

The development of the private sector as a key driver of the economy: policy orientation and practical implications

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Abstract: *In the context of shifting the growth model toward greater depth and deeper international integration, developing the private sector into a key driver of the economy has become an imperative for Vietnam. This article analyzes the role of the private sector within a theoretical framework of productivity-driven growth, resource allocation efficiency, and spillover effects across economic sectors. The study employs qualitative, synthetic, and comparative methods based on secondary data from policy documents, socio-economic reports, and relevant research materials. The findings indicate that the private sector has achieved significant progress in scale and participation in higher-value-added sectors. However, its role as a sustainable growth driver remains constrained by several limitations, including the enterprise size structure, labor productivity, technological capacity, access to resources, and the level of linkage with the foreign direct investment (FDI) sector. On this basis, the article proposes several policy implications, including improving institutional frameworks to promote greater transparency and accountability, fostering innovation and digital transformation, strengthening value chain linkages, and developing medium-sized enterprises.*

Keywords: *Private sector; growth driver; productivity; institutions; FDI linkages.*

1. Introduction

In the context of Vietnam entering a new stage of development characterized by the need to transform its growth model from extensive to intensive development - based on productivity, innovation, and institutional quality - the identification and effective mobilization of growth drivers have become decisive factors for achieving sustainable development. Within this

framework, the private sector has increasingly been recognized by the Party and the State as an essential component of the socialist-oriented market economy. In particular, Resolution No. 68-NQ/TW issued by the Politburo in 2025 further affirms the role of the private sector not only in terms of the number of enterprises, employment generation, or its contribution to GDP, but also in relation to the quality of growth and

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the efficiency of resource allocation within the economy.

However, identifying the private sector as an “important driver” of the economy requires careful examination based on criteria that reflect the intrinsic characteristics of growth drivers, rather than relying solely on indicators of scale or absolute contribution. From the perspective of development economics, an economic sector is considered a driver when it demonstrates the capacity to generate productivity above the average level, utilize resources efficiently, and create positive spillover effects to other sectors through production linkages, technology transfer, and market expansion. Within this analytical framework, although Vietnam’s private sector accounts for a substantial share of enterprises and employment, it still exhibits notable limitations in labor productivity, capital efficiency, and participation in higher-value-added segments of global and domestic value chains.

These limitations become even more evident when the private sector is examined alongside the foreign direct investment (FDI) sector. Empirical evidence indicates that linkages between domestic private enterprises and FDI firms remain relatively weak, and comprehensive supply networks and cooperative mechanisms have yet to be sufficiently developed to generate strong spillover effects in technology, management practices, and market standards. The absence of effective mechanisms to promote such linkages has constrained the private sector's capacity to improve productivity and build endogenous capabilities, thereby limiting its potential as a key driver of the overall economy.

From a policy research perspective, previous assessments of the private sector in Vietnam have often been influenced by a descriptive approach focused primarily on enterprise scale, in which the predominance of small and micro enterprises is frequently

regarded as a structural constraint. However, in the context of the digital economy and the expansion of innovation-driven startup ecosystems, small scale does not necessarily equate to low efficiency. The core issue today does not lie in the existence of small enterprises per se, but rather in low labor productivity, limited capital accumulation and concentration, and weak capacity to scale up to medium- and large-enterprise levels. Therefore, assessing the role of the private sector as a growth driver should be grounded in indicators that reflect resource-use efficiency, total factor productivity, and participation in value chains, rather than relying solely on enterprise size.

Against this analytical background, this article examines the development of Vietnam’s private sector from the perspectives of institutional conditions and economic efficiency to clarify the prerequisites for the sector to become a truly important driver of the economy. The private sector is not analyzed as an isolated component but is examined in its interactive relationships with the FDI and state sectors. On this basis, the article identifies institutional, policy, and implementation barriers that continue to constrain the private sector's leading role and proposes systematic, feasible policy orientations for the next stage of development.

2. Research methodology

2.1. Analytical framework

This article adopts a multidimensional approach that combines theoretical policy analysis with perspectives from state management practice to promote private-sector development. From a theoretical standpoint, the study examines the development of the private sector in relation to the transformation of the growth model, the improvement of socialist-oriented market-economy institutions, and the need to enhance the effectiveness and efficiency of state governance.

At the same time, the study employs a systems approach to analyze the private sector not as an isolated entity but as a component within the broader economic system. In this context, the private sector interacts with the state sector, the foreign direct investment (FDI) sector, and the institutional environment. This analytical perspective allows for a comprehensive examination of the role of the private sector in relation to factors such as institutional quality, the business environment, and the state apparatus's capacity to implement policy.

