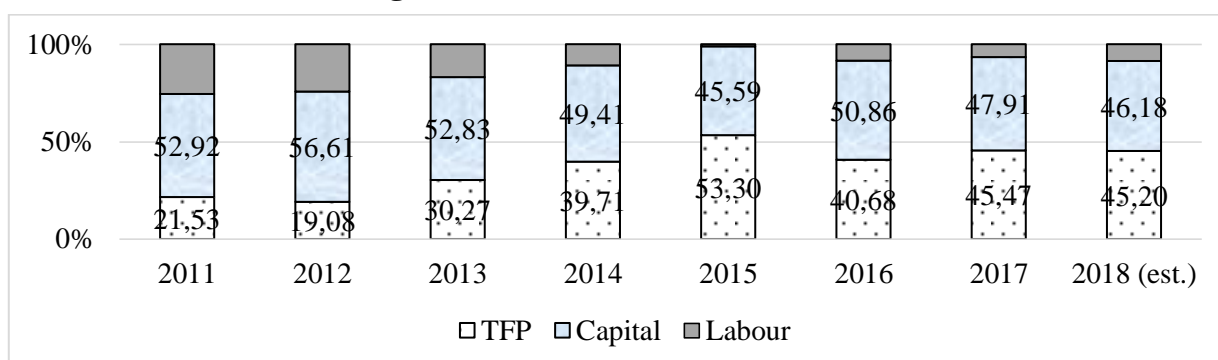


Source: World Development Indicator

Since 2011, the quality of economic growth has also been improved significantly through the contribution of total factor productivity (TFP) in GDP growth as well as the efficiency index of invested capital (Incremental Capital-Output Ratio - ICOR) and labor productivity index.

- TFP's contribution to GDP growth has increased sharply from 21.5 percent (in 2011) to 45.2 percent (in 2018). By period, on average, the contribution of TFP increased from 33.6 percent in the 2011-2015 period to about 43.3 percent in the 2016-2018 period. In the 2016-2020 period, TFP's contribution is estimated at 43.5 percent of GDP. For 10 years from 2011 to 2020, it may exceed the target (35 percent). The contribution of capital to GDP has decreased significantly. This illustrates the reduction in the dependence on capital for growth.

Figure 4. TFP's contribution in GDP



Source: GSO

- ICOR has decreased from 5.9 (in 2011) to 4.73 (in 2018). This is the lowest level since 2006. The declining trend of ICOR shows that the efficiency of investment has been significantly improved.

Table 1. Investment and growth in period 2011-2018

	2011	2012	2013	2014	2015	2016	2017	2018
GDP growth (%)	6.24	5.25	5.42	5.98	6.68	6.21	6.81	7.08
Investment (% GDP)	34.6	33.5	30.4	31.0	32.6	33.0	33.3	33.5
ICOR	5.9	6.4	5.6	5.18	4.88	5.31	4.89	4.73

Source: GSO & Nguyen Quang Thuan (2019)

- The labor productivity has also improved significantly from VND 55.2 million/labor (US\$ 2,691/labor) in 2011 to VND 102 million/labor (US\$ 4,520/labor) in 2018. The average annual growth rate of labor productivity in the 2011-2015 period was 4.3 percent and rose up to 5.8 percent in the 2016-2018 period.

Table 2. The labor productivity of the economy in 2011-2018

	2011	2012	2013	2014	2015	2016	2017	2018
At current prices (VND million/people)	55.2	63.1	68.7	74.7	79.4	84.5	93.2	102.0
At adjusted prices (VND million/people)	45.5	46.9	48.7	51.1	54.4	57.3	60.8	64.4
Labor productivity growth (%)	3.49	3.06	3.84	4.91	6.49	5.29	6.02	5.93

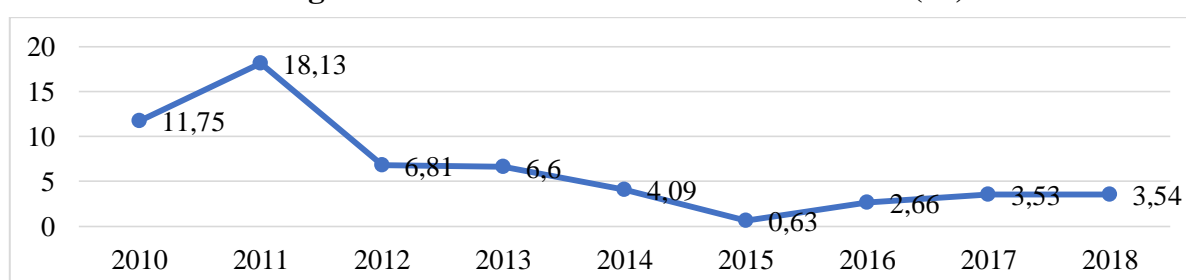
Source: GSO

However, compared to other countries in the region, Vietnam's labor productivity remains very low. Based on constant 2011 PPP, in 2017, Vietnam's labor productivity was US\$10,232, only equivalents to about 7.2 percent of Singapore's; 18.5 percent of Malaysia's; 36.2 percent of Thailand's; 43 percent of Indonesia's and 55 percent of the Philippine's labor productivity. The labor productivity gap between Vietnam and other countries has continued to increase.

1.2. Inflation

The inflation index continued to decrease over the years in the 2012-2015 period, rebounded in 2016 and continued to increase in 2017 and 2018. However, the inflation rate was still within the target limits set by the National Assembly of Vietnam annually.

Figure 5. Inflation in Vietnam in 2010-2018 (%)



Source: GSO

It can be seen that Vietnam's inflation has decreased significantly for recent years, from two-digit to one-digit number and at a relatively low level. In 2016 and 2017, the inflation rates were respectively 2.66 percent and 3.53 percent, equivalent to the group of lower-middle income countries (3.28 percent and 3.85 percent) and lower than the group of low-income countries (5.71 percent and 5.32 percent). This shows that the Government has been consistently prioritized the macroeconomic stability, and implemented many appropriate and timely measures to keep inflation under control.

However, if compared with the average inflation rate of the world and of other countries with similar conditions, Vietnam's inflation index is higher. This also poses a problem in macroeconomic management, which is to ensure a balance between growth and inflation, reduce the trade off between growth and inflation.

1.3. Macroeconomic balances

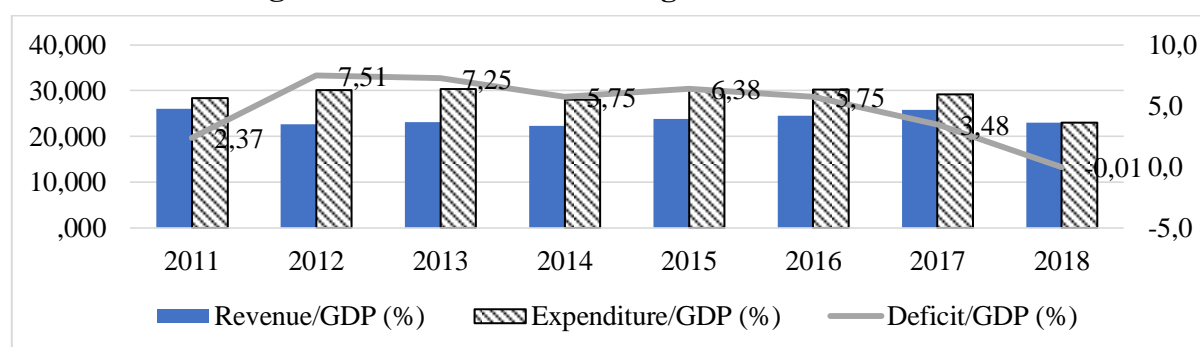
1.3.1. Budget revenue and expenditure balance

Since 2011, the state budget revenue has steadily increased over the years with an average annual growth rate of about 12 percent. However, regarding the ratio of budget revenue to GDP, it shows a clear downward trend from 25.87 percent in 2011 to around 22.96 percent in 2018. The downward trend is mainly caused by the reduction of corporate income tax and tariff reduction, tax exemptions, incentives and reduced budget revenues from crude oil.

The state budget expenditure has also sharply increased, with an average annual growth rate of about 12 percent in the 2011-2018 period. However, regarding the ratio of budget expenditure to GDP, it shows a downward trend, from 28.33 percent in 2011 to 22.95 percent in 2018.

The state budget deficit tends to decrease, from an average of 5.7 percent of GDP in the 2011-2015 period (according to Law on State Budget 2002) and 5.4 percent (according to the Law on State Budget 2015) to about 3.8-3.9 percent of GDP for the 2016-2018 period. Particularly, in 2018, total budget revenue was estimated at VND 1,272.5 trillion and total budget expenditure was VND 1,272.1 trillion. Accordingly, the state budget revenue and expenditure are approximately equal and equivalent to about 23 percent of GDP and the state budget surplus is about 0.01 percent of GDP.

Figure 6. Vietnam's state budget balance in 2011-2018



Source: GSO and authors' calculation

However, Vietnam has a relatively high proportion of state budget expenditure in GDP compared to other countries in the region. According to ADB statistics, in 2017, the state budget expenditure in GDP of India was only 13.1 percent, Indonesia was 15.7 percent, the Philippines was 17.9 percent, Thailand was 19.6 percent, while that of Vietnam was over 29 percent. In the state budget expenditure, recurrent expenditure, including interest

payments, has increased while spending for investment was limited. This requires strong measures to improve the quality of investment and public spending, especially to reduce recurrent spending through reduced staff and streamlining the state apparatus (Nguyen Quang Thuan, 2019).

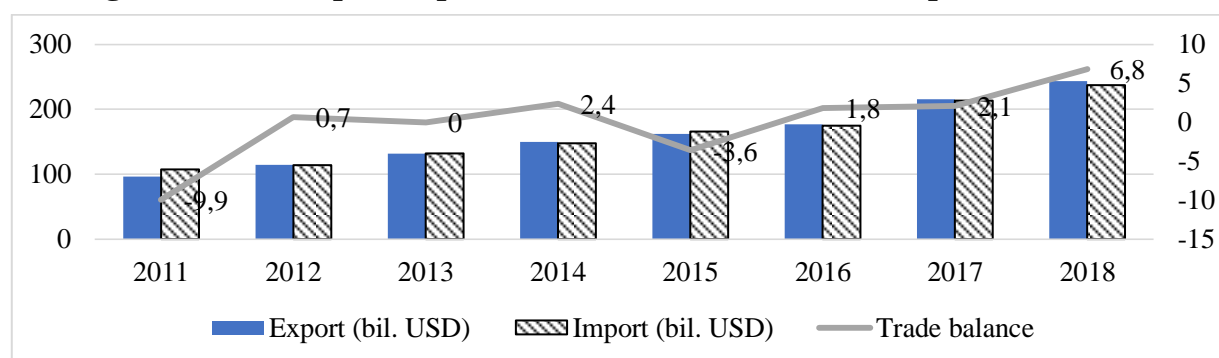
1.3.2. Trade balance

During the 2011-2018 period, Vietnam's export-import value has experienced a continuously increasing trend. The total import-export turnover has increased from USD 203.7 billion (in 2011) to an estimated amount of USD 480.2 billion (in 2018), with the average increase rate of nearly 14 percent per year. It demonstrates a relatively rapid integration and the growing size of Vietnam's economy.

Vietnam's total export turnover increased from USD 96.9 billion (in 2011) to an estimated amount of USD 243.5 billion (in 2018), with an average increase of 15.1 percent per year in the 2011-2018 period. Total import turnover increased from USD 106.7 billion (in 2011) to USD 236.7 billion (in 2018), with an average increase of about 12.3 percent per year over the period. Exports have increased rapidly and have contributed significantly to Vietnam's economic growth over the years. For the whole period of 2011-2018, export increased by 2.51 times, helping to significantly improve Vietnam's position on the global import and export⁵⁵ map. Moreover, export markets are also expanded and diversified.

Vietnam's total import turnover also increased, from USD 106.7 billion (in 2011) to USD 236.8 billion (in 2018) and is expected to reach USD 302.7 billion (in 2020). Imported goods are mainly essential intermediate goods which are inputs for production, export and investment projects of energy and electronics. However, the increase in imports tends to be slower than exports. Accordingly, the trade balance improved significantly, moving from a deficit of USD 9.8 billion (in 2011) to a surplus of USD 6.8 billion (in 2018).

Figure 7. Total import-export revenue and trade balance in period 2011-2018



Source: GSO and authors' calculation

Regarding export structure, FDI sector still accounts for the majority share and tends to increase. In 2011, the export turnover of FDI sector reached USD 55,124.3 million, accounting for 56.9 percent of total export. In 2017, it increased to USD 126,235.6 million, accounting for 72.5 percent of total export. On the contrary, the domestic sector's share of total exports of goods and services shows a decline, from 43.1 percent (in 2011) to 27.5 percent (in 2017).

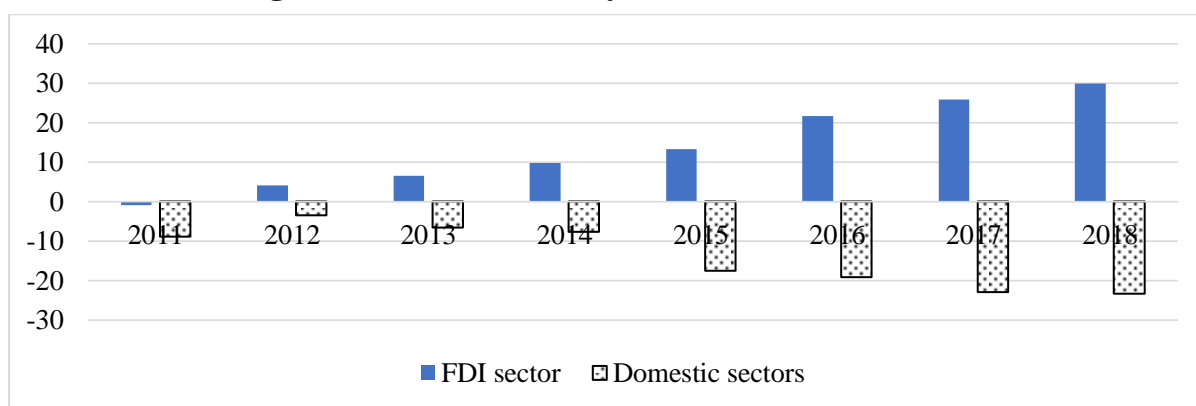
The same goes for import structure. The FDI sector still accounts for the majority. In 2011, FDI sector's import value reached USD 48,387 million, accounting for 45.3 percent

⁵⁵In 2007, Vietnam ranked globally at 50th in term of export value, by 2017, it rose to the 27th.

of total import while in 2017 it grew up to USD 126,372.8 million, accounting for 59.9 percent of total value of imported goods. For domestic sector, its share in total import value fell from 54.7 percent (in 2011) to 40.1 percent (in 2017).

Therefore, it can be seen that the FDI sector plays an important role in Vietnam's trade growth. Analysis of trade balance by region also finds that a surplus of trade balance in recent years has been entirely derived from the FDI sector while domestic sector always has a trade deficit with increasing level. This reflects the positive trend of FDI inflows in recent years that have invested in export-oriented manufacturing industries instead of focusing on the domestic market, including real estate which used to be the major trend in previous years, especially during the 2007-2010 bubble economy (Nguyen Quang Thuan, 2019).

Figure 8. Trade balance by FDI and domestic sector



Source: GSO and General Department of Vietnam Customs

1.3.3. Saving and investment

In general, Vietnam's savings rate is generally stable, with an average of 30.32 percent of GDP during the 2011-2020 period (31.1 percent of GDP in the 2001-2010 period). This is relatively high compared to some countries in the region such as Cambodia (11.9 percent of GDP), Myanmar (17.9 percent), the Philippines (24.5 percent), Japan (26.4 percent) but lower than South Korea (35.7 percent) and China (47 percent).

At the early years of the 2011-2020 period, Vietnam's investment rate declined greatly and then gradually recovered, ensuring the goal of average social investment capital in the 5 years of 2016-2020 to reach 32-34 percent of GDP. For the 2011-2020 period, on average, the social investment capital is estimated at 32.9 percent of GDP.

1.4. Social issues/challenges

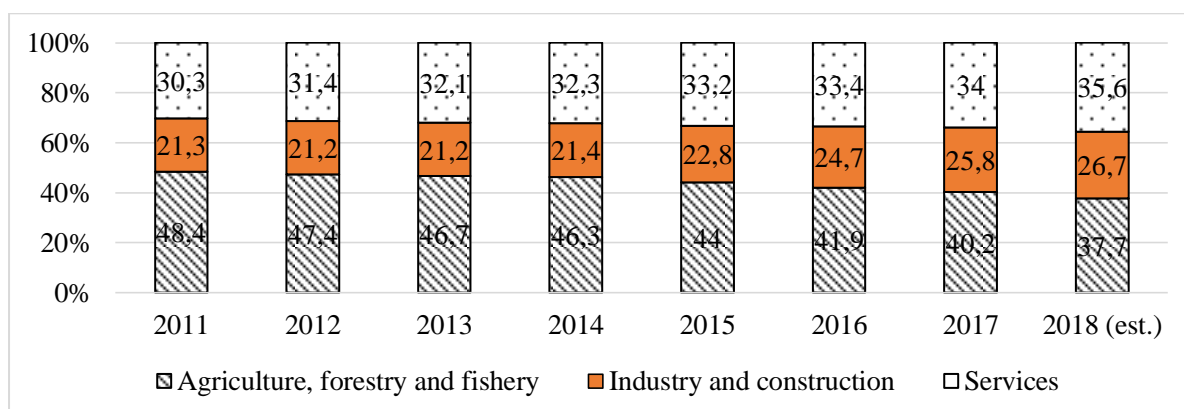
1.4.1. Population, labor and job

The annual average population of the country has increased from 87.9 million (in 2011) to about 94.7 million (in 2018), of which rural population is about 60.8 million, accounting for 64.3 percent; urban population is about 33.8 million, accounting for 35.7 percent of total national population; the male population accounts for 49.4 percent and female population accounts for 50.6 percent of national population. Average life expectancy increased from 73 years to 73.5 years, of which the average life expectancy is 70.9 years for male and 76.2 years for female.

The labor force at 15 years of age and above has increased from over 50.3 million (in 2011) to over 54.2 million (in 2018). The labor force structure has shifted from agriculture, forestry and fishery to industry, construction and services. In 2011, total number of labors

working in agriculture, forestry and fishery was 24,363 thousand people (accounting for 48.4 percent), in 2018, the estimated number was 20,455 thousand people (accounting for 37.7 percent); meanwhile, industry and construction's labors increased from 10,719 thousand people (accounting for 21.3 percent) to 14,500 thousand people (accounting for 26.7 percent); the service sector increased from 15,270 thousand people (accounting for 30.3 percent) to 19,294 thousand people (accounting for 35.6 percent).

Figure 9. Employees at 15 years of age and above by economic sectors



Source: GSO

The percentage of trained labors has increased but still remained at low level. The unemployment rate is maintained at pretty low.

Table 3. Labor indicators

	2011	2012	2013	2014	2015	2016	2017	Est 2018
Percentage of trained employed workers with certificates, qualifications	15.4	16.6	17.9	18.2	19.9	20.6	21.4	21.9
Percentage of trained labor with certificates, qualification	156	16.8	18.2	18.6	20.3	20.9	21.7	22.2
Percentage of labor with a simple work	40.3	40.5	40.8	40.1	39.8	38.0	37.1	35.6
Percentage of labor has more than 3 months of vocational training	4.0	4.7	5.4	4.9	5.0	5.0	5.4	5.5
Unemployment rate of labor force in working age	2.2	2.0	2.2	2.1	2.3	2.3	2.2	2.2
Urban	3.6	3.2	3.6	3.4	3.4	3.2	3.2	3.1
Rural	1.6	1.4	1.5	1.5	1.8	1.8	1.8	1.7
Underemployment rate of labor force in working age	3.0	2.7	2.8	2.4	1.9	1.7	1.6	1.4
Urban	1.6	1.6	1.5	1.2	0.8	0.7	0.8	0.6
Rural	3.6	3.3	3.3	3.0	2.4	2.1	2.0	1.8

Source: GSO

1.4.2. Living standards and social security

People's living standards improved every year. Average income per capita per month at current prices increased from VND 1.39 million (in 2011) to VND 3.76 million (in 2018), with an average annual increase of 10.2 percent in the 2016-2018 period. The proportion of poor household decreased significantly, from 12.6 percent (in 2011) to 7.0 percent (in 2015). Since 2016, based on multidimensional poverty line, the proportion of poor households decreased from 9.2 percent (in 2016) to 6.8 percent (in 2018).

Social security is always considered as a prioritized issue. According to a preliminary report made by the General Statistics Office, total expenditure for social security and poverty reduction activities in 2018 was VND 4,977 billion, including VND 2,792 billion spent for visiting and supporting policy beneficiaries; VND 1,487 billion spent for poor households and VND 698 billion for hunger elimination and other social subsidies. In addition, nearly 23.6 million free health insurance cards, health care books/cards were given to policy beneficiaries across the country.

In summary, Vietnam has gained many important achievements in the socio-economic development, especially in recent years, due to fundamental changes in economic institutional reforms and adjustment of the state-market relationship. However, many limitations and weaknesses of the economy are mainly caused by inappropriate economic institutions and because the state-market relationship is not properly defined. In the following sections, more details will be given to the state-market relationship and economic institutional reforms.

PART 2. OVERVIEW OF THE STATE AND MARKET RELATIONSHIP AND ECONOMIC INSTITUTIONAL REFORM

2.1. The State and market relationship in the economy

The history of economics has been repeatedly debated on the state-market relationship, revolving around the correlation between the role of the state and the market in the economy. The state-market relationship has been changed or adjusted according to economic doctrines and economic theories.

- Free market economic theory and its development variants:

This theory advocates the role of the market, supports economic freedom and minimizes the state intervention, even in the original theory, classical economic theory emphasizes that the state does not interfere with the economy. The most notable representative of this school of thought is Adam Smith (1723-1790) with the "Invisible hand" theory. A. Smith argued that normal economic development does not need the state intervention. According to him, the state should limit its activities to fulfill three basic functions: (i) defending the nation against aggression; (ii) creating an institutional environment for economic development through the legal system; and (iii) providing public goods. Besides these three basic functions, all remaining problems can be solved smoothly and efficiently by the "invisible hand". He said that it is necessary to respect the natural order, respect the "invisible hand", the state should not interfere in the economy because economic activities have their own lives. However, in order to carry out these functions, the government needs to ensure some basic goods such as transport infrastructure, technical infrastructure and public utilities to facilitate the market development and economic growth in the long run. The private sector itself cannot provide such public utilities and they are potential market failures. Therefore, if these basic goods are not provided by the state or the government, generally, it will hinder the socio-economic development.

Based on the economic liberal ideology of classical economic theory, many theories of neoliberalism arise, mostly after the World War II, such as social market economy theory, monetarism theory, supply-side economics, etc. These theories, especially the theory of social market economy, continue to promote the "minimum state" model.

- Regulated market economy theory and its development variants:

The regulated market economy theory is a typical theory that advocates the state interventions in the economy, which represented by J. M. Keynes (1884-1946). With the macroeconomic theory, J. M. Keynes argued that the market mechanism is not enough to solve economic crisis and recover full unemployment. J. M. Keynes highly valued the important role of the state, especially in recession and depression time. Accordingly, he proposed a model of the state intervention into the economy, which could be summary as follows: (i) In order to raise "existing aggregate demand" (including consumption and investment demand) to fully exploit production factors, the state should actively conduct policy responses, such as: policy on boosting up consumption, stimulating investment to maintain investment demand; (ii) The state should use budget (through government expenditure, financial assistance, credit, direct government investment, etc.) to stimulate private and state investment, creating "positive demand" for investment goods, which are crucial for production growth, as well as for consumer goods; (iii) Combining financial policies with monetary policies to combat crises, using tax policies, "controlled inflation", adjusting interest rates, etc. to boost the economy; (iv) Regarding income policy: it is

possible to raise wages if it can effectively increase aggregate demand and it can "freeze" wages if necessary, in order to curb inflation. In his theory which highlights the role of the state, J.M Keynes specifically emphasized large-scale state investment to utilize idle capital and unemployed labor as well as financial, monetary, credit, tax policies which are very important macroeconomic tools for the state to manage the economy effectively.

Based on the concept of regulated market theory, some modern macroeconomics theories have appeared such as institutional theory, theories of regulation, etc. In particular, institutional economics implies a two-way relationship between economics and institutions. It is concerned with the effects of institutions on the economy as well as the process of institutional development in response to economic changes. Institution economics or institutionalism proposes a necessary state intervention in economic life.

(iii) Theory of mixed economy

The concept of a mixed economy has first emerged since the late nineteenth century and later developed by P.A. Samuelson into a major economic ideology. The main content is that the economic development must base on both "invisible hand" and "tangible hand" or the market and the state. Operating an economy without the state or the market is like trying to clap with one hand. According to him, the economy can healthily grow and develop when the market is controlled by invisible command of market economy rules, while the state focuses on establishing a legal framework, promoting effective market operation, ensuring justice and macroeconomic stability, preventing external negative impacts. The prosperity of a modern economy depends on the proper balance and division of responsibilities between the state and the market.

Embedded in theory of mixed economy, P. A. Samuelson highlighted the necessity of both market and state in the economic development. The market identifies and answers questions: what, how, for whom. Meanwhile, the state performs economic management functions, regulating the market with macroeconomic tools and policies, especially by law.

(iv) Current universal practices

Currently, most countries in the world pursue a mixed economy model. The current popular trend does not only recognize the role of the market but also acknowledge the indispensable role and function of the state in a market economy, especially after the 2008 global financial crisis. The state-market relationship is not merely a choice between the state and the market, but a symbiotic relationship, which is mutual reciprocal. In practice, the market on its own was neither efficient nor stable, especially in economic and financial crises. Huge losses derive from inadequate regulation and the economy can only be saved through massive government interventions (Joseph E. Stiglitz, 2015).

In the state-market relationship, the state plays many roles, namely regulatory role, catalytic role and coordinating role. Thereby, the state should ensure macroeconomic stability, create a policy framework (especially industrial, trade, monetary and fiscal policies, etc.), provide public utilities, overcome market failures such as externality, unemployment, asymmetric information, inequality, etc. The state creates appropriate institutions and environment for the market to operate so that the market can play a bigger role in resource allocation.

In a modern market economy, the roles of the state mainly consist of: (i) To maintain macroeconomic stability; (ii) To establish a legal framework and enforcement mechanism to clearly and specifically establish property ownership and effectively protect property rights; to ensure freedom of contract and enforce contracts; to ensure fair competition and

effective control of monopoly in any form, etc; (iii) To solve market failures while do not distort the market or create distorted signals to market actors; (iv) To create equality of opportunity; to redistribute income in order to reduce injustice and inequality in society and give support for disadvantaged, vulnerable social groups (reducing the suffering of disadvantaged groups, disable, unfortunate, vulnerable people and those negatively affected by market cycle, etc.); and (v) To provide essential public utilities and perform other social tasks. Meanwhile, the implementation of the state's roles must ensure that market actors have independent, autonomous and free right to do business; the freedom of business and freedom of competition dominate the allocation of resources and govern the choices of market actors; Prices are determined by scarcity of resources and supply-demand relationship; market nurtures innovation, etc. (Nguyen Dinh Cung, 2014a).

2.2. The state and market relationship and institutional reform

The state-market relationship and economic institutional reforms are interrelated. The state-market relationship determines corresponding, appropriate economic institutions. In fact, the market does not exist in a "vacuum", it is structured by norms, laws, and regulations. The way the market is structured makes a big difference for how the economic behaviours, which can lead to stronger or weaker economic performance.

In "Why nations fail" written by Daron Acemoglu and James A. Robinson (2012), economic institutions and political institutions are classified into two categories, "extractive" (exploiting, stealing, exclusive) and "inclusive" (tolerating, sharing, facilitating the access and distribution of benefits to the majority of the population), including:

- Extractive economic institutions are illustrated by lack of law and order; insecured property rights; entry barriers and regulations preventing functioning of markets and creating a nonlevel playing field.

- Inclusive economic institutions are illustrated by secure property rights, law and order, markets and state support (public services and regulation) for markets; open to relatively free entry of new businesses; uphold contracts; access to education and opportunity for the great majority of citizens.

