

Private Sector Development: A Comparative Study of China and Vietnam

*Bui Nhat Quang** and *Ha Thi Hong Van***

Vietnam Academy of Social Sciences

Abstract

China and Vietnam have achieved remarkable economic growth since the reforms and opening of their economies (China with its economic reform and opening in 1978 and Vietnam with its economic renovation in 1986). Through the reform process, until now, the two countries have achieved remarkable achievements in economic growth. It is thus necessary to mention the role and contribution of the private sector in each economy. This article aims to analyze and compare the Chinese and Vietnamese policies toward the private sector and roles played by this sector in each economy since these two countries conducted reform and opened their economy until the present. From this comparison, we hope to find out the implications for Vietnam in developing the private sector. The findings of this paper are: (1) in general, China and Vietnam were similar in directions and policy toward private sector development since their launching of economic reform and renovation, respectively, (2) the private sector has contributed to the development of each economy, (3) the contribution of the private sector to the economy in China is much more than the case of Vietnam, especially in export, R&D and transformation of industrial structure.

Keywords: *private sector, development, role*

1. Introduction

China and Vietnam have achieved remarkable economic growth since their reforms and opening of their economies (China with economic reform and opening in 1978 and Vietnam with economic renovation in 1986). The two countries economy was undeveloped when they started launching economic reforms and renovation. Through the reform process, until now, the two countries have achieved remarkable achievements in economic growth. China has surpassed Japan to become the second largest economy in the world since

2010, with an average per capita income of USD9,976 in 2018. Vietnam is also becoming a highly dynamic and open economy with an average current income of about USD2,566 (World Bank, 2019). It is thus necessary to mention the role and contribution of the private sector in each economy. The change in perception of private sector development and policy changes has spurred this economic sector to develop and promote its active role in the economic growth of Vietnam and China. Both countries went from prohibition and restriction of the private sector before the reform and renovation period to legal recognition since the reform and renovation period.

The amendment of China's Constitution in 1982 recognized the private sector as an additional component of the socialist economy. Similarly, Vietnam implemented this in 1990 with the promulgation of the Corporate Law and 1992 Constitution enactment of ownership rights and freedom to do business officially for the first time. So far, along with the economic reform process, the two countries have issued more policies to create favourable conditions for the private sector to develop, promoting their important role in the economic development of each country. This article aims to analyze and compare China's and Vietnam's policies toward the private sector and its role in each country's economy since the reform and opening of their economy to the present.

2. Changing Directions and Policies toward Development of the Private Sector in China and Vietnam

2.1. China

China's 40 years of opening and reform is also associated with 40 years of private sector reform and development. The private sector has gone through periods of ups and downs to gain a strong position in China's national economy at present. From the period of complete prohibition to restricted development, the private sector is then encouraged to develop and become an "important component" of the current Chinese economy. China's private sector has grown steadily, increasingly playing a role in creating jobs for labour, promoting creativity, expanding the scale of goods exports, and improving the standard of living for people in the country.

2.1.1. First Period: Starting from 1978 to 1991

The unitary regime of the state-owned economy from the 1950s to 1978 was quickly demolished after the Chinese opening and reform. In 1978, after the ideological liberation movement, the focus of the 3rd Session of the Chinese Communist Party's 11th Congress was the decision to move China to the

stage of socialist modernization. The individual economy was considered as an indispensable and beneficial addition to the state economy.

In 1980, the Chinese Communist Party Central Committee issued a policy of “encouraging and supporting the proper development of the private sector” at the National Labor and Employment Conference. In related documents, the State Council also pointed out the need to allow and promote competition among economic sectors. The reports of the 12th and 13th Chinese Communist Party Congress both showed encouragement to the development of the individual economy.

The 13th Congress of the Chinese Communist Party pointed out that the structure of the first stage of socialism should be based on public ownership, but it should encourage the development of the private sector. A certain development of the private sector is conducive to promoting production, stimulating the market, expanding employment, and better meeting people's needs in many ways. *It is a necessary and useful addition to the public sector of the economy* (People's Publishing House, Beijing, 1993). It is the first time that the Chinese Communist Party has affirmed that the private sector is a part of the structure of the Chinese economy in the first stage of a socialist regime, and the additional position of the private sector for socioeconomic development was very important. China should introduce a policy to encourage the development of this economic form.

2.1.2. Second Period: Official Development of the Chinese Private Sector (1992 to 2001)

Since 1992, the Chinese private sector was officially developed. The highlight was Deng Xiaoping's famous “Southern Talk” when he visited Wuhan, Shenzhen, Zhuhai and Shanghai provinces. The content of the speech focused on promoting the process of private sector reform. In the same year, the 14th Chinese Communist Party Congress identified the establishment of a socialist market economy institution as a target for reforming China's economic system whereby “the state economy is the main, other economic forms together develop” as the basic motto for the development of the socialist economy of Chinese characteristics in the first phase. In 1993, the State Administration for Industry and Commerce issued “opinions to promote the development of the private sector”, offering measures to encourage the development of the private sector from aspects such as registration, market access, equalizations and business expansion. In 1997, in the 15th Congress of the Chinese Communist Party Report, *for the first time, the non-public sector was considered as one component among China's basic economic sectors*. In 1999, the second session of the 9th People's Congress adopted the constitutional amendment, confirming for the first time that the non-public sector is an important part

of the socialist market economy. Thus, the private sector was upgraded to an important part of the socialist market economy. These adjustments have brought great momentum to the development of the Chinese private sector (People's Publishing House, Beijing, 2000).