2.2. Data collection methods

The study primarily relies on secondary data sources. These include: (1) Party documents and the system of state policies and laws related to private sector development; (2) Socio-economic reports and specialized reports issued by the Government, ministries, sectors, and research institutions; (3) Official statistical data published by national statistical agencies; and (4) Scientific research works and articles published in relevant academic journals.

The use of diverse data sources aims to ensure comprehensiveness, reliability, and cross-verification in the analytical process.

2.3. Analytical methods

Based on the collected data, the study primarily employs qualitative analysis. Policy analysis clarifies the objectives, content, and mechanisms by which policies promoting private sector development exert their impact, while also assessing the degree of alignment between policy orientations and practical implementation outcomes.

In addition, the analysis focuses on clarifying the private sector's role and contributions to economic growth, employment generation, and innovation. At the same time, it identifies institutional, policy-related, and implementation constraints that continue to affect the effectiveness of private sector development.

2.4. Synthesis and generalization

The synthesis method is applied to systematize theoretical perspectives, research findings, and policy implementation practices. Through this process, the study derives generalized observations regarding the conditions required for the private sector to become a sustainable driver of economic growth. Rather than merely listing information, the synthesis aims to establish logical relationships among institutional factors, productivity, and the efficiency of resource utilization.

2.5. Comparative method

The study applies comparative analysis in two dimensions. *First*, a temporal comparison is conducted to examine changes in the role and position of the private sector across different stages of development. *Second*, a comparison between policy objectives and orientations and the actual outcomes of policy implementation is undertaken in order to identify the policy gap. This approach helps clarify the bottlenecks in both policy design and implementation, thereby providing a basis for proposing appropriate policy orientations and implications.

3. Theoretical foundations of private sector development

3.1. Concept and characteristics of the private sector

After nearly four decades of economic reform (Đổi mới), the private sector in Vietnam has gradually expanded in both scale and scope of operation, becoming an important component of the socialist-oriented market economy. With a large number of enterprises and household businesses, this sector currently makes a significant contribution to GDP, state budget revenues, and employment for the majority of the labor force. Beyond its quantitative role, many private enterprises have progressively enhanced their competitiveness and increasingly participated in regional and international markets.

However, to clarify the theoretical basis for evaluating the role of the private sector, it is necessary to distinguish between the legal and economic perspectives.

From a legal perspective, the private sector refers to the economic sector characterized by private ownership of the means of production, in which economic actors include individuals, households, and enterprises not owned by the state. The activities of this sector are recognized, protected, and regulated by the state through the legal system, ensuring equality before the law across economic sectors in accordance with the Constitution and prevailing legislation.

From an economic perspective, the private sector is an integral part of the market economy, operating primarily through market competition and price signals to optimize production and business efficiency. Under this approach, the private sector is defined not only by its ownership structure but also by its role in resource allocation, competition promotion, innovation stimulation, and the enhancement of total factor productivity in the economy. It is from this perspective that the private sector is regarded as a driver of economic growth when it can achieve higher resource-use efficiency and generate positive spillover effects across the economy.

Characteristics of the private sector

First, the private sector demonstrates a high degree of flexibility in production organization and investment decision-making. The relatively concentrated ownership and governance mechanisms enable economic actors to respond quickly to market fluctuations and adjust their business strategies accordingly. *Second*, this sector tends to be highly responsive to market demand, allowing enterprises to adjust products, services, and business models to meet the diverse needs of consumers. This characteristic enhances the overall economy's dynamism and adaptability. *Third*, the private

sector exhibits a diverse enterprise size structure, including household businesses, small and medium-sized enterprises (SMEs), and large-scale enterprises. This diversity provides flexibility and facilitates the mobilization of social resources on a broad scale. At the same time, it also requires differentiated policy approaches to support mechanisms and state management.

In practice, the development of the private sector in Vietnam shows that small and micro enterprises constitute the dominant structure of the sector. However, small scale should not necessarily be regarded as an inherent limitation. In a transitioning economy and amid the expansion of the digital economy, small-scale enterprises may offer advantages in adaptability and entrepreneurial dynamism. The core issue does not lie in enterprise size itself but rather in relatively low labor productivity, limited technological capability, and managerial capacity that has yet to meet the requirements of deeper economic development.

These limitations in productivity and endogenous capacity reduce the efficiency of capital utilization, constrain enterprises' ability to participate in higher-value-added segments of value chains, and hinder sustainable business expansion. Therefore, theoretical analyses of private sector development should shift the analytical focus from enterprise size toward criteria that reflect the quality of growth, productivity performance, and the capacity to accumulate long-term competitive advantages.