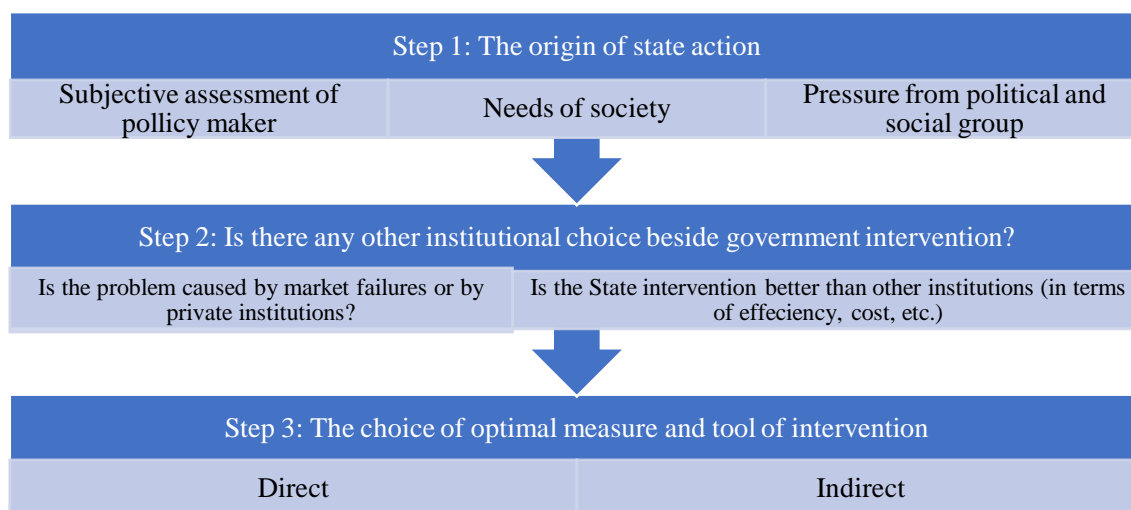
Acemoglu and Robinson's conception on inclusive institutions is quite similar to the idea of good institutions and good governance drawn from the experience of developed countries. The United Nations Development Program (UNDP), the Organization for Economic Co-operation and Development (OECD) and the World Bank have developed criteria for evaluating and measuring quality of institutions and governance. In particular, the World Bank introduces 6 worldwide governance indicators (WGI) to measure and evaluate good governance, including: Voice and accountability, Political stability and absence of violence, Government effectiveness, Regulatory quality, Rule of law, and Control of corruption.

Good institutions, good governance will encourage competition, eliminate inefficient enterprises, and protect businesses which operate effectively. The constantly eliminating inefficient enterprises, forming and creating efficient businesses will make resources allocated from low efficient areas to high efficient ones. In contrast, bad institutions will prevent competition, protect inefficient businesses and limit innovation.

Poor institutions, weak institutions are the underlying causes of economic instability and the risk of economic recession. To restore economic growth, it is necessary to take advantage of opportunities to promote institutional reform to continue empowering people

and businesses (markets). Institution is the engine for growth and prosperity. In other words, institutional reform must be a key to achieve growth and prosperity. Therefore, the state plays an important role in designing institutions to encourage effective resource allocation, promote enterprises to innovate, create and apply new technologies in production and business activities. The state cannot replace the market but the state can effectively affect all the activities of the market economy. However, the issue is that where and how the state should affect the market and how to improve its intervention. According to Acocella (1998), the state intervention should be explained seriously and cautiously, with the 3 following steps.

Figure 10. Three steps to make decision on state intervention



Source: Designed by the authors based on Acocella (1998)

In the 3rd step, based on the cost and effect comparison results (step 2) in applying different intervention measures and tools, the optimal scheme will be selected⁵⁶. However, political feasibility and the competency of public apparatus as well as other reactions of the market and of the people to the state intervention should be considered. In addition to design, establish supporting and additional institutions to the market, the enforcement of institutions also particularly relates to the ability of avoiding the so-called “implementation failure”. There are two main causes of implementation failures. Firstly, there are conflicts of interest/actions between an enforced entity and an implementation. Secondly, enforcement costs may be too high, especially in developing countries where lack appropriate institutions and legal and regulatory tools are often misused.

In addition, there is an important principle suggested by the World Bank (1997) on the state-market relationship, that is to match the state’s roles to its capability. The scope of intervention or the number of priorities must be well balanced with the state’s limited human, material resources and financial capacity.

2.3. The state and market relationship and institutional reform in some economies

2.3.1. The state-market relationship and institutional reforms in the social market economy (typically the Federal Republic of Germany)

⁵⁶There are many different adjustment/ intervention tools. They can be classified into four policy groups: distribution, adjustment, redistribution and organization. They are also divided into 5 types: power tools, stimulation/ encouragement tool, capacity tools, symbolic tools and learning tools. They can also be recognized in terms of mandatory enforcement tools, including: punishable regulatory orders, regulatory orders which do not necessarily have penalties; binding self-adjustment; self-adjustment. In practice, self-adjustment seems have more effective than power-based management tools.

In the social market economy model of the Federal Republic of Germany, the socio-economic processes take place based on the principle of promoting effective competition and individual's initiatives and innovation. Therefore, the state (the government) only interfere in where competition is not effective, which require protection and promotion of healthy competition. In other words, the social market economy requires a strong state but the state interventions in the market should be limited at a necessary level, scope, speed and must base on two principles, support and compatibility (CIEM, 2014; Vu Ba The, 2014).

- The principle of support answers the question whether the state should intervene and to what extent? Based on this principle, the function of the state is to encourage and protect basic elements of the social market economy, namely: ensuring effective competition; stability of financial - monetary system; maintaining and protecting private property (which is the foundation of private enterprise) and protecting social order, security and justice. The principle imposes a limitation on the state's economic role, in which the state should only provide public goods and develop a regulatory framework that regulates and enhances markets (private sector) and society. The principle also claims that the state should not involve in any activities where the private sector can do more effectively.

- The principle of compatibility answers the question how the state intervention should be done? The compatibility principle serves as a basis for the state to shape effective economic policies adapted with the movement of rules of the market economy while aligned with its socio-economic goals, including employment policy, growth policy, anti-business cycle policy, trade policy, industrial policy and regional policy.

In summary, in the social market economy, the state is subjected to: (i) Promulgate positive economic policies, which means that the state must be the defender of private property, responsible for uphold the rules of competition, establish a legal framework and "rule of the game" in competition; (ii) Create control mechanisms to implement those rules. The state can intervene freely through credit, monetary and tax policies, etc. but it should not interfere in economic activities of enterprises, including ones in business group or monopolistic enterprises/organization; (iii) Promote a more social-oriented market economy, easing social conflicts through redistribution of national income. The most basic criteria for evaluating policies, the state's economic role and the private sector, is economic performance.

In fact, in the social market economy (typically the Federal Republic of Germany), while the state is strong, the minimum state principle is still respected. In the social market economy, the strong state is the effective state that harmonizes social and economic agenda. All the state's activities are tightly controlled and monitored by laws. At the same time, the state must come up with unified policies which must not conflict or hostile against the market. Policies are supposed to be responsible for fixing market failures and do not replace market failures with government failures. In other words, if the state intervenes in the market, the intervention must be supportive and compatible with the market system.

The social market economy encourages a state to actively and proactively provide public services, shape the legal environment and harmonize various interests through its interaction with markets and society. The Germany Government plays a very active role in all social policies, SME promotion policies, regional policies and policies to encourage new technologies, especially environmentally friendly technologies (Cornelia Richter, 2008).

2.3.2. The state-market relationship and institutional reforms in the model of developmental state in East Asia (typically Japan)

The concept of developmental state originates from countries with high economic growth in East Asia (such as Japan, Korea, Taiwan, etc.). The developmental state emphasizes the economic role of the state. The developmental state plays an important role in regulating macro-economy, ensuring the state's appropriate interventions in the movement of the market in order to achieve set goals. In general, the developmental state could be characterized in the following ways: (i) The developmental state is of strong ambition to develop. Economic growth is the top priority of the national interest; (ii) Rapid and sustainable economic growth could be achieved by industrialization; (iii) Although the ruling elite makes decision on development strategies and objectives, the state transition is driven by authority and government apparatus is established by democratic choices of society; (iv) Implementation process takes place in an institutional environment where the state manages not only social, economic and political norms but also development directions; (v) Despite of interventionist state, the business environment is a fundamentally capitalism, in which the private sector plays a dominant role in the country's development (Nguyen Dinh Cung, 2014b).

The case study of Japan shows that Japanese developmental state has following characteristics: (i) On one hand, the state issues and implements policies to create favorable conditions for the private sector to do business freely. On the other hand, it tries to remove imperfect elements and fix market failures; (ii) The state heavily focuses on investing in education - training, culture, infrastructure, especially industries, sectors which are not profitable but essential for economic development; (iii) The state and the private sector cooperate regularly and closely in the economic development process. The state intervention also establishes a foundation for new and modern industries; the state creates motivations, incentives for the private sector and the market to invest in modern industries as well as carries out the privatization of SOEs.

The developmental state specializes on following basical functions:

- Identifying strategic objectives of economic development: In addition to establishing legal framework for the operation of enterprises, the state must guide and orient enterprises through identifying the common development strategic goals for the economy.
- Developing and implementing supporting policies for enterprises: To promote economic growth, the developmental state introduces supporting policies to enhance the capacity of domestic enterprises in order to improve their international competitiveness. These supporting policies are leverages to facilitate cooperation between businesses and the state to achieve common strategic goals.
- Being an intermediary to coordinate actions among businesses to achieve strategic goals. The state should gather all efforts of enterprises in order to achieve pre-set strategic objectives.

Therefore, the developmental state could maximize the power of the market, and at the same time, navigate, regulate and drive the economy. The role of the developmental state is to promulgate and implement policies to promote technology and economic development by eliminating barriers which hinder innovation process in order to achieve strategic objectives, especially rapid, sustainable growth and a stable macro-economic environment.

2.3.3. Lessons learnt for Vietnam

Based on experiences of some economies, some important lessons for Vietnam can be drawn, as follows:

Firstly, the state-market relationship is a constant concern in the development process of economies. Reasonably addressing the state-market relationship is the driving force for development and is the key to the success of nations. However, in any economy, economic development model will define the role of the state, the market and the state-market relationship.

Secondly, it is widely affirmed that the state plays an important and indispensable role in the economy. However, the state should only intervene in where competition is ineffective or where need to protect and promote competition effectively.

Thirdly, main important policy pillars of good institution to ensure a good resolution of the state-market relationship are, as follows: (i) The private sector and market mechanisms must be considered as a main driver of development; (ii) The rule of law plays a fundamental role to maintain social order, reduce uncertainty; thereby, facilitating the development of the market and the private sector; (iii) The macroeconomic policy framework should be institutionalized in order to establish a healthy and stable macroeconomic environment, especially focusing on building effective economic institutions, common infrastructure, and promoting knowledge sharing instead of giving financial support for business; (iv) A complete, clear and well enforced system of property rights is certainly a prerequisite for the development of the private sector; (v) The state actively participates in promoting the competitive process and the development of enterprises; (vi) The state actively participates in building inclusive institutions and rules of game which are compatible with the market.

PART 3. CURRENT SITUATION OF THE STATE AND MARKET RELATIONSHIP AND THE IMPLEMENTATION OF IMPROVING ECONOMIC INSTITUTIONS IN VIETNAM IN THE 2011-2020 PERIOD

3.1. Overview of the policy relating to the state and market relationship and the task of economic institutional reform

3.1.1. In terms of the state and market relationship

In Vietnam, the state-market relationship is closely linked to the transition of an economy from a centrally planned economy to a socialist-oriented market economy and linked to the adjustment process and implementation of the state's roles and functions in a socialist-oriented market economy.

- Harmonizing the state-market relationship was addressed at the Socio-Economic Development Strategy for the 2011-2020 period (the XIth Party Congress), that is “Well performing the functions of the state, properly settling the state and market relationship”; “The state manages the economy by laws, planning, plans and regulating tools on the basis of respecting market rules. Strengthening monitoring and supervision, especially financial market supervision, proactively regulating, mitigating negative impacts of the market, do not leave the market alone or intervene to distort market relations”.

- The state-market relationship identified by the XIIth Party Congress is one of the nine great relationships that need to be thoroughly understood and handled.

According to direction and mission of developing and completing the socialist rule of law state, the XIIth Party Congress declared: “To define clearly the role of the state and improve the mechanism to properly address the state-market relationship”.

The XIIth Party Congress also identified that “*the market* plays a key role in effectively mobilizing and allocating resources of development, is the main driving force to free up production power; the state resources are allocated according to strategies, masterplans and plans in line with market mechanism. *The state* plays the role of directing, developing and improving economic institutions, creating a fair, transparent and healthy environment for competition; using the state tools, policies and resources to direct and regulate the economy, boost production, business and protect environment; pursuing social progress and justice in every step and development policy.”

- The Resolution of the Fifth central conference of the XIIth Party Congress (Resolution No. 11/NQ-TW) on improving institutions of socialist-oriented market economy stated the direction, that is “clearly defining and implementing the proper position, roles, functions and relationships between the state, markets and society in line with the market economy; ensuring a socialist orientation.”

The Resolution also requires that “the role and functions of the state and of the market are determined and implemented in accordance with common international practices, principles and standards”; “In a socialist-oriented market economy, the *state* plays the roles of orienting, developing and completing economic institutions; creating a fair, transparent and healthy competition; using state tools, policies and resources to guide and regulate the economy, promoting production, business and protecting natural resources and the environment; developing cultural and social fields. *The market* plays a key role in effectively mobilizing and allocating resources, is the main driving force to free up

production power; the state resources are allocated according to strategies, masterplans and plans which must be in line with the market mechanism".

Thus, it can be seen that contents and internal meanings of the state-market relationship are already embedded in the Party's directions, undertakings which are as similar as those popular and universal contents on the state-market relationship in a modern market economy.

3.1.2. In terms of the task on improving economic institutions

3.1.2.1. The task of improving institutions of the socialist-oriented market economy

The term "institutions of the socialist-oriented market economy" and the task of "improving institutions of the socialist-oriented market economy" were first mentioned by the Xth Party Congress.

- The Xth Party Congress determined to complete institutions of socialist-oriented market economy, focusing on 4 specific tasks, including: (i) Mastering the socialist orientation in the market economy; (ii) Enhancing the role and effectiveness of the state's administrative management; (iii) Synchronously developing and effectively managing the operation of basic markets under healthy and fair competition mechanism; (iv) Fostering rapid development of economic sectors, production and business models.

- During term of the Xth Party Congress, the Sixth Conference issued a separate resolution on continuing to improve institutions of the socialist-oriented market economy (Resolution No. 21-NQ/TW, dated January 30th, 2008). The Resolution introduced 5 viewpoints and objectives of improving institutions of the socialist-oriented market economy up to 2010 and the 2010-2020 period. To achieve the objectives, the Resolution proposed 5 main groups of guidelines and solutions, including: (i) Unifying awareness of the socialist-oriented market economy; (ii) Completing institutions on ownership, developing economic sectors, types of businesses and production and business organizations; (iii) Upgrading institutions to ensure functioning market factors and proper development of markets; (iv) Upgrading institutions to associate economic growth with social progress, justice and environmental protection in every step and policy; (v) Completing institutions to enhance the Party's leadership role, effectiveness and efficiency of the state management of economy, attracting more active participation of socio-political organizations, associations and citizen in the socio-economic development process.

- Given a full awareness of the role and importance of institutional reform in the socio-economic development, the XIth Party Congress (January 2011) approved the Socio-Economic Development Strategy for the 2011-2020 period which defined "improving institutions of the socialist-oriented market economy, focusing on creating a fair competitive environment and administrative reform" is one of the three strategic breakthroughs.

- The XIth Party Congress (2011) demonstrated that there are basic issues that need to be strengthened in order to improve institutions of the socialist-oriented market economy, including: (i) Maintaining the socialist orientation of the economy; (ii) Developing ownership forms, economic sectors, types of enterprises; (iii) Developing a fully functioning and compatible market factors and market types; (iv) Enhancing the Party's leadership role, the effectiveness and efficiency of the state management in the socialist-oriented market economy.

- The XIIth Party Congress (2016) continued affirming the improvement of institutions and development of the socialist-oriented market economy; enhancing the effectiveness, efficiency, discipline, disclosure, transparency in economic management, state management capacity and corporate governance capacity is one of general tasks in the 2016-2020 period. In particular, the task of continuing to improve institutions of socialist-oriented market economy includes: (i) Continuing to unify awareness of the socialist-oriented market economy; (ii) Continuing to improve institutions on ownership, to develop economic sectors, types of businesses; (iii) Developing a fully function and compatible market factors and market types; (iv) Promoting and improving the efficiency of international economic integration; (v) Enhancing the Party's leadership capacity, the effectiveness and efficiency of the state management in socio-economic development and promoting the people's mastery role in socio-economic development.

- During the term of the XIIth Party Congress, the Fifth Conference continued to issue a separate resolution on completing institutions of the socialist-oriented market economy (Resolution 11-NQ/TW dated June 3rd 2017). The Resolution introduced 5 guiding points, with the overall objective “Continuing to improve institutions of the socialist-oriented market economy to create a solid foundation for successful and fully functioning operation and smooth operation of the socialist-oriented market economy; mobilizing, allocating and utilizing effectively all resources to promote rapid and sustainable socio-economic development to achieve the goal: “rich people, strong country, democratic, justice and civilized society” and other specific targets to 2020 and to 2030. The Resolution provided 5 main task groups and solutions in order to implement above directions and objectives, including: (i) Unifying awareness of socialist-oriented market economy; (ii) Continuing to improve institutions on ownership, develop economic sectors, types of businesses; (iii) Completing institutions on inclusive development of market factors and market types; (iv) Fostering inclusive institutions which link economic growth with sustainable development, social progress and justice, national defense, security, environmental protection and climate change response; (v) Promoting and improving the efficiency of international economic integration; (vi) Enhancing the Party's leadership capacity, the role of constructing and implementing economic institutions; promoting people's active roles in completing institutions of the socialist-oriented market economy.

- The Resolution No.11-NQ/TW also identified a number of important tasks that need to focus on by 2020, including: (i) Completing institutions on mobilization, allocation and effective use of resources and institutions on the distribution of output results to free up production power, create motivation and resources for growth, development while fostering social progress, justice, defense and security; (ii) Completing institutions on improving the investment and business environment; carrying out breakthrough policies to remove obstacles and create favorable conditions for businesses to develop on the basis of functioning administrative and judicial reforms; establishing appropriate institutions as a basis to solve effectively and definitely shortcomings and weaknesses which have accumulated in the economy for many years, especially the violation cases of the state business groups, general corporations and other heavy-loss, prolonged public investment projects; restructuring poor performed credit institutions associated with dealing with bad debts; (iii) Upgrading institutions for the development, application of science and technology, education and training, human resource development, especially high quality human resources in order to take advantage of opportunities and achievements of the 4th Industrial Revolution, renovating growth model, boosting up labor productivity,

strengthening quality and competitiveness of the economy; (iv) Enhancing the effectiveness, efficiency of macroeconomic management and the state's capability in facilitating development, especially the capacity and effectiveness in institutionalizing the Party's guidelines and policies and organizing implementation and enforcing laws and policies; (v) Innovating the Party's leadership method, forming institutions to control the abuse of power, reducing government staffs and reforming government apparatus, nurturing a capable and qualified officials to better meet requirements and tasks; improving quality and performance of the entire political system.

Therefore, it can be seen that the state-market relationship and the improvement of institutions of the socialist-oriented market economy in Vietnam have associated with the transition of the economy. It is proved as a critical important relationship that needs to properly address and a strategic mission that need to fulfill. The state-market relationship has closely linked and interacted with the process of completing institutions of the socialist-oriented market economy in Vietnam. Therefore, in the following sections, the study will integrate analysis on the state-market relationship into the content of completing institutions of the socialist-oriented market economy in Vietnam.

3.1.2.2. The strategic breakthrough task on improving institutions of the socialist-oriented market economy for the 2011-2020 period.

The policy of improving institutions of the socialist-oriented market economy has been set for a long time, in association with the transition of economy. However, until the XIth Party Congress, in the Socio-Economic Development Strategy 2011-2020, improving institutions of the socialist-oriented market economy was officially determined as one of three strategic breakthrough tasks. The focus of the strategic breakthrough on improving institutions of the socialist-oriented market economy for the 2011-2020 period is *to create a fair competitive level playing field and administrative reform*.

Main contents of strategic breakthrough on improving institutions of the socialist-oriented market economy are: (i) to renovate the promulgation and enforcement of law to ensure fair and transparent competition among enterprises of all economic sectors; (ii) to ensure the right to do business freely and equally among economic sectors; (iii) to introduce and promote appropriate system of mechanism and policies, especially financial and monetary mechanism and policies, in order to improve the quality of growth and ensure the safe and healthy development of the economy; (iv) to improve the legal framework on land to harmonize the interests of the state, land users, users who transfer their land using right and investors, creating favorable conditions to encourage efficient use of land for development; fighting wastefulness and land corruption; (v) to enable a fully functioning operation of markets; and (vi) to renovate the economic planning and economic development governing under the market mechanism while conducting social policies to improve national welfare.

The XIIth Party Congress affirmed that improving institutions of the socialist-oriented market economy is one of the general tasks to be performed in the 2016-2020 period. The 5th Central Conference of the XIIth Party Congress continued to emphasize that improving institutions of the socialist-oriented market economy is a strategic task, an important breakthrough step, creating a motivation for fast and sustainable development; renovating the growth model, restructuring the economy, promoting industrialization and modernization, developing an independent, autonomous and international economy; securing social progress and justice. Important tasks that must be implemented by 2020

include: (i) To improve institutions on mobilization, allocation and effective use of resources and institutions on the distribution of output results to free up production power, create motivation and resources for growth, development while fostering social progress, justice, defense and security; (ii) To improve institutions on investment and business environment; carrying out breakthrough policies to remove obstacles and create favorable conditions for businesses to develop on the basis of functioning administrative and judicial reforms; establishing appropriate institutions as a basis to solve effectively and definitely shortcomings and weaknesses which have accumulated in the economy for many years, especially the violation cases of state business groups, general corporations and other heavy-loss, prolonged public investment projects; restructuring poor performed credit institutions associated with dealing with bad debts; (iii) To upgrade institutions for the development, application of science & technology, education & training, human resource development, especially high quality human resources in order to take advantages of opportunities and achievements of the Fourth Industrial Revolution, renovating growth model, boosting up labor productivity, strengthening quality and competitiveness of the economy; (iv) To enhance the effectiveness, efficiency of macroeconomic management and state's capability in facilitating development, especially the capacity and effectiveness in institutionalizing the Party's guidelines and policies and the implementation and enforcement of laws and policies; (v) To innovate the Party's leadership method, forming institutions to control the abuse of power, reducing government staffs and reforming government apparatus, nurturing a capable and qualified officials to better meet requirements and tasks; improving quality and performance of the entire political system.

In summary, it could be seen that the content of the strategic breakthrough task on improving institutions of the socialist-oriented market economy in the 2011-2020 period mainly focus on three main groups of issues, as follows: *Firstly*, improving institutions relating to investment and business environment; ensuring freedom of business, fair competition among economic sectors; *Secondly*, improving institutions of synchronous development of markets in order to effectively mobilize, allocate and utilize resources; and *Thirdly*, renovating, enhancing the effectiveness and efficiency of state administrative management (including resolution of the state-market relationship).

3.2 The implementation of the tasks economic institutional reform and the state and market relationship

3.2.1. The institutionalization of the strategic breakthrough task on institutional reform

3.2.1.1. Completing institutions of investment and business environment; ensuring freedom of business, fair competition among economic sectors

Firstly, the legal system, which ensures fair and transparent competition among enterprises of all economic sectors, has been introduced and significantly improved.

- The 2013 Constitution for the first time stipulated that competition is the basis for constructing a legal system for governing business activities. Article 51 of the 2013 Constitution states that “All economic sectors are important constituents of the national economy. Actors of all economic sectors are equal, cooperative, and competitive under the law.”

- Competition laws are also improved to protect competition in the market, especially the amendment of Competition Law. Basically, the Competition Law 2018 overcomes the disadvantages of the Competition Law 2004 and is accessible to the Competition Law of

other countries, meeting the economic development trend as well as objectives of protecting competition and protecting entities in the market.

- A business legal system has been also improved towards creating an equal treatment regardless of ownership. In accessing to production and business resources, basically, the legal documents create more equal access between domestic investors and foreign investors; between SOEs and other economic sectors; etc. Regarding investment management and financial management (tax, fees, corporate finance, etc.), regulations apply equally to all types of businesses regardless of their ownership.

Secondly, the system of mechanisms and policies which ensures business freedom of citizens and enterprises, improves the investment and business environment, has been established and increasingly improved to meet practical requirements.

- Freedom right to conduct a business by citizens in the 2013 Constitution provided a solid legal foundation for the business freedom of the people. According to Article 33 of the 2013 Constitution "Everyone has freedom right to conduct a business in sectors which are not prohibited by law".

Concretizing the spirit of the 2013 Constitution, Enterprise Law and Investment Law (2014) create a series of positive institutional changes, facilitating market entry, improving investment environment and business freedom of the people. Investment Law 2014 clearly defines the list of prohibited business fields and conditional business fields⁵⁷. Simultaneously, Enterprise Law removes the requirement of writing business lines in the business registration certificate; continues to simplify and reduce barriers to market entry, etc. Therefore, enterprises have the right to do business in all sectors which are not prohibited by law. It can be said that business freedom of enterprises has been expanded and guaranteed much more firmly than before.

- Improving the business investment environment, enhancing competitiveness is one of priorities of the entire political system. The Government has issued resolutions on tasks and solutions to improve the investment and business environment and enhance national competitiveness⁵⁸. The resolutions have provided many solutions and assigned quite clear responsibilities for ministries, ministerial agencies and localities to implement. Key solutions to improve business and investment environment focus on reforming administrative procedure; reducing production and business costs; widening market access; reorganizing inspection and examination activities; simplifying and reducing business conditions, etc. In addition, the Government and Prime Minister have issued many other documents to guide the improvement of the business investment environment⁵⁹.

Thirdly, the legal framework for developing enterprises and economic sectors has been reviewed and adjusted continuously to meet practical requirements.

The 2013 Constitution (Article 51) affirms that: "Vietnam's economy is a socialist-oriented market economy with many forms of ownership and various economic sectors; the

⁵⁷ Number of prohibited business industries reduced from 49 (Investment Law 2005) to 6 (Investment Law 2014) and 7 (Law on revising, supplementing Article 6 and Annex 4 of Investment Law on the list of conditional business industries); number of conditional business industries reduced from 398 (Investment Law 2005) to 267 (Investment Law 2014) and now 243 (Law on revising, supplementing Article 6 and Annex 4 of Investment Law on the list of conditional business industries).

⁵⁸ From 2014-2018, it is Resolution No. 19; in 2019, it is Resolution No. 02/NQ-CP

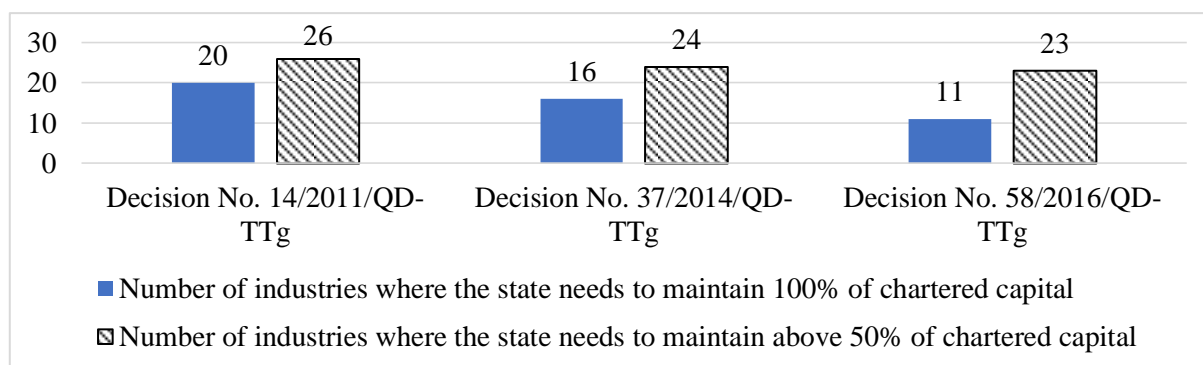
⁵⁹ Such as Government's Resolution No. 139/NQ-CP dated 9/11/2018 on issuing Action Plan on cutting down the costs for enterprises; Prime Minister's Directive No. 26/CT-TTg dated 6/6/2017 and Directive No. 07/CT-TTg dated 5/3/2018 on continuing effective implementation of Government's Resolution No. 35/NQ-CP on supporting and developing enterprises by 2020; Directive No. 20/CT-TTg dated 17/5/2017 on rectifying the inspection and examination over enterprises; Directive No. 20/CT-TTg dated 13/7/2018 dated 13/7/2018 on strengthening the reform in specialized examination and cutting down, simplifying business conditions, etc.

state economic sector plays the leading role”, “All economic sectors are important constituents of the national economy. Entities of all economic sectors are equal, cooperative, and competitive under the law”

(i) Many policies on restructuring the SOE sector have been issued and implemented in order to continue renovating and improving the performance of this sector and creating rooms, opportunities for other economic sectors.

- Industries, sectors, which need to maintain state ownership have been narrowed down significantly. Law on Management and Use of State Capital invested in production and business activities in enterprises (2014) stipulates the scope of state capital investment to establish enterprises, including: enterprises providing public utilities or essential products and services for society; enterprises directly serving national defense and security; enterprises operating in the field of natural monopoly; and enterprises operating in high-tech industry which require huge investment and build up a foundation, driver for other industries, sectors and the economy. In addition, since 2011, Prime Minister has issued 3 documents regulating the criteria and list of SOEs, which narrow down sectors and fields of SOEs.

Figure 11. Number of industries, sectors where the State needs to maintain its capital according to Prime Minister's decisions



Source: Collecting data based on the Government's decisions

- To accelerate the SOE restructuring, Prime Minister approved the SOE Restructuring Scheme, focusing on State Business Groups and General Corporations in the 2011-2015 period (Decision No. 929/QD-TTg dated July 17, 2012); the SOE Restructuring Scheme, focusing on State Business Groups and General Corporations in the 2016-2020 period (Decision No. 707/QD-TTg dated May 25th, 2017) and the list of state invested enterprise which carry out a divestment in the 2017-2020 period (Decision No.1232/QD-TTg dated August 17, 2017)

- Policies on ownership transfer, especially on equitization, are continuously amended, supplemented and completed in order to remove difficulties and meet practical requirements. Since 2011, the Government has 4 times issued new or revised regulations on SOE equitization⁶⁰ in order to remove obstacles hindering the equitization process.