2.1.3. Third Period: Promoting and Developing the Private Sector (2002 to the Present)

In late 2001, China joined the World Trade Organization (WTO), and the private sector reform underwent a new chapter. In 2002, the Report of the 16th National Congress of the Chinese Communist Party for the first time *declared the need to encourage, support and guide the common development of the non-public economy*; at the same time, China proposed to implement equal protection of ownership, forming an equal competition for all economic sectors. The revised Constitution of the Chinese Communist Party, adopted in the same year, eliminated obstacles for private entrepreneurs to join the Communist Party. In 2003, the “Decision of the Central Committee of the Chinese Communist Party on number of issues related to improving the social market economic system” was adopted in the 3rd Plenary Session of the 16th National Congress of Chinese Communist Party, providing policies and measures to encourage the development of the private sector, such as law amendments, market relaxation and equal treatment.

Policies and regulations such as “36 Measures to Promote the Non-public Economy”, “Law on Corporate Income Tax” and “Property Law” have been strongly introduced. Policies and legal systems to promote the development of the non-public economy has been increasingly improved. The “36 measures” policy has promoted seven aspects which includes easing market access, strengthening financial support and taxes, improving social services, protecting rights and interests, solutions to improve the quality of businesses, improving the monitoring system and strengthening policy coordination. In 2007, the 5th Session of the 10th National People's Congress adopted the “Property Law of the People's Republic of China” and “The Law on the Enterprise Income Tax of the People's Republic of China” to protect the healthy development of the private sector from two angles: equal protection of public and private property, and equal treatment of domestic enterprises and foreign-invested enterprises. In the same year, the Report of the 17th Chinese Communist Party Congress indicated that “institutional barriers need to be broken” and “promoting the development of individual businesses and small and medium-sized enterprises”. During this period, the main feature of the process of private sector reform is “continuing to encourage, support and guide”. The purpose of these policies is to improve confidence in private sector development, attract talents at home and abroad, promote

the internationalization process of private enterprises, and eliminate unequal treatment toward the private sector.

After the financial crisis in 2008, global economic growth slowed. The sharp decline in international market demand, fluctuations in commodity prices, and rising production costs have greatly influenced the development of the Chinese private sector. The public debt crisis in Europe is getting worse. Trade protectionism has also thus increased and spread, unemployment and inflation remained high, creating obstacles for the recovery of the global economy. Chinese private enterprises are facing an urgent need for a change in growth dynamics in order to create an upgrade in the development process.

The 18th National Congress of the Chinese Communist Party marked a breakthrough in the market access of private enterprises. The Congress report pointed out “the need to encourage, support and guide the development of the non-public economy, ensuring that all forms of economic ownership have equal access to production factors, participating in fair market competition and being protected by the same law” (Xinhua, 2012). In particular, the Chinese Communist Party's 18th Congress Resolution has pointed out: “*The public economy and non-public economy are all important components of the socialist market economy, an important foundation for the socio-economic development of China*”.

“The decision of the Chinese Communist Party Central Committee on profoundly comprehensive reforms of some major issues” was adopted in the 3rd Plenary Session of the Central Committee, stating that the State protects all forms of economic ownership and legal rights. This decision proposes to maintain equal rights, opportunities and rules, abolish unreasonable regulations of different forms for non-public economy, remove barriers, and introduce specific measures for non-public enterprises to participate in franchising. The highlight of this decision is to encourage the development of mixed ownership between the state-owned economy and the private-owned economy, as this benefits the expansion of state capital, adding to the strengths of each economy. These adjustments and emphasis are important for the development and significant improvement in the status of the private sector. Besides, it also has great significance in solving institutional constraints that the private sector is facing (Xinhua, 2017a).

On September 24, 2015, the State Council of China issued “Opinions on Developing a Mixed-ownership Economy for SOEs” to develop measures to support the development of a mixed ownership economy in SOEs. It is considered as an incentive for private enterprises to participate in SOE's reform. In this reform process, the private sector is allowed to be involved in industries that it has been restricted to in the past.

Continuing to deepen the reform of the private sector, the report of the 19th Congress of the Chinese Communist Party pointed out that socialism

with Chinese characteristics has entered a new era. The report proposes a series of new theories, introducing a new big discussion about the healthy development of the non-public economy while continuing to encourage, support and guide the development of the private sector in the new era. The report provided directions on supporting the development of private enterprises and implementing a series of major deployments in market access, property rights and trading systems. These have driven the sustainable and healthy development of the private sector, strengthened confidence in the development of private businesses and marked the development of China's private sector in the new historical chapter. In this period, the main characteristics of private economic reform are "connecting", "easing" and "reducing burden". The goal of most of these policies is to enable high-quality development of private businesses in the new era.