3.2. The role of the private sector in the market economy

First, the private sector serves as an important driver of economic growth. In a market economy, a sector is considered a growth driver when it demonstrates the capacity to expand production scale, utilize resources efficiently, and generate increasing

levels of value added. In Vietnam, the private sector currently accounts for a large proportion of enterprises and household businesses, contributing significantly to GDP, state budget revenues, total social investment, and employment for the majority of the labor force. These indicators suggest that the private sector has become a major component influencing both the scale and the pace of economic growth.

However, the driving role of the private sector is not reflected solely in its quantitative contributions but also in its ability to promote structural transformation within the economy. The increasing share of private investment and business activities in sectors such as manufacturing and processing industries, services, commerce, logistics, and digital technologies has gradually reduced dependence on natural resource extraction and other low-value-added activities. In this way, the private sector contributes to the restructuring of the economy toward a growth model increasingly based on productivity and innovation. In addition, the private sector has the capacity to mobilize financial resources from society, particularly idle capital among households, and convert them into productive investment. The combination of autonomy and accountability for business outcomes creates incentives for cost optimization, improved capital efficiency, and stronger market discipline. This constitutes an important factor in improving the efficiency of resource allocation in the economy.

Second, the private sector plays a critical role in creating and expanding the labor market, thereby contributing to social stability. In the context of economic transition and deep international integration, employment is not merely an economic issue but also a fundamental pillar of social stability. With its diverse scale structure and high adaptability, the private sector has the capacity to absorb labor flexibly, particularly low-skilled workers,

young workers, and those transitioning from the informal sector.

The expansion of private investment, enterprise development, and entrepreneurial activities has made the private sector the primary source of job creation in the economy. Employment and income generated by this sector contribute to the expansion of the middle class, strengthen domestic purchasing power, and reinforce internal demand - an essential pillar of sustainable economic growth. At the same time, the development of private enterprises in localities, including rural and mountainous areas, helps diversify livelihoods, reduce migration pressure, and narrow regional development disparities. From this perspective, the private sector carries not only economic significance but also an important social role.

Third, the private sector promotes innovation and enhances competitiveness. In a competitive market, private enterprises face constant pressure on costs, quality, and market share. This competitive pressure serves as a key driver of technological innovation, improvements in management practices, and increases in labor productivity. In particular, small and medium-sized enterprises (SMEs) and innovative startups often serve as sources of new ideas and business models, contributing to the development of an innovation ecosystem.

The profit motive and the need to maintain competitive advantages encourage private enterprises to adopt digital technologies, automation, and modern management methods. This process not only enhances firms' internal efficiency but also generates spillover effects on production standards, product quality, and market organization. At the macroeconomic level, the dynamic development of the private sector strengthens national competitiveness by improving total factor productivity, promoting digital transformation, and deeper integration into regional and global value chains.

Fourth, the private sector contributes to the more efficient mobilization and allocation of social resources. In a market economy, the effectiveness of economic growth largely depends on the capacity to mobilize and allocate resources according to market signals. With flexible ownership and governance structures, the private sector can transform dispersed resources within society - particularly idle capital among households, labor, and knowledge - into productive investment.

The profit incentive and autonomous decision-making mechanisms continuously pressure firms to optimize costs, enhance capital efficiency, and adjust investment structures in response to market changes. Compared with the public sector, private investment tends to operate under stronger market discipline, thereby contributing to more efficient resource allocation at the macroeconomic level. The expansion of the private sector also broadens the tax base and increases state budget revenues, while simultaneously reducing the need for public investment in areas where the private sector can participate effectively. This is consistent with the model of a “developmental state,” in which the state focuses on institutional design, public goods provision, and social welfare, while the private sector serves as the direct driver of economic growth.

Fifth, the private sector serves as a bridge in the process of international integration and globalization. In the context of deepening global economic integration, private enterprises are the primary agents in international trade, outward investment, and global value chain linkages. Through export activities, production cooperation, and technology transfer, the private sector contributes to enhancing Vietnam’s economy’s openness and adaptability to external fluctuations.

Beyond expanding markets, the private

sector also acts as a channel for absorbing and disseminating technology, managerial practices, and international production standards within the domestic economy. This process facilitates value chain upgrading, improves product quality, and increases the knowledge content of economic growth. From a strategic perspective, the emergence of internationally competitive private enterprises strengthens the national economic position in the context of globalization.

Requirements for an analytical approach to evaluating the “driving” role of the private sector

Although indicators such as the share of GDP, investment capital, budget contributions, or the number of employees reflect the scale of influence of the private sector, these descriptive statistics alone are not sufficient to confirm its role as a “driver” in the economic sense. To ensure analytical rigor, such an assessment should be based on indicators that capture the quality of growth and the efficiency of resource utilization.

