



DEVELOPMENT OF PRIVATE ENTERPRISES OF VIETNAM IN CURRENT CONTEXT

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Abstract:

With the efforts of businesses themselves and the government's supportive policies, in recent times, the private business force in our country has clearly demonstrated its dynamism, creativity and role as an essential catalyst for economic growth, creating jobs, improving people's life quality, etc. However, reality shows that this type of economy still has many limitations, difficulties and challenges. This article focuses on generalizing private enterprises and the development of private enterprises in our country through stages, identifying the constraints and problems facing private enterprises in our country at present, thereby proposing several solutions and recommendations to strongly promote the development of this critical type of enterprise in our country in the near future.

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1. Overview of private enterprises

1.1 Concept

In Vietnam, the Enterprise Law 2005, the Enterprise Law 2014 and the Enterprise Law 2020 all stipulate that "A private enterprise is an enterprise owned by an individual and is solely responsible with all its assets for all activities of the enterprise". Although private enterprises (PTEs) do not meet the criteria for assets, like other business enterprises, PTEs are also organizations with their own names recognized by the State (granted a Business Registration Certificate) and also aim to seek profits.

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1.2 Legal characteristics

PTEs have two outstanding legal characteristics, namely: (1) only owned by one individual and (2) no legal entity status.

- A PTE is solely owned by an individual or, in other words, it is the property of one owner. All capital for establishing the enterprise is invested by only one individual, so the PTE does not have its own assets. The assets used for business activities still belong to the owner. Assets for the operation of the enterprise remain under the ownership of the business owner. Business owners have full authority to decide business activities because they do not have to share the power of "disposition, use" with any organization or individual.
- PTEs do not have legal entity status: PTEs cannot independently participate in legal relations on behalf of enterprises, but the business owner will represent them in these relationships.

1.3 Role

In Vietnam, if developed in the right direction, PTEs will increasingly show some important roles:

- **Contributing to promoting national development**
PTEs directly create products that meet the needs of people in society, exploit and mobilize maximum resources among the people to invest in production and business development, create added value, contribute to the State budget, promote economic growth and increase incomes for the population.
- **Creating jobs for society**
With a dynamic and fast-growing business model, PTEs are creating more and more jobs for workers, thereby reducing unemployment, poverty alleviation, improving people's lives, enhancing gender equality (when women participate and lead businesses increasingly), limiting migration into urban areas, contributing to the country's socio-political stability.
- **Promoting economic restructuring and division of labor**
The development of PTEs will strongly promote the economic restructuring and social division of labor towards industrialization and modernization, forming a new entrepreneurial team, making use and exploiting all resources of the country, making contribution to meeting the needs of society and developing the industry in the most optimal way.
- **Improving economic efficiency**
If developing in the right direction, PTEs will gradually form large companies and corporations with an increasingly growing scale of multi-field and multi-industry operations, maintaining stability and creating more advantages in the competitiveness of the economy in the process of international economic integration, form a team of dynamic, creative, efficient entrepreneurs and a system of businesses that compete or link up to develop.

- **Positively impacting on the reduction of development gaps between regions and localities nationwide**

Because PTEs can fully meet the small needs of the economy - even in places where large enterprises of other economic sectors do not want to invest - especially in remote and extremely difficult areas (with scattered small raw materials, low education levels, inadequate infrastructure as well as mechanisms and policies), so they contribute to helping these regions narrow the gap with others nationwide.

2. Overview of the development of PTEs in our country through periods

2.1 Before 1986

Before 1986, Vietnam's economy operated under a subsidized bureaucratic central planning mechanism with the model of the former Soviet Union and the socialist system. Accordingly, the private economy was not officially recognized, was even intended to *"quickly turn the private capitalist economy into state-owned economy..."*, leading to its gradual elimination, PTEs are not recognized and facilitated for development.