On November 20, 2017, the Ministry of Industry and Information Technology, the National Development and Reform Commission, the China Securities Regulatory Commission and 16 other departments jointly issued the "opinions for guidance on promoting the full role of private investment in promoting the implementation of a strong private production strategy" in recent years. In particular, it emphasizes five measures: improving the supply system, improving the public service system, improving the talent incentive system, improving the management level of enterprises and increasing support in financial aid and taxes. Besides, this guidance also provides innovative financial support methods to improve the level of service of private businesses in a comprehensive way, such as promoting the formation of a competitive market environment, and the sustainable and healthy development of private enterprises (Gao, 2018).

In particular, on November 1, 2018, Xi Jinping chaired a symposium to encourage and support the development of the private sector. In this symposium, he affirmed that China has not changed its policy of encouraging, supporting and guiding the development of non-public economy, and is committed to creating a good environment and providing more for the development of the non-public economy. Xi also stressed that the public and private sector should complement each other instead of being mutually exclusive. *The private sector is an important achievement and force in the development of the socialist market economy.* Xi proposed six tasks that the government needed to implement, encourage and support the development of private enterprises. These tasks include reducing the burden of taxes and enterprise fees; expanding access to financial markets and establishing policy relief funds; creating a level playing field; strengthening policy coordination and developing relevant support measures; strengthening local government support with businesses; protecting the personal safety and property of enterprises (*Zhongguo Keji*, 2018).

With the proposed measures, China is making efforts to improve the development of the private sector, making it possible to expand to the international market, enhance innovation and competitiveness core and form bigger companies with global competitiveness.

2.2. Vietnam

Similar to China, Vietnamese private sector development is also closely linked to the country's economic reform process and marked by each National Party Congress (from the 6th to 12th National Congress of the Communist Party of Vietnam).

At the 6th National Congress of the Communist Party (1986), Vietnam officially acknowledged the existence of the private sector. Before 1986, the main form of ownership in the Vietnamese economy was the state and collective sectors. The private sector existed in the economy in the form of individual enterprises. Nevertheless, since it was not officially recognized by the government, the private sector was mainly in the form of the household economy without legal entities and operated primarily in the "informal market".

In 1986, when Vietnam entered the era of economic renovation, the multi economic sectors were officially recognized in the Vietnamese Communist Party document. Economic sectors include state-owned economy, collective economy, small-scale commodity economy, private capitalist economy, state capitalist economy, and natural self-sufficiency economy of ethnic minority community (Luong and Vu, 2011). In the document of the 6th National Congress of the Vietnamese Communist Party, the existence and operation of non-socialist economic sectors were recognized by the Vietnamese Communist Party under the direction and guidance of the socialist economic sector.

The "multi-sectors economic policy" continued to be consistently implemented by the 6th Politburo and the 6th Plenum's Resolution affirmed in Resolution No. 16-NQ/TW on July 15, 1988. On April 5, 1988, the 6th Politburo issued Resolution No. 10-NQ/TW which showed an important first step for the development of the Vietnamese private sector and paving the way for breakthroughs later on (Nguyen and Pham, 2017).

The Law on Foreign Investment was enacted and took effect on January 1, 1988, creating conditions for a new economic sector to appear, i.e. the foreign-investment sector. In December 1990, Vietnam promulgated the Law on Enterprises and the Enterprise Law to allow the private sector to establish large enterprises.

The 7th Vietnam Communist Party Congress advocated the development of a "multi-sector commodity economy" following socialist orientation, including state-owned economy, collective economy and private sector.

The documents of the 7th National VCP Congress has affirmed: the private sector shall develop especially in the field of production according to the management and guidance of the State and everyone is free to do business according to the law with the protection of ownership and legal income (Dang Cong san Vietnam, 1991: 67). The State continues to encourage the private sector to develop without limits on the scale and location of development in sectors that are not prohibited by law. During this time, Vietnam promulgated the Law on Domestic Investment (1994) to attract more investment capital for economic development.

The documents of the 8th VCP National Congress (June 1996) expressed that the government encouraged all domestic and foreign enterprises and individuals to exploit the potentials and to invest and develop; providing equal treatment to all economic sectors before the law regardless of ownership and form of business organization, creating favourable economic and legal conditions for private businesses to concentrate on their work for the long term (Dang Cong san Vietnam, 1996: 95-97).

From 1986 to 1998, the Vietnam Communist Party's thought and perception toward the private sector had a significant development. Nevertheless, the policies and laws related to this economic sector were still inadequate. In response to that requirement, the Enterprise Law was established in 2000 to eliminate legal discrimination for private enterprises in Vietnam, replacing a series of laws that had existed before with more comprehensive and focused content. In order to facilitate the implementation of the Enterprise Law in 2000, a series of guiding and supporting documents were issued, revolving around issues such as: improving the efficiency and competitiveness of enterprises, abolishing a number of business licences, guiding the implementation of several articles of the Enterprise Law and so on. These legal documents contributed to the creation of a relatively open legal environment for the development of the private sector.

Up to the 9th Party's Congress (2001), the Vietnam Communist Party continued to have new, more complete awareness when affirming the implementation of a multi-component economic policy. In addition to asserting the key role of the state economic sector, the private sector is more important and indispensable in the national economy. Especially, at the 5th Plenum of the 9th Party Central Committee, for the first time, the Party had its Resolution on the private sector. Accordingly, Resolution of the 5th Plenum, Session 9th advocated: continue to renovate mechanisms, policies, encourage and facilitate private economic development, identify "*private sector is an important component of the national economy*". The most notable new point of the Resolution is the policy that: "Party members who own private businesses abide by the Party Charter, and laws and policies of the State are still Party members" (Nguyen and Pham, 2017).