⁶⁰ Including: (i) Decree 59/2011/ND-CP of July 18, 2011 on transforming 100% state-owned enterprises into joint stock companies (replacing Decree 109/2007/ND-CP of June 26) / 2007); (ii) Decree No. 189/2013/ND-CP dated November 20, 2013 amending and supplementing a number of articles of Decree No. 59/2011/ND-CP on transforming 100% state-owned enterprises into companies share; (iii) Decree No. 116/2015/ND-CP dated November 11, 2015 amending and supplementing a number of articles of Decree No. 59/2011/ND-CP dated July 18, 2011 on transferring enterprises to 100% state capital becomes a joint stock company; (iv) Decree No. 126/2017/ND-CP dated November 16, 2017 on transforming SOEs and one-member limited liability companies with 100% of charter capital invested by SOEs into joint stock companies (replacing Decree No. 59/2011/ND-CP, Decree No. 189/2013/ND-CP and Decree No. 116/2015/ND-CP).

In addition, the National Assembly of Vietnam, the Government and Prime Minister also issued many executive documents, directions to support and accelerate the restructuring, reorganization and equitization of SOEs⁶¹.

(ii) Mechanism and policies on collective economic development, with the core of cooperatives, are increasingly improved.

- The National Assembly passed Cooperative Law (Law No. 23/2012/QH13) on November 20th, 2012; the Government issued Decree No. 193/2013/ND-CP dated November 21st, 2013 on guiding a number of articles of the 2012 Cooperative Law. The Cooperative Law and its guiding documents created a more completed legal framework for cooperative development.

- Prime Minister approved the promulgation of the Cooperative Development Assistance Program for the 2015-2020 period (Decision No.2261/QD-TTg dated December 15th, 2014); the national targeted program on developing new rural in the 2016-2020 period (Decision No. 1600/QD-TTg dated August 16th, 2016). Prime Minister also issued a Directive on further strengthening the implementation of the 2012 Cooperative Law (Directive No.12/CT-TTg dated May 22nd, 2018), which assigned ministries and central state agencies to continue reviewing and finalizing guidance of the Law to support cooperative development. Ministry of Agriculture and Rural Development took the lead to formulate and submit to Prime Minister the Project “establishing 15,000 effective cooperatives and unions of cooperatives by 2020” (Decision No. 461/QD-TTg dated April 27th, 2018).

(iii) Mechanisms and policies for developing the private sector and supporting the development of SMEs are synchronizably established.

- The legal regulations on SMEs and start-ups has been introduced. The National Assembly of Vietnam has promulgated the Law on Support for SMEs in 2017 (which took effects in January 1st, 2018). To promote the development of SMEs and startups, the Government issued Decree No. 39/2018/ND-CP dated March 11th, 2018 detailing a number of articles of the Law on Support for SMEs in order to support the development of SMEs and start-ups; Decree No. 34/ND-CP dated March 8th, 2018 on the establishment, organization and operation of credit guarantee funds for SMEs; Decree No. 38/2018/ND-CP dated March 11th, 2018 detailing the investments for innovative start-up SMEs, etc.

- To implement drastically solutions on supporting the development of SMEs, Prime Minister issued Directive No. 07/CT-TTg dated March 5th, 2018 on continuing to promote the effective implementation of the Government’s Resolution No. 35/NQ-CP dated May 16th, 2016. The Government issued Decree No. 108/2018/ND-CP dated August 23rd, 2018 on amending and supplementing a number of articles of Decree No. 78/2015/ND-CP dated September 14th, 2015 on business registration to simplify business registration procedures.

⁶¹ Such as Resolution No. 60/2018/QH14 dated June 15, 2018 of the National Assembly on continuing to improve and promote the implementation of policies and laws on management and use of state capital and assets at enterprises. and SOE equitization; Resolution No. 15/NQ-CP dated March 6, 2014 of the Government on a number of solutions to promote equitization and divestment of state capital in enterprises; Resolution No. 121/NQ-CP dated November 22, 2017 of the Government on handling problems in equitization of SOEs and a series of directives of the Prime Minister: Directive No. 03/CT-TTg dated 17/1/2012 on promoting restructuring SOEs; Directive No. 06/CT-TTg dated 12/3/2014 on promoting the restructuring of SOEs; Directive No. 04/CT-TTg dated February 2, 2017 on promoting the arrangement and innovation of SOEs in the 2016-2020 period; Directive No. 01/CT-TTg dated January 5, 2019 on strengthening the direction, strengthening the restructuring, reorganization, innovation, equitization and divestment of state capital in SOEs and enterprises have state capital.

(iv) Mechanisms and policies on attracting foreign investment have been improved, focusing on attracting foreign investment with advanced, environmental-friendly technologies and facilitating linkages, cooperation with domestic enterprises. On August 29th, 2013, the Government issued Resolution No. 103/NQ-CP on the direction of improving the efficiency of attracting, using and managing foreign direct investment (FDI) in the coming time. Recently, the Politburo approved the Resolution on improving institutions and policies, improving the quality, efficiency of attracting and using FDI by 2030. Accordingly, policies on attracting FDI would be reassessed and redirected toward advanced and modern technology projects, focusing on high-tech, environmental friendly and energy-saving industries.

3.2.1.2. Improving institutions of synchronous development of market types in order to mobilize, allocate and utilize resources effectively

Firstly, goods and services market.

- The legal system has gradually established and created the legal basis for the operation of the goods and services market. Many important laws were issued, such as Investment Law, Enterprise Law, Cooperative Law, Bidding Law, Commercial Law, Securities Law, Construction Law, Land Law, Corporate Income Tax Law, Business Bankruptcy Law, Competition Law, Intellectual Property Law, Technology Transfer Law, Civil Code, Labor Code, Accounting Law, Export and Import Tax Law, Value Added Tax Law, Special Consumption Tax Law, Credit Institutions Law, etc.

- A series of multilateral and bilateral international commitments were signed, making the goods and services market gradually improved, creating conditions for the market to operate smoothly and effectively under the market mechanism.

Secondly, the financial markets.

The legal framework for the introduction and operation of market elements has facilitated the development of financial markets. The legal system related to the financial market has been revised and enacted, since then, there has been a legal basis for the operation of banks, securities companies, insurance companies and others more effectively and more equitably. Prime Minister has approved the Financial Strategy by 2020 (Decision No. 450/QĐ-TTg dated April 18, 2012). Regarding each specific financial market, relevant documents were issued.

- Monetary market: Based on the State Bank Law and the Credit Institutions Law (approved by the National Assembly of Vietnam in 2010 and enacted since January 1, 2011), the guiding documents were issued, such as revising and supplementing mechanisms to support effective monetary policy management and monetary market development; developing mechanisms and credit policies to eliminate difficulties and obstacles in the credit-granting activities of credit institutions, adding new operations to create favourable conditions for credit institutions to operate safely and effectively; revising mechanisms and policies to enhance the management of foreign exchange and gold markets, contributing to stabilizing the monetary and foreign exchange markets; regulations on banking operation safety have been standardized in line with international standards.

In addition, in order to make market actors healthier, many important legal documents on promoting the process of bad debt settlement and restructuring the banking system were also issued and implemented, such as Prime Minister's Decision No. 843/QĐ-TTg dated May 31, 2013 on promulgating the Scheme on handling bad debts of credit institutions

system and the Scheme on establishing asset management companies of Vietnam's credit institutions; the Government's Decree No. 53/2013/ND-CP dated May 18, 2013 on the establishment, organization and operation of asset management companies of Vietnam's credit institutions; Decision No. 1590/QD-TTg dated July 22, 2013 approving the charter of organization and operation of one member limited liability company of Vietnam's credit institutions management; Prime Minister's Decision No. 254/QD-TTg dated March 1, 2012 approving the Scheme on restructuring the credit institutions system for the 2011-2015 period; Directive No. 05/CT-NHNN dated September 17, 2018 of the State Bank of Vietnam on continuing to promote restructuring the system of credit institutions associated with handling with bad debts, etc. Prime Minister's Decision 986/QD-TTg on the Development Strategy of Vietnam Banking Sector to 2025, with orientation to 2030 was issued on August 8, 2018.

- Securities market: Prime Minister issued Decision on approving the Securities Market Development Strategy for the 2011-2020 period (Decision No. 252/QD-TTg dated March 1, 2012), Proposal on restructuring securities market Scheme (Decision No. 1826/QD-TTg dated December 6, 2012) with the goal of developing the securities market stably, firmly, completely with many levels and synchronising supply and demand factors; increasing the scale and quality of operations, diversifying products and operations, ensuring effective market operation and becoming an important medium and long-term capital mobilization channel of the economy.

Currently, Securities Law is in the process of research and amendment to synchronize with Enterprise Law, Investment Law and new requirements. In addition to revise Securities Law, many documents contributing to the strengthening of operating entities in the stock market were also issued⁶². In addition, implementing the Roadmap for bond market development in the 2017-2020 period, vision toward 2030 (Decision No. 1191/QD-TTg dated August 14, 2017), the Proposal on consolidation of 02 Stock Exchanges for stock market restructuring was developed and submitted to Prime Minister by the Ministry of Finance.

- For the bond market: In order to develop the bond market, the legal system has been issued sufficiently⁶³. The roadmap for developing Vietnam's bond market towards 2020 is also clearly defined in Decision No. 261/QD-BTC dated March 1, 2013. On August 14, 2017, Prime Minister approved the Roadmap for developing Vietnam's bond market in the period of 2017-2020, vision toward 2030 (Decision No. 1191/QD-TTg). In order to implement the roadmap for developing the bond market, the completion of the market promotion mechanism has been implemented with the revision of regulations on the rights and obligations of market makers on the primary and secondary market; mechanism to ensure liquidity for market makers to promote market liquidity of government bonds under international practices (Decree No. 95/2018/ND-CP dated June 30, 2018) and policies create favourable conditions for businesses to mobilize bond capital in the market, enhance

⁶² Decree No. 71/2017/ND-CP guiding corporate governance for public companies; Circular No. 95/2017/TT-BTC guiding a number of articles of the Government's Decree guiding the corporate governance for public companies; Circular No. 134/2017/TT-BTC guiding electronic transactions on the stock market; Circular No. 115/2017/TT-BTC guiding the supervision of securities transactions on the stock market (and amended in Circular No. 35/2019/TT-BTC); Circular No. 116/2017/TT-BTC guiding the State Securities Commission's supervision of compliance with securities trading and securities market activities by the Stock Exchange and Vietnam Securities Depository (and amended in Circular No. 13/2019/TT-BTC); Circular No. 87/2017/TT-BTC providing financial safety criteria and measures dealing with securities business organizations do not meet financial safety requirement.

⁶³ Decree No. 01/2011/ND-CP dated January 5, 2011 on the issuance of Government bonds, Government-guaranteed bonds and Municipal bonds; Decree No. 90/2011/ND-CP dated October 14, 2011 on the issuance of corporate bonds.

transparency and disclosure, facilitate issuing businesses and investors, and improve the supervisory management effectiveness of authorities (Decree No. 163/2018/ND-CP dated December 4, 2018).

In addition, in order to implement the Law on Public Debt Management in 2017, many decrees which guide the Law on Public Debt Management, on the issuance, transaction of government debt instruments, issuance of Government guaranteed bonds, and local government bonds have been issued. For corporate bonds, the current decrees on corporate bonds issuance creating favourable conditions for businesses to raise bond capital, increase transparency and disclosure in the process of raising corporate bonds capital is currently being developed.

- For insurance market: In order to implement the Law on revising and supplementing Insurance Business Law (2010), the Government issued Decree No. 123/2011/ND-CP dated November 28, 2011 on revising and supplementing Decree 45/2007/ND-CP dated March 27, 2007 guiding the Insurance Business Law. Basically, the legal system of insurance business has been completed in detailed, clear, transparent, concretizing the regulations for each insurance field, in accordance with international standards, meeting international commitments, creating a foundation for Vietnam's insurance market to integrate with international and regional insurance markets. In addition, Prime Minister approved the Vietnam Insurance Market Development Strategy for the 2011-2020 period (Decision No. 193/QĐ-TTg dated February 15, 2012); Proposal on restructuring insurance companies (Decision No. 1826/QĐ-TTg dated December 6, 2012) in order to restructure the insurance enterprise system to meet the demand, characteristics and scale of the market, restructure the insurance businesses towards specializing the products and services provided with unified and transparent governance, stable and firmly market operation, in the strict management and supervision of the state.

Recently, on February 28, 2019, the Prime Minister also approved the Scheme on restructuring the securities market and insurance market by 2020, vision toward 2025 (Decision No. 242/QĐ-TTg) as a basis for reviewing and arranging the securities market and insurance market.

Thirdly, the real estate market:

Difficulties and problems regarding mechanisms and policies in the operation of the real estate market, such as setting ownership of construction projects for organizations and individuals; the issues of compensation, clearance, investor permission for project transference, etc. has been gradually supplemented and handled by harmonizing the interests among the state, investors and land acquisition stakeholders, in order to promote a healthy development of the real estate market in accordance with supply and demand rules, accelerate the development of the economy, and ensure social justice towards socialism.

Some outstanding legal documents such as Land Law (Law No. 45/2013/QH13 dated November 29, 2013), Housing Law (Law No. 65/2014/QH13 dated November 25, 2014), Real Estate Trading Law (Law No. 66/2014/QH13 dated November 25, 2014) and guiding documents have created legal framework and favourable conditions for real estate market activities. Furthermore, the legal provisions of taxes on real estate business activities also focused on amendments, supplements and development such as documents guiding the non-agricultural land using tax law, value added tax law, corporate income tax law, personal income tax law, land use right transfer tax law, etc. including provisions related to tax obligations for real estate business activities.

In order to develop and improve the land finance policy, the Government issued documents such as Decree No. 45/2014/ND-CP dated May 15, 2014 on regulating the collection of land use fees; Decree No. 46/2014/ND-CP dated May 15, 2014 on regulating the collection of land rents and water surface rents; Decree No. 135/2016/ND-CP of September 9, 2016 on revising and supplementing a number of articles of the decrees stipulating the collection of land use fees, collection of land rents and water surface rents; Decree No. 123/2017/ND-CP dated November 14, 2017 on revising and supplementing a number of articles of the decrees stipulating the collection of land use fees, collection of land rents, water surface rents, etc. Moreover, in order to create a new financial channel for the real estate market, on July 20, 2012, the Government issued Decree No. 58/2012/ND-CP on issuing guidelines for implementing a number of articles of Securities Law, which institutionalizes the establishment and operation of real estate investment funds.

In addition, land use masterplans and plans were renewed to ensure the development market with orientation, overcoming the spontaneous development situation. The mechanism of land using right registration has been renewed to reduce costs for citizens and businesses. The market for land using rights has also been focused on developing, such as the promulgation of regulations on the coordination between land using rights, house purchase or lease contracts, temporary residence certificates, water, electricity supply and telecommunications services contracts are more convenient; implementing electronic connection in solving administrative procedures for granting certificates of land using rights, land allocation, land lease, land registration and construction with certificate of construction work with procedures for determining financial obligations on land.

Fourthly, the labor market:

The improvement of the labor market development institutions is viewed from many perspectives, including labor relations, wages, salaries, training and fostering, etc. Regarding labor relations, inheriting the achievements of the Labor Code 1994, the Labor Code 2012 continues to be institutionalized in the direction of further promoting the equal rights of workers and employers in labor relations, strengthening dialogue at the workplace, promoting democracy, creative of employees, creating liberal in labor relations between employees, representatives of trade union and employers. Workers can freely choose jobs, careers, vocational trainings; are guaranteed salary according to market mechanism (through agreement, negotiation), against poverty. Wage policy of employees in enterprises has been gradually renovated according to market principles and international integration with the view that wages are labor prices agreed by the two parties.

In addition, in order to improve the quality of vocational education, promote job creation and develop labor market, Prime Minister issued Decision No. 899/QD-TTg dated June 20, 2017 approved target program for vocational education, employment and occupational safety during 2016-2020, in which "Developing the labor market and employment" is one of the three projects of the program.

Furthermore, labor market development solutions are focused on the implementation. Research, forecast, labor supply and demand matching has been strengthened. The updated job market-finder information system provides opportunities for both employees as well as employers. The application of information technology to labor market development has also been paid more attention and brought good results, helping to shorten the time of connection between labor supply and demand.

Fifthly, the science and technology (S&T) market:

- The legal basis for establishing and developing the S&T market has been created quite synchronously. The National Assembly passed Law on Science and Technology (Law No. 29/2013/QH13 dated June 18, 2013, replacing Law on Science and Technology 2000); Law on Technology Transfer (Law No. 07/2017/QH14 dated June 19, 2017, replacing Law on Technology Transfer 2006) and a system of guiding documents, especially Decree No. 76/2018/ND-CP dated May 15, 2018 on regulating the details and guidance of the implementation of a number of articles of Law on Technology Transfer, which specifies the management, encouragement and support mechanism for enterprises to apply and innovate technologies; improve the technology's ability to absorb technology; raise the level of domestic design and manufacturing. Prime Minister has approved the Science and Technology Development Strategy for the 2011-2020 period (Decision No. 418/QĐ-TTg dated April 11, 2012); approved the Science and Technology Market Development Program by 2020 (Decision No. 2075/QĐ-TTg dated November 8, 2013). In particular, the Science and Technology Market Development Program by 2020 sets out key tasks including: (i) enforcing and protecting intellectual property rights, protecting the legitimate rights and interests of organizations, individuals participating in the S&T market; (ii) focusing on synchronous development of infrastructure system, human resources and intermediary institutions of the S&T market in order to improve the efficiency of technology application and transfer; (iii) promoting the supply and demand relationship for S&T products and services; promoting socialization and the central role of enterprises, especially S&T enterprises; and (iv) proactively integrating into the region and the world to develop the S&T market. Ministry of Science and Technology issued Circular No. 08/2016/TT-BKHCN dated April 24, 2016 on revising and supplementing a number of articles of Circular No. 32/2014/TT-BKHCN on regulating the management of the S&T market development program by 2020, in which adding some support contents to commercialize the results of scientific research and technological and intellectual property development.

- Mechanisms and policies on investment and financial mechanisms for the S&T activities, and the development of S&T enterprises are increasingly improved. In order to guide Law on Science and Technology, the Government has issued Decree No. 95/2014/ND-CP dated October 17, 2014 on investment and financial mechanisms for S&T activities; Decree No. 13/2019/ND-CP of February 1, 2019 on S&T enterprises.

- A number of technology market promotion activities have been implemented, typically, the technology and equipment market (namely Techmart), creating environment to connect scientists and managers with manufacturers and businesses. This is considered as one of the most effective forms of commercialization of S&T research results.

3.2.1.3. Reforming and improving the effectiveness and efficiency of state management.

Firstly, performing the functions of the state and handling the state-market relationship.

- The regulations on the role of the state have been renewed under the market mechanism. The state focuses more on macroeconomic stability, creates and maintains an equal business environment for all types of businesses, minimizes the role of direct intervention in the business activities of enterprises, including SOEs.

According to the Constitution 2013, the role of the state was defined that “The state constructs and improves economic institutions, coordinates the economy on the basis of respecting the market rules; exercises delegation, decentralisation and separation of authorities in the state management; promotes the connection of regional economies and

guarantees the unity of the national economy” (Article 52) and affirmed that “The state encourages and provides favourable conditions for entrepreneurs, enterprises and individuals and other organisations to invest, produce and do business; contribute to the stable development of the economic sectors and national construction. Lawful assets of individuals, organisations which were invested in production and business are protected by the law and are not subjected to be nationalized.” (Article 51); The state encourages and provides favourable conditions for organisations and individuals to create jobs for workers. The state shall protect the legal rights and interests of the workers and employers and provide favourable conditions for building progressive, harmonious, and stable labour relationships” (Article 57), etc. The Constitution 2013 also clearly defines the duties and powers of the National Assembly, the Government, the People's Courts, and the local government.

In order to institutionalize the Constitution, the National Assembly has passed laws, such as the Law on Organization of the Government, the Law on Organization of Local Governments (in 2015) with many new points in order to define more clearly the specific tasks and powers of the ministries, state agencies and localities in state management, in relation to market entities.

- In order to perform the function of repairing the market failures, preventing common risks for the society and protecting the disadvantaged people, the system of social security policies, natural resources and the environment protection has been issued. Regarding the social security policy system, there are 4 policy groups, including employment, minimum income guarantee and poverty reduction (group 1); social insurance policies to support people in illness, disability, old age, etc. (group 2); social assistance policies for specific groups (group 3) and policies on the minimum standard of basic social services such as education, healthcare, housing, clean water and information for the poor, etc. The Constitution 2013 stated that "Citizens have the right to social security." The National Assembly passed the Law on Social Insurance (Law No. 58/2014/QH13 dated November 20, 2014, replacing the Law on Social Insurance 2007); Health Insurance Law revised and supplemented in 2014 and consolidated in 2018; Resolution on promoting the implementation of sustainable poverty reduction goals by 2020 (Resolution 76/2014/QH13 dated June 24, 2014); The Government issued a Resolution on sustainable poverty reduction guidelines for the 2011-2020 period (Resolution No. 80/NQ-CP dated May 19, 2011); Prime Minister approved the National Target Program on Sustainable Poverty Reduction for the 2016-2020 period (Decision No. 1722/QD-TTg dated September 2, 2016); National health target program for the 2012-2015 period; Project on support for people with disabilities (Decision No. 1019/QD-TTg dated August 5, 2012); etc. The protection of natural resources and the environment has also been institutionalized. The National Assembly has promulgated the Law on Environmental Protection (Law No. 55/2014/QH13 dated June 23, 2014, replacing the Law on Environmental Protection No. 52/2005/QH11); Law on Water Resources (Law No. 17/2012/QH13 dated June 21, 2012); Law on Natural Resources and Environment of the Sea and Islands (Law No. 82/2015/QH13 dated July 1, 2016); Prime Minister has issued a National Strategy on green growth for the 2011-2020 period (Decision No. 1393/QD-TTg dated September 25, 2012); National action plan on green growth for the period of 2014-2020 (Decision No. 403/QD-TTg dated March 20, 2014); National target program to overcome pollution and improve the environment in the period of 2012-2015 (Decision No. 1206/QD-TTg dated September 2, 2012); National target program to respond to climate change for the period of 2012-2015 (Decision No.

1183/QD-TTg dated August 30, 2012); Prime Minister approved the National Strategy on Climate Change (Decision No. 2139/QD-TTg dated December 5, 2011); etc.

- The method and effect of the state management have changed dramatically. The state manages and directs the socio-economic development with laws, masterplans, plans and regulating instruments in line with the market economy, minimizing intervention by administrative orders; clearly defining the functions of the state and the functions of the market.

The National Assembly passed the Law on Organization of the Government (Law No. 76/2015/QH13 dated June 19, 2015) with a number of innovative regulations of implementing tasks and powers of the Government to ensure flexibility and efficiency. In addition, a series of legal documents were issued as a basis for the state to manage the economy such as Planning Law in 2017, Enterprise Law, Investment Law in 2014, Law on Management and Use of State Capital invested in production and business activities in enterprises in 2014, and their guiding documents.

Secondly, reforming the state apparatus, creating a step towards administrative reform.

- The new document system has been issued to create a legal basis for the reorganization of the state administrative apparatus in the direction of streamlining, more clearly defining the functions and tasks of each focal point in the system, reducing overlaps, duplicates in functions and tasks. A number of tasks which are used to handle directly by the Government and Prime Minister will be decentralized to ministries and ministerial-level agencies and even provincial administrations.

The Law on Government Organization in 2015 clearly defines the position and continues to uphold Prime Minister's role and responsibilities for the state administrative system; clearly defines the relationship between ministers, heads of ministerial-level agencies and ministries and ministerial-level agencies; renovates the functions of ministries and ministerial-level agencies. The law also, for the first time, regulates the principle of rational decentralization in the organization and operation of the Government. This is a prerequisite basis for developing a decentralized government in relations with municipal authorities, promoting strong innovation of the government's, ministries' and provinces' activities. In order to create a basis for the division and separation of basic activities of the state administrative apparatus at the central level, the Government focuses on building and promulgating management mechanisms, policies and institutions; Prime Minister leads and directs the activities of the Government and the state administrative system; ministers and heads of ministerial-level agencies shall organize the implementation of policies and laws in sector and field management. The Law on Organization of the Government in 2015 not only transfers relevant duties and powers of the Government to Prime Minister for implementation, but also adds a number of new tasks to Prime Minister to enhance the role and responsibility of the head of the administrative system in promoting administrative reform, strengthening disciplines and building an unified, transparent, continuous, democratic, modern administration.

The Law on Organization of Local Governments in 2015 has jurisdictional delimitation among central, local authorities and other levels of Government to concretize Article 112 of the Constitution 2013. Accordingly, to create a legal basis for decentralizing and authorizing local governments, the Law has prescribed the principles of decentralizing authority, cases of decentralization and authorization. In addition, the Law also provides specific tasks and powers between urban and rural authorities.

- Streamlining the organization under the spirit of administrative reform became a legislative solution for the first time. The Law on Organization of the Government in 2015 has specific provisions on the number of deputies and organizational structure of ministries and ministerial-level agencies, creating a solid institutional framework to promote organizational structure reform and innovative working methods of central administrative agencies.

- Administrative reform has been promoted. An Advisory Council for Administrative Reform was established (Decision No. 367/QĐ-TTg dated February 28, 2013) to advise and propose to Prime Minister on administrative reform initiatives related to production and business activities, and living standard of people; evaluate the implementation of administrative reform in ministries, ministerial agencies and provincial authorities. The state administrative reform plan for the 2016-2020 period was approved (Decision No. 225/QĐ-TTg of February 4, 2016), etc.

In order to simplify administrative procedures, plans to simplify administrative procedures from the ministries, ministerial agencies were also approved by Prime Minister. By the end of 2018, the Government issued 19 out of 20 resolutions on simplifying administrative procedures under the management functions of ministries. Ministries, ministerial agencies and provincial authorities also issued a plan to simplify key administrative procedures under their jurisdiction.

Moreover, mechanisms and policies to implement e-government to serve citizens and businesses were also issued. The Government issued Resolution No. 26/NQ-CP on April 15, 2015 on promulgating the Government's Action Program to implement the Politburo's Resolution No. 36-NQ/TW dated July 1, 2014 on accelerating application and information technology to meet the requirements of sustainable development and international integration; Resolution No. 36a/NQ-CP dated October 14, 2015 on e-government. Recently, on March 7, 2019, the Government issued Resolution No. 17/NQ-CP on a number of key tasks and solutions for e-government development in the 2019-2020 period, vision 2025. Prime Minister established the National Committee on Information Technology Application in 2014 (according to Decision No. 109/QĐ-TTg dated January 15, 2014; Decision No. 1075/QĐ-TTg dated June 17, 2016 amending and supplementing a number of articles in Decision No. 109/QĐ-TTg dated January 15, 2014) and being consolidated into a National Committee for Government under Decision No. 1072/QĐ-TTg dated August 28, 2018. In order to create an e-government development platform, on May 22, 2015, Prime Minister issued a list of national databases to prioritize the deployment of an e-government development platform⁶⁴ (Decision No. 714/QĐ-TTg).

- In order to create favourable conditions for people and businesses in handling administrative procedures, E-Government, the one-stop mechanism, and one-stop shop mechanism at central administrative agencies were established (Decision No. 09/2015/QĐ-TTg dated March 25, 2015 on the regulation on the implementation of the one-stop and one-stop shop mechanism in settling administrative procedures at provincial administrative agencies, Decree No. 61/2018/ND-CP dated April 23, 2018, on the implementation of the one-stop and one-stop shop mechanism in handling administrative procedures and guiding documents, etc.).

Thirdly, promoting the fight against corruption and wastefulness.

⁶⁴ 6 databases include: (i) National Database on Population; (ii) National Land Database; (iii) National Database on Enterprise Registration; (iv) National Database on Population Statistics; (v) National Database on Finance; and (vi) National Insurance Database.

- In terms of anti-corruption:

The 2013 Constitution stipulates that "the state bodies, organisations and individuals must practice saving and combat waste, prevent and fight against corruption in socio-economic activities and the state management" (Article 56).

Law on Anti-Corruption (2005) was revised and supplemented a number of articles in 2012. In 2018, a new Law on Anti-Corruption was issued⁶⁵ with many new contents to improve the effectiveness of anti-corruption.

Regarding the guiding documents, the Government have issued decrees and circulars such as Decree No. 59/2013/ND-CP dated June 17, 2013 on detailing a number of articles of the Anti-corruption Law; Decree No. 78/2013/ND-CP dated July 17, 2013 on transparency of assets and income; Decree No. 90/2013/ND-CP dated August 8, 2013 on defining the accountability of state agencies in carrying out assigned tasks and powers; Decree regulating the handling of responsibilities of heads of agencies, organizations and units when corruption occurs in their agencies, organizations or units under their management (Consolidated Document No. 03/NDHN-BNV dated April 17, 2014), etc.

Implementing the National Strategy of Anti-Corruption by 2020 (Resolution No. 21/NQ-CP dated May 12, 2009), Prime Minister issued Directive No. 12/CT-TTg in 2016 on strengthening detecting and handling corruption cases; The Government issued the Action Plan to implement anti-corruption activities by 2020 (Resolution No. 126/NQ-CP dated November 29, 2017); Ministries and ministerial agencies also issued their action plans and schemes to carry out anti-corruption activities by 2020⁶⁶.