2.2 1986-1990

At the end of 1986, the 6th National Congress of the Communist Party of Vietnam took place with the policy of comprehensive reform of the country, openly recognizing the PE sector. This is considered an important step forward in renewing our Party's economic thinking, and the period of 1986-1990 was the initial phase in the history of Vietnamese PTEs after liberation. During this stage, the private economy was re-established, allowing PTEs to exist and be recognized in the Party's guidelines and state policies. However, due to many remaining policy barriers, people were still cautious about establishing businesses, resulting in a modest number of PTEs and limited private economic development.

2.3 1990-1995

After the Private Enterprise Law was officially passed by the National Assembly and took effect on April 15, 1991, PTEs began to play a key role in the private capitalist economy. However, due to the preliminary and incomplete nature of the Private Enterprise Law and the Company Law of 1990 and the underdeveloped development policies, the private economy did not significantly grow during this period, with around 20,000 PTEs nationwide.

2.3 1995-2000

In addition to the Private Enterprise Law and the Company Law, Vietnam issued several directives, resolutions and policies encouraging private economic development during this period, enabling PTEs to achieve remarkable growth. According to the General Statistics Office, the number of PTEs increased from 1995 onwards, reaching about 21,000 by 1996. In particular, the Enterprise Law passed in 1999 clearly stipulated the establishment, management and operation of three types of enterprises, including PTEs.

This led to significant changes in the private economic sector, with 20,548 PTEs (81.38% of the total number of enterprises) by 1999, contributing 10.49% of the total capital and 9.6% of the labor force.

2.4 2000-2005

This was the period when the Party and State paid considerable attention to the PE sector through the promulgation of the Enterprise Law 1999 and many important policies. As a result, many limitations were addressed, market entry conditions were relaxed and the number of PTEs grew significantly, mobilizing substantial capital for production and business activities, thereby contributing to the growth of gross domestic product and state budget revenue, scaling up the national economy, creating jobs and addressing other social problems.

2.5 2005-2010

The private economic sector (comprising individual, smallholder and private capitalist economies) was officially recognized as a crucial economic component, being an important driver of the economy at the 10th National Congress of the Communist Party of Vietnam in April 2006. This period saw the Enterprise Law truly liberating and promoting the entrepreneurial spirit among Vietnamese people, with a focus on transitioning from state-owned enterprises to joint-stock companies and PTEs. The number of PTEs grew significantly, with about 70,900 newly established PTEs annually).

2.6 2010-2015

During this period, approximately 122,500 new PTEs were established annually and their capital scale and capabilities improved considerably. By 2015, the contribution of the domestic private sector to the total capital of the business sector reached 49.77%. However, the complex global situation, financial crises and economic recessions posed challenges to the business environment, leading to a growing gap between the number of registered businesses and those actively operating (according to the General Statistics Office, by 2015, only 427,000 PTEs were actually operating, accounting for 49.5% of the total registered businesses).

2.7 2015-2020

A notable development policy of the Party was Resolution 10-NQ/TW of the 12th Central Committee in mid-2017, which emphasized that "*developing a healthy private economy according to market mechanisms is an objective and urgent requirement in the process of perfecting institutions and developing the socialist-oriented market economy in our country.*" Consequently, several policies facilitated private economic development, resulting in a rapid increase in the number of PTEs. From 2015 to 2020, the number of new PTEs increased to 122,500 annually, totaling 660,055. PTEs significantly contributed to the state budget, particularly from 2017 to 2020, surpassing the contributions of state-owned enterprises and foreign-invested enterprises.

2.8 2020-2023

In order to continue implementing Resolution No. 10-NQ/TW dated June 3, 2017 of the 5th Conference of the 12th Central Executive Committee on "developing the private economy to become an important driving force of the socialist-oriented market economy", the Government issued many important decisions in the direction of facilitating the development of this largest economic sector. However, the prolonged impact of the COVID-19 pandemic significantly reduced the resilience of businesses, leading to a sharp increase in the number of PTEs exiting the market (up by 20.5% in 2023). Despite this, compared to many countries worldwide, timely policy responses to the pandemic resulted in a positive growth rate in the number of enterprises, with PTEs reaching 694,180 in 2021, 764,868 in 2022 and 803,211 in 2023, corresponding to growth rates of 5%, 10% and 5%, respectively.