In 2005, the revised Enterprise Law was passed by the National Assembly, making significant progress compared to the Enterprise Law in 2000. The Enterprise Law in 2005 provided regulations for the establishment, management and operation of limited companies, joint-stock companies, partnerships and private enterprises of all economic sectors; regulations on a group of companies with objects of application are enterprises of all economic sectors; organizations and individuals related to the establishment, management and operation of enterprises. The Enterprise Law in 2005 provided a consistent legal framework for enterprises, ending discrimination against businesses by economic sector, and contributed to establishing a fair and equal business environment. Since then, all economic sectors are completely equal before the law.

The 10th National Party Congress (2006) made a breakthrough in the perception of the private sector: *“The private sector plays an important role and is one of the driving forces of the economy”*. The new point of this Congress was to acknowledge that *“the private sector is an important driver of the economy”*. It is the first time that the private sector has been formally identified as an economic component, encouraged to develop, thus enabling the economy to be more harmonious.

The 11th National Party Congress (2011) was determined to complete mechanisms and policies to strongly develop the private sector to become one of the important driving forces of the economy. For the first time, the Communist Party of Vietnam introduced a policy of “facilitating the formation of several private economic corporations” along with state economic corporations. It is an expectation on the development of Vietnam’s private sector and demonstrates the policy of creating an equal environment among the economic sectors of the Communist Party of Vietnam.

To institutionalize the above points of view and policies, the State has issued laws and guiding documents, such as the Law on Natural Resource Tax in 2009, Law on Amendment of Intellectual Property in 2009, Law on State Bank of Vietnam in 2010, Law on Credit Organizations in 2010, and Law on Commercial Arbitration in 2010. Specifically, the Law on Enterprises in 2014 and Investment Law in 2014 are the important impetus that positively impacts the development of the private sector. The Law on Enterprises in 2014 had many significant innovations, especially for the private sector in the spirit of facilitating the development of business freedom, creating a favourable business and investment environment in line with the globalization trend, producing a clear roadmap to promote many newly established businesses. This law shortens the time for registration of enterprise establishment, reforms administrative procedure, seal reform, gives good protection of investors’ interests, and ease of corporate restructuring. One of the important issues of the Enterprise Law in 2014 is to abolish the content of legal capital and

professional practice certificates – this breakthrough step has realized the freedom of doing business in all industries and trades that are not prohibited by law in the Constitution in 2013. In another way, the Enterprise Law in 2014 has brought fairness and business opportunities to various industries, significantly reducing trade and legal risks, reducing transaction costs, increasing safety and proactively and creatively provide an environment for business, and facilitating enterprises to take full advantage of their potential and business opportunities to develop.

The 12th National Party Congress (2016) had affirmed more strongly and decisively when considering the private sector as an *important driving force of the economy*, stressed the urgent need “to complete policies to support small and medium enterprises, and start-up enterprises; encouraging the formation of private and multi-owned private economic corporations to contribute capital to state-owned economic corporations”. The 12th National Party Congress has opened new opportunities for this economic sector to continue to prosper.

On June 3, 2017, the Resolution of the 5th Plenum of the 12th Party Central Committee *on developing private sector to become an important driving force of the socialist-oriented market economy* was issued, with a general goal to developing a healthy, efficient, sustainable private sector to become an important driving force of the socialist-oriented market economy (Dang Cong san Vietnam, 2017: 88). The Resolution has set out specific objectives on the index of private economic development, offering key solutions such as: unifying awareness, ideology and action in implementing guidelines and policies on private economic development; creating favourable investment and business environment for private economic development; supporting private economic innovation, technology modernization, and human resources development, labour productivity improvement; improving the effectiveness and efficiency of state management; renewing the content, methods and strengthening the Party’s leadership; enhancing the role of the Vietnam Fatherland Front and political-social, social-professional organizations for the private sector.

It can be said that there have been fundamental changes in the opinions, orientations and policies for the private economic development of China and Vietnam in recent years. In China, phases of private economic development are more obvious than Vietnam, which are reflected in three major periods, including from 1978 to 1991, from Deng Xiaoping's Southern Tour to 2001, and after China joined the WTO. These are important milestones for the completion of China's socialist market economy as well as China’s private economic development. However, the similarities between the two countries are the orientations and policies of private economic development, which have been changed markedly through each period of the National Communist Party Congress of each country.

3. Comparison of Private Sector Role in China (Important Component) and Vietnam (Important Driver)

3.1. China

The number of private enterprises has increased rapidly since the economic reform and opening. After 40 years of reform, especially since the beginning of the 21st Century, the number of private enterprises in China has increased, especially the emergence of large enterprises (see Table 1).