Furthermore, the National Assembly also approved the Consolidated Criminal Code (crimes of corruption) (Law No. 01/VBHN-VPQH dated July 10, 2017); Law on prevention of money laundering (Law No. 07/2012/QH13 dated June 18, 2012); the Government issued Decree No. 116/2013/ND-CP on guiding the Law on Prevention of Money Laundering, etc.

Besides improving the legal framework, the apparatus and anti-corruption organization is also strengthened. Anti-corruption units under Ministry of Public Security, the Supreme People's Procuracy, the Government Inspectorate continues to be strengthened in organization, apparatus⁶⁷, promote their professional activities and their core roles in detection and handling of corruption cases and state management of anti-corruption.

- In terms of saving and combating wastefulness

⁶⁵ Replacing the Anti-Corruption Law in 2005 and the Law Amending and Supplementing a Number of Articles of the Anti-Corruption Law in 2012.

⁶⁶ Eg: Plan 3694/KH-BGTVT in 2018 implementing Resolution 126/NQ-CP on the Action Program to implement anti-corruption work until 2020 of the Ministry of Transport (MOT); Plan 4976/KH-BGTVT implementing Resolution 126/NQ-CP on the action program to implement anti-corruption activities in 2018 issued by the MOT; Decision 318/QD-BKHCN in 2018 on the Action Plan for the implementation of Resolution 126/NQ-CP on the Action Program for the implementation of anti-corruption activities until 2020; Plan 183/KH-UBDT in 2018 on implementing the Action Program on anti-corruption work until 2020; Decision 741/QD-BNN-TTr in 2018 on the Plan for Implementation of Anti-Corruption until 2020 of the Ministry of Agriculture and Rural Development (MARD); Decision 774/QD-BNN-TTr on the Anti-Corruption Plan in 2018 of the MARD; Decision 1821/QD-BTP in 2018 on the Plan for implementation of anti-corruption work until 2020 of the Ministry of Justice; Decision 1822/QD-BTP on the Ministry of Justice's Plan for implementation of anti-corruption in 2018; Decision 413/QD-TCHQ on the plan to prevent and fight against corruption; thrift practice and waste combat in 2018 by the General Department of Customs; Decision No. 63/QD-TTCT 2018 on approval "The set of indicators to evaluate the prevention and fight against corruption for the provincial People's Committee in 2017", etc.

⁶⁷ Department IV, Government Inspectorate has 04 leaders, 05 divisions with 39 civil servants; Department 5, Supreme People's Procuracy has 04 leaders, 04 divisions with 24 civil servants; The Police Department investigates corruption, economics, and smuggling crimes which are merged from the Economic and Corruption Crime Investigation Department (C46) and the Police Department of smuggling crime.

The National Assembly passed Law on Thrift Practice and Waste Combat (Law No.44/2013/QH13 dated November 26, 2013, replacing Law on Thrift Practice and Waste Combat 2005), which supplements, clarifies the principles of thrift practice and waste combat; supplements the public regulations on thrift practice and waste combat; revises, supplements and clarifies norms, criteria and regimes serving as a basis for thrift and against wastefulness; specifies responsibilities of heads of agencies, organizations and officials. The Government issued Decree No. 84/2014/ND-CP dated September 8, 2014 detailing a number of articles of Law on Thrift Practice and Waste Combat. Prime Minister issued the Governments's Master Plan on thrift practice and waste combat in the 2016-2020 period (Decision No. 2544/QĐ-TTg dated December 30, 2016); Ministries, ministerial agencies and municipal authorities also issued their master plans on thrift practice and waste combat in the 2016-2020 period⁶⁸.

Annually, the Government issues the Government's master program on thrift practice and waste combat⁶⁹ and the ministries, ministerial agencies and municipal authorities also formulate and promulgate their thrift practice and waste combat program themselves⁷⁰.

3.2.2. Implementation and achievements

Firstly, the fair competition environment was initially created; the business investment environment has made remarkable progress, contributing to the strong development of various types of enterprises, economic sectors, especially the private sector.

- The mechanisms and policies that discriminate among market entities have basically been reduced in order to create an equal business environment.

- + The SOE sector has narrowed significantly, creating business opportunities for all economic sectors, promoting fair competition. Some areas of state monopoly market have been initially adjusted and opened to the non-state sector to participate, contributing to increasing the level of competition in the market in the direction of benefiting consumers (increasing quality, reducing costs), especially in telecommunications, aviation or television industries, etc. A number of sectors of the state monopoly previously has separated the stages into independent enterprises to promote effective competition, especially in aviation and telecommunications.

Thanks to the narrowing of the industries, the operation fields of the SOE sector, the adjustment of monopoly structure and the withdrawal of the state in many business sectors, private investors have more economic space, opportunities to enter the market, to develop and contribute to the increase in the role of the private sector in the economy.

- + Major policies and laws that have been adjusted towards creating a common legal framework for all types of businesses, irrespective of their ownership forms, business environment and competitive environment was considered to be more equal by the business community (Dau Anh Tuan, 2018).

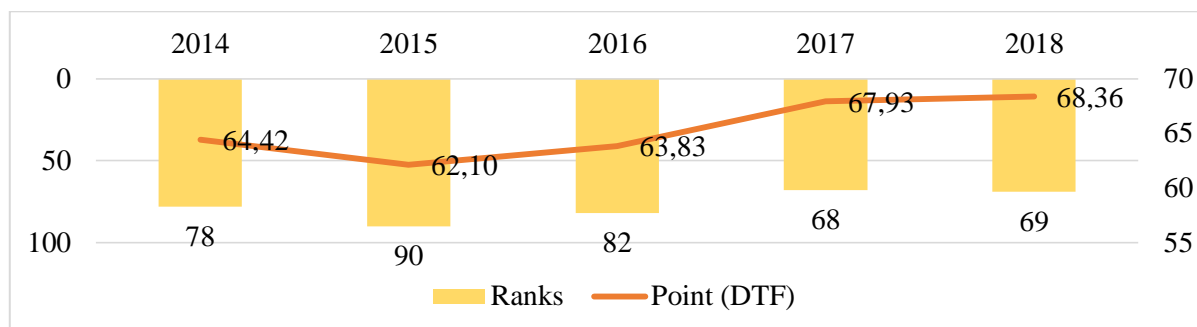
⁶⁸ Eg: Decision No. 343/QĐ-UBND dated July 4, 2017 of the Minister and Chairman of the Ethnic Minority Committee promulgating the Program on thrift practice and waste combat of the Ethnic Minority Committee for the period of 2016-2020; Decision No. 358/QĐ-BTTTT dated March 20, 2017 of the Minister of Information and Communications on promulgating the Program on thrift practice and waste combat in the period of 2016-2020 by the Ministry of Information and Communications; etc.

⁶⁹ Eg: Decision No. 213/QĐ-TTg dated February 21, 2019 on the Government's master program on thrift practice and waste combat in 2019; Decision No. 217/QĐ-TTg dated February 13, 2018, on the Government's master program on thrift practice and waste combat in 2018, etc.

⁷⁰ Eg: Decision 229/QĐ-UBND dated 23 April 2019, promulgating the Ethnic Committee's Program on thrift practice and waste combat in 2019; Decision 346/QĐ-BTTTT dated March 20, 2019, promulgating the Program on thrift practice and waste combat in 2019 by the Ministry of Information and Communications, etc.

- The business investment environment has significantly improved, which is recognized by international organizations and the business community, especially in recent years. The ranking position of Vietnam's global business environment has been significantly improved (both in scores and rankings). According to the World Bank's annual Doing Business Report, Vietnam's ranking improved from 93rd (2010) and 99th (2013) to 68th (2017) and 69th (2018).

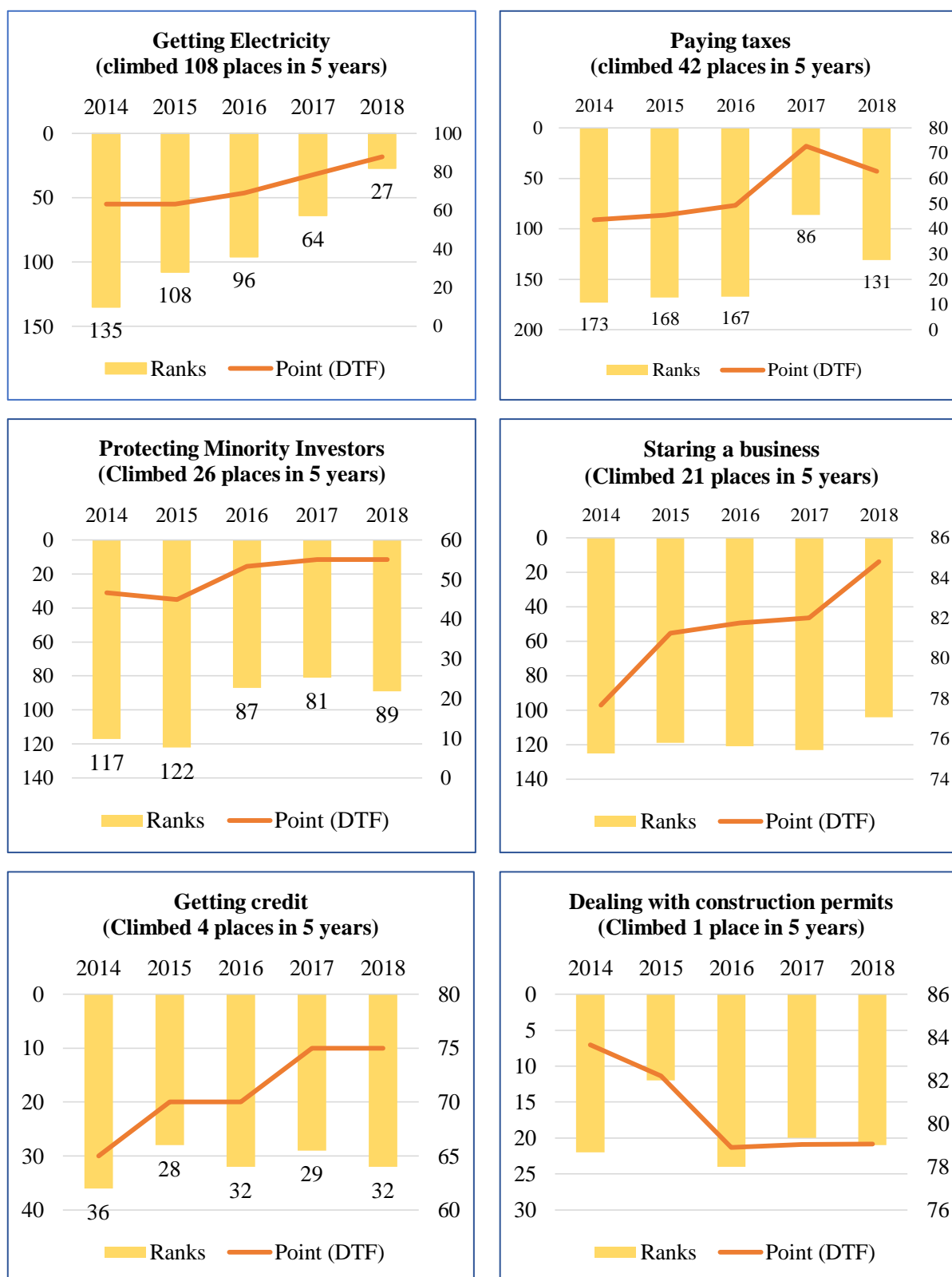
Figure 12. Vietnam business environment 2014-2018



Source: World Bank

Some indicators have improved dramatically since the implementation of the Government's Resolution No.19, such as Accessing to Electricity (climbed 108 places), Tax payment and Social Insurance (climbed 42 places), Investor protection (climbed 28 places), Starting a business (climbed 21 places).

Figure 13. Vietnam's Business Environment indicators (2014-2018)



Source: World Bank

During 5 years of implementing Resolution No.19, Vietnam has had 18 reforms recorded by the World Bank in Doing Business Report.

Table 4. Vietnam's business environment reform recognized by the World Bank in Doing Business Report (2015-2019)

Year	Sector	Quantity
2014	<ul style="list-style-type: none"> - Getting credit (establishment of Credit Information Center) - Paying taxes and social insurance (reduction of corporate income tax) 	2
2015	<ul style="list-style-type: none"> - Starting a business (reducing time for seal engraving and seal registration) - Getting electricity (reducing time, improving the efficiency of electricity connection, abolishing procedures with fire prevention and fighting agencies) - Getting credit (improving the credit information system, ensuring the rights of secured creditors) - Paying taxes and social insurance (reduction of corporate income tax, reduction of time and number of tax payments) - Resolving insolvency (some new points of the Bankruptcy Law: simplify procedures for liquidation and rehabilitation of enterprises; adjustment of regulations on invalid transactions; supplementation of regulations on asset managers and enterprises asset management and liquidation) 	5
2016	<ul style="list-style-type: none"> - Protecting minority investors (increasing rights of minority shareholders; increase transparency requirements) - Paying taxes and social insurance (simplifying procedures, reducing the content of records, abolishing environmental protection fees) - Trading across borders (customs procedure reform and specialized inspection and management) 	3
2017	<ul style="list-style-type: none"> - Getting electricity (application of effective power management system SCADA) - Getting credit (expanding the scope of assets used as collateral) - Paying taxes and social insurance (applying electronic transactions in payment of social insurance), restrict cash transactions in tax refund - Trading across borders (reform of customs procedures and clearance of goods) - Enforcing contracts (applying voluntary mediation) 	5
2018	<ul style="list-style-type: none"> - Starting a business (online procedure and fee reduction) - Paying taxes and social insurance (carrying out online procedures and combining the payment of license tax and VAT; reducing the rate of unemployment insurance payment) - Enforcing contracts (public judgment) 	3
	TOTAL	18

Source: World Bank

Besides the perfecting mechanisms and policies to improve the economic investment environment from ministries, ministerial agencies and central authorities, the improvement in the business environment and reforming administrative procedures of provincial authorities has been evaluated and recognized by the community.

Box 1. Some achievement of business investment environment reform in 2018

1. Regarding reduction and simplification of administrative procedures

Ministry of Finance has approved the reduction and simplification plan for 176 administrative procedures (including 148 procedures are reduced and 28 procedures are simplified) under its management⁷¹. Many administrative procedures are proposed to be cut in these areas, such as: securities (decreased 36 procedures), public assets (decreased 23 procedures), treasury (decreased 10 procedures).

Ministry of Labor, War Invalids and Social Affairs has issued and submitted to the competent authorities for promulgation legal documents⁷² to simplify 30 administrative procedures related to investment and business.

Ministry of Agriculture and Rural Development has reduced and simplified 32 out of 64 administrative procedures related to specialized inspection.

Ministry of Industry and Trade has reviewed and proposed a plan to reduce and simplify many administrative procedures in the field of industrial explosives, import-export and electricity. In 2018, this ministry submitted to the Government to promulgate a number of decrees to simplify many administrative procedures, such as: amending and simplifying 9 procedures in the field of trade promotion⁷³; simplifying the composition of documents, reducing the time for 3 procedures in the field of commodity exchanges⁷⁴; abolishing 5 procedures in the field of competition⁷⁵.

Some provincial authorities have reviewed and implemented specific measures to shorten the time and reduce the cost of handling administrative procedures for citizens and businesses such as: Quang Ngai province has shortened from 2-12 days (compared to the regulations) for 129 administrative procedures under the jurisdiction of 5 departments. Ba Ria-Vung Tau Province has issued a decision to shorten the settlement time of 535 administrative procedures under the jurisdiction of 19 departments and industries, of which, the time for administrative procedures have been shortened 32 days (compared to the regulations). Ninh Binh province has shortened 30 percent of the time to handle with 7 procedures in the fields of transportation, construction, culture and sports; while it recommended that the ministries should submit to the competent authority to abolish 1 procedure in the judicial field, remove the sampling of 1 procedure in the field of agriculture and rural development, and combine 2 procedures into 1 procedure in the field of healthcare.

2. Regarding reduction of business conditions

According to the plan, the ministries and agencies having conditional business lines must develop, amend and supplement to submit to the competent authorities for promulgation 19 laws and 51 decrees to simplify and reduce 3,794 out of 6,191 business conditions. As of early December 2018, ministries and agencies have submitted and promulgated 3 laws and 25 decrees, officially reduced and simplified 3,346 out of 9,191 business conditions, made account for 54.5 percent. It is estimated that the reduction and simplification of business conditions have saved about 5,847,925 working days/year, equivalent to VND 872.2 billion per year for enterprises and citizens.

3. Regarding specialized inspection activities reform

⁷¹ The major simplified procedures in these fields: tax (9 procedures), customs (14 procedures), state treasury (22 procedures), securities (36 procedures), insurance (11 procedures) procedures, public property (23 procedures)

⁷² Provisions in Decree No. 140/2018/ND-CP dated October 8, 2018 on amending decrees related to business investment, administrative procedures managed by the Ministry of Labor, War Invalids and Social Affairs.

⁷³ Provisions in the Government's Decree No. 81/2018/ND-CP dated May 22, 2018, detailing the Commercial Law regarding trade promotion activities, replacing Decree No. 37/2006 / ND-CP

⁷⁴ The provisions of Decree No.51/2018/ND-CP amending and supplementing Decree No.158/2006/ND-CP

⁷⁵ The provisions of Decree No.40/2018/ND-CP replace Decree No. 42/2004/ND-CP

According to the plan, the specialized management ministries for import and export products must formulate, amend, supplement, submit for promulgation and promulgate according to their competence 6 decrees, 1 decision and 21 circulars to reduce and simplify 6,003 out of 9,926 product lines and 74 administrative procedures. As of early December 2018, ministries and agencies have submitted and issued 21 documents, officially cut and simplified 30 administrative procedures and 6,776 out of 9,926 product lines to specialized inspection, 36.5 percent higher than required; 7 legal documents related to reform of specialized inspection activities have not been issued under the responsibility of Ministry of Natural Resources and Environment (3 decrees), Ministry of Health (1 circular), Ministry of Agriculture Rural Development and Development (2 Circulars), Ministry of Police (1 Circular).

There are 8 out of 10 sets of reports assessing the economic impact of the reform of specialized inspection, savings about 11,642,068 working days/year, equivalent to VND VND 5,407 billion/ year for enterprises and society.

Source: Ministry of Home Affairs (2018)

Box 2. Efforts of ministries, ministerial agencies and provincial authorities in improving the business investment environment from 2014 to the present

- Since 2014, Ministry of Finance (with strong reforms on regulations and procedures in tax and customs, especially the application of electronic transaction procedures) not only has created considerable convenience and openness for enterprises, in accordance with international practices, but also meet the requirements of state management. Based on the tax reform experience, since 2015, Vietnam Social Insurance has transformed the way of managing social insurance revenues and expenditures; shifting from manual and complicated procedures to applying electronic transactions or via post. In particular, Vietnam Social Insurance invested in technological solutions to effectively manage and detect violations of revenues and expenditures of social insurance, health insurance and voluntary insurance in time. With these reforms, the time for enterprises to pay social insurance has decreased by 188 hours, from 335 hours to 147 hours per year. Accordingly, the index of Tax payment and Social insurance over the 5 years improved by 42 ranks (from 173rd in 2014 to 131st in 2018).

- Since 2015, Electricity of Vietnam has been continuously seeking solutions to reduce procedures and implementation time of accessing to electricity for citizens and enterprises; while improving the quality and stability of the power source; applying technological solutions in performing energy saving management and performing electronic transaction procedures. As a result, the 5-year Getting Electricity index has improved by 108 ranks (from the end of the world rankings, in 2014, ranked 135th/189), rising to the group of 40 leading countries in the world in this indicator (ranked 37th/190 in 2018).

- In 2015 and in the following years, State Bank of Vietnam implemented reform of regulations to better protect the interests of borrowers and lenders; protect the rights of guaranteed creditors; Besides, actively improving the credit information system, and the information access. These reforms make Getting Credit index is one of the best-ranking indexes of Vietnam (ranked 32nd/190 in 2018), increased by 4 ranks compared to 2014.

- In 2015, Ministry of Agriculture and Rural Development reformed regulations, simplified procedures and content of records on plant quarantine. Yet, other areas under the Ministry of Agriculture and Rural Development's responsibility have been improved slowly and the results have been limited, especially in the field of animal quarantine and animal feed quality

control.

- Ministry of Industry and Trade eliminated formaldehyde test (in 2016), implemented chemical declaration through electronic systems at the National Single Window (in 2017), reformed of energy labeling procedures (in 2016), reduced business conditions in gas trading and rice export business (in 2018). They are positive reforms that are highly appreciated by the business community.

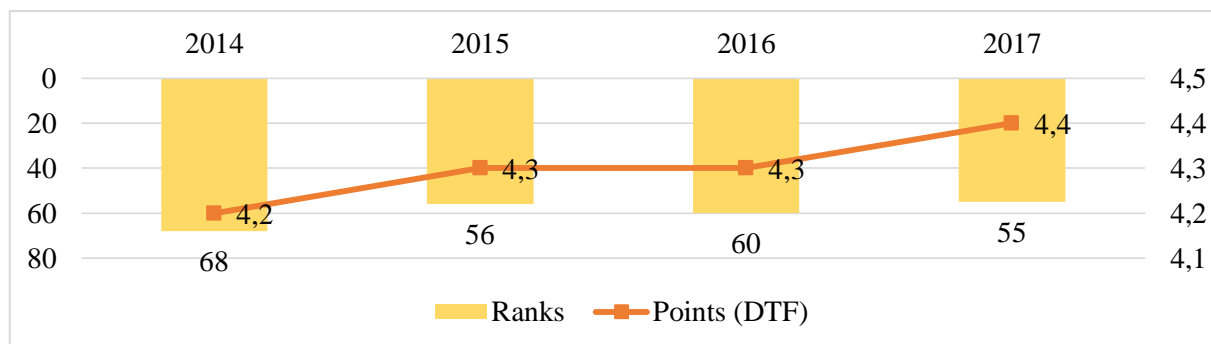
- Especially, Ministry of Health is considered as a good example in specialized management and inspection reforms with the development of Decree 15/2018/ND-CP replacing Decree 38/2012/ND-CP on food safety management. Accordingly, in the field of food safety, risk management has been applied, and strongly shifting to post-inspection.

- On the municipal authorities, provinces such as Quang Ninh, Dong Thap, Bac Ninh, Ho Chi Minh City, etc. are always looking for initiatives and solutions to promote a favourable business environment and enhance competitiveness. The initiatives of these provinces, such as investigations and assessments of competitiveness at grass-roots level, departments and sectors (eg. Quang Ninh province); entrepreneur coffee (eg. Dong Thap province); business dialogue; integrated application of procedures (eg. Ho Chi Minh City); business electronic cards (eg. Thua Thien Hue city); etc. are good examples, being replicated in many provinces.

Source: Ministry of Planning and Investment (2018)

The improvement in business investment environment and creation of a fair competitive environment has contributed to improving the national competitiveness and improving the provincial competitiveness index.

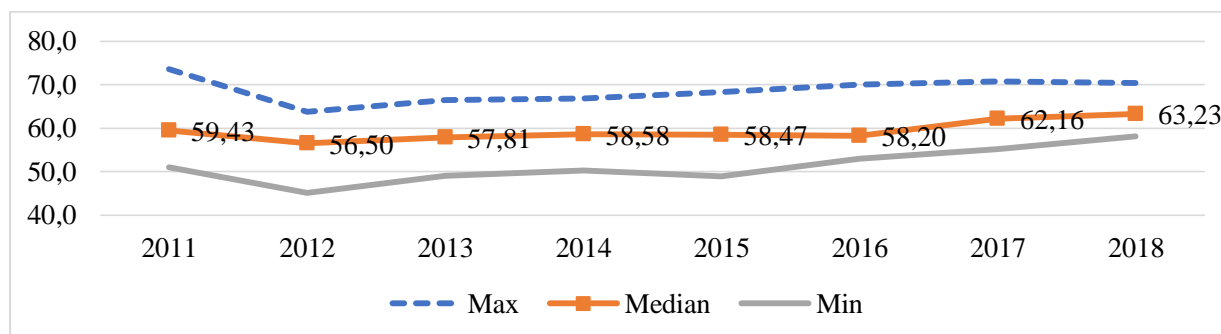
Figure 14. Rank and score of National Competitiveness from 2014 to 2017



Source: World Economic Forum

The median score of the Provincial Competitive Index (PCI) has improved over the last few years from 56.50 points (in 2012) to 63.23 points (in 2018).

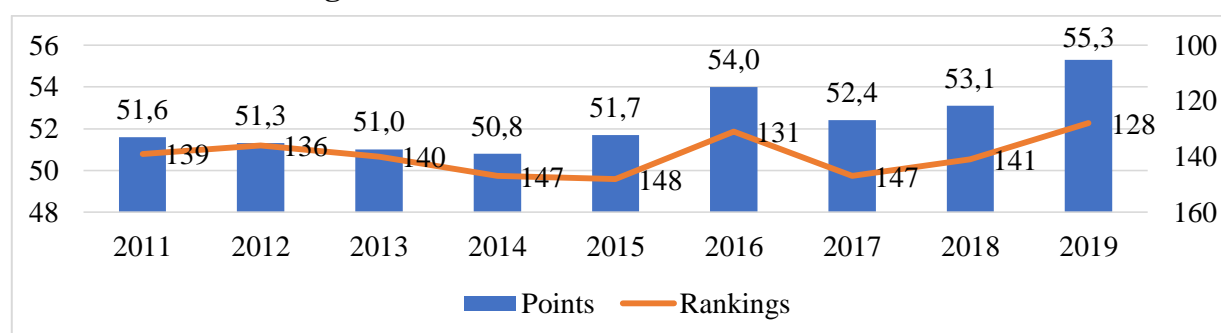
Figure 15. Provincial competitiveness index from 2011 to 2018



Source: VCCI-USAID, Annual PCI survey

- Conditional business investment field is narrowing down; freedom to do business, access to basic business opportunities are guaranteed. According to a report made by Ministry of Planning and Investment, in 2018, all ministries completed their drafts of Decrees on business conditions and they were issued by the Government. In particular, a number of unnecessary business conditions, irrationalities, lack of clarity have been eliminated; the time requirement have been shortened; quantity requirements have been reduced; business conditions on location and facilities have been eliminated and simplified. According to the reports of Ministries, most of the proportion of business conditions reduction reached over 50%, achieving the goals as directed in the Government's Resolution No.19. As a result, the level of economic freedom has improved. According to the Heritage Foundation's annual report of the Index of Economic Freedom, Vietnam's economic freedom score increased from 51.6 points (in 2011) to 55.3 points (in 2019).

Figure 16. Economic freedom index 2011-2019



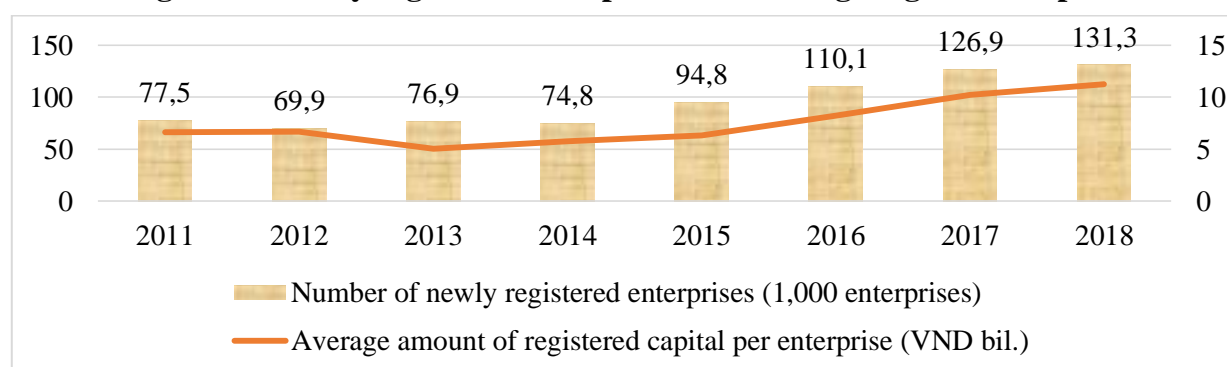
Source: Heritage Foundation

The simplification of specialized inspection is also implemented dramatically. The reduction of business conditions and the simplification of specialized tests have brought remarkable results. According to the Government Office's Report⁷⁶ on the results of specialized inspection reform, eliminating and simplifying business conditions and administrative procedures in the first 4 months of 2019, after the authorities issued documents on reforming specialized inspection activities and simplifying business conditions, 18 million working days, equivalent to over VND 6,300 billion have been saved.

Secondly, types of enterprises and economic sectors have made strong development, especially the private sector.

- With the renovation and improvement of market entry institutions and the freedom of doing business, in the last few years, the market actors have developed strongly. The number of newly registered enterprises increases over time and the scale of registered capital also tends to expand, especially from 2015 to the present.

Figure 17. Newly registered enterprises and average registered capital



Source: Authors synthesized from the MPI's website

⁷⁶ At the online conference in the afternoon of May 14, 2019.

The number of operating enterprises also increased over the years, from 279.4 thousand enterprises (in 2010) to 626.1 thousand enterprises (in 2018), of which, the number of domestic non-state enterprises accounted for nearly 97 percent.