3. Limitations in the development of PTEs in our country in the current period

3.1 Limitations in scale

Since the recognition of the PE sector and the introduction of various appropriate development policies by the State, the number of PTEs in Vietnam has continuously increased. The number of PTEs among the top 10, 50, 100 and 500 largest enterprises in Vietnam has also risen over the years, with improvements in technology levels and organizational management.

However, in terms of scale, this type of enterprise remains quite modest, as reflected in two indicators (calculated by the author from the data in the White Paper on Businesses 2023):

- **Regarding labor scale**

The average number of employees per PTE in Vietnam is currently about 13, which is only 3.1% compared to foreign direct investment (FDI) enterprises and 2.52% compared to state-owned enterprises (SOEs);

- **Regarding capital scale**

With an average capital of about 44 billion VND per PTE, this scale is considered very small, only 10.43% compared to FDI enterprises and 0.08% compared to SOEs.

3.2 Limitations in structure

According to data from the Ministry of Planning and Investment:

- **Structure by scale**

The vast majority of PTEs in Vietnam are small and micro-sized (accounting for up to 94%), while medium and large PTEs constitute an insignificant proportion (only 6%) and have grown very slowly over time. Additionally, the number of small PTEs upgrading to medium size and medium PTEs to large size is very low. This certainly negatively affects the ability to specialize, innovate in science and technology and the quality of goods and services of the enterprises.

- **Structure by region**

According to research by the Development Strategy Institute - Ministry of Planning and Investment, although PTEs are present in over 83% of provinces and cities nationwide, among the top 500 PTEs, up to 375 are concentrated in the Red River Delta and Southeast regions, while the total number of top PTEs in other regions is only 125 (accounting for 25% of the country).

3.3 Limitations in resources

In addition to the limitations in labor and capital scale mentioned above, other resource factors of PTEs are also very modest, specifically:

- **Quality of human resources**

This is a central resource, playing an extremely important role in the development of each type of enterprise. Despite having a small workforce of skilled workers and a competent, agile management team capable of adapting well to increasingly fierce competition, most of the labor force in PTEs (especially in small and micro enterprises) has low productivity. According to the General Statistics Office, in 2022, the labor productivity of Vietnamese PTEs was about 274 million VND per worker per year. Moreover, the management skills and experience of business owners are also limited, significantly affecting the efficiency and sustainability of the enterprises. Limitations in skills, experience and expertise from both employees and business owners reduce the ability to overcome other challenges, thereby limiting the development opportunities of this economic sector.

- **Financial resources**

According to the 2022 PCI report by VCCI, financial resources are a major challenge for PTEs, with 55.6% of enterprises considering it their biggest concern in 2022 (up from 34.8% in 2019, 40.7% in 2020 and 46.9% in 2021). By 2022, only 17.8% of enterprises had loans from banks or credit institutions. Additionally, financial management skills are a weak point for PTEs, often leading to issues such as growth-driven financial planning, excessive spending on sales (leading to income-expenditure imbalances), inaccurate profit calculations, delayed payments (affecting cooperation opportunities) and improper tax management.

- **Material and technical facilities and scientific and technological level**

Due to limited capital, PTEs (especially small and micro-sized ones) often prioritize investing in production materials or business inputs over machinery, equipment and technology. As a result, these factors are often outdated and inadequate, failing to meet the demands of the ongoing "digitalization" and the robust Fourth Industrial Revolution. This is a common situation for over 60% of PTEs; those with modern technology and machinery account for only about 25%. This also explains why most PTEs have not yet participated in the global value chain.

3.4 Limitations in research and product development capabilities

In the current context of increasingly fierce competition, enterprises with distinctive and high-value-added products have a development advantage. However, PTEs (PTEs) are relatively weak in this area. Common issues for PTEs include products that do not closely align with consumer needs and a lack of creativity in research and product development. This limits their ability to capture domestic users and poses difficulties in targeting export markets. Many PTEs even stagnate with their existing products, making it easy to fall behind and unable to compete with dynamic and agile competitors.