The competitiveness of the private sector in the domestic and foreign markets has been increasing. In the domestic market, only three of the top 500 private enterprises in China had a revenue exceeding 100 billion Yuan in 2010. Then, by 2017, there were six private businesses with revenue exceeding 300 billion Yuan, of which the Huawei Group achieved sales of more than 500 billion Yuan (Renmin, 2017). In 2015, the revenue of 500 leading Chinese private enterprises reached 9,509 billion Yuan and it was 12,052 billion Yuan in 2017 (Hua, 2017). At the global level, in 2014, the first private enterprise in China was listed in the Top 500 largest enterprises in the world (Fortune Global 500); by 2017, this number has increased to 24 enterprises, accounting for 20% of total Chinese enterprises which was listed in this list (Huang, 2017).

3.2. Vietnam

The Vietnamese private sector is being recognized as an important driver of the economy. The role of private enterprises is becoming more important in the context of reform and integration. Since the economic renovation in 1986, the private sector has developed rapidly, especially in terms of the number of enterprises (see Table 2).

Due to the policy which promotes the equalization of state-owned enterprises, the number of state-owned enterprises has decreased significantly in quantity and proportion in the total number of Vietnamese enterprises. The proportion of SOEs accounted for slightly over 1% in 2011 and decreased to 0.47% in 2016. However, the number of private enterprises always accounted for a higher proportion and has a rapid growth rate over the years from more than 325,000 enterprises in 2011 to more than 500,000 enterprises in 2016.

3.3. Contribution to GDP

3.3.1. China

The contribution of the private sector in China's GDP is growing. During the 40 years of opening and reform, social assets created by private businesses

Table 1 China: Number of Private Enterprises from 2006-2018 (Unit: 1,000)

Enterprise type	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
SOEs	120.0	128.6	114.0	119.0	153.8	156.3	159.6	95.4	130.2	133.6	132.3	133.2	242.0
Private enterprises	4,950	5,513	3,596	3,682	4,684	5,255	5,918	5,455	7,266	8,656	12,537	27,263	31,053
FDI enterprises	86.4	119.3	186.0	213.9	217.2	124.1	130.9	88.42	119.8	122.2	122.3	137.0	197.5

Source: Wang and Yang (2018) and China Yearly Statistics, available at <<http://www.stats.gov.cn>>.

Table 2 Vietnam: Number of Private Enterprises from 2011-2016

Ownership type	2011		2014		2016	
	Number	Proportion (%)	Number	Proportion (%)	Number	Proportion (%)
State-owned enterprises	3,326	1.02	2,977	0.72	2,505	0.49
Private enterprises	313,213	96.26	401,489	96.59	491,475	96.77
Foreign-invested enterprises	8,828	2.71	11,180	2.69	13,892	2.74
Total	325,367	100.0	415,646	100.0	507,872	100.0

Source: Nguyen (2019).

have grown rapidly. In 1989, the contribution of the private sector to GDP was only about 3.86% (Zhou and Xie, 2008: 34) then increased to over 50% in 2017 (Renmin, 2018). In particular, in provinces such as Henan, Zhejiang, Liaoning, Hebei and Fujian, the GDP contribution of the private sector was approximately 70%. Besides, the role of the private sector in promoting economic growth is increasingly prominent. In 1982, the proportion of private enterprises in fixed national assets was 17.1% which can stimulate 0.36% of GDP growth rate; by 2016, this ratio has reached to 32.87% which can stimulate 0.92% of GDP growth rate (Wang and Yang, 2018: 8).

3.3.2. Vietnam

After more than 30 years of economic renovation from 1986-2017, Vietnam's economy achieved an average growth rate of 6.6%. The highest growth period was in the period 1992-1997 with an increase of 8.1-9.5%; whereas for the period 2000-2007 the growth rate was at 6.8-7.8%. From 2009-2017, due to the impact of the world financial crisis, Vietnam's economic growth was lower than the previous period with a growth rate of 5.4 to 6.7%. At the global level, compared to some countries with rapid economic growth in recent years, the average growth rate of Vietnam's GDP is second, only after China (Nguyen, 2018).

The contribution to GDP of non-state and FDI sectors has been increasing. The non-state sector has contributed more than 40% of Vietnam's GDP whereby private enterprises contributed nearly 10%, and the individual sector contributed about 35% of GDP (see Table 3 below).

Table 3 Vietnam: Contribution to GDP Growth (Real Price) by Ownership Sectors from 2006-2016 (in percentage)

Economic Sectors	2006	2010	2011	2012	2013	2014	2015	2016
State owned	36.7	33.6	32.8	32.6	32.3	31.9	31.9	32.0
Non state	47.2	49.1	49.5	49.6	48.4	48.2	48.0	47.3
Collective economy	6.4	4.6	4.5	4.4	4.5	4.5	4.5	4.4
Private enterprises	9.0	7.9	8.3	8.8	8.7	8.7	8.8	9.1
Individual economy	31.8	36.6	36.7	36.4	35.2	35.0	34.7	33.8
FDI	16.1	17.3	17.7	17.8	19.3	19.9	20.1	20.7

Source: Vu (2016).

3.4. Contribution to Export

3.4.1. China

In recent years, Chinese private enterprises' exports tend to increase, while foreign-invested and state-owned enterprises' exports continued to decline. In 2011, exports of the private sector accounted for 33.5% of all sectors' export, but has increased to 46.5% in 2016 (China Minsheng Bank Research Institute, 2018: 29). This confirms that the export competitiveness of Chinese private enterprises has been constantly improving. In 2015, for the first time, the export proportion of private enterprises exceeded foreign-invested enterprises and has maintained its leading position in the export market share in 2016 and 2017.