Table 5. Number of operating enterprises

Unit: 1,000 enterprises

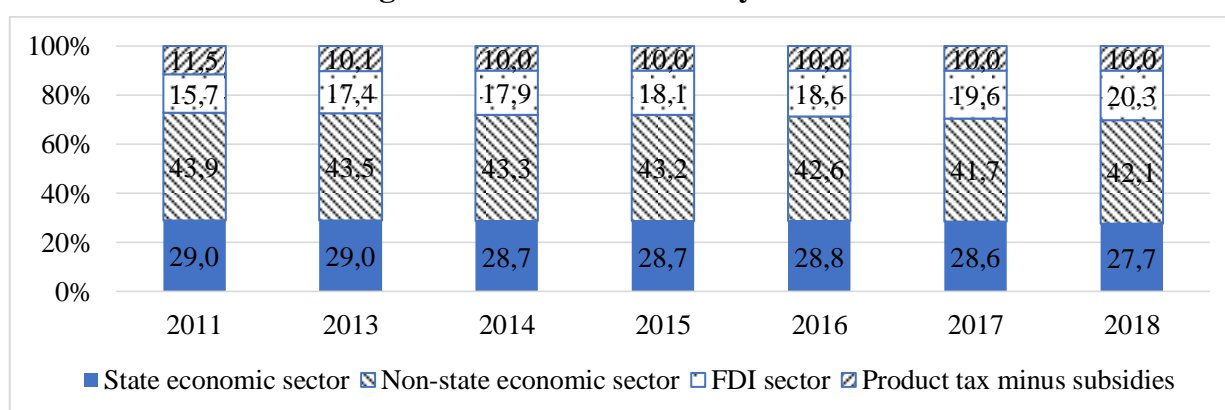
	2010	2011	2012	2013	2014	2015	2016	2017	U'T 2018
SOEs	3.3	3.3	3.2	3.2	3.0	2.8	2.7	2.5	2.4
<i>In which:</i> Enterprises with 100% state capital	1.8	1.2	1.6	1.6	1.5	1.3	1.3	1.2	1.1
Non-state enterprises	268.8	312.4	334.6	359.8	388.2	427.7	488.4	541.8	605.9
FDI enterprises	7.2	9.0	9.0	10.2	11.0	11.9	14.0	16.2	17.8
Total	279.4	324.7	346.8	373.2	402.3	442.5	505.1	560.4	626.1

Source: General Statistics Office

The number of enterprises returning to operation also increased over the years, from 14.4 thousand enterprises (in 2013) to 35.8 thousand enterprises (in 2018).

- Non-state economic sector (domestic private enterprises) plays an important role in the socio-economic development. The contribution of the non-state economic sector accounted for about 42-44 percent of GDP. FDI sector has also increased significantly from 2011 to present, from 15.66 percent of GDP (in 2011) to 20.3 percent (in 2018).

Figure 18. GDP structure by economic sector



Source: General Statistics Office

- The attraction of foreign investment has some positive changes. The total registered capital and the number of projects increased over time; the total implemented capital has also been significantly improved in the 2014-2018 period. Accumulated by December 20, 2018, the whole country had 27,353 valid projects with a total registered capital of USD 340.1 billion. The accumulated realized capital of FDI projects was estimated at 191.4 billion USD, accounted for 56.2 percent of the total valid registered capital⁷⁷.

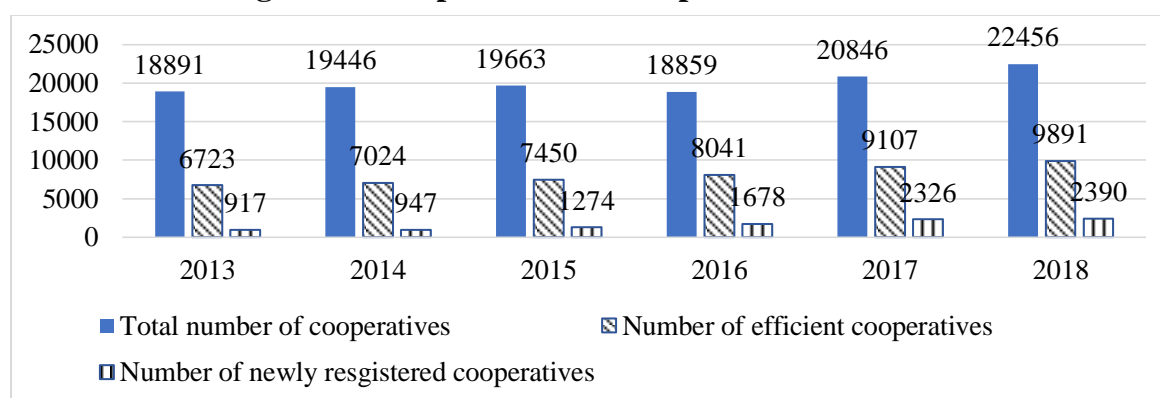
⁷⁷ <https://dautunuocngoai.gov.vn/tinbai/6108/Tinh-hinh-thu-hut-Dau-tu-nuoc-ngoai-nam-2018>

Table 6. Figures of foreign direct investment 2014-2018

	2014	2015	2016	2017	2018
Total registered capital (USD mil.)					
Register for a new grant	15,642.0	15,577.6	14,948.5	21,275.9	17,976.2
Added registration	4,588.0	7,179.7	5,641.6	8,416.8	7,596.7
Contribute capital, buy shares			4,267.7	6,191.1	9,892.7
Total implemented capital (USD mil.)	12,350.0	14,500.0	15,800.0	17,500.0	19,100.0
Total projects					
New grant project (project)	1,588.0	2,013.0	2,503.0	2,591.0	3,046.0
Additional projects (project turns)	594.0	814.0	1,205.0	1,188.0	1,169.0
Contribute capital to buy shares (projects)			4,900.0	5,002.0	6,496.0

Source: Authors synthesized from the MPI's website

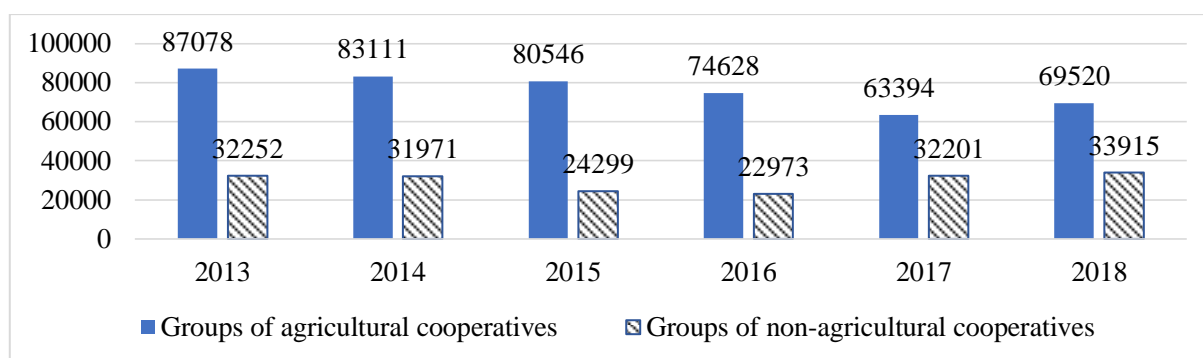
- The collective economy, (in which cooperatives are the core), has made great development in recent years. Cooperative economy, cooperatives continue developing in the whole country and most of the fields of the economy and society, becoming an important economic component of the economy, making an important contribution to the development of the economy and handling social problems of provinces. According to a report made by Vietnam Cooperative Union (2019), by the end of 2018, the whole country had 22,456 cooperatives⁷⁸ (increased by 8 percent compared to those in 2017), and 103,435 cooperative groups. The contribution of cooperative economic sector, cooperatives and their members to economic growth tends to increase, in terms of both scale and proportion; supplying consumer goods to stabilize market prices. This is a positive contributor to agricultural restructuring and new rural construction, sustainable poverty reduction. Agricultural and non-agricultural cooperatives are the linkages with enterprises to form value chains. Cooperatives are "midwives" to create jobs for low-skilled, high-aged workers who have moved back from industrial parks. Cooperative groups, cooperatives and trade unions of cooperatives in remote areas and areas inhabited by ethnic minorities have contributed to raising the production level, creating jobs and income, ensuring social security, developing political system, consolidating security and defense.

Figure 19. Cooperatives for the period of 2013-2018

Source: Vietnam Cooperative Union (2019)

⁷⁸ With total assets of VND 81,000 billion, there are 6,950,000 members and 2,480,000 regular employees

Figure 20. Developing groups of cooperatives in the 2013-2018 period



Source: Vietnam Cooperative Union (2019)

Thirdly, all types of markets have been gradually formed in synchronization, basically operated smoothly and initially linked to regional and international markets.

- The market of goods and services has been developed and perfected in terms of size and structure of products.

The prices of goods and services are basically market-determined, especially prices of consumer goods and most production factors (including land prices, land leasing prices, interest rates, or salary, etc.). The role of price in allocating resources is more evident. In addition, the Government's acknowledgment of the existence of prices on a range of public service sectors such as healthcare and education (instead of fees in the past) is a factor to encourage socialization of public services sector, thus attracting more resources from the society to invest in this sector.

Compared to regional and world markets, Vietnam's domestic market for goods and services has well grown. Since 2014, Vietnam's retail market has returned to TOP 30 attractive global retail markets and has continuously been promoted⁷⁹. In 2017, Vietnam's retail market ranked 6th among the 30 most attractive global retail markets by A.Tkeany (a consulting firm in the United States). The international markets of Vietnam has also had a relatively high growth, especially exports increased rapidly in both volume and turnover.

Participants of the goods and services market come from different economic sectors. Besides the renovation of the legal framework for goods and services markets in accordance with the country's socio-economic development conditions and international integration commitments, there have been changes in the market management mechanism, from the direct intervention, inspection and control of the market to the indirect mechanism, creating a free and fair environment among entities operating in the market.

- The financial market, especially the stock market, has developed quite vibrant.

The level of development of Vietnam's financial market generally reaches the average of the world and of the region; some indicators are pretty good. According to the WEF's assessment of global competitiveness, Vietnam's financial market development index and rankings have improved in recent years. Specifically, the level of development of Vietnam's financial market in 2014, 2015, 2016 and 2017 was ranked at 93rd/148, 90th/144; 84th/140 and 71st/137, respectively. Among the 8 component indicators reflecting the level of development of the financial market, there are 3 indicators on legal rights; readiness for venture capital and financial mobilization through the stock market has reached a fair level.

⁷⁹ In the annual evaluation report of the global attractive retail market by A. Tkeany consulting firm (USA), in 2010, Vietnam's retail market was ranked 14th in the world, in 2011 ranked 23rd, 2012 and 2013 out of the top 30 markets. In 2014, Vietnam ranked 28th; 2016 reached position 11th; 2017 at position 6th.

Especially, the readiness index of venture capital has strongly improved over the years, in terms of both scores and rankings. For example, in 2011, 2012, 2015, 2016 the scores and rankings of this index were 2.7-57th/139; 2,3-91st/142; 2.7-71st/144 and 3.0-46th/140, respectively.

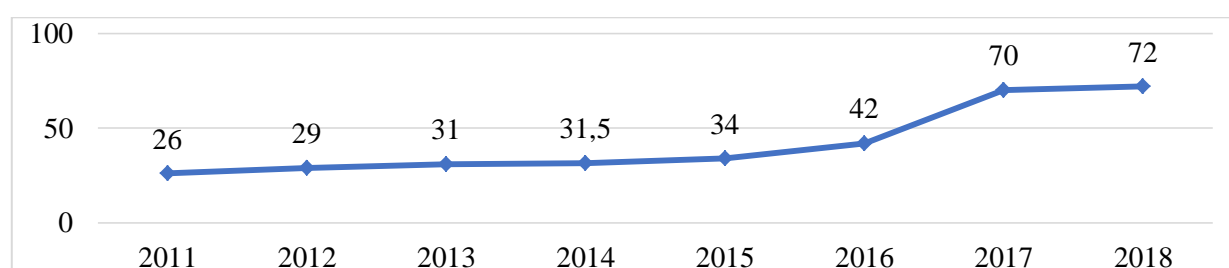
The basic elements of the financial market such as the monetary market, the bank credit market, the stock market, the insurance market and a variety of financial instruments as well as valuable papers have been pretty improved (in terms of market components) and are being put into operation. The formation of these markets contributes to creating conditions to attract, utilize and create capital sources for the country's socio-economic development.

Specifically, the monetary market has gradually grown, in terms of both transaction size and number of market participants. The market's transaction method has been gradually renewed; most transactions are made online with flexible terms. The bank credit market increasingly plays an important role in the economy, acting as an intermediary channel to bring capital and people together. The banking system has initially approached some modern business forms, which are more in line with international practices. The situation of cross-ownership has been basically overcome⁸⁰, contributing to making market healthier.

The stock market has experienced strong developments, especially in 2018, Vietnam's stock market was on the list of considering upgrading the market from the frontier market to the emerging market of the FTSE Russel organization. The scale and scope of the market is expanding. By the end of 2018, the stock market capitalization reached VND 3.9 million, increased 12.7 percent compared to the end of 2017, equivalent to 72 percent of GDP in 2018, surpassing the two-year targets set out in the Development Strategy on the securities market by 2020, playing an important role in economic development, supporting the monetary market, and reducing the pressure on the banking system.

Figure 21. Stock market capitalization 2011-2018

Unit: % of GDP



Source: Institute of Financial Strategy and Policy (2019)

The number of listed and registered businesses also increased from 1,514 (on December 31, 2015) to 2,131 (on December 31, 2018). The number of investors' accounts continued to increase to reach 2.17 million accounts, an increase of 12.8 percent compared to the end of 2017. The participation of foreign investors also increased sharply over the years, transaction value (both buying and selling) has increased⁸¹. For the whole year, foreign

⁸⁰ Over the past few years, the State Bank has conducted a number of measures to handle the violations of share ownership and cross-ownership. As a result, credit institutions have basically handled some violations. By the end of December 2018, from 7 pairs in 2012, the number of pairs of credit institutions that directly cross-owned each other basically had been overcome. At the same time, the direct ownership of shares between banks and businesses decreased from 56 pairs to 1 pair.

⁸¹ According to the State Securities Commission, the buying volume of listed shares and registered shares of foreign investors in 2016 reached VND 96,551 billion; in 2017 increased to VND 180,945 billion (increased to 87%) and in 2018 increased to VND 284,645 billion (increased to 57%); those of sold in 2016 was VND 102,848 billion, in 2017 was VND 153,714 billion and in 2018 was VND 240,755 billion.

investors net bought about VND 43,890 billion in the fund certificate stock market, focusing on large deal transactions.

The derivative stock market has been officially in operation since August 10, 2017. After two years, the derivative stock market has recorded positive development, become an attractive investment channel with great prospects for growth⁸²; and it proves its role as an effective hedging channel for investors.

The bond market in recent years has continued to improve positively in the direction of extending the average issuance term and the remaining term of Government bonds while the issuance interest rates decreased, contributing to restructuring the list of Government debt in a sustainable manner. In 2018 alone, the average transaction value reached more than VND 8,827 billion per session. The bond market has become an effective channel to mobilize capital for the Government, policy banks, provincial authorities and enterprises.

The insurance market continues to develop safely and sustainably. By the end of 2018, Vietnam's insurance market had the participation of 64 enterprises of all economic sectors. The financial capacity, operational efficiency, ability of administration and risk management of insurance enterprises have been improved. Recently, insurance companies have been constantly developing new products (such as property insurance, economic losses, liability for third parties, etc.) to meet practical and increasing demand of investors, enterprises and insurance participants.

- Real estate market thrives in size, both supply-side and demand-side.

Supply components in the real estate market have gradually formed and developed quite fully. Housing market is thriving. Average housing area per capita in the country has increased annually. In 2018, the average housing area nationwide reached 24 m² of floor per person (increased by 2 m² of floor per person compared to the end of 2015 and 6.5 m² per person compared to the end of 2010)⁸³. The urban system across the country is increasing in both number and area⁸⁴. Many spacious new urban areas are gradually replacing old, degraded urban areas and the development of new urban areas and high-rise apartment buildings have made great contributions to urbanization.

Demand components in the real estate market also have certain developments. The real estate demand in Vietnam is quite large, arising mainly from the purpose of buying for utilization and speculation. Participants in the real estate market are quite diverse. All entities of the economy, types of businesses are directly or indirectly participating in the market, especially in the housing and office market segment.

- The labor market has been formed with a plentiful labor supply and the market size has rapidly grown.

The labor market continues to develop on the basis of more sustainable factors such as abundant labor supply and the improvement of labor quality. The connected service system has diversified, the number of jobs increased, the quality of employment based on stability criteria and increased incomes continued to improve. The institutions to support stable harmonious labor relations such as the mechanism of dialogue, negotiation, conciliation and arbitration system have been strengthened. Enterprises are also interested in the improvement of working conditions to ensure a safe working environment.

⁸² In the whole of 2018, the liquidity in the derivatives market increased sharply, reaching an average volume of 79 thousand contracts/session, an increase of 7 times compared to 2017; The number of derivative trading accounts increased by 3.2 times.

⁸³ See more: Thanh Vi (2016) "Average housing area: strive for 22.6 m²/person". <http://www.saigondautu.com.vn/Pages/20160130/Phan-dau-226m2-nguoi.aspx> and Binh Le (2019), Average housing area nationwide in 2018 reached 24m² floor / person, <http://www.sggp.org.vn/dien-tich-binh-quan-nha-o-toan-quoc-nam-2018-dat-24m2-sannguoi-572027.html>

⁸⁴ In 1998, there were 633 urban areas nationwide, by 2014 this data was 772 urban areas; and in 2017, this number increased to 813 urban areas, including: 2 special-grade cities, 19 grade-I urban centers, 23 grade-II urban centers, 45 grade-III urban centers, 84 grade-IV urban centers, and 640 urban centers. type V; There are 325 industrial parks, 18 coastal economic zones and 21 border gate economic zones.

The labor market efficiency of Vietnam has always been highly appreciated by the World Economic Forum among 10 pillars of global competitiveness index (only behind the market size index) and reach at fairly good levels of the world and the region. In 2017, Vietnam ranked 57th/137 in the economy with 4.3/7 points in labor market efficiency, but this pillar index is gradually falling⁸⁵. In addition, besides the 10 component indicators that reflect the labor market efficiency, there are 02 indicators, including: the percentage of female workers in the labor force and the recruitment and firing of workers are always in high ranking. In 2017, Vietnam's rankings for these two indicators were 24th/137 and 49th/137, respectively.

Labor productivity has improved. Specifically, the growth rate of labor productivity in the 2011-2015 period was at an average of 4.3% (4.7% in the 2011-2017 period), compared to the 3.4% in the 2006-2010 period (GSO, 2016; Bui Quang Tuan, 2019). The contribution of total factor productivity (TFP) to economic growth has been increased from -4.5% in the previous period to 29% in the 2011-2015 period. The manufacturing and processing industry is still the industry which lead the growth of labor productivity; but they continue to highly concentrate in low-tech industries (textiles, footwear, food processing) to medium-tech industries (metal production, electrical equipment, transportation, etc.).

The participants in the labor market are expanded and they operate properly in accordance with their roles. Employers are formed, especially a large and dynamic business force. The workforce who have been trained in accordance with the demand of the labor market has been developing. The role of the representatives (of both the employers and the employees) is established and operated more effectively. The service providing force to the labor market is growing (such as vocational training, job placement, labor export, etc.). Besides, the labor market also has the participation of other social partners.

- The S&T market is forming and developing with a significant increase in the number and value of transactions in recent years. Accordingly, the index of innovation and technological readiness has also improved.

Although Vietnam's S&T market has been formed later, it has made good steps. Promotion activities of S&T market development are diversified in various forms such as Technology and Equipment Market (Techmart), Technology Supply-Demand Connection (Techdemo), Entrepreneurship and Technology Day (Techfest) or Exhibitions which introduce innovative products and connect businesses, etc. The system of intermediary organizations is formed and developed quickly and diversely. The network of intermediaries for technology transferring consultancy, evaluation and brokerage has also been strengthened. Activities of the S&T market are increasingly active with national and international technology and equipment markets (Techmart), technology exchanges, including electronic exchanges, connecting technology supply and demand in provinces and the increasing role of technology development and application centers across the country. Currently, there are 13 operating technology trading floors and some trading floor are in the stage of construction and trial operation; 8 software parks; 13 hi-tech agricultural zones; 9 hi-tech business incubators have been put into operation; 50 technology nurseries and S&T enterprises; technology application and development centers in 63 provinces and cities. In particular, the technology database is constantly updated, including 2,000 supplies, with 1,600 technology supplies from institutes, schools and 400 supplies from foreign units and organizations; 412 technology demand sources; demonstrated, introduced about 800 technology sources. Thereby, supporting and successfully signing nearly 150

⁸⁵ Specifically, from 2011 to 2017, the rank of labor market efficiency index in Vietnam was 30th/139 46th/142; 51st/144; 56th/148; 49th/144; 52nd/140 and 57th/137, respectively.

technology transferring contracts and cooperation agreements worth nearly VND 800 billion (Quynh Nga, 2019).

Investment in technology also increased. According to the Ministry of Science and Technology, in the 2015-2018 period, the number of consulting and technology transfer contracts reached an average of 3,000 contracts per year, an increase of 12 percent per year; the value of consulting and technology transfer contracts was VND 54.5 billion per year on average, growing at 10 percent per year. In addition, advanced S&T application centers owned nearly 300 technologies, 50 percent of which generated an average revenue of over VND 60 billion per year, profits of about VND 10 billion per year, etc.

Promotion activities of S&T market development such as Techmart, Techfest or Techdemo was held annually to connect market entities such as institutes, universities, businesses, creators, organizations, intermediaries, financial institutions, etc. Events have also created a positive effect on the domestic S&T market. In the 2011-2015 period, the total number of transactions and value of technology transactions at these events reached over 25,000 transactions and over VND 13,700 billion, respectively with an increase of 2.5 times in terms of number of transactions and 2.3 times in terms of transaction value compared to previous 5 years. In 2016, 415 organizations, over 430 stalls (including 50 foreign stalls) participated Techmart Hanoi 2016 and nearly 2,000 technologies, equipment and products ready to be transferred. In that event, 28 contracts and a memorandum of understanding were signed with thousands of transactions of technology, equipment and products with total value of over VND 150 billion. In 2017, Techfest 2017 was held to connect investors with startups in line with the development trend of the 4th Industrial Revolution. From 2016 to 2017, the total value of 5 most successful capital-raising deals was over USD 50 million⁸⁶. Most recently, Foody, a culinary social network, has been acquired over 82 percent of its shares for more than USD 64 million by Sea Group, Singapore. In November 2017, TechDemo 2017 was held for over 80 turns of technical consultancy, direct technology improvement for businesses with participation of 32 domestic and foreign technology experts; demonstration and introduction of over 500 research products/ processes/ technologies/ research equipments from around 150 enterprises, institutes, domestic and foreign universities, S&T organizations; 12 technology transferring cooperation contracts, memorandums of understanding and cooperation agreements with a total value of over VND 200 billion have been signed⁸⁷.

The technology content in many products has increased and created value added to goods and services, contributing to improve the competitiveness of Vietnam's businesses in the context of international economic integration. Specifically, according to UN Comtrade data⁸⁸, the ratio of high technology content of Vietnam's exports to total exports tends to increase over the years, from 6.6% (2008) to 27.7% (2013), and 27.2% (2014).

Vietnam's innovation index has improved significantly. According to a report of the World Intellectual Property Organization (WIPO), in the last 5 years, the ranking of the pillars of Vietnam's Innovation has tended to improve continuously. The overall ranking of Innovation in 2018 compared to 2014 increased by 26 places with the increase in 6 out of 7 ranking indexes. In particular, the institution increased by 43 places (ranked from 121st/143 to 78th/126); human capital and research increased by 23 places (ranked from 89th to 66th); infrastructure improved by 21 places (ranked from 99th to 78th); the market sophistication increased by 59 places (ranked from 92nd to 33rd); knowledge and technology outputs

⁸⁶ Momo - \$ 28 million, F88 - \$ 10 million, Got It! - 9 million USD, Vntrip.vn - 3 million USD, Toong - 1 million USD

⁸⁷ <https://khoahocvacongnghevietnam.com.vn/khcn-trung-uong/18259-khoa-hoc-va-cong-nghe-tao-da-cho-su-phat-trien-cua-doanh-nghiep.html>

⁸⁸ United Nations Consumer Trade Statistics Database

increased by 14 places (ranked from 49th to 35th); creative outputs improved by 12 places (ranked from 58th to 46th).

Table 7. Vietnam's Innovation index (2014-2018)

	2014	2015	2016	2017	2018
Input indicators	100	78	79	71	65
1. Institutions	121	101	93	87	78
2. Human capital and research	89	78	74	70	66
3. Infrastructure	99	88	90	77	78
4. Market sophistication	92	67	64	34	33
5. Business sophistication	59	40	72	73	66
Output indicators	47	39	42	38	41
6. Knowledge and technology outputs	49	28	39	28	35
7. Creative outputs	58	62	52	52	46
Overall ranking	71	52	59	47	45

Source: WIPO (2014-2018)

Vietnam's technology readiness index also tends to improve. According to the WEF's Global Competitiveness Report, Vietnam's technological readiness (overall index) increased ranking from 99th in 2014 (with 3.12 points) to 79th in 2017 (with 4.0 points). However, this result is mainly due to the strong contribution of the broadband internet component index (increased 43 places, from 90th in the 2014-2015 period to 47th in the 2017-2018 period).

Table 8. Vietnam's technology readiness

Index	Ranking (points)			
	2014-2015	2015-2016	2016-2017	2017-2018
Technological Readiness - Total index	99 (3.12)	92 (3.32)	92 (3.5)	79 (4.0)
Availability of the latest technologies	123 (3.9)	112 (4.0)	106 (4.1)	112 (4.0)
Firm-level technology absorption	121 (3.9)	121 (3.9)	78 (4.4)	93 (4.2)
FDI and technology transfer	93 (4.2)	81 (4.2)	83 (4.2)	89 (4.1)
Internet users (% of population)	77 (43.9)	73 (48.3)	73 (52.7)	87 (46.5)
Fixed-broadband internet subscriptions (/100 people)	77 (5.6)	79 (6.5)	75 (8.1)	72 (9.9)
Internet bandwidth (kb/s/user)	90 (15.9)	86 (20.7)	85 (24.4)	47 (91.3)
Mobile broadband subscription (/100 people)	81 (18.8)	83 (31)	91 (39)	88 (46.6)

Source: WEF (2014-2018)

Forthly, effectiveness and efficiency of the state administration have significantly improved; administrative procedure reform has brought many positive results; the state-market relationship has basically resolved.

- The role of the state has been adjusted more in line with the market mechanism. The limits, scope, content and methods of state management are gradually determined and adjusted under the market economy. The state-market relationship, especially the relationship between the state and enterprises, has improved.

The state focuses more on managing the economy by law instead of by administrative orders. The direct interventions in market economies, such as pricing, control of business lines, and supply of goods and services through SOEs, have been narrowed down. Thereby, the participation of the private sector has been expanded. The private sector has emerged in many sectors of the economy, including those that were previously considered a "playground" of SOEs or non-business units, such as airports, seaports, transport infrastructure, aviation, electricity, healthcare, education, sports, cinema, notary public, certification of conformity, etc. Different economic sectors have been attracted to invest in areas that provide public non-business services. The participation of the private sector in the provision of public services not only contributes to the increase of investment capital for economic development, reduces pressure on the state budget, enhances governance, but also creates a motivation for competition. All economic sectors which want to provide services must make efforts to provide good quality at an affordable price.

Basically, the state has established a more effective legal framework and enforcement mechanism. Administrative procedure reform has made important progress. Accordingly, the quality of economic management has improved over last few years. According to the PCI Report, in 2015, 67 percent of respondents stated that officials and civil servants effectively handled work, this number increased to 75 percent in 2018; in 2015, 59 percent of respondents answered that state officials were friendly, in 2018, this figure was 68 percent; the duplication working content of inspection teams was also greatly reduced. Most of the relevant indicators on time costs have decreased significantly. In 2018, 30.7 percent of answered enterprises said that they must spend over 10 percent of their time to learn and enforce legal regulations (35.5 percent in 2015); 68.9 percent of businesses agreed that "the time for administrative procedures is shortened compared to the time required" (67 percent in 2017). Informal costs also dropped significantly. In 2015, 66 percent of respondents answered that they had to pay unofficial expenses, by 2018, this figure was 55 percent; In 2015, 11 percent of businesses said that they had to pay more than 10 percent of revenue for informal expenses, in 2018, this figure was 7 percent. The 2018 PCI Report also indicates that up to 95 percent of businesses said that they received feedbacks from local state agencies after reflecting difficulties and problems and 77% of enterprises were satisfied with feedback/solutions of provincial agencies.