3.5 Limitations in international integration capabilities

In recent years, many PTEs in Vietnam have engaged in global economic integration activities, not only in export-import operations but also in overseas investments. According to the General Statistics Office, PTEs have constituted a significant portion of exports, driving Vietnam's growth. However, there is a general trend of declining total import-export turnover for PTEs. In 2022, total export turnover was around USD 65-67 billion, with PTEs accounting for only about 18% of the country's exports. This indicates the modest position of Vietnamese PTEs in international trade activities.

3.6 Limitations in market research capabilities

Due to limitations in resources, market research activities of Vietnamese PTEs have not been adequately invested in. Some enterprises do not fully understand or invest properly in market research and strategy development, leading to difficulties in finding potential markets and making incorrect decisions regarding market development. The 2022 PCI survey by VCCI and research results from the General Statistics Office both indicate that Vietnamese PTEs have faced significant difficulties in finding markets for their goods and services. One of the main reasons for PTE dissolution or temporary business suspension is the challenge in market and suitable supplier discovery. Particularly in 2023, the Vietnamese business community, including PTEs, faced significant difficulties and challenges due to a considerable decline in export markets.

3.7 Limitations in business linkage capabilities

The level of linkage and cooperation among Vietnamese enterprises is generally low and has not formed a cohesive network. PTEs tend to operate independently, especially from state-owned enterprises (SOEs) and foreign direct investment (FDI) enterprises. Due to the low starting point and internal capacity of the private economic sector, combined with institutional environment issues, inconsistent legal frameworks and inadequate policies, the ability of PTEs to link with enterprises in other economic sectors remains very limited. This prolonged situation not only hinders the development of PTEs themselves but also weakens the entire enterprise system of the national economy.

3.8 Regarding business efficiency

In fact, the limitations in resources for PTEs lead to limitations in business efficiency. Due to their small scale, the business efficiency of PTEs is the lowest compared to SOEs and

FDI enterprises. Indicators such as ROA, ROE, ROS, capital turnover, average labor income, labor productivity and the number of profitable enterprises are all at the lowest levels, while the rates of loss-making enterprises and debt indices are the highest. Specifically, the average labor income in PTEs is only 62.7% compared to SOEs and 72% compared to FDI enterprises. The average labor productivity of PTEs is only 34% of that in the SOE sector and about 69% of that in the FDI sector. Moreover, only 48.3% of PTEs are profitable, while 40% are loss-making. The proportion of micro-enterprises that can maintain and accumulate capital for reinvestment and expansion is very low and although the number of large enterprises is significant, they only contribute 10% to the GDP.

4. Some solutions to promote the development of PTEs in our country by 2030

In order to continue promoting its role, overcoming limitations as well as overcoming difficulties, solving problems of PTEs in the current competitive and integration environment and achieving the above-mentioned goals, our country needs synchronous solutions from both the State and PTEs themselves. Accordingly, it is necessary to pay attention to some of the following key solutions:

4.1 Solutions from enterprises

In order to improve the quality of human resources, enterprises need to have specific plans for recruitment and retraining to improve long-term labor productivity. They should allocate job positions and implement appropriate remuneration policies to fully utilize employees' strengths and potential while aligning with the enterprises' financial capabilities.

In order to improve the level of financial management, when setting growth targets, enterprises must consider various perspectives to ensure achievable goals. They should focus on cost-saving measures, anticipate potential expenses to stabilize pricing and accurately calculate profits. Timely payments should be made to avoid long delays and business owners must maintain a clear understanding of cash flows. Additionally, staying updated on tax changes and informing employees will help manage expenditures and avoid adverse tax implications.

In order to overcome the limitations of material and technical facilities, scientific and technological levels and product research and development in the current limited budget conditions, in the coming time, enterprises need to consider when allocating expenditures, paying more attention to investment in facilities - especially equipment modernization in order to: meet the requirements of Industry 4.0; Applying new technological achievements to production, striving to produce goods of international quality, meeting the requirements of deeper integration into the world economy of our country. In addition, PTEs need to really pay attention to the goal of digitizing businesses to help save operating resources; improve operational efficiency, enhance competitiveness; save time, space, costs and personnel for document management;

ensure data security and greening businesses; successfully launch comprehensive digital transformation business.