The main export goods of Chinese private enterprises focus on communication products, household appliances, automobiles, lighting equipment and consumer goods, accounting for more than 57% of the total production of private enterprises goods and accounting for more than 50% of the same type of export products nationwide. Meanwhile, the export of traditional manual labour products has decreased (China Minsheng Bank Research Institute, 2018: 29). Besides, the import growth rate of private enterprises is much higher than the exports growth rate, at 3.57 trillion Yuan in 2017, an increase of 22% over the same period in the previous year (General Administration of Customs of the People Republic of China, 2018). Among this, the import of electromechanical and high-tech products accounted for nearly the absolute portion. In the first three quarters of 2018, the import and export of Chinese private enterprises were 8.77 trillion Yuan, an increase of 12.9%, accounting for 39.4% of China's total import-export values, increase by 1% over the same period in the previous year. Among them, export values were 5.68 trillion Yuan, increasing by 9.6%, accounting for 47.9% of total export values and import values of 3.09 trillion Yuan, an increase of 19.5% within the same period of 2017 (General Administration of Customs the People's Republic of China, 2018).

To have a better understanding of how the private sector contributes to China's foreign trade, we examine Table 4. As can be seen, the share of Chinese private enterprises accounted for about 25-29% of China's export values compared to the shares of the SOE sector and FDI enterprises. If calculated by domestic enterprises, the export values of the domestic sector are equal to the export values of the FDI sector.

3.4.2. Vietnam

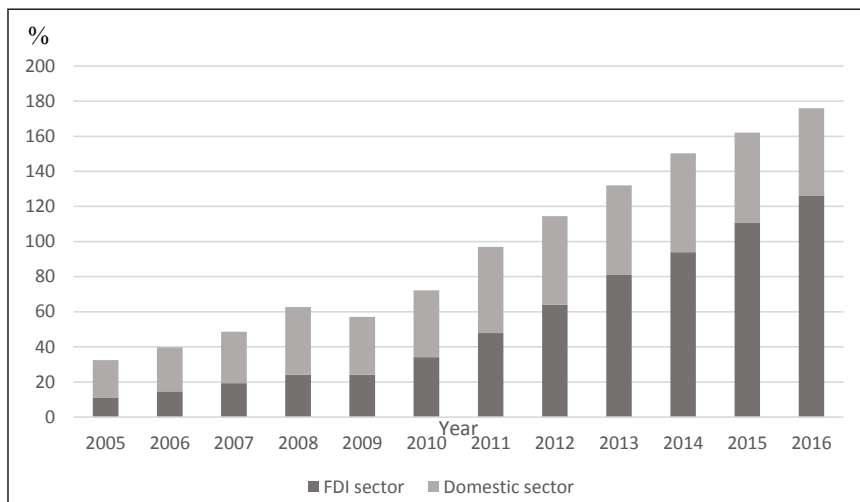
Unlike China, in Vietnam there is imbalance in the export share between the domestic sector and the FDI sector. The domestic economy and the private

Table 4 China: Export Ratios of Business Types from 2011-2017

Year	Business types	Values (100 million Yuan)	Growth Rate (%)	Proportion (%)
2011	SOEs	2,672.9	14.1	14.1
	FDI enterprises	9,954.7	15.5	52.4
	Private enterprises	6,352.9	32.1	33.5
2012	SOEs	2,562.8	-4.1	12.5
	FDI enterprises	10,227.5	2.8	49.9
	Private enterprises	7,699.1	21.1	37.6
2013	SOEs	2,489.9	-2.8	11.3
	FDI enterprises	10,442.6	2.1	47.3
	Private enterprises	9,167.7	19.1	41.5
2014	SOEs	2,564.9	3.1	10.9
	FDI enterprises	10,747.3	3	45.9
	Private enterprises	10,115.2	10.4	43.1
2015	SOEs	2,423.9	-5.5	10.7
	FDI enterprises	10,047.3	-6.5	44.2
	Private enterprises	10,278.3	1.6	45.2
2016	Private enterprises	–	2.2	45.9
2017	Private enterprises	–	12.3	46.5

Source: Ministry of Commerce of China (2013, 2014, 2015, 2016) and China Minsheng Bank Research Institute (2018, 8:29).

sector have not played an important role in exports, but the FDI sector plays an important role in Vietnam's exports. Since Vietnam joined the WTO, exports of the FDI sector have increased dramatically compared to the domestic economic sector. (For the domestic economic sector, Vietnam's statistics do not separate between export turnover data of SOEs and private enterprises.) From 2012 through 2016, the export turnover of the FDI sector increased at an average rate of 21.3% per year (higher than the average export turnover of the whole country of 12.7%). In 2016, the export turnover of the FDI sector was twice that of the domestic economic sector, accounting for nearly 72% of the total export turnover; in 2017, the FDI sector's export volume was USD155.24 billion, accounting for 73% of the national export proportion (Malesky et al., 2018). In contrast, the domestic economic sector has a very slow growth rate, especially in 2015 and 2016, the export turnover of this sector decreased by 8.5% and 2.8% respectively. This shows that Vietnam's trade largely depends on the FDI sector (see Figure 1).

