



Aus4Reform Program



POLICY BRIEF

STRENGTHENING THE CAPACITY OF VIETNAM'S PRIVATE SECTOR IN THE NEW STAGE

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Vietnam's private sector is increasingly asserting its role and position in the economy with important contributions to economic growth, investment, employment, income, etc. With many mechanisms and policies issued, creating conditions for the private economic sector to develop, some large private economic groups have been formed and developed, demonstrating their capacity, brand, and position in the country, the region and the world. *From the perspective of competitiveness*, the private sector has an increase in terms of number of entities and scale. The number of private sector enterprises in the TOP 10, TOP 50, TOP 100 largest enterprises in Vietnam has increased yearly. Level of technology, of organization and management has been improved. Many businesses have linked and cooperated with each other to create synergy to contribute to the protection of Vietnamese brands and the domestic market. There are businesses that can participate in regional and global value chains. There have been businesses and entrepreneurs reaching out to the world and the region. *From an operational efficiency perspective*, the total net revenue and profit before tax of the private sector have increased significantly over the years. The profitability index of large private enterprises increased sharply, narrowing the gap with foreign-invested enterprises. There were private enterprises in the Asia's 200 Best Over A Billion. The private sector makes important contributions to national economic development, especially in investment, economic growth, state budget revenue, job creation and income for workers, contributing to raising people's living standards. The private sector makes an important contribution to the implementation of sustainable development goals and always accompanies all levels of government from central to local levels to fulfill social responsibilities, clearly reflected in the Covid-19 pandemic from the beginning of 2020 until now. Looking at the ability to adapt to "shocks" such as the Covid-19 pandemic, many businesses and business households have promptly adapted and seized opportunities to find new directions, apply technology solutions, restructure production and products, and stand strong during the Covid-19 pandemic.

Despite the improvement, the capacity of the private sector is still limited. Low competitiveness with weak internal capacity has been slowly improved. The private sector is large in number, but mainly small and micro-sized. Their technology level, management level is not high; their ability to link and cooperate in business is limited, capacity to participate in regional and global value chains is weak. The performance of the private sector is low and uneven. Business performance indicators of private sector enterprises are lower than those of SOEs and foreign-invested enterprises, especially profitability performance indicators such as ROA, ROE and ROS. Low profitability affects the ability to self-accumulate and scale up - a "vicious cycle" for the private sector. The contribution of the private sector has not really corresponded to

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<sup>1</sup> See <http://aus4reform.org.vn> for details.

the number and size and has not properly reflected the potential if looking at the tax contributions of business households and the GDP contribution of the business sector. *Resistance ability in front of "shocks"* such as the Covid-19 pandemic is limited. Private entities are heavily affected by the Covid-19 pandemic, especially in difficulties in cash flow and customer access. The situation of closing and suspending business became common situation.

The limitations in capacity building of Vietnam's private sector due to various reasons, in both the private sector itself and the mechanisms and policies. In fact, internal weaknesses are both a limitation and a cause of hindrance to the capacity building process of Vietnam's private sector. The private sector is popularly small and medium, with thin capital, fragmented operations, low level of technical equipment, low management and administration skills, lack of business experiences, and limited knowledge of the legal system; spontaneous and unsustainable activities. In addition, there are mechanisms and policies that make businesses and business households "afraid" to be big. Supporting policies are not really effective or slow to be implemented, making it difficult for businesses to access. The effectiveness and efficiency of state management is not high, administration is inconsistent among levels and localities, especially during the Covid-19 pandemic, the business environment still has many problems, the discrimination against the private sector is still quite common.

The study focused on assessing the current situation of capacity of Vietnam's private sector, identify main limitations and propose policy solutions to strengthen the capacity of Vietnam's private sector in the new stage, especially in the context of the implementation of Documents of the 13th Party Congress, the implementation of new-generation free trade agreements and the serious and long-term impacts of the Covid-19 pandemic.

In the new period, especially the period 2021-2025, Vietnam's focus is on implementing the resolution of the 13<sup>th</sup> Party Congress with many important policies related to private sector development. In addition, international economic integration, the strong development of science and technology as well as the long-term impacts of the Covid-19 pandemic create many opportunities as well as challenges in improving the capacity of Vietnam's private sector.