The state gradually performs the function of correcting the market failures⁸⁹. In order to restrict the market monopoly, the Government has implemented market control by implementing Competition Law, Price Law and their guiding documents; cutting down, eliminating business conditions to ensure that barriers to market entry do not become a means to encourage monopoly power. In order to limit negative externalities, the state forces all market participants to take into account their impacts on the third party; thereby, regulating market activities to obtain socially optimal level. The state is also responsible for

⁸⁹ Main market failures are, as follows: (i) Unstability or macroeconomic instability; (ii) Existence of market monopoly, including private monopolies; (iii) The externalities, especially the negative externalities, cause damage to social benefits.; (iv) Public goods issues such as infrastructure projects (roads, bridges, ports, water and electricity systems, etc.), defense services, security, etc.; (v) Information shortage or asymmetric information problem; (vi) Social issues (the gap between rich and poor or income inequality, etc.) are factors that hinder economic activities. These shortcomings by themselves cannot be overcome by the market, but require state intervention.

providing essential public goods. The state intervention in markets will provide more information to the market, or control the behaviors of those who have advantages of information to ensure the market operates more effectively. The state has focused on gradually ensuring the provision of some basic social services to the people, especially the disadvantaged people. The social security system is constantly evolving with the implementation of targeted programs, social protection policies and poverty reduction⁹⁰. Market failure in macroeconomic instability has been overcome when the state proactively launched and implemented appropriate fiscal and monetary policies for each period.

- Administrative reform of ministries, ministerial agencies and provincial authorities has created a significant change. Government/E-Government; One-stop shop (OSS) has been implemented and brought positive results.

The majority of ministries have set up a Receiving and Results Section to serve citizens and businesses. At local level, most of provinces have completed the organization and consolidation of the OSS as planned. At present, ministries, ministerial agencies and provincial authorities are reviewing and consolidating the organization, headquarters, equipment and facilities at the OSS Section and strengthening the application of information technology to improve the quality and efficiency in solving administrative procedures for people and businesses as prescribed. According to a report made by Ministry of Home Affairs (2018), 39 localities built and implemented the model of provincial public administrative center (in many provinces, district-level public administration centers have also been piloted) to organize the settlement of administrative procedures for citizens and businesses.

The majority of ministries, ministerial agencies and provincial authorities have reviewed their administrative procedures and identified the list of administrative procedures to receive and deal with the one-stop, OSS mechanism. Accordingly, the quality of administrative procedures has been improved significantly. According to PCI Report 2018, many indicators related to the effectiveness of executive management, administrative procedure reform all showed positive signs of improvement. In 2018, 74.1 percent of answered enterprises rated “paperwork and procedures” as simple (compared to 51.2 percent in 2015); 68.9 percent of respondents said that “the time for doing administrative procedures is shorter than the regulation” (compared to 67 percent in 2017). In general, the indicators about time costs component index improved significantly.

Table 9. Indicators about time costs over time

Indicator	Measure	2014	2015	2016	2017	2018
1. Percentage of firms spending over 10 percent of their time on understanding and complying with regulations	Min	18.56	21.95	24.71	21.78	16.12
	Median	35.62	35.51	35.71	31.53	30.69
	Max	51.09	49.41	51.52	46.30	46.42
	Correlation with Previous year	0.24	0.27*	0.31*	-0.08	0.13
2. Median tax inspection hour	Min	2	1	1	2	2
	Median	8	4,5	8	9	8
	Max	40	32	40	40	40
	Correlation with Previous year	0.70*	0.75*	0.61*	0.53*	0.64*
3. Local government officials are effective (%)	Min	50.00	47.04	40.91	58.00	63.33
	Median	64.58	67.38	58.02	72.09	74.74

⁹⁰ The percentage of poor households has decreased significantly. The proportion of poor households according to the Government's poverty line for the period of 2011-2015 has decreased from 14.2% (in 2010) to 5.8% (in 2016).

strongly agree or agree)	Max	88.73	87.36	82.65	86.90	89.89
	Correlation with Previous year	0.64*	0.71*	0.63*	0.64*	0.63*
4. Local government officials are friendly (% strongly agree or agree)	Min	34.78	35.53	47.47	50.96	55.02
	Median	58.24	59.43	65.56	67.26	67.50
	Max	82.56	83.72	88.66	87.06	91.92
	Correlation with Previous year	0.48*	0.71*	0.68*	0.71*	0.68*
5. Firms do not have to make many trips to obtain stamps and signatures (% strongly agree or agree)	Min	38.20	42.06	46.39	40.38	47.24
	Median	60.96	61.15	63.28	54.55	57.48
	Max	78.13	80.00	85.41	74.12	72.72
	Correlation with Previous year	0.68*	0.74*	0.67*	0.53*	0.50*
6. Paperwork is simple (% strongly agree or agree)	Min	30.30	34.43	31.53	40.40	40.51
	Median	46.02	51.24	49.52	52.25	56.89
	Max	68.18	71.74	74.22	76.47	74.05
	Correlation with Previous year	0.50*	0.67*	0.56*	0.59*	0.56*
7. Fees are listed publicly (% strongly agree or agree)	Min	79.35	80.72	78.72	79.81	81.36
	Median	89.19	89.32	91.11	91.76	93.20
	Max	97.17	95.87	97.96	97.25	99.07
	Correlation with Previous year	0.48*	0.19	0.35*	0.39*	0.32*
8. Percentage of 5+ visits per year in the last year	Min				2.00	0.88
	Median				7.22	6.42
	Max				15.56	13.21
	Correlation with Previous year				N/A	0.62*
9. Percentage of firms indicating the overlapping and duplicative inspection (%)	Min		11.63	6.25	6.93	1.29
	Median		28.87	14.12	13.46	10.76
	Max		36.36	25.29	25.33	19.09
	Correlation with Previous year		N/A	0.37*	0.41*	0.23
10. Percentage of firms indicating time to do administrative procedure is shorter than regulations specified (%)	Min				55.00	53.57
	Median				67.01	68.86
	Max				82.72	80.27
	Correlation with Previous year				N/A	0.32*
11. Percentage of firms indicate that using inspection to extract rents (%)	Min				5.08	5.33
	Median				18.92	17.65
	Max				34.09	30.00
	Correlation with Previous year				N/A	0.66*

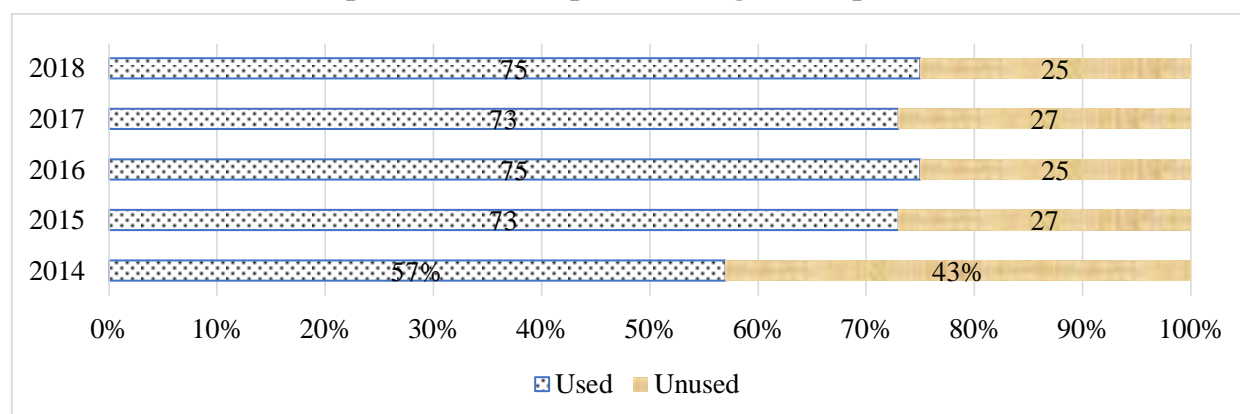
Notes: * Statistically significant at 5% level; N/A: Not applicable

Source: VCCI-USAID (2019)

The implementation of administrative modernization through the application of information technology and development of e-government has also achieved certain results. According to a report made by Ministry of Home Affairs (2018), by the end of 2018, 18 ministries, ministerial agencies and 54 provincial authorities built data centers, information security equipment at different scales, gradually meet the needs of centralized deployment, administration and maintenance of information systems and applied software effectively; 17 ministries, agencies and 57 provinces and cities have issued e-government architecture to implement and serve as a basis for developing e-government. The document management and administration software system has been implemented in 100 percent of ministries, ministerial agencies and provincial authorities. 18 ministries, ministerial agencies and 46 provincial authorities have implemented a common document management and administration system at different scales. Many units have applied specialized digital signatures issued by the Government Cipher Committee and integrated with the document management and administration system (15 ministries, ministerial agencies and 44 provincial authorities), email systems (13 ministries, ministerial agencies and 20 provincial authorities).

The provision of online public services in ministries, ministerial agencies and provincial authorities has been expanded with increasingly improved quality. According to a report made by Ministry of Information and Communications, the rate of public services generating online records in ministries and central agencies reached about 33.41 percent; the average provincial level is about 10.78 percent. The use of online public services by businesses has greatly improved. According to the E-Commerce Index Report in 2019, 75 percent of enterprises have used online public services related to registration, licensing, declaration, etc. It is provided on the websites of state agencies (compared to only 57 percent in 2004).

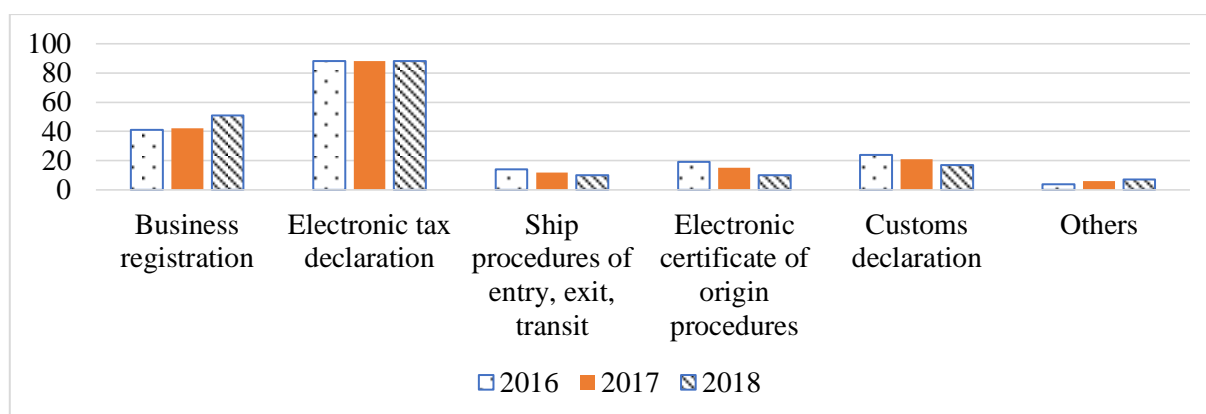
Figure 22. Proportion of enterprises' using online public services over time



Source: Vietnam E-Commerce Association (2019)

In particular, the proportion of businesses using electronic tax declaration is highest, followed by business registration. However, some other online public services are still low proportion in usage.

Figure 23. Usage of some online public services



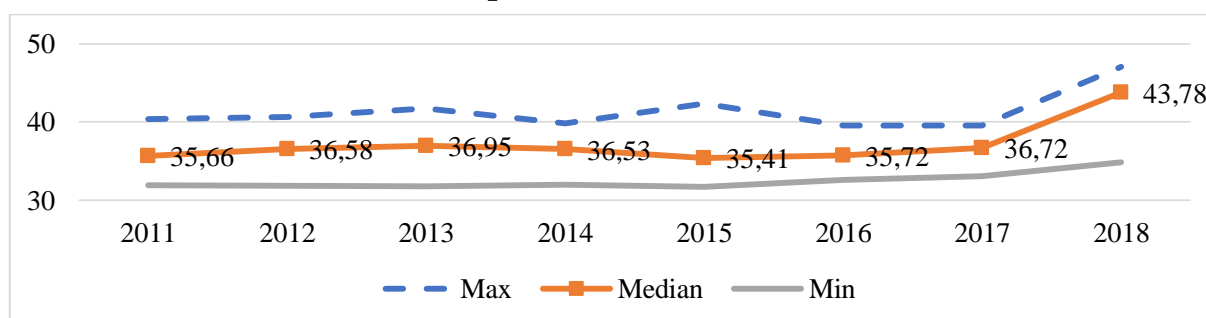
Source: Vietnam E-Commerce Association (2019)

The effective application of online public services helps businesses save informal costs significantly and is appreciated by businesses⁹¹.

The implementation of receiving and returning administrative procedure settlement results through public postal services⁹² has initially created a positive change in handling administrative procedures, contributing to saving time and costs for citizens, organizations in carrying out administrative procedures, creating a premise to promote the deployment of online public services at levels 3 and 4.

Accordingly, in terms of the efficiency of governance and public administration at the provincial level in Vietnam, the public administration performance index (PAPI) has improved significantly in recent years, especially in 2018.

Figure 24. The Vietnam Provincial governance and public administration performance index



Source: CECODES, VFF-CRT, RTA & UNDP (2019)

- Preventing and fighting against corruption and waste has been paid attention. Many cases of corruption, abuse of position, power, embezzlement, great loss and waste have been judged strictly, without "forbidden areas" or exception, created trust and received support and appreciate from citizens⁹³.

- The reorganization, streamlining of the apparatus and downsizing personnel implementation has achieved initial results, the quality of officials has been improved.

⁹¹ According to the Vietnam E-Commerce Association (2019), 54% of businesses think it is useful, 45% of businesses think that mutually useful.

⁹² In the first 11 months of 2018, the whole country had 11,183,411 applications received and returned results through public postal services, including 889,830 records received; The number of files returned for settlement results is 10,293,581.

⁹³ From October 1, 2017 to September 30, 2018, through inspection activities, 78 cases and 106 subjects were involved in corruption and related to corruption; Through the settlement of complaints and denunciations, 40 cases and 87 subjects were found to be involved in corruption (increased 66.7% of cases). Investigation agencies of the People's Public Security Forces have accepted 427 cases, 889 were found guilty of corruption offenses; concluded investigation to prosecute 212 cases, 488 defendants (<https://vov.vn/phap-luat/dau-an-phong-chong-tham-nhung-2018-mot-nam-an-tuong-858131.vov>)

Many ministries, ministerial agencies and provincial authorities have streamlined thousands of focal points, reduced a series of heads and deputy heads and thousands of staffs.

Box 3. Streamlining the organizational structure of ministries and provincial authorities in 2018

In 2018, *Ministry of Public Security* has arranged to eliminate 6 general departments, reducing nearly 60 units at the department level and nearly 300 units at the department level; merged 20 Fire Prevention and Fighting Police Departments into the Provincial Police, and nearly 1,000 team units into the District Police Department. *Ministry of Home Affairs* has reduced 14 room-level units under the Department and equivalent; reducing 2 non-business units under the Central Emulation and Reward Board and the Government Committee for Religious Affairs. *Ministry of Finance* dissolved 43 transaction offices of the provincial State Treasury, facilitating the arrangement, streamlining management clues and improving the efficiency of the State Treasury system in the coming time. In addition, the Ministry of Finance has issued a plan to rearrange and merge district tax offices into regional tax offices of provincial tax departments. Until present, 6 localities have piloted the consolidation of district tax offices into regional tax offices, helping to eliminate 18 tax departments and 110 tax teams. In addition, the General Department of Customs has reduced 239 teams, customs divisions and equivalent units.

In provincial authorities, after arranging, *Long An* province has reduced 95 organizational clues belonging to departments, branches and districts; reducing 84 management leaders (49 heads and 35 deputy heads); reducing 192 units of public service delivery units across the province and reducing 175 management leaders at these units (128 heads and 47 deputy heads). *Kien Giang* province has reduced 19 specialized sections of 8 departments and the like; dissolve 11 ethnic rooms and 13 health rooms under the district People's Committee; cut 48 public non-business units of the province. *Bac Ninh* province reduced 29 agencies, units, 38 leaders and 197 staff, including dissolution of the Department of Foreign Affairs and transferring foreign affairs to the Office of the Provincial People's Committee; merged 7 general hospitals, 8 health centers and 8 population-family planning centers into 8 multi-functional district health centers.

In parallel with streamlining the organizational structure, a number of places have reviewed and developed a research project to transfer a number of tasks and public administrative services that the State does not necessarily have to carry out for businesses and social organizations. Typically, Dong Thap province pilots the transfer of public administrative tasks and services in the province to the province's public postal business.

Regarding the downsizing personnel implementation, from 2015 to October 15, 2018, the total personnel of the country was reduced to 40,500 people. Among them, the policy of retiring before age is 34,948 people (accounting for 86.29 percent); the policy of immediate resignation is 5,483 people (accounting for 13.54 percent); 29 people who quit the job after training (accounting for 0.07 percent); The number of people who are entitled to the policy of transferring to non-regular salary organizations from the state budget is 40 people (accounting for 0.1 percent).

Regarding the implementation of the pilot project on reforming the recruitment of leaders and managers at the department level, in 2018, many ministries, industries and municipal authorities issued plans and held examinations for some leadership titles, department-level and room-level management at agencies. They are Ministry of Natural Resources and Environment, Ministry of Agriculture and Rural Development, Ministry of Health, Ministry of Home Affairs; and municipal authorities, such as Hai Phong City, Hoa Binh Province, Ba Ria - Vung Tau Province, Thua Thien Hue City, Lam Dong Province, Ca Mau Province, etc.

Source: Ministry of Home Affairs

3.2.3. Limitations and causes

• Limitations

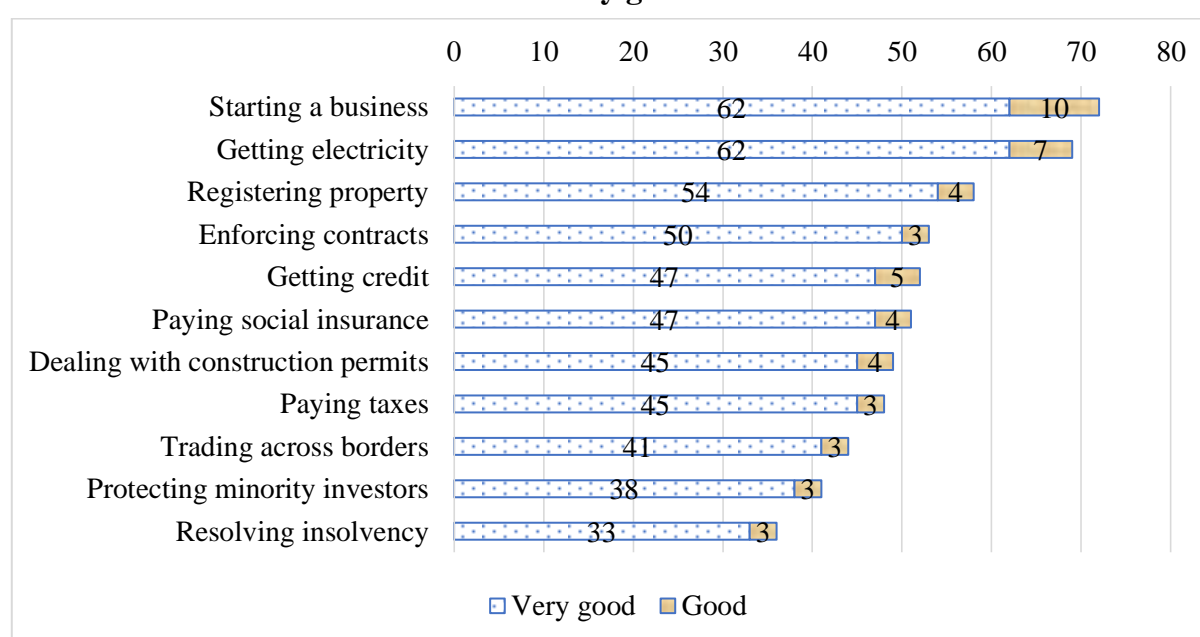
Despite achieving many results, there remain some limitations in implementing the strategic breakthrough tasks on perfecting the institutions of socialist-oriented market economy. They are, as follows:

Firstly, the business investment environment is not really open, safe, and healthy.

- Despite having improvement in business-investment environment, the level of improvement is uneven; business community's perception about the improvement is not high.

According to the report of the Vietnam Chamber of Commerce and Industry (VCCI) on the results of implementing Resolution 19 from enterprises' perspective (in 2018), aside from 6 business environment indicators are evaluated as good or very good by more than 50 percent of respondents⁹⁴, the remaining indicators have a slow and lower improvement than the enterprise's expectation (less than 50 percent). This result is in line with the World Bank's 2018 Doing Business.

Figure 25. Percentage of respondents rated areas of Resolution 19 as improved or very good

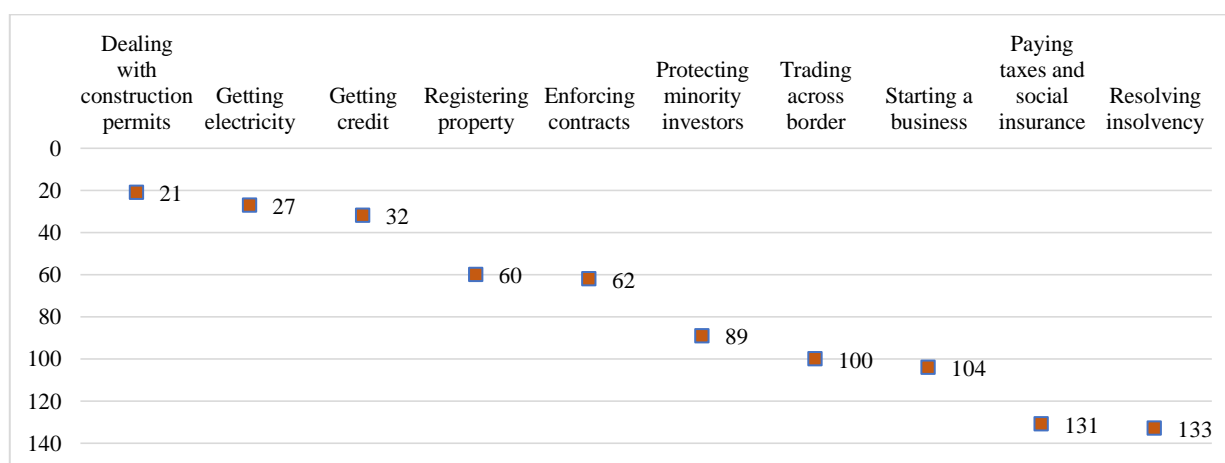


Source: VCCI (2018)

Some business environment criteria have improved but still ranked at very low positions such as protecting minority investors (ranked at 89th/190), trading across borders (ranked at 100th/190), starting a business (ranked at 104th/190), paying taxes and social insurance (ranked at 131st/190) and resolving insolvency (ranked at 133rd/190).

⁹⁴ Including: Starting a business, Access to electricity, Register properties, Resolve contract disputes, Access to credit, Social insurance.

Figure 26. Ranks of Vietnam's composition indexes in the World Bank's Doing Business 2019



Source: World Bank (2018)

- Business conditions barriers are still quite common: Reforming the regulations on business conditions to promote competitiveness, encourage business development is the focus of the Government. Many guiding documents were issued and Prime Minister assigned the ministries, ministerial agencies to cut down 50 percent of their business conditions. However, the implementation has not reached expectation. The reduction of business conditions is still formalistic. Some business conditions have been reduced or modified; however, this has not really created favorable conditions for businesses⁹⁵. There are still many unclear, unpredictable regulations, causing potential risks for businesses.

- There are many issues raised in specialized management and inspection activities.

Reforming regulations on specialized management and inspection has achieved initial results in a number of ministries in some areas⁹⁶; however, those results have not met requirement. The problems in specialized management and inspection such as a large number of items, overlapping management, non-risk management, high costs for specialized inspection, etc. are still causing many obstacles for enterprises' operation and production.

There still have many legal documents on management activities, specialized inspection⁹⁷, making it difficult for businesses and customs authorities to follow up, update and apply. The range of products subjected to be specialized inspection is too broad, covering more than 78,000 products⁹⁸ currently. Therefore, although the time and costs for specialized management and inspection procedures have decreased, the actual implementation time is still long, causing risks for businesses (storage costs, administrative penalties due to slow customs clearance, missed business opportunities, etc.). High specialized inspection costs will affect the business performance.

- The legal system is still inconsistent, overlapping, being revised even before enacted, has not yet ensured the transparency, it sometimes imposes, and puts businesses into

⁹⁵ Such as: business conditions, which has been cut, are integrated into technical regulations; amendment of business conditions for the purpose of avoiding attention, but the nature is not changed, some modified business conditions make it even more difficult for enterprises.

⁹⁶ Such as Health, Industry and Trade (formaldehyde test, Chemical declaration), Construction, Environmental resources, Agriculture and Rural Development (plant quarantine)

⁹⁷ Statistics (as of April 2018) from the Customs Office shows 337 legal documents on specialized inspection and management.

⁹⁸ In many cases, a number of ministries' circulars and decisions tend to expand the List of goods which are subject to specialized inspection compared to the approved provisions by the Law (for example, the field of animal quarantine, imported goods must go through quality check)

difficulties. Mechanisms, policies are constantly changing, causing difficulties for businesses in updating information to comply.

Secondly, the environment for fair competition among types of enterprises and economic sectors has not yet been created.

- Although having many improvements, unfair competition among types of businesses and economic sectors is still quite popular, especially between domestic private enterprises and FDI enterprises. In practice, with the goal of attracting FDI, many favorable mechanisms and policies for FDI enterprises have been issued, with special emphasis on tax incentives, land access, etc. Priorities and incentives for FDI have created inequality for domestic private sector in accessing resources. FDI enterprises often easily access to land, especially for large projects. Provincial authorities often give priorities to the acquisition and allocation of land for FDI projects and also tend to provide better public services to FDI enterprises. According to 2018 PCI Report, 45 percent of respondents claimed that FDI enterprises were given priority to solve their difficulties than domestic private enterprises; 37 percent of surveyed enterprises stated that the provincial authorities seem to give greater priority to FDI attraction than domestic private sector development; 27 percent of businesses claimed that FDI enterprises were more favorable in accessing land, etc. In terms of tax incentives, the FDI sector is enjoying more incentives (the proportion of the enterprise income tax amount eligible for incentives and reductions of FDI enterprises to the total exempted and reduced enterprise income tax of enterprises nationwide is 76 percent; the proportion of enterprise income tax amounts eligible for exemption or reduction of FDI enterprises to the total payable enterprise income tax calculated at the general tax rate is 48 percent, for SOEs, that proportion is 4.6 percent and for domestic non-state enterprises is 14 percent (Institute of Financial Strategy and Policy, 2019). These incentives may create unfair competition for domestic private enterprises when they have to compete to access inputs (land, labor, etc), to reach customers, value chains, etc., thus making domestic private enterprises more and more disadvantage.

- The phenomenon of "interest groups", "backyard businesses", "friendly enterprises" has created an unfair competition environment between "friendly enterprises" and businesses without connections. According to 2035 Vietnam Report (WB-MPI, 2016), in many enterprises, their commercial benefits gained through their relations with officials and state agencies determine the viability and development of enterprises rather than their own efforts. According to 2018 PCI Report, 70 percent of respondents claimed that "business resources (contracts, land, etc.) are mainly given to enterprises which have relationship with public officials". Access to information is also unfair among businesses, 69 percent of respondents said that "relationship is important or very important to get access to provincial documents".

Thirdly, the development of types of businesses and economic sectors is still limited.

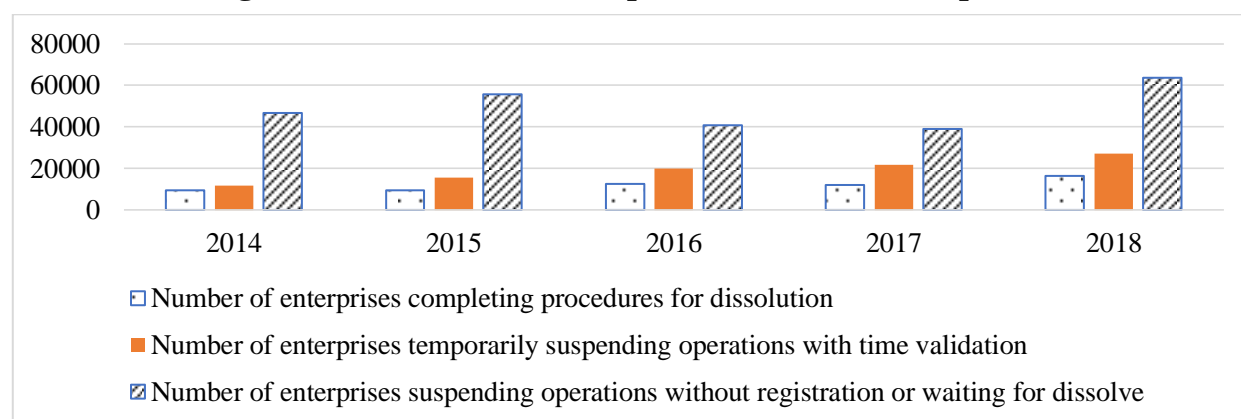
- Although the number of newly registered enterprises and the average registered capital size have increased in recent years, they are mainly small and medium-sized, even micro-sized. According to General Statistics Office (GSO), with classification by labor scale, as of December 31, 2018, 98.3 percent of operating enterprises were micro, small and medium-sized enterprises, of which, 78.2 percent were micro enterprises; 18.8 percent were small enterprises and 1.4 percent were medium enterprises. Large enterprises accounted for only 1.7 percent of total operating enterprises. This indicates that the development of Vietnam's enterprises is in slow progress and it is difficult for them to become large enterprises.