Figure 1 Vietnam: Export Turnover of the FDI and Domestic Sectors, 2005-16

Source: Author compiled from the Vietnam General Department of Customs at the website: <https://www.customs.gov.vn/>

Vietnamese private enterprises are mostly on a small scale, lacking the ability to develop on a large scale. In 2017, only about 11% of private enterprises exported directly, and about 14% were sold to FDI enterprises in Vietnam. That is, private businesses mainly serve the domestic market (Malesky et al., 2018).

3.5. Contribution to Employment

3.5.1. China

In addition to direct contributions to the Chinese economy, the private sector also contributes to social development and harmonization, including employment issues and improving people's income. Private economic development means that employees of private enterprises are significantly increased. Moreover, private businesses become "addresses" to create jobs for people. In particular, since the 18th National Congress of the Communist Party of China, the country has launched a series of measures to encourage the development of the private sector. Therefore, the private sector could create more jobs for the people. Private enterprises provide 80% of jobs in urban areas, absorb more than 70% of workers moving from rural to urban areas and created about 90% of new jobs for the labour market (China Minsheng Bank Research Institute, 2018: 24). In the context of China's current economic recession, the employment creation data of the private sector has shown an

outstanding contribution of this type of economy to social stability. If in 1990, private enterprises and individual household businesses attracted about 22.75 million jobs, and the employment rate was 3.51%; then by 2016, the number of people working has increased to 309 million, accounting for 39.77% of the country's population (Wang and Yang, 2018: 9).

It can be said that, through 40 years of economic reform and opening up, the Chinese government has adopted policies and measures to encourage the private sector from zero starting point to become an indispensable component of the current national economy. The private sector has now played an important role in maintaining the vitality of China's market economy. Therefore, in the present and future, the Chinese government will continue to implement measures to promote the development of the private sector further, maintaining the role of the private sector in healthy development and sustainability of the national economy.

3.5.2. Vietnam

The private enterprise sector is currently the most labour-intensive area among economic sectors in Vietnam. In 2000, the proportion of workers in the private sector was 29.9%; by 2016, this number had doubled to 62.2% of non-agricultural jobs in Vietnam (about 8.39 million workers). The proportion of workers in the private sector increased particularly rapidly in 2006 (53.3%) when it was officially recognized as an economic component that was encouraged to develop without restriction on development scale since the 10th National Congress of Vietnam Communist Party. The shift in the labour structure from the state sector to the FDI sector and especially to the private sector, shows the rapid development and attraction of this economic sector.

Table 5 Vietnam: Employment Structure by Type of Business Ownership (%)

	2007	2008	2009	2010	2011	2012	2013	2014	2015
FDI sector	19.9	23.2	22.8	22.4	21.5	21.6	23.8	28.4	29.1
State Sector	32.8	23.4	23.9	20.0	19.5	15.8	15.0	12.7	9.6
Private Sector	47.3	53.4	53.3	57.5	59.0	62.6	61.3	61.0	61.3

Source: Nguyen (2019).

3.6 Promoting R&D

3.6.1. China

The private sector is an important factor in promoting the process of technological innovation of the national economy. Research and development (R&D) is considered one of the key successes of many big corporations and

companies in the world. Research and development includes investment, implementation, or sale of research and new technologies for the development of enterprises. In China, R&D activities have been given special attention by private enterprises to continuously improve. In 2006-2007, 70% of high-tech enterprises in Shenzhen were private enterprises, and 76% of scientific and technological achievements were created by these private enterprises (Renmin, 2006).

In 2016, the number of full-time employees working in R&D of private enterprises was about 732,400 persons per year, funding for R&D was 280 billion Yuan, and the number of research projects and development were about 134,000 projects (Wang and Yang, 2018: 9). Besides, the number of applications for patents by private enterprises has also increased. The National Office of Intellectual Property of China accepted 1.3 million patents in 2016, reaching a record high, of which more than 70% came from small and medium private enterprises (Xinhua, 2017b, Xinhua, 2017c). In 2016, the number of applications for domestic patents increased by 55.65% compared to 2013, while the number of applications for international patents increased by 80.56% compared to 2013 (China Minsheng Bank Research Institute, 2018: 16). Besides, expenditure on R&D of private manufacturing enterprises with tax payments of over 10 million Yuan account for 43.5% of the total R&D expenditure of the manufacturing industry. Examining the Top 500 Chinese private enterprises, the R&D investment of these enterprises during the period 2013-2016 continued to increase. The number of enterprises that have R&D staff increased from 267 enterprises to 313 enterprises, accounting for 62.6% of the Top 500 private enterprises in China. In the European Commission's 2016 Global R&D list, Huawei Group surpassed Apple Inc. and ranked 8th in R&D expenditure with a total of Euro 8.358 billion (China Minsheng Bank Research Institute, 2018: 16).

All of these have created a strong impetus for the rapid development of the private manufacturing industry leading to new product development efficiency of the private sector which have been continually improving. In 2016, the number of new products of private enterprises reached about 145,300 products; revenues reached 3,900 billion Yuan and export values of new products reached 470 billion Yuan (Wang and Yang, 2018: 10).