Among these indicators, the incremental capital-output ratio (ICOR), labor productivity, and total factor productivity (TFP) are particularly important for comparing the efficiency of the private sector with that of the state and foreign direct investment (FDI) sectors. The ICOR reflects the efficiency of investment capital; a lower or declining ICOR indicates the ability to generate economic growth with lower capital costs. Similarly, improvements in labor productivity and TFP growth reflect the quality of growth and the degree of technological advancement within the economy.

In addition to cross-sectional comparisons at a given point in time, time-series analysis is particularly important for assessing the dynamics of the private sector. Examining trends in indicators such as the share of GDP, total social investment, labor productivity, and capital-use efficiency across different periods

allows for the identification of qualitative changes rather than merely recording absolute contributions.

Such an evidence-based approach, grounded in quantitative indicators and comparative efficiency analysis, provides a more robust basis for evaluating whether the private sector has truly become a sustainable and long-term driver of economic growth. At the same time, it establishes a solid analytical

foundation for assessing current conditions and formulating policy recommendations in subsequent sections.

To evaluate the role of the private sector not only in terms of scale but also in terms of growth quality, the efficiency of capital utilization and the contribution of total factor productivity across different economic sectors can be compared as follows:

Table 1. Comparison of growth efficiency and productivity contributions among economic sectors in Vietnam

Economic sector	Share of GDP (estimated %)	Average ICOR	Characteristics of capital utilization	Contribution of TFP to growth
State sector	27 - 29%	6 - 7	Highly dependent on capital investment; low capital efficiency; slow improvement	Low (20 - 25%)
Domestic private sector	50 - 52%	4.5 - 5.5	Higher capital efficiency than the state sector; growth largely dependent on labor and scale expansion	Medium (30 - 35%)
FDI sector	19 - 21%	3.5 - 4.5	Relatively high capital efficiency; better technology and management practices	High (40 - 45%)

Source: General Statistics Office (2023).

Table 1 illustrates significant differences in growth efficiency and productivity contributions among the three major economic sectors in Vietnam: the state sector, the domestic private sector, and the foreign direct investment (FDI) sector.

In terms of GDP share, the domestic private sector accounts for the largest proportion (approximately 50 - 52%), followed by the state sector (27 - 29%) and the FDI sector (19 - 21%). This reflects the private sector's important role in maintaining both the scale and momentum of economic growth.

However, when considering the incremental capital-output ratio (ICOR) - an indicator of capital utilization efficiency - the state sector records the highest ratio (6 - 7), suggesting a strong reliance on capital investment and relatively limited capital utilization. In contrast, the FDI sector has the lowest ICOR (3.5 - 4.5), demonstrating greater capacity to generate growth at lower capital costs, which is associated with relatively higher levels of technology and management capability. The domestic private sector has an intermediate ICOR (4.5 - 5.5), suggesting that its

capital-use efficiency is higher than that of the state sector but still below that of the FDI sector.

Regarding its contribution to total factor productivity (TFP), the FDI sector records the highest contribution (40 - 45%), suggesting that its growth relies more on technological advancement and managerial improvements. The domestic private sector shows a moderate contribution (30 - 35%), while the state sector has the lowest level (20 - 25%).

These data indicate that although the domestic private sector is the largest in terms of scale, the quality of its growth and the extent to which it relies on productivity improvements have not yet reached levels observed in the FDI sector. This implies that enhancing the private sector's driving role requires not only expanding its scale but also improving capital-use efficiency, increasing TFP, and promoting technological innovation to narrow the productivity gap across sectors.

4. Current situation of private sector development in Vietnam

4.1. Achievements

First, the private sector has experienced significant expansion in terms of both the number of enterprises and the scope of economic activities in recent years. The number of private enterprises has steadily increased, accounting for a large proportion of the total number of enterprises operating in the economy. At the same time, the household business sector continues to maintain a substantial scale, while a gradual transition from household-based economic activities to small and medium-sized enterprise (SME) models has emerged. This trend reflects a gradual improvement in the business environment and a shift in public perceptions of the private sector's role.

Beyond quantitative growth, the private sector has made increasingly significant contributions to economic growth and sectoral restructuring. Its share of GDP and total social investment has remained consistently high,

indicating its important role in expanding production capacity and sustaining economic growth. In particular, the growing participation of private enterprises in manufacturing and processing, services, commerce, and digital technology sectors has contributed to the transformation of the economic structure toward higher-value-added activities and reduced dependence on resource extraction.