Table 1011. Number and structure of enterprises by number of employees

	Unit	2010	2011	2012	2013	2014	2015	2016	2017	2018 (est.)
Micro enterprises	1000 En.	187.6	216.7	238.3	263.0	288.5	321.9	373.3	428.0	489.6
	%	67.1	66.8	68.7	70.5	71.7	72.7	73.9	76.4	78.2
Small enterprises	1000 En.	79.1	93.4	93.9	95.1	98.2	103.7	113.3	114.2	117.4
	%	28.3	28.8	27.1	25.5	24.4	23.4	22.4	20.4	18.8
Medium enterprises	1000 En.	5.6	6.9	6.8	7.1	7.3	7.9	8.5	8.1	8.5
	%	2.0	2.1	1.9	1.9	1.8	1.8	1.7	1.4	1.4
<i>Micro, small and medium enterprises</i>	1000 En.	272.3	316.9	338.9	365.2	393.9	433.5	495.0	550.4	615.5
	%	97.5	97.6	97.7	97.8	97.9	98.0	98.0	98.2	98.3
<i>Large enterprises</i>	1000 En.	7.1	7.8	7.9	8.0	8.4	9.0	10.0	10.1	10.6
	%	2.5	2.4	2.3	2.2	2.1	2.0	2.0	1.8	1.7
Total	1000 En.	279.4	324.7	346.8	373.2	402.3	442.5	505.1	560.4	626.1
	%	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0

Source: General Statistics Office

- The private sector still faces many difficulties. The number of businesses that dissolved or suspended their operations has increased. In the first 5 months of 2019, more than 25,400 enterprises have been temporarily suspended their businesses or completed procedures for dissolution. The number of enterprises which are suspending operation (including suspending with time validation, without registration or waiting for dissolve) has increased over the years. In 2017 and 2018, the percentage of enterprises suspending their operations compared to the number of newly established enterprises was 48 percent and 69 percent, respectively.

Figure 27. The number of suspended, dissolved enterprises

Source: Synthesized from the MPI's website

- Foreign-invested economy has made progress but the quality is not commensurate with expectations. The contribution of FDI enterprises to the state budget was limited. More than 50 percent of FDI enterprises often reported losses. The spreading level of the FDI sector was limited; the technology brought into Vietnam was mainly at the average level (accounting for about 80 percent of the number of technologies transferred) and backward (accounting for 14 percent)⁹⁹. FDI's export turnover accounted for a very large proportion, but most of their inputs were imported. The linkages and transfers of technologies from FDI to domestic sector was low, some FDI enterprises have caused serious environmental pollution, had acts of transfer pricing, tax evasion, market acquisition, unhealthy competition with domestic businesses.

- Although collective economy (with cooperatives as the center) has gained many positive changes, it still has poor performance with many difficulties and inadequacies. With weak financial capacity, low competitiveness, many cooperatives have not been able to build a feasible business plan; their management capability is still inadequate, just focusing on providing input services; they have no capability to receive high technology and seek consumption markets; there is not much cooperation among cooperatives and between cooperatives and enterprises. Many cooperatives still confuse in their operations and face many difficulties in production and business; Cooperative management and administration staff are lack of capability, with a large proportion of untrained, old people, have little capability to build feasible and efficient production and business projects and mobilize resources to implement investment projects.

- State owned enterprises are operating effectively; however, the results were not commensurate with their potential¹⁰⁰. Restructuring of SOEs, equitization, divestment of state capital in enterprises have been in slow progress, not reaching the set plan. According to the Central Steering Committee for Enterprise Reform and Development, from 2016 till now, although the equitization and divestment has gained many positive changes, the progress is still very slow. In the process of equitization, group benefits, corruption, wastefulness and negativity still occurred in a number of cases that caused public discontent.

Fourthly, the markets for production factors are still underdeveloped.

- The development of financial and monetary market is not fully inclusive.

The financial market is still fragmented and unbalanced development between monetary market and capital market; between the stock market and the bond market; between the corporate bond market and the government bond market. The financial market is largely relied on the commercial banking system. Financial institutions are small in scale, limited in competitiveness, and have not fully met international standards on governance and operational safety.

⁹⁹ According to the WEF Global Competitiveness Index 2017-2018 Report, the efficiency of technology transfer from FDI enterprises in Vietnam was only 4.1/7 points, ranked 89th out of 137 countries surveyed and ranked lower than countries in the region such as Singapore (2nd with 5.9 points), Malaysia (13th with 5.4 points), Thailand (40th with 4.8 points), Indonesia (44th with 4.7 points), Cambodia (54th with 4.6 points), Philippines (63rd with 4.5 points)

¹⁰⁰ SOEs tended to gradually reduce the size and proportion of its contributions in all indicators in the period of 2011-2018 (decrease 0.7 percentage points in the number of enterprises; 8.2 points in the number of employees; 4.3 percentage points in terms of capital, about 12 percentage points in revenue and about 9 percentage points in profit) that leads to a deduction in the percentage of SOEs' contribution to the state budget by more than 6 percentage points. The efficiency of capital use of SOEs is not commensurate with the resources held, although there is some improvement. SOEs are holding 28.9% of investment capital (2017) but generate only 15% of revenue of the entire enterprise sector (Institute of Strategy and Financial Policy, 2019).

In the stock market, investors are mainly individuals with small scale. The market structure is incomplete. The role of mobilizing medium and long-term capital for businesses has not fully performed. The derivatives stock market has just been developed at an early stage, lacking institutional investors¹⁰¹. Moreover, the derivatives stock market only has an index (VN30), thus limiting the deployment of new products to meet the diverse needs of investors.

Insurance market is also underdeveloped. Insurance segment is uneven exploited, mainly in big cities and high-income groups. Insurance products for low-income people or people in rural areas and social security products have not been paid much attention.

- Land market and real estate market has unsustainable development and lack of transparency. Part of the land and real estate markets develops spontaneously and is still dominated by group interests. The market for land using rights, especially agricultural land using rights, is almost underdeveloped. The potential of the land has not been fully exploited and used effectively; the market value of land using rights has not been applied in allocating and leasing land. The big difference between the prices set by the state and the market price distorts and restricts the development of the land market. This two-price system provides values and benefits to land developers and riggers, while causing damage to individuals (especially farmers) who are forced to give up their land, etc.

- The labor market develops unevenly with unbalanced supply-demand relations, limited quality of labor and low productivity. Labor market institutions have not facilitated labor movement between rural and urban areas, between the administrative sector and the business sector, and between domestic and foreign invested sector. Labor restructuring is not commensurate with production restructuring. Labors still concentrate in agriculture sector with low labor productivity. The industry and service sectors have not created many jobs with high productivity, while the proportion of labor in the nonofficial sector remains high¹⁰².

- The science and technology market develops slowly, does not meet the requirements, especially in the context of strong technology development.

The S&T market are still at a low level, the market constituents have not developed synchronously; the capability of many entities in the S&T market is low, failing to meet the requirements of rapid and sustainable development in the current process of international economic integration.

According to the WEF's 2017-2018 Global Competitiveness Report, the performance ranking of Vietnam's goods and services market ranked at 91st/137 countries (8th in ASEAN); financial market development index ranked 71st/137 countries (ranked 7th in ASEAN); labor market ranked 57th/137 countries (6th in ASEAN); and technology market ranked 79th/137 countries (5th in ASEAN).

Underdevelopment of factor markets has not made the prices of production factors reflect the true supply-demand relations of the market. A significant part of social resources, especially in the state economic sector, has been still allocated mainly by administrative mechanisms, inefficiently use of resources; cause losses and wastes. A large

¹⁰¹ 99 percent of participants in the derivatives stock market are individual investors.

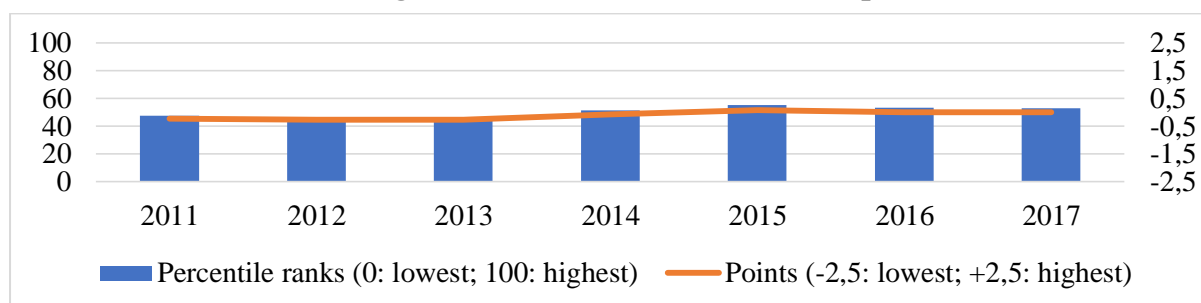
¹⁰² Survey results from the GSO show that in 2016, the proportion of nonofficial labor is quite high, accounting for 57.2 percent of the total labor (excluding labor in the agricultural household sector). If including labor in the agricultural household sector, this percentage reaches 78.6 percent.

part of social resources has not been mobilized in doing business and production development.

Fifthly, the effectiveness and efficiency of state management and administrative reform have not met the requirements.

- The effectiveness and efficiency of state management are not significantly improved. According to the World Bank's Worldwide Governance Index (WGI) Data, in 2017, the government effectiveness index was quite low, both in scores and rankings. Compared to many countries in the region, Vietnam's government effectiveness is quite low and much lower than Singapore, Thailand, Malaysia, Indonesia and Brunei.

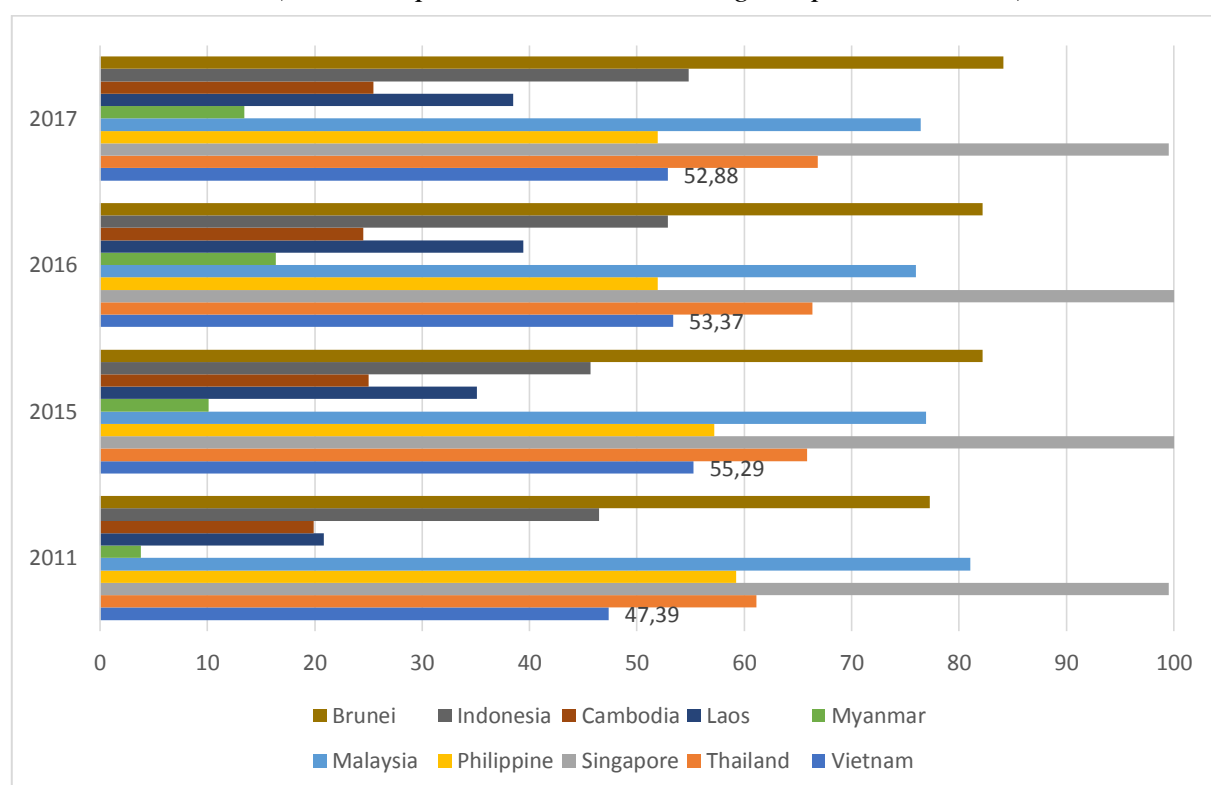
Figure 28. Vietnam's government effectiveness for the period of 2011-2017



Source: WGI (2019)

Figure 29. ASEAN countries' government effectiveness

(0: lowest percentile rank; 100: highest percentile rank)



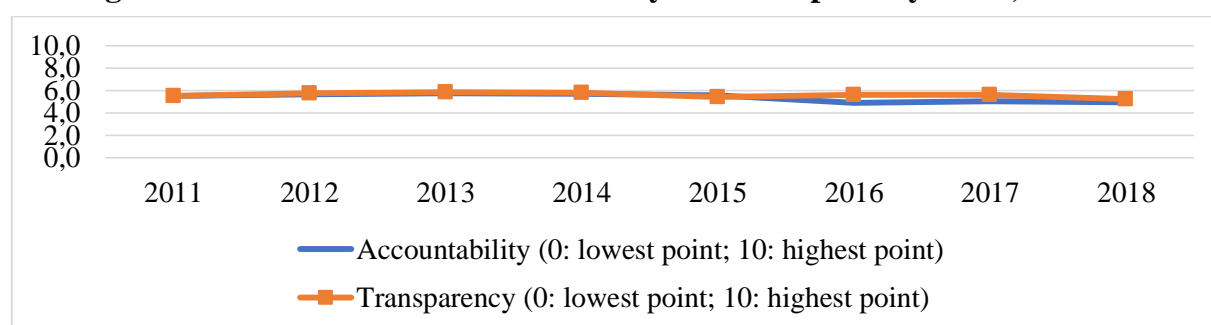
Source: WGI (2019)

- The administrative reform has been in slow progress, has not met the requirements and the set goals. The level of transparency and accountability is low.

Administrative procedures in some fields are still cumbersome, complicated, causing difficulties, incurring costs for people and businesses, especially procedures related to land, construction, etc. Some ministries, ministerial agencies and localities still issued regulations on administrative procedures out of their authorities; announced and publicized their administrative procedures slowly. The rate of handling delayed administrative procedure dossiers is still common.

Transparency is limited; accountability to people is low and tends to decrease. According to the Provincial Governance and Public Administration Performance Index (PAPI), the median score of the accountability indicator decreased from 5.53 points (in 2011) to 4.95 points (in 2018) and the median score of transparency targets decreased from 5.53 points (in 2011) to 5.26 points (in 2018).

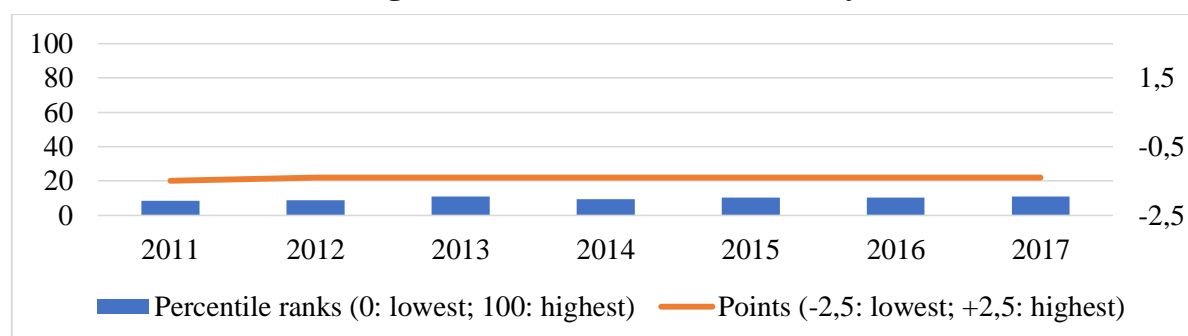
Figure 30. Median score of accountability and transparency index, 2011-2018



Source: Annual PAPI Report

These figures is similar to those in the research conducted by the World Bank. According to the WGI Data, in 2017, the accountability index was quite low; Vietnam ranked 182nd out of 214 countries and territories.

Figure 31. Voice and accountability index



Source: WGI (2019)

The application of information technology, buildinge-government is limited; electronic transaction performance is still at low rate. According to the Third quarter Report of 2018 made by Ministry of Information and Communication, only 33.41 percent of online public services level 3 and 4 provided by ministries, ministerial-level agencies have been used; only 10.84 percent of online public services level 3 and 4 provided by provinces and cities have been used. These figures are quite similar to the survey results of VCCI (2018), only 13 percent of businesses preceded procedures online. The low rate of electronic transactions is mainly because of low quality of the transmission line, weak stability of the system, inadequate ability to solve problems on the network interface, and because procedures request both online and paper submission.

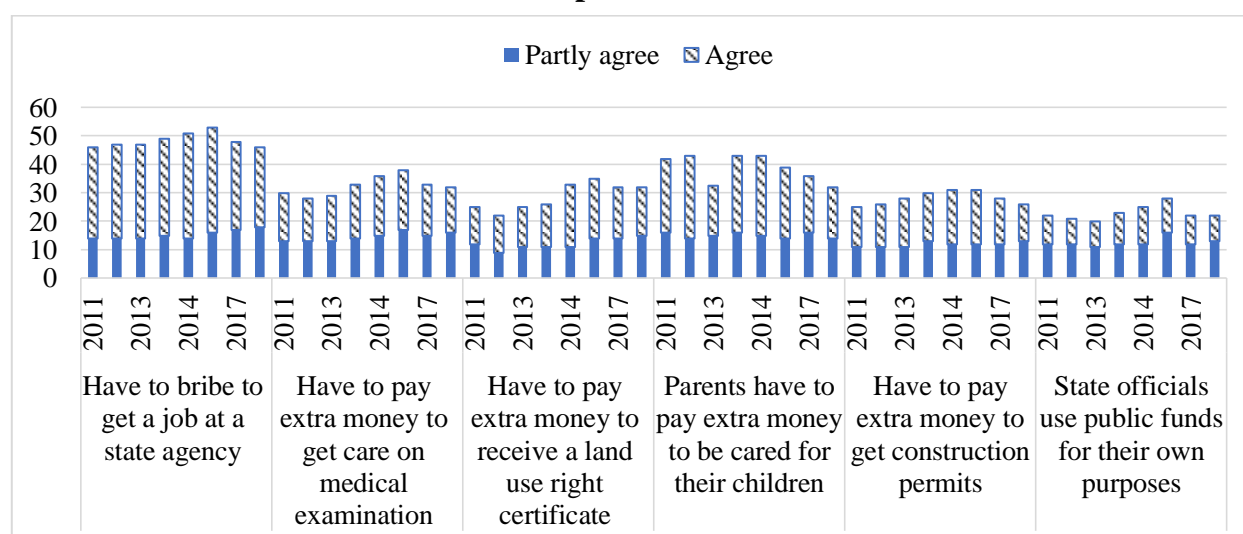
In addition, as of August 31, 2018, 11 ministries and agencies have joined the National Single Window Information portal with 68 administrative procedures. However, according to ministries' connection registration plans, by the end of 2018, 270 procedures will be connected and by the end of 2019, 284 procedures will be connected. It means that the number of connected procedures was low compared to committed connection plans (accounting for only 25 percent compared to the plan by 2018 and nearly 24 percent compared to the plan by 2019). In addition, many ministries' procedures have not been included in connection plans; therefore, if compared to the total number of specialized management and inspection procedures, the connection rate will be much lower.

- Although corruption and waste have been drastically directed to be eliminated over time, the situation is still quite complicated.

According to the Government's 2018 Report on Anti-Corruption, the "petty corruption", harassment, negative in the administrative area, public services still occur, causing annoyance to people and businesses; some manifestations such as "interest groups" and "backyard" businesses still occur, especially in management and use of land, natural resources and minerals; bidding; construction investment, procurement, management and use of public properties; equitization, etc. The number of cases discovered and handled has not reflected the true situation of corruption. The quality and progress of investigating, prosecuting and adjudicating a number of corruption and economic cases are unsatisfactory; the recovery rate of corrupt assets has made progress but is still much lower than the value of the appropriated and damaged property. Violations and corruption still occur in law enforcement agencies¹⁰³.

According to the PAPI Report, the percentage of respondents who agree or partly agree with the statements that they have to bribe when applying for a job in the public sector, when using district health services, when using primary education services for children and when applying for construction permits is still quite high.

Figure 32. Percentage of respondents assessing corruption and bribery in the public sector in the period of 2011-2018



Source: PAPI (2018)

The 2018 PCI Report also provides similar results. Although the "petty corruption", small facilitation fees that firm pay to receive licenses or other documentation, abated in

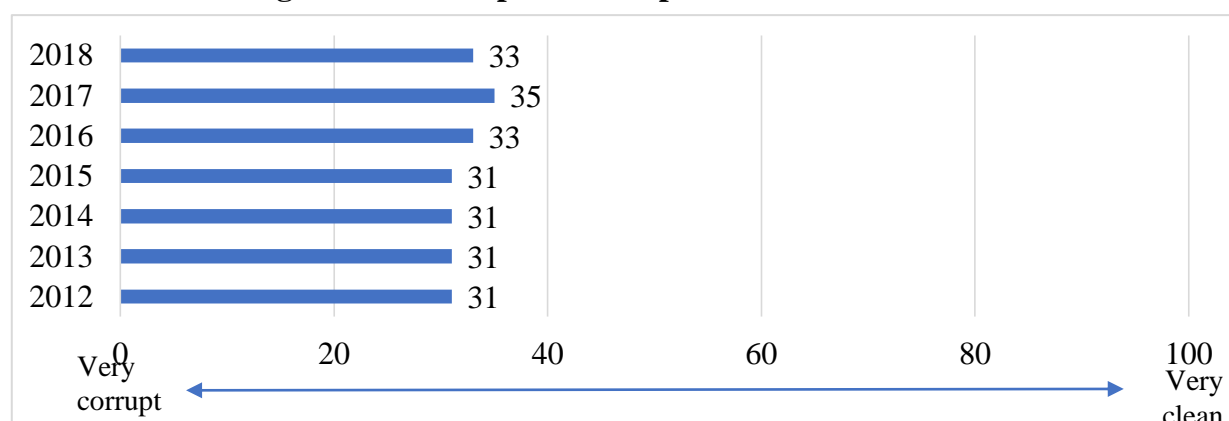
¹⁰³ http://www.thanhtra.gov.vn/ct/news/Lists/TinNongMoi/View_Detail.aspx?ItemID=521

2018, there are up to 54.8 percent of firms claimed that they paid informal charges (in 2015, that number was 66.3 percent); 58.2 percent of firms affirmed the existence of corruption when local officials settled procedures for firms (65.6 percent in 2014).

The phenomenon of "grand corruption" has also been recorded. 30.8 percent of enterprises claimed to have paid informal charges to expedite land procedures; 39.3 percent of firms paid informal charges to inspectors or examiners (in 2017, it was 51.9 percent); 48.4 percent of businesses agreed with the statement "Paying a 'commission' is necessary to win procurement contracts" (in 2017, it was 54.9 percent); 28.8 percent of businesses concerned that "making bribe to secure favorable sentence" is common in court proceedings (in 2017, it was 31.6 percent).

Vietnam's corruption perception index (CPI) is quite low, with little improvement. In 2018, Vietnam scored 33/100 points, ranked 117th/180 globally, a slight decrease of 2 points compared to 2017. Statistically, this reduction is considered insignificant. However, on a scale of 0-100 of the CPI, where 0 is very corrupt and 100 is very clean, the problem of corruption in the public sector is considered quite complicated by entrepreneurs and experts' assessment.

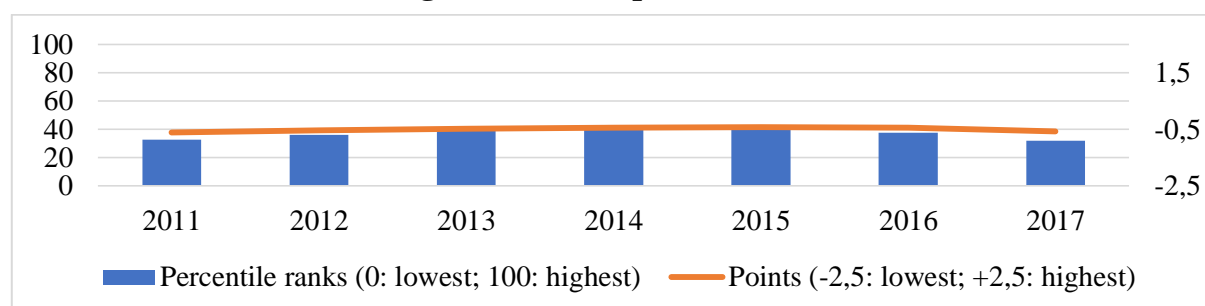
Figure 33 . Corruption Perceptions Index of Vietnam



Source: Transparency International (2019)

Corruption control index is also quite low in both score and rank. In 2017, Vietnam ranked 143 out of 214 countries and territories.

Figure 34. Corruption Control Index



Source: WGI (2019)

- Rearranging and streamlining of the apparatus and payrolls are still formalistic, focusing on reducing the number of payrolls, not paying due attention to the quality and practical needs as well as to building a contingent of qualified cadres, civil servants and public servants, and improving the effectiveness and efficiency of state management.

- Cause of shortcomings and limitations

There are many causes for these shortcomings and limitations. Some of them which were pointed out in the Resolution of the 5th Plenum of the XIIth Party Congress remain valid, such as “The awareness of the socialist-oriented market economy is not clear enough. Subsidized thinking is still heavily influenced. Capacity of building and enforcing institutions is still inadequate, has not yet caught up with the development of the market economy. The implementation of the Party's guidelines and the state's policies and laws at all levels and sectors, especially the leaders, is lack of drastic, low efficiency and not strict enough. The reform of the roles, functions and modes of operation of agencies in the political system is slow to meet the requirements of developing a market economy in the context of international integration. The decline in political ideology, morality, lifestyle, bureaucracy, corruption in not small number of cadres and party members reduces the effectiveness and efficiency in implementing the Party's guidelines and the state's policies and laws”.

In addition, some following causes should be focused.

Firstly, transition to a market economy is slow and institutional reform is not really breakthrough, not sufficient in quality, and not strong in quantity.

- After over 30 years of renovation, Vietnam is still in the process of transition to a market economy. Determining the operating model or shaping a market economy model will be an important starting point for addressing the state-market relationship and implementation of economic institutional reforms.

The policy on the transition to a market economy were set, but in terms of economic institutions, it has not been definitively converted to a full and modern market economy, upgrading and expanding the market size and reforming is mainly in step by step style. Maintaining the "discrimination" mechanism and the "asking and giving" system for long time will eliminates motive force to pursue "fair market competition" spirit.

- Institutional breakthrough requires not only changes in the form, the order and procedures but also large changes enough in terms of content; meanwhile, institutional reform has mainly been administrative reform, although it is necessary and strong enough in many areas, it has not yet been an institutional breakthrough, so it is difficult to create an institutional breakthrough. Some ministries and ministerial agencies only cut their administrative procedures under great pressure from the Government and from the public opinion in a running-by-case, lack of methodical manner.

Secondly, there remains a big gap between declared directions, policies and viewpoints from the Party, the state and actual implementation; lack of sanctions to ensure enforcement.

- A series of reasonable and right guidelines and policies in the Party's resolutions have not been implemented, such as the policy of improving institutions for markets of production factors, ensuring the market play its main role in effectively mobilizing and allocating resources; allocating resources according to market principles into highly effective industries, sectors and regions; undertakings on the role of the state, the market in a socialist-oriented market economy in Vietnam, etc.

- Many policies have been issued; however, their implementation has been slow or low effective. Many legal regulations have been issued but their enforcement is low, especially the inspection and examination activities. The Government 's Resolution No. 35 (in 2016), Prime Minister's Directive No. 20 (in 2017) and Directive 07 (in 2018) all emphasized that enterprises must not be inspected and inspected more than once a year. The enterprise

inspection is only carried out in cases of real necessity and there must have a decision of the head of the competent agency. But the reality is very different. 6.42 percent of enterprises said that they were inspected more than 5 times a year, even in some localities, 13.2 percent of enterprises stated that they were inspected more than 5 times a year; 10.76 percent of enterprises said the content of inspection and examination teams was duplicated. Similarly, the deployment of building national databases and data connections among ministries and ministerial agencies in order to solve the essential problems for people and businesses, avoid inconvenience, procedures and reduce related costs, has been set but has not been implemented, etc.

Thirdly, the awareness of the role of the state and the market in the economy is not clear enough, the state has not properly, fully and effectively performed its roles and functions.