3.6.2. Vietnam

For Vietnam, the private sector has not yet played an important role in promoting the country's R&D. The share of R&D spending by Vietnamese enterprises is low. The report of the World Bank in 2017 showed that Vietnamese enterprises only spend about 1.6% of annual revenue for R&D, while this rate for Malaysia was 2.6%, and Laos was 14.5%. Vietnamese enterprises

have knowledge and patents but rarely apply new research into the operation process, which leads to no innovation. Meanwhile, China is currently second in the world in R&D investment rate after the United States only.

The survey results of the Ministry of Science and Technology of Vietnam conducted in 2018 showed that: among 7,641 enterprises, 4,709 enterprises (61%) had innovation activities, 2,841 enterprises (37%) did not have innovation activities, and 91 enterprises (2%) confirmed that they did not understand innovation (Hoang and Hoang, 2020).

3.7. Role for Economic Restructuring

3.7.1. China

The private sector is an essential motivation for the transformation of the industrial model. The private sector has played a pivotal role in promoting the opening of industries such as logistics, military industry and finance. A typical example is the express delivery sector: in 2007, 42 courier companies in Shanghai signed a letter calling for attention to the development of private courier companies by reforming laws and related regulations. By the end of 2014, more than 11,000 enterprises are working in the express delivery business. These private enterprises have taken advantage of the capital market to improve their competitiveness, and have a bigger market share in the segment, typically the Shunfeng Company, and Baishi Company (顺丰公司, 百世公司). In particular, in recent years, the participation of private enterprises in the defense industry has created a new openness and creativity. Accordingly, private enterprises have taken advantage of the technology and capital, playing an active role in improving defense science. According to the survey in 2016, 67 private enterprises among China's top 500 private enterprises were involved in military research, production and maintenance, 56 of which were in the manufacturing of military defense equipment. In emerging industries, especially those with technological factors, using mobile applications such as taxi applications, bicycle-sharing applications have become an interesting and developing market for private enterprises, while state-owned enterprises are almost ignored in this sector.

3.7.2. Vietnam

For Vietnam, the private sector has not yet played a significant role in the transformation of the industrial structure due to the large number of enterprises operating in the service sector, accounting for 40.7% of the total value-added and creating 21.5% of total assets and 44.4% of labour. For newly established enterprises, 40% are in the fields of trade, wholesale, retail, repair of automobiles and motorbikes, where almost all private enterprises are operating.

The top five industries contributing to revenue in the Top 500 largest private enterprises in 2018 are the financial sector (15.1%), food, beverages and tobacco (14.3%), construction, building materials and real estate (13.9%), steel (11.7%), and telecommunications, informatics and information technology (9.2%). Only five industries accounted for 64.2% of revenue and 75.5% of profit after tax of private enterprises (Vietnam Report, 2018). However, recently, there has been a significant shift in the proportion of value-added tax (VAT) contributions from service enterprises to manufacturing enterprises, although the number of manufacturing enterprises accounts for only 13-14% of the total number of enterprises. Private enterprises, however, contribute to VAT, labour, and total assets at 49.8%, 32.2%, and 68.6%, respectively. Construction businesses with a similar number have a significantly lower contribution, with just over 7.7% of the private sector's VAT belonging to construction businesses.

Table 6 Vietnam: Changes in Contribution of Private Enterprises from 2011-16 (percentages)

Sectors	2011 Value-added	2014 Value-added	2016 Value-added
Agriculture, forestry and fisheries	0.9	0.5	0.3
Mining and electricity production	2.0	2.0	1.4
Construction	14.5	9.6	7.7
Manufacturing	32.0	32.7	49.8
Services	50.6	55.2	40.7
Total	100.0	100.0	100.0

Source: Nguyen (2019).

4. Discussion

It can be seen that, although the two countries are quite similar in orientation and policy in developing the private sector, there are still some clear differences in development achievement. China's private sector plays an essential role in the economy than Vietnam's private sector. The question is, why is this difference?

First, China carried out economic reforms and opened up eight years earlier than Vietnam (China in 1978 and Vietnam in 1986). Therefore, China's private sector also has favourable conditions for development earlier than Vietnam's private sector.

Second, Vietnam's orientations and policies for developing the private economy have many similarities with those of China, but Vietnam's ability to

implement policies is still limited. There is still a situation of “hot in upper level” but “cold in the lower level” which means that there is a delay in implementing government policies in the lower level. Due to limited resources or group interests, local governments or departments of ministries are slow to implement top-down policies.

Third, China’s business environment is better than in Vietnam. Assessing the quality of China’s business environment creates favourable conditions for China’s private sector to develop more than Vietnam. According to *Doing Business 2019*, ease of doing business in China rank much higher than Vietnam; China is ranked at 30 while Vietnam is ranked at 70. It shows that China’s business environment has improved better than Vietnam, particularly in: starting a business – China (27), Vietnam (115), paying tax – China (105), Vietnam (109), and enforcing contract – China (5), Vietnam (68).

Fourth is about the role of local governments; Chinese local governments are very active in embracing central government policies for development. For example, Zhejiang province is a successful example of encouraging and developing the private economy, one of the localities with the highest level of private