In the field of exports, the private sector has increasingly demonstrated a more proactive role through the expansion of export markets and deeper participation in global supply chains. Although the FDI sector continues to dominate Vietnam's export structure, the rising share of domestic private enterprises in certain sectors - such as high-tech agriculture, food processing, logistics, and selected supporting industries - indicates improvements in competitiveness and integration capacity.

Another notable development is the emergence and expansion of several large private enterprises and conglomerates operating across multiple sectors and capable of competing in both domestic and international markets. The emergence of these entities has not only enhanced the capacity for capital accumulation and concentration within the private sector but has also generated spillover effects on governance standards, technological adoption, and production linkages with small and medium-sized enterprises. To a certain extent, this development signals that the private sector has entered a new stage, characterized by the emergence of market-leading enterprises.

These achievements demonstrate that the private sector has made important progress in scale, scope of operations, and participation in higher-value-added sectors. Nevertheless, these accomplishments should be assessed in relation to the quality of growth, productivity performance, and the level of linkage with other economic sectors to fully evaluate the substantive extent of the "driving" role the private sector is expected to play.

4.2. Limitations and challenges

Despite the achievements noted above, the private sector in Vietnam still faces several structural constraints that affect the quality of growth and its capacity to become a truly sustainable driver of the economy.

First, the enterprise size structure remains imbalanced, with a shortage of medium-sized enterprises. The majority of private enterprises are small and micro-sized, with limited capital, revenue, and labor. Meanwhile, the number of medium-sized enterprises - often regarded as the “backbone” of a modern market economy - remains relatively modest. This structure reduces the capacity for capital accumulation and concentration, limits long-term investment capabilities, and makes the private sector more vulnerable to macroeconomic shocks and market fluctuations. The issue does not simply lie in the small size of enterprises, but rather in the barriers that hinder their growth, making it difficult for firms to transition sustainably from small to medium and large scale.

Second, productivity levels, managerial capacity, and technological capabilities remain limited. Although the private sector is characterized by high flexibility, its average labor productivity generally remains lower than that of the FDI sector and many economies in the region. Many enterprises continue to rely primarily on low labor costs and subcontracting, while investment in research and development, technological innovation, and digital transformation remains insufficient. In addition, governance models in many enterprises still retain family-based characteristics, lacking professionalism and transparency. This limits their ability to expand operations, access capital markets, and attract high-quality human resources. These constraints hinder private enterprises' ability to participate in higher-value-added segments of value chains, thereby reducing the private sector's potential spillover effects on the broader economy.

Third, access to development resources remains constrained. Private enterprises, particularly small and medium-sized enterprises, continue to face difficulties in accessing credit due to their heavy dependence on collateral requirements and the lack of transparent credit histories. The development of medium- and long-term capital markets for the private sector remains incomplete, thereby limiting firms' capacity to invest in technological upgrading and production expansion. Administrative procedures, informal costs, and the limited availability of cleared industrial land for business activities also constrain access to land and production premises in many localities. At the same time, shortages of skilled labor - especially in high-technology fields and modern management - reduce enterprises' capacity to upgrade technologies and integrate more deeply into value chains.

Fourth, institutional frameworks and the business environment still present several shortcomings. Although administrative reforms and improvements in the investment climate have achieved some results, the policy and legal frameworks governing private-sector development remain insufficiently stable and coherent. Some regulations overlap, change rapidly, or lack clear implementation guidelines, thereby increasing compliance costs and legal risks for enterprises. In terms of policy implementation, differences in policy interpretation and enforcement across localities, as well as uneven administrative capacity within the public sector, affect the predictability of the business environment and reduce investor confidence in long-term investment decisions. These factors directly influence the incentives for private enterprises to expand their scale and pursue innovation.

Fifth, linkages between domestic private enterprises and the FDI sector remain weak. The level of integration between domestic private firms and foreign-invested enterprises remains limited, limiting the potential spillover

effects in technology, management practices, and market access. Many private enterprises struggle to participate in the supply chains of multinational corporations because they do not yet meet the required technical standards, product quality benchmarks, or governance requirements. However, these limitations do not stem solely from domestic enterprises' internal capacity. The current structure of investment incentive policies continues to focus primarily on attracting new FDI through tax, land, and infrastructure incentives, while mechanisms that encourage and require stronger linkages and technology transfer between FDI firms and domestic enterprises remain unclear and ineffective. As a result, some FDI enterprises tend to operate in relatively "enclave-like" structures, generating high-value-added output but with limited spillover effects on the domestic private sector. Moreover, the absence of effective intermediary mechanisms to connect supply and demand - such as domestic supplier development programs, transparent information platforms, or technical assistance for upgrading production standards - reduces the potential for deeper linkages between the two sectors.