The most obvious opportunity is that there is a huge potential for the private sector development with high growth when the target is set to have about 1.5 million acting enterprises and the private sector's contribution to GDP is about 55 percent by 2025; and about 2 million acting enterprises and the private sector's contribution to GDP is about 60-65 percent by 2030. Meanwhile, currently, Vietnam's private sector only accounts for about 40 percent of GDP (private sector enterprises contribute less than 10%); SOE reform continues to promote towards reducing the size, quantity; and FDI attraction is selective. The private sector has many opportunities to develop and improve its capacity from international economic integration through many opportunities to penetrate international markets and access development resources

from outside. Opportunities or pressures require Vietnam's private sector enterprises to reorganize their production to meet the strict requirements of the market as well as the requirements of improving the competitiveness of their goods and services, promoting cooperation, joint ventures and associations. International economic integration also requires perfecting institutions, creating a favorable environment for business entities, including private economic entities to operate. In addition, the Covid-19 pandemic opens up many opportunities for the private sector to adjust its production and business model to adapt, especially in applying the achievements of the Fourth Industrial Revolution.

However, improving the capacity of Vietnam's private sector also faces many challenges. They are risks and challenges created by the long-term and severe impacts of the Covid-19 pandemic such as labor supply disruption (especially skilled labor), disruption of the supply chain of goods and materials, the risk of production stagnation, difficulty in restoring production in a short time, delay in orders, loss of market, decrease in demand, etc. In addition, the private sector is also under great competitive pressure from international economic integration, in both domestic and international markets. The strong development of science and technology also puts pressure on the private sector to adapt and avoid falling behind in the application of technology to production and business, affecting competitiveness and performance of enterprises and business households. Limited human resources are also a big challenge for the private sector in applying technology and transforming production models.

To improve the capacity of Vietnam's private sector, main groups of policy solutions are, as follows:

• ***Short-term solutions***

Effectively implement policies to support businesses and employees due to the impact of the Covid-19 pandemic, especially the Government's Resolution No.68/NQ-CP dated July 1, 2021 on a number of policies to support employees and employers facing difficulties due to the Covid-19 pandemic in order to contribute to the recovery of production and business, minimizing the negative impacts of the pandemic, and stabilizing production, ensuring life and safety for workers. In addition, the authorities at all levels need to have supportive policies to retain workers in economic and industrial centers or to support businesses in organizing the return of workers who have returned home. In addition, it is necessary to focus on solving problems and difficulties arising for businesses affected by the Covid-19 pandemic, such as having unified regulations (on a national scale) on regulations on epidemic prevention and control, avoiding causing congestion in the transportation of goods and materials, injecting enough vaccines for workers; remove difficulties in cash flow such as continuing to extend, postpone or reduce taxes, fees, costs, debt structure; facilitate enterprises to access new loans to restore production and business, etc.

• ***Medium and long term solutions***

In the medium and long term, the following solutions should be focused. They are: Continuing to amend, supplement and perfect mechanisms and policies to improve the business investment environment, promote production and business development, and improve the capacity of economic entities; Promoting technology application and development, innovation, digital transformation, take advantage of the achievements of the Fourth Industrial Revolution and promptly respond to global uncertainties; Promoting private sector enterprises to deeply participate in domestic, regional and global value chains, effectively taking advantage of new-generation free trade agreements with the development of a number of private economic groups with large, strong potential, regional and international competitiveness, leading domestic and international supply chains and value chains; strengthening the connection and linkage along the value chain between private sector enterprises and foreign-invested enterprises; Promoting the development of medium and large-scale private enterprises; encourage and support the private economic sector to build and develop brands, improve governance capacity, technological level, commercialize research results, transfer technology to help private enterprises develop; Renovating state management, improve the efficiency of management for the private sector, consider market actors, including private sector actors, as well as customers to be served are both an object of management, improving the capacity and quality of the contingent of civil servants and public employees in the spirit of arousing the aspiration to develop the country, the willingness of Vietnamese people in general and Vietnamese enterprises in particular; Improving the quality of human resources for enterprises; conduct training and re-training so that employees can adapt to the new context; Implement policies on gender equality, promote the development of women-owned enterprises, and empower women economically.

**• *Recommendations for Vietnam's private sector***

In order to take advantage of opportunities as well as overcome limitations, the private sectors themselves need to focus on improving the quality and scale to ensure enough large scale to meet the quality requirements, building Vietnamese brands. Enterprises need to coordinate with each other, gather businesses in the same industry to improve their competitiveness, and share opportunities and difficulties; promote technology application, implement digital transformation to improve productivity and quality, adapt to uncertainties such as natural disasters, epidemics, etc.