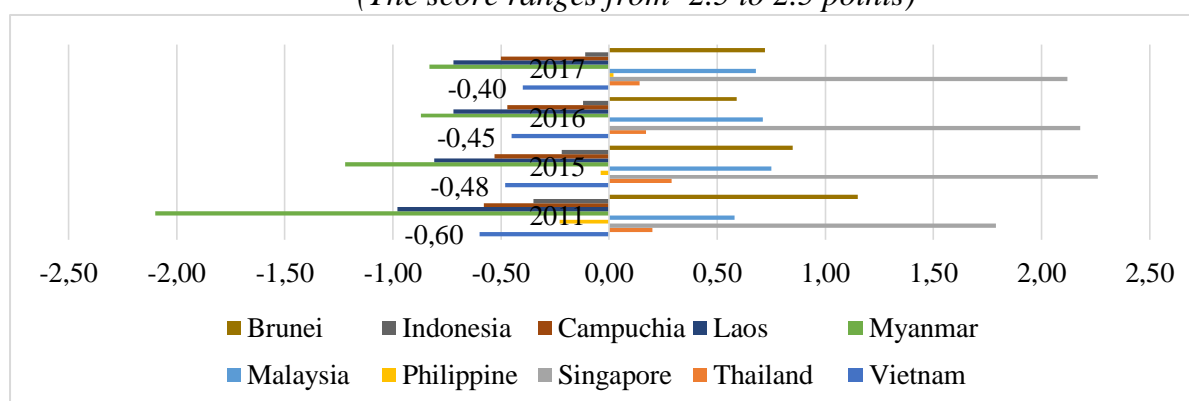
Although the Party's resolutions clearly and reasonably define the role of the state and of the market; however, in many cases, the state has not performed its duties well.

- The state still takes over many functions of the market and other entities¹⁰⁴. The state also intervenes in the role and functions of other entities, especially enterprises. The state uses administrative orders to interfere in market activities. Meanwhile, the state has not paid adequate attention and has not well performed its functions, especially in building legal framework and effective law enforcement, development assistance, etc. The state lacks monitoring tools and mechanisms to ensure that entities participating in market relations must comply with the approved "rules of the game", typically in the field of planning, investment, construction; food hygiene and safety; environment, etc.

According to the World Bank's WGI Data, although there has been improvement, the score and percentile rank of Vietnam's regulatory quality is still quite low and much lower than many countries in the region like Singapore, Brunei, Malaysia, etc.

Figure 35. Scores on the regulatory quality of the ASEAN countries

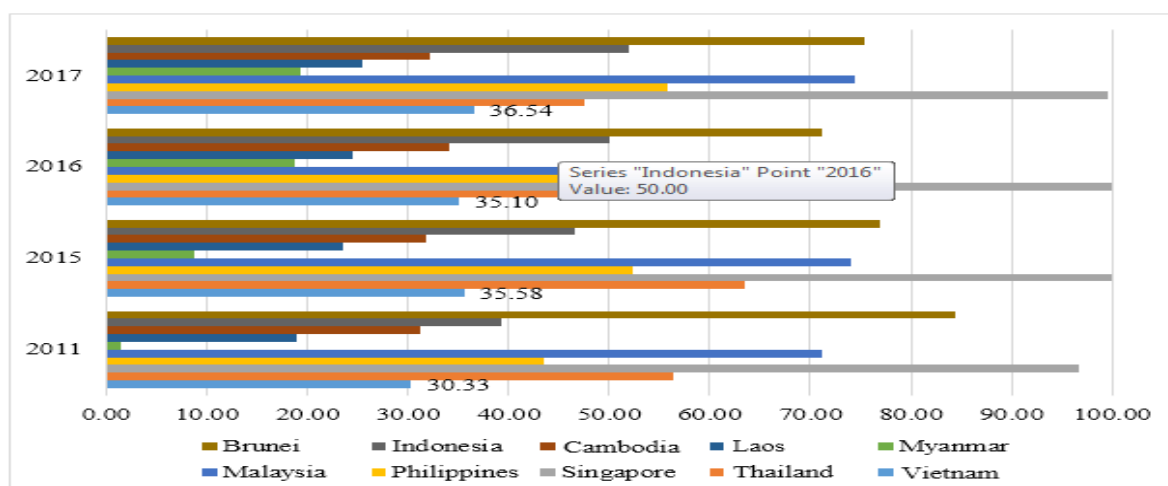
(The score ranges from -2.5 to 2.5 points)



Source: WGI (2019)

¹⁰⁴ For example, the case of advertising on buses in Ho Chi Minh City. Advertising on buses is actually a business activity. Being a business, the state agency cannot understand the market and be sensitive about it as an enterprise. The Department of Transportation should always assign businesses to explore the market and advertise themselves. The management agency only needs to give specific regulations on the size, color and advertising content for enterprises to implement.

Figure 36. Percentile ranks of the regulatory quality index of the ASEAN countries
(0: lowest percentile rank; 100: highest percentile rank)

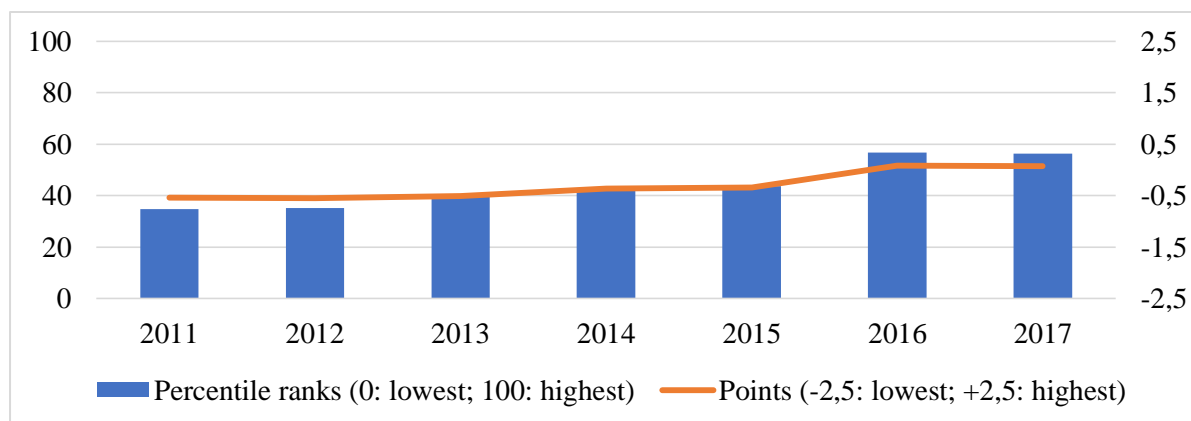


Source: WGI (2019)

This shows that the quality of legal documents is still a barrier for improving the quality of economic institutions in general and of business environment in particular.

Similarly, although law enforcement has improved, it is still quite limited. The law enforcement index or rule of laws is also evaluated as being in low level, both scores and percentile ranks.

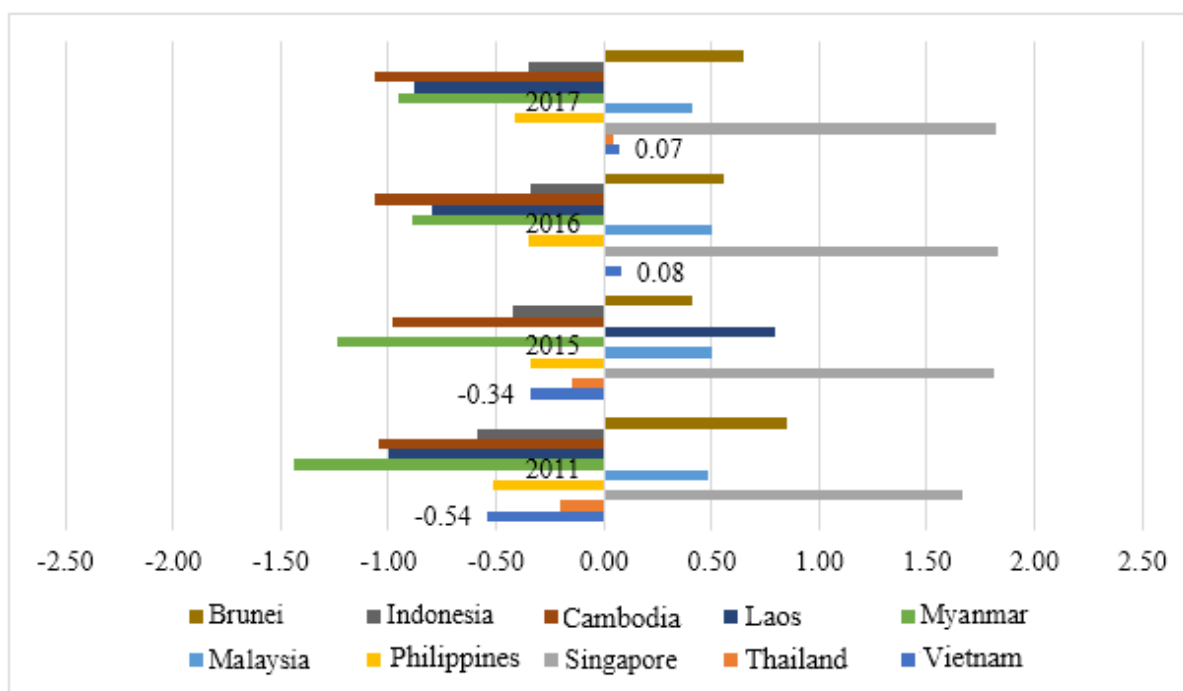
Figure 37. Scores and percentile ranks of Vietnam's rule of law, 2011-2017



Source: WGI (2019)

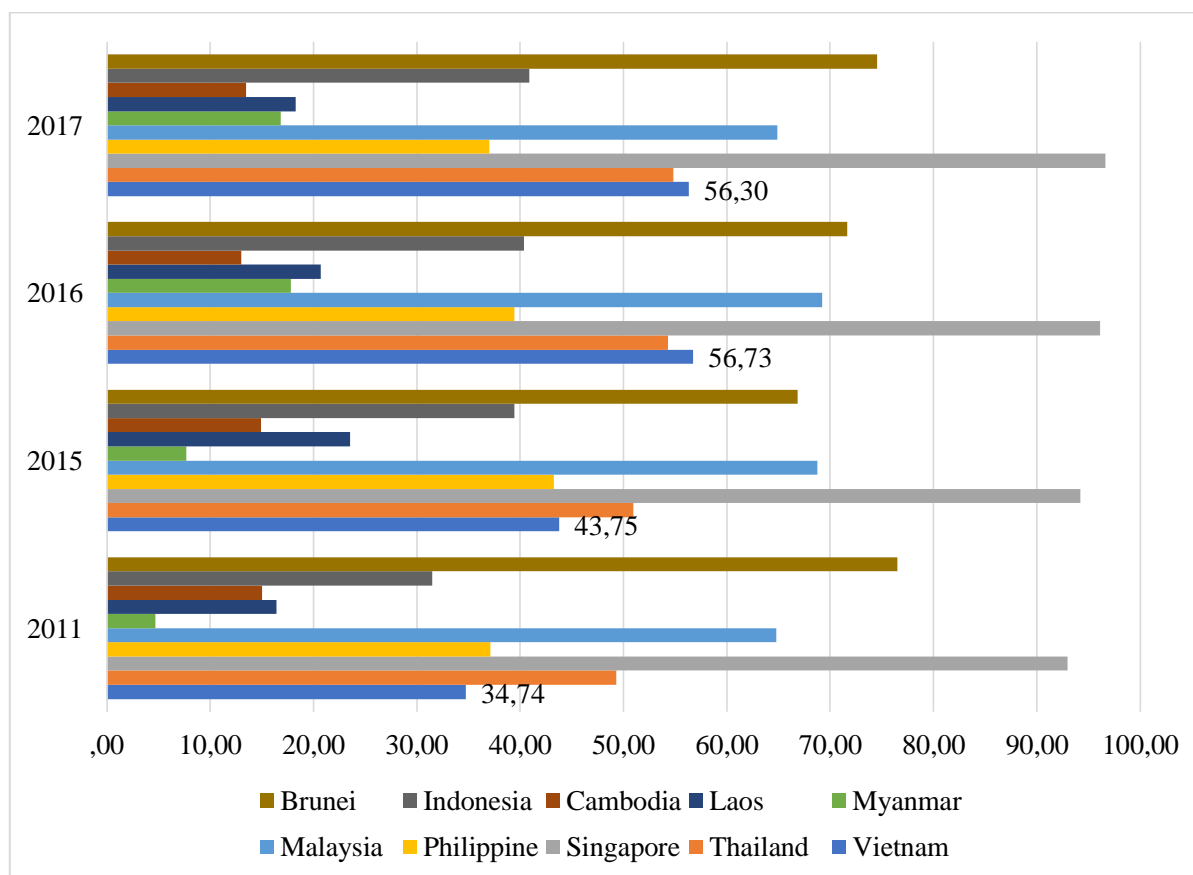
Compared with other ASEAN countries, the law enforcement index is also quite low, especially much lower than Singapore and Malaysia.

Figure 38. Scores of ASEAN countries's rule of law
(Point spectrum from -2.5 to 2.5 points)



Source: WGI (2019)

Figure 39. Percentile ranks of ASEAN countries's rule of law
(0: lowest percentile rank; 100: highest percentile rank)



Source: WGI (2019)

- The state management has not kept up with requirements of the development of the market economy, science and technology and international integration. Many regulations have not fully complied with the rules of the market economy, especially in resource allocation, price management of public goods and services; fair competition has not been ensured. Old thinking is still used to manage new business models; database system is incomplete, lack of publicity, transparency, etc.

- The current way and tools applied in the state management are in favor of the controlling and owning state, not developmental state. The main management tools are the system of licenses, approvals and similarities which occur through a multitude of administrative procedures, bureaucracy with very complicated, troublesome and expensive records, orders, procedures, etc. The second management tool is inspection and examination, including general inspection and examination; specialized inspection and examination; inspection and examination by central agencies; inspection and examination by local agencies at all levels. The current state management way and tools are giving public employees too much power and opportunities to intervene arbitrarily in business activities without effective power control mechanism. This is a root cause that makes the laws and policies misleading, disfiguring and unpredictable. At the same time, this is also a root cause of petty corruption, troubling and pressing to people and businesses.

In summary, the Party's policies on the state-market relationship and the task of strategic breakthrough in economic institutions have been implemented and achieved many positive results. However, the state-market relationship still has many issues that need to be solved; improving economic institutions is not really breakthrough, the achieved results are not commensurate. The basic reason is that the awareness and mind-sets of the socialist-oriented market economy are unclear, transition to a market economy is slow and not definitive, the delineation and institutionalization of the role of the state, of the market in the system of legal documents is unclear, the implementation is not thorough and lacks of sanctions.

PART 4: CONTEXT, GOALS AND SOLUTIONS FOR THE 2021-2030 PERIOD

4.1. New context and conditions impose requirements of and impact on the state-market relationship and institutional reform in Vietnam in the 2021-2030 period

4.1.1. Cooperation and competition trends in the world

The cooperation and competition trend between the US (the Western) and China might turn into the confrontation trend. In nature, this is a competition and confrontation between two ideologies, two value systems: the capitalist market economy led by the market, by the private sector versus the state-led economy.

The US-China trade war has changed the state-market relationship. In practice, the state has encouraged the private sector (the market) to participate in the trade war, the state also interferes and participates more in the market.

The US-China trade war has a significant impact on Vietnam's exports and economic growth; thus, requiring the state to strengthen its management capacity in building technical barriers and quality control of imported goods, particularly, avoiding the Chinese goods moving into Vietnam and then exporting to the US market with brands from Vietnam.

In order to minimize external impacts, Vietnam needs to persevere with the process of economic institutional reforms. Accelerating the institutional reform will create more motivation and reduce unreasonable costs for enterprises, so they can be more assured of the state as an "accompanying partner" in difficult context.

4.1.2 Great development of science and technology, especially digital technology

- The 4th Industrial Revolution is developing rapidly, non-traditionally, with profound and multidimensional impacts on the world's political, social and economic systems, creating a differentiated development structure, based on high technology and digitization. Science and technology, innovation is increasingly becoming a decisive factor for the competitiveness of each country. Science and technology achievements of the 4th Industrial Revolution have been creating a comprehensive change in all aspects of our lives, from institutions, laws, state management methods, methods and models of production, consumption, social and cultural life. Making good use of science and technology development achievements will be an opportunity to create development breakthrough. This requires the state to play its important role in creating institutions to encourage innovation and protect intellectual property rights, etc. It also requires a modern technology strategy and a comprehensive policy system. In other words, a modern and synchronized institutions must be formed.

- The 4th Industrial Revolution also poses challenges to the state governance, requiring that every government must be changed to adapt to new trend, new opportunities and must change its governance approach as well as its relation to the market. The adaptability of the state agency system will determine the development of each nation. The strong development of digital technology creates a diversified, multi-dimensional information network which is easy to control and monitor from different entities. The state must adapt by changing and building a transparent and efficient operation mechanism, promoting the development of e-government.

- New technology, especially digital technology, is capable of creating new business models, changing trade models as well as global value chains, etc. It requires the state institutions and management methods to be adjusted accordingly.

- The 4th Industrial Revolution affects directly each cadre and civil servant, forcing them to change themselves, to improve their own professional skills, especially to grasp the current information technology in order not to be backward with the strong development of digital technology.

4.1.3. International economic integration and International Commitment

Vietnam is integrating deeply into the world economy. By the beginning of 2019, Vietnam participated in 16 free trade agreements (FTAs), of which 13 had been signed¹⁰⁵ and 3 was in negotiation¹⁰⁶.

International commitments, especially of new-generation FTAs such as CPTPP, EVFTA, lead to decrease of the size and scope of state participation in the economy. New-generation FTAs require eliminating discrimination, and creating a fair competition environment. The participation in international economic integration with new-generation FTAs implies the compliance with economic institutions, standards and regulations at high level. CPTPP and EVFTA set out requirements to improve state management capacity, ensure high transparency and great accountability.

Extensive international integration and trade liberalization has created a great pressure in the domestic market which requires the state to implement synchronizedly many solutions, to use management methods and tools in a smarter way in order to protect domestic market and integrate into international market, to build an independent and autonomous economy, and to combine the promotion of internal resources and taking advantage of external resources.

4.1.4. Market development, especially the development of domestic private sector, has become important economy motive

A vigorous development of the private sector requires the economic institutions and the state-market relationship to change accordingly. The developed private sector can afford to provide many public services which were previously undertaken by the state. By transferring and authorizing the private sector to provide public services, the State will mobilize resources to develop and improve the quality of public services. Accordingly, the State should focus on implementing its key functions and tasks, especially vigorously renovating administrative policies and procedures, creating institutions to promote the growth of private sector. Then, private sector will become main partner to implement trade agreements and become the main strategic force to contribute to the nation's prosperity development.

4.2. Goals and solutions for the period of 2021-2030

4.2.1. Goals

Improving the quality of institutions of socialist-oriented market economy; forming modern and comprehensive economic institutions; better solving the state-market relationship; promoting innovation and creativity for stronger growth of the country;

¹⁰⁵ Include: ASEAN - AEC, ASEAN - India, ASEAN - Korea, ASEAN - Hongkong, ASEAN - Japan, ASEAN - China, ASEAN - Australia/ New Zealand, CPTPP (TPP 11), Vietnam - Chile, Vietnam-Korea, Vietnam - EAEU, Vietnam-Japan, Vietnam - EU (EVFTA)

¹⁰⁶ RCEP (ASEAN + 6), Vietnam - EFTA, Vietnam - Israel

overcoming the middle-income trap by 2025; shortening the gap with developed countries; becoming a middle-income country by 2030 and a high-income country by 2045

4.2.2. Main solutions

4.2.2.1. Continue to clarify the content and unify the awareness of the socialist-oriented market economy in Vietnam, and accelerate the transition to a full, modern, comprehensive and integrated market economy according to international practice

(i) Continue to affirm the socialist-oriented market economy that Vietnam is building up, is a full and synchronously operating economy in accordance with the rules of the market economy, while ensuring the socialist orientation to each development stage of the country; is a modern market economy in international integration; under the management of the socialist rule of law state, led by the Communist Party of Vietnam, aiming at "rich people, strong country, democracy, justice and civilization".

- The modernity, uniformity and international integration of Vietnam's socialist-oriented market economy are shown in the selective inheritance of mankind's achievements in market economy development, summarized experience from practice over 30 years of innovation; having a legal system, mechanisms, policies and market factors, full and comprehensive market types, smooth operation and close association with economies in the world. The role and functions of the state and the market are determined and implemented in accordance with common international practices, principles and standards.

(ii) Implementing a definitive transition to a full, modern, comprehensive and integrated into international economy, clearly defining the roles and functions of the state and the market to solve the state-market relationship, building a developmental state to serve the market, enterprises and people.

- Determining the roles and functions of the state and the market; clarifying when and how the state intervenes in the market, and by which appropriate tools; simultaneously, the state interventions do not distort market relations.

Fundamentally, redefining the role of the state in relation to the market and the role of the public sector in relation to other sectors in the economy. It is clear that after more than 30 years of renovation, Vietnam economy has completely changed. Perhaps, the most important change is that the economy has become very open and the ownership structure has changed fundamentally. With the strong development of the private sector and the participation of the FDI sector, the contribution of the non-state sector to GDP has reached nearly 70 percent. This requires the state to redefine its role, which must be consistent with the principle that the state only does what the private sector does not allow to do, does not want and/or cannot do.

Focusing on institutionalizing, concretizing guidelines set in the Party's resolutions. They are, as follows: The state plays a role of orienting, building and improving economic institutions; creating a fair, transparent and healthy competition environment; using the state tools, policies and resources to guide and regulate the economy, to promote production, business and protect natural resources and environment; developing cultural and social fields. The market plays a key role in effectively mobilizing and allocating resources, is the main driving force to free up production power; the state resources are allocated according to strategies and plans suitable to the market mechanism.

- In addition to macroeconomic management, the state must ensure fair distribution of resources to promote the well-being of the people; ensure social justice, focus and give priority to social issues so that no one should be left behind in the country's development process, no one is pushed to the edge of reform and development.

- Principles for performing the role of the state:

+ Protection of consumers' interests should be considered as an ultimate goal. The level and scale of market competition and fair competition should be a center of economic laws, policies, in general and economic sectors, in particular.

+ All organizations and individuals have their own business freedom and creative freedom. The institutional system must ensure full business and creative freedom as well as realize innovative ideas and proposals.

+ The state management of the economy must follow the principles of serving development, for development and keeping up with the development process.

- Improving attitude and manner of state management towards good governance. The state, citizens, enterprises and social organizations are equal partners, together participating in solving social and development issues.

- The state management activities must be output oriented. Citizens and businesses should be considered as customers and customer satisfaction should be considered as a measure of the efficiency and effectiveness of the state management.

- Properly respecting the "economic" function of the state, continuing to create business opportunities for people and enterprises through accelerating equitization and divestment of state capital in sectors and fields where the private sector can do; encouraging and supporting the private sector to participate or invest in the industries where the private sector currently cannot be able to do.

- The state should continue to create a legal framework and improve fundamental elements to develop synchronously factor markets which contribute to mobilizing and allocating resources in accordance with market principles.

- In terms of the state apparatus: The Government should allow society, markets and businesses do what they can do. The Government should focus on core tasks. The ownership functions over enterprises must be quickly removed from line ministries. Line ministries should focus on institutional reform in their specialized fields.

- Changing the philosophy or mindset about state management. The mindset of "controlled state" should be replaced by "regulatory state when necessary", i.e. market mostly self-regulates. Replacing the thought of "the scope of doing business by citizens and enterprises depends on capability of the state management" by "the state management must not limit the development, must serve development, promote development, for development, etc.". There should not have limits and legal barriers of innovation and creativity of people and businesses.

- Actively reforming the state with a focus on building a developmental state for the development and building a smart state with building digital or e-government.

4.2.2.2. Reforming mindset and identifying focus of institutional reform

(i) Reforming the mindset of strategic breakthroughs in institutional reform as a basis for implementing the proposed solutions

Institutional breakthroughs are the establishment, supplementation and change of the system of rules and regulations, first of all, official legal rules; access to the values of the market economy and new trends of the world in order to implement economic reforms, promote the transformation of Vietnam's economy to a full and modern market economy.

Institutional breakthroughs are changes that are big, fast and strong enough to remove institutional bottlenecks; create a great leap of transition to a full and modern market economy.

Institutional breakthroughs require not only the changes in the form, order and procedures, but also strong changes in content with new mindset, new visions; removing barriers, minimizing formal and informal costs to promote entrepreneurship of people and enterprises; and creating favorable conditions for people and enterprises to develop in the context of the 4th Industrial Revolution and international economic integration.

(ii) Identifying the focus of strategic breakthrough in economic institutions

To achieve the goals by 2025, 2030 and 2045, it is necessary to create an institutional breakthrough to increase investment and promote productivity to renew growth momentum. The productivity of economy is mainly determined by the productivity of enterprises. Therefore, **the institutional strategy breakthrough needs to focus on creating a favorable environment to help enterprises improve their productivity, development and competitiveness.** The main contents are, as follows:

Firstly, improving the institution for the development of private sector as an important driving force of the economy. Specific solutions are, as follows:

- Researching and developing a Master Plan for private economic development.
- Developing clear, stable and predictable policies and legal systems for enterprises to have confidence in compliance and implementation:
 - + Focusing on handling bottlenecks that hinder the development of the private economy; reviewing and deleting all unsuitable business conditions. Continuing to improve business environment to enable firms to compete and grow.
 - + Completing legal framework and policies to eliminate weak enterprises so that low-productivity enterprises can easily exit the market. The policy priorities are to revise the bankruptcy policy framework in order to have efficient insolvency framework.
 - + Promulgating tectonic mechanisms and policies to develop strong private economic groups; create conditions for private enterprises to have big desire and go bigger.
- Creating a favorable environment; building and encouraging the formation and development of innovation centers and start-ups; guiding and training, improving management capacity, production organization capacity as well as ability to apply new technologies; building an ecosystem to encourage entrepreneurship and encouraging businesses to renovate, innovate business models, upgrade businesses effectively in order to create a strong wave of entrepreneurship and business spirit in society.

Secondly, improving institutions to promote and improve the quality of SOE reform, completing SOE restructuring, improving the efficiency of using state capital and assets invested in enterprises:

- Issuing specific action plans and sanctions for ending the restructuring process of the SOE sector.

- SOE reform process focuses on not only equitization of SOEs, divestment of state capital in enterprises, but also corporate governance, business autonomy enhancement and SOEs' operation under market mechanism, fair competition, and operational efficiency, etc.

Thirdly, improving institutions for strongly development of factor markets.

Building and implementing action programs on developing and improving factor markets so that these markets play a key role in mobilizing and allocating resources in the economy, including markets of land use rights (especially the markets of agricultural land use rights), natural resource markets, financial markets (especially capital markets), labor markets, S&T markets, and markets of state exclusive products and services.

Fourthly, focusing on renovating state governance; solving the state-market relations; creating a developmental State for the market to operate effectively; promoting innovation and creativity:

- Improving the effectiveness and efficiency of governments at all levels; clearly defining functions, tasks and responsibilities between the central and local governments; among ministries, ministerial agencies and localities; avoiding the situation where one must consult around and easily leads to distorted decisions, losing opportunities not only for enterprises but also for localities; clearly defining the competence and responsibilities of organizations and individuals in performing each function and task, especially ensuring the autonomy and self-responsibility of local governments.

In other words, it is necessary to clearly establish the accountability of the administration and civil servants at all levels. All government policy options need to be explained and reasoned. If the policy is wrong or the policy implementation fails, leading to negative consequences, in those situations, the specific responsible person must be identified. Tasks of any level are fully taken responsible by the authorities at that level. They have full competence over the assigned work in order to avoid overlap of functions among central government, localities, agencies, and then avoid buck passing, overlap, confusion, and hindrance in operations.

Good governance requires transparent government and the exercise of power in compliance with rule of law. The planning and implementation of policies must be supervised by elected bodies, the press and voters, and comply with the law, according to the principle of "the state agencies can only do the things permitted by law".

- Focusing on reforming and streamlining the state organizational apparatus, standardizing the quality standards of officials and public employees.

- Innovating state management towards post-inspection. Following post-inspection, the state only intervenes to overcome market failures, manages based on collecting, analyzing information, assessing risks of management subjects and how people and businesses comply with the laws.

Reviewing and concretizing each law on state management in each field in accordance with the functions of the market mechanism. Reviewing and clearly defining what the state needs to manage for each management content. The questions that need to be answered are: Is this a matter of the state or the market? Why should the state manage and achieve what purpose? Etc.

- Focusing on building and implementing e-government thoroughly, towards digital government. Building and operating national online public services, connecting all online public services from local to central, towards specific identification of each public administrative service, uniformly applied across the country.

- Issuing and enforcing power control mechanisms.

CONCLUSION

After more than 30 years of renovation, especially over the past 10 years, along with the transition to a socialist-oriented market economy, the awareness of the state-market relationship has become clearer. Handling the state-market relationship has achieved positive results; the socialist-oriented market economy institution is getting improved, making an important contribution to improve the competitiveness and efficiency of economic activities, promote growth and development. However, during actual implementation process, there remain many issues that need to be addressed to handle the state-market relationship, and to perform the task of strategic breakthrough in economic institutions.

The report on "Relationship between the state and the market and institutional reform in Vietnam" systematically assesses what has been done, what has not been done, not yet done well, then identifies the problems in the coming journey.

However, there are still many issues that the Report has not fully covered. Due to the time limit and the scope of the study, the Report only focuses on considering the relationship between the State and the market, not taking into account the social components in the relationship between the State, the market and the society. The Resolution of the 5th Plenum of the XIIth Party Central Committee emphasizes not only the relationship between the state and the market but also the social components in this relationship and requires to identify and properly implement the right position, role and function in line with the market economy. Similarly, improving the socialist-oriented market economy institution has many contents; this report focuses on the tasks of economic institutions set out in the Socio-Economic Development Strategy 2011-2020.

It is hoped that further researches will expand the scope of the study to analyze, fully evaluate, and complete every aspect of the state, market and social relations and the content of institutional improvement towards socialist-oriented market economy./.

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