PTEs also need to determine: the production and quality of products are the decisive factors for the success of the business and the investment in product research and design is a long-term direction, the design of product packaging and brand identity is a very important stage of the business. For improving production and business efficiency, PTEs need to determine the quality and price of goods and services; carefully select input factors such as machinery and equipment, technology, access to investment areas, land, warehouses, raw materials ... in accordance with the financial capacity of the enterprise.

The role of the market for goods and services is crucial to the success of any enterprise. To expand market reach, PTEs must fully understand market information and forecast domestic and international consumption trends. Enterprises need to proactively seek markets, particularly before making investment decisions, conducting market research to identify target markets suitable for their capabilities.

To overcome the limitations in linkage, PTEs need to realize that linkage is an important solution to develop a business (because it will bring great benefits, compensate for the shortfall of each party from coordination with partners, is an important solution to help businesses maximize resources, create competitive advantages, help the parties develop together...), thereby clearly defining development strategies associated with business linkage; proactively connecting and enhancing participation in activities to connect domestic and foreign enterprises.

4.2 Solutions from the State

In order to help PTEs overcome limitations, improve production and business efficiency, competitiveness and make the PE sector really become an important driving force of the economy, besides the efforts of PTEs, state management agencies need to effectively implement several basic solutions as follows:

- Determinedly implement the six groups of solutions for sustainable development of PTEs as outlined in the "Sustainable Development Plan for the Private Sector until 2025, with a Vision to 2030," aiming to promote quality and efficient growth of the private sector, creating a solid foundation and important motivation for rapid and sustainable socio-economic development.
- The State should guide the improvement of labor productivity, develop human resources for innovation and entrepreneurship, fundamentally reform the education and training system to align with practical activities, ensuring equal conditions for PTEs, state-owned enterprises and FDI enterprises to develop an economy with a balanced structure.
- The Government should strongly and regularly support PTEs by issuing policies encouraging the establishment of PTEs; narrowing the fields of conditional business, enabling PTEs to invest and develop in sectors and locations not prohibited by law, in line with socio-economic development strategies for each period.

- Promote innovation and support PTEs in enhancing competitiveness, helping them integrate globally by making breakthroughs in improving the investment and business environment towards advanced global standards; drastically reform administrative procedures and policies that hinder private/small and medium-sized enterprises; encourage large PTEs to establish and deeply participate in global value chains.
- Strengthen the linkage between PTEs and other types of enterprises in the direction of forming dialectical and mutually supportive relationships between enterprises in the economy.
- Implement policies to develop business incubators; reduce startup-related risks and costs; assist PTEs with production sites, market information and market expansion, especially new export markets; promote international cooperation to create business cooperation opportunities and support the search for foreign partners; support innovation and technological advancement, modernization of technical infrastructure; provide tax support and access to suitable preferential capital sources.
- In order to succeed in supporting PTEs to develop the market, the State should effectively implement the content and support levels stipulated in Articles 22 and 25 of Decree No. 80/2021/ND-CP (including "Support for account maintenance costs on e-commerce platforms"; "Support for costs of renting locations, designing and setting up booths, transporting display products, travel, accommodation costs for enterprise representatives participating in trade promotion fairs and exhibitions domestically and abroad"); Strengthen the role of market management agencies, trade counselors in countries in providing accurate market information services to businesses, making them accessible when providing goods and services to the market (both domestic and foreign).

5. Conclusion

In conclusion, developing the private economic sector is an objective necessity in our socialist-oriented market economy. Despite continuous efforts by PTEs and various State support policies, the development of PTEs in Vietnam still faces significant limitations and negative impacts. Hopefully, with the comprehensive implementation of the above solutions, the development of PTEs will contribute to making the private economic sector a crucial driving force for economic growth, helping the country achieve its goal of becoming "a developing country with modern industry and high average income by 2030" as set forth by the 13th Party Congress.

Conflict of Interest Statement

The author declares no conflicts of interest.

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