5. Policy orientations for developing the private sector as a key economic driver

5.1. Improving institutions and the business environment toward digitalization, transparency, and predictability

At this stage of development, continuing to emphasize policy directions such as institutional reform, administrative simplification, and innovation promotion remains necessary. However, if these orientations remain at a general level without being translated into concrete policy instruments with clear implementation roadmaps and monitoring mechanisms, their spillover effects on the private sector will remain limited.

In practice, many reform initiatives have been repeatedly highlighted in development

strategies over the past decade. The core challenge today is therefore not merely to "continue reforms," but to enhance the quality of reforms in ways compatible with the digital economy, reduce institutional risks, and increase the predictability of the investment environment.

First, regarding access to finance, policy orientation should shift from traditional credit support toward the development of a multi-layered financial ecosystem for the private sector. Establishing regulatory sandbox mechanisms for financial technology (Fintech) models, crowdfunding platforms, and supervised peer-to-peer lending arrangements would help expand financing channels for small enterprises and innovative startups. At the same time, the participation of long-term investment funds - such as private pension funds, venture capital funds, and private equity funds - in the capital market should be encouraged. This would reduce excessive dependence on bank credit and improve the medium- and long-term capital structure available to enterprises.

Second, administrative reform should be pursued through a comprehensive digital transformation of public service delivery, rather than merely reducing the number of administrative procedures. Developing integrated data-sharing systems among state agencies - connecting business registration, taxation, customs, land administration, credit access, and innovation support programs - would help reduce compliance costs, minimize information duplication, and improve transparency. When data are effectively integrated and utilized, institutional risks and transaction costs for private enterprises can be significantly reduced, thereby facilitating long-term investment.

Third, the business environment should be improved to enhance stability and predictability. This requires improving the quality of lawmaking processes in order to

reduce regulatory overlap, prevent abrupt policy changes, and ensure clear implementation guidelines. At the same time, more substantive regulatory impact assessments should be conducted both before and after policy enactment, particularly for policies that significantly affect small and medium-sized enterprises. A stable, transparent, and predictable institutional environment is a prerequisite for enabling the private sector to invest confidently, innovate, and expand its operations.

In summary, improving institutions and the business environment in the current stage should not be viewed merely as administrative reform but rather as a broader restructuring of the relationship between the state and the market toward a developmental state model grounded in data, technology, and transparency. Only when the institutional foundation is strengthened in this direction can the private sector fully realize its role as a sustainable driver of economic growth.

5.2. Promoting innovation and digital transformation in the private sector

In the context of transitioning to an intensive growth model based on science, technology, and innovation, enhancing productivity and the private sector's endogenous capacity must become a central policy priority. Unlike earlier stages of development, when economic growth relied primarily on expanding capital and labor inputs, the current stage requires a greater contribution from total factor productivity (TFP). This places increasing emphasis on investment in research and development (R&D), technological innovation, and managerial upgrading within the private sector.

First, mechanisms supporting private enterprises' access to science and technology programs and innovation funds should be improved to ensure transparency, competition, and results-based evaluation. Science and technology development funds should operate

under a market-oriented regulatory framework, linking financial support to criteria such as productivity improvements, commercialization potential, and the diffusion of technological benefits. At the same time, tax incentives for R&D expenditures, technology investment deductions, and preferential credit for innovation-oriented projects should be designed to encourage long-term investment rather than fragmented or short-term support.

Second, the innovation-driven startup ecosystem should be strengthened in both institutional frameworks and supporting infrastructure. This includes improving the legal framework governing venture capital investment, protecting intellectual property rights, and ensuring the security of property rights and lawful business operations. Clear mechanisms for capital exit and risk-sharing between the state and private investors in innovation projects should also be established in order to encourage venture capital flows. The objective should not merely be to increase the number of startups, but to foster enterprises capable of generating new technologies and high-value-added business models.

Third, digital transformation should be regarded as a key lever for improving productivity in the private sector. Policies should go beyond encouraging technology adoption and should instead support enterprises in developing digital infrastructure, standardizing data systems, and integrating intelligent management platforms. The completion of legal frameworks governing business models based on big data, artificial intelligence, digital platforms, and e-commerce will enable private enterprises to exploit the opportunities emerging from the digital economy fully.

At the same time, in the context of global commitments to sustainable development and emissions reduction, the objectives of green growth and the circular economy should be integrated into policies that support private-

sector development. Mechanisms such as green credit incentives, environmental standards, and sustainability certification schemes can guide enterprises toward investing in clean technologies, improving resource efficiency, and transforming production and consumption models. This is not only an environmental requirement but also an important condition for private enterprises to meet international standards and participate more deeply in global value chains.

In summary, promoting innovation and digital transformation in the private sector should not be regarded merely as a supplementary support measure but rather as a central pillar for improving the quality of growth and long-term competitiveness. Only when productivity and technological capacity are significantly enhanced can the private sector truly assume its role as a sustainable driver of economic development in the new stage of growth.

5.3. Promoting the transformation of household businesses toward higher productivity and sustainable formalization

The transformation of household businesses into formal enterprises should not be approached merely as a measure to expand administrative management. Instead, it should be considered a structural solution aimed at improving labor productivity and promoting the sustainable formalization of the informal economic sector. In essence, the objective of this transformation is not simply to increase the number of registered enterprises, but to improve the quality of production and business activities as well as the ability of economic actors to access development resources.

In practice, the main barrier to this transformation does not lie in household businesses' awareness or willingness, but rather in high compliance costs, institutional risks, and the lack of clear economic benefits from formalization. Therefore, policy design should incorporate an appropriate transition

roadmap that minimizes “institutional shocks” through transitional mechanisms related to taxation, accounting regulations, and social insurance obligations during the early stages after enterprise registration.

More importantly, tangible economic incentives should be associated with the transformation process. These may include preferential access to credit, participation in programs supporting technological innovation, access to production premises, and opportunities to integrate into formal supply chains. At the same time, household businesses should be classified by scale, sector, and transformation readiness to apply flexible policy measures rather than uniform approaches that could generate unintended negative effects. Such an approach would contribute to restructuring the private sector toward greater formalization, transparency, and efficiency.

5.4. Developing large private enterprises and strengthening value chain linkages

Alongside supporting small and medium-sized enterprises, policies for private sector development should also prioritize the formation and consolidation of large private enterprises with strong competitiveness and the capacity to lead market development. Within the framework of competition and anti-monopoly regulations, the state may design conditional support instruments for enterprises with the potential to develop into strong economic conglomerates, particularly in foundational industries, high-technology sectors, and service infrastructure.

The emergence of “leading enterprises” plays a crucial role in spurring spillovers in technology, governance standards, and market linkages for small and medium-sized enterprises. However, support policies must be implemented in accordance with clear criteria of transparency, efficiency, and accountability in order to avoid the creation of privileges or distortions of market competition.

At the same time, policies should promote stronger value chain linkages between private enterprises, state-owned enterprises, and the FDI sector. The role of the state is to establish an appropriate legal framework and incentive mechanisms that encourage cooperation on the basis of equality and mutual benefit. The development of supporting industries, industrial clusters, and market information platforms will create favorable conditions for private enterprises to upgrade production standards and gradually participate in higher value-added segments of value chains.

5.5. Strengthening linkages between domestic private enterprises and the FDI sector through binding spillover mechanisms

In the context of limited public resources for investment incentives, FDI-attracting policies should shift from prioritizing quantity to emphasizing quality and spillover effects. Linking investment incentives with domestic linkage obligations should therefore become a key principle in the coming period.

Specifically, incentives related to taxation, land access, and infrastructure for FDI enterprises can be structured through conditional mechanisms, in which the level of incentives depends on the fulfillment of commitments to linkages with domestic enterprises. Evaluation criteria may include the proportion of local procurement, the number of supply contracts with Vietnamese private enterprises, the level of technology transfer, training of local human resources, or support for upgrading domestic suppliers. This approach would create incentives for FDI enterprises to actively cooperate with domestic partners while simultaneously enhancing the competitiveness of the private sector.

In addition, intermediary mechanisms supporting the implementation of domestic linkages should be further developed. These may include supply chain connectivity centers, national databases of domestic suppliers, and enterprise upgrading programs designed

according to the specific standards of multinational corporations. Reducing information search costs and cooperation risks would increase the feasibility of substantive linkages between the two sectors.

Enhancing the driving role of the private sector cannot be separated from reforms to FDI-attracting policies and the restructuring of relationships among economic sectors. Only when these policies are implemented in a coordinated, transparent, and effectively enforced manner can the private sector fully realize its role as an important driver of the economy in the next stage of development.

6. Practical implications

6.1. For the State and policy-making agencies

The analysis indicates that one of the key factors reducing the effectiveness of policies aimed at private-sector development lies not only in policy design but primarily in policy implementation. Therefore, strengthening the accountability of public authorities should be approached as an institutional and operational issue rather than merely as a matter of administrative ethics.

Accountability becomes meaningful only when it is associated with specific monitoring, evaluation, and enforcement mechanisms. In this regard, independent evaluation mechanisms should be established to assess the implementation of policies affecting enterprises, with the participation of business associations and private-sector organizations in advisory and supervisory roles. The periodic disclosure of indicators reflecting the quality of policy implementation - such as administrative processing time, compliance costs incurred by enterprises, levels of business satisfaction, and the rate of resolution of business recommendations - would create institutional pressure on public authorities to improve service quality.

More importantly, evaluation results should be linked to concrete legal and administrative consequences. Implementation

indicators may serve as criteria in performance appraisal, reward, and disciplinary mechanisms for public officials. They may also be connected to budget allocation, administrative decentralization, or adjustments in administrative authority. When accountability is institutionalized as a regular operational mechanism, the business environment can improve substantively and sustainably.

In addition, policy-making agencies should increase the use of policy impact assessments both before and after the promulgation of legal documents affecting enterprises. Broad consultation with the business community during the drafting stage would help reduce policy risks and enhance the predictability of the investment environment.

6.2. For private enterprises

For the private sector to truly become a key driver of the economy, it cannot rely solely on institutional reforms; it must also actively enhance its internal capacity. *First*, enterprises should improve governance quality to achieve greater professionalism, transparency, and alignment with international standards. Greater transparency in financial disclosure, clearer separation between ownership and management, and the implementation of effective internal control systems will help enterprises enhance credibility, reduce capital costs, and improve market access.

Second, enterprises should shift from a growth strategy based primarily on low-cost advantages toward long-term investment in innovation, technology, and human resources. Enhancing workforce skills, investing in digital transformation, and standardizing production and management processes will directly improve productivity and strengthen the capacity to participate in higher value-added segments of value chains.

Third, in the context of deepening international integration, increasing attention to environmental, social, and governance

(ESG) standards should be viewed not merely as a compliance requirement but also as a source of competitive advantage. Private enterprises should regard sustainable development as a long-term strategic orientation, thereby enhancing their ability to access international markets and high-quality sources of capital.

6.3. For society and intermediary actors

The roles of business associations, professional organizations, and social institutions should be further strengthened within the ecosystem supporting private-sector development. These associations serve not only as bridges between enterprises and the State in the processes of policy formulation, consultation, and oversight, but also play an important role in enhancing their members' capacity through training, advisory services, market information provision, and the promotion of business linkages.

At the same time, fostering and disseminating a culture of integrity in business practices, legal compliance, and fair competition is particularly important. A business environment grounded in social trust and ethical standards can significantly reduce transaction costs, limit opportunistic behavior, and strengthen the foundations for sustainable economic development.

Furthermore, the participation of the media, professional organizations, and the broader community in monitoring the activities of both the public and private sectors can create a form of "soft accountability." Such mechanisms help ensure that the private sector develops in line with appropriate orientations and continues to make positive contributions toward sustainable economic growth.

7. Conclusion

In the context of the transition toward an intensive growth model and increasingly deep international integration, developing the private sector into a key driver of the economy is not only a political and policy orientation but also an intrinsic requirement of the economic

restructuring process. Based on a theoretical framework that views growth drivers through the lens of productivity and the efficiency of resource allocation, this article argues that the “driving” role of the private sector should not be assessed solely through its contribution to GDP or the number of enterprises, but rather through indicators reflecting growth quality, spillover effects, and long-term capacity for accumulation.

From an academic perspective, the article contributes in three main respects. *First*, it distinguishes between a descriptive approach (based on scale) and a structural approach (based on productivity, ICOR, TFP, and spillover effects) in evaluating the role of the private sector. *Second*, it situates the private sector within its interactive relationships with the FDI and state sectors, thereby emphasizing the systemic nature of the analysis rather than examining the private sector in isolation. *Third*, it identifies that the principal development bottlenecks of Vietnam’s private sector do not primarily stem from small enterprise size but rather from limitations in productivity, technological capability, and institutional structures that have yet to create sufficient incentives for firms to scale up and upgrade within value chains.

In terms of policy implications, the article proposes shifting from broad-based support to a policy design approach grounded in conditional incentives and spillover creation. This includes improving institutional frameworks for greater transparency and accountability; developing financial and innovation ecosystems; promoting the formalization of household businesses through tangible economic incentives; and adjusting FDI-attraction policies by linking investment incentives to domestic linkage obligations. These policy orientations aim to ensure that the private sector not only expands in scale but also significantly improves the quality of growth and national competitiveness.

Overall, the article contributes to a more integrated perspective on private sector development in Vietnam by linking growth theory, institutional analysis, and policy practice. When institutional conditions, productivity performance, and economic linkages are improved in a coordinated manner, the private sector will have a stronger foundation to genuinely become a key driver of the economy in the next stage of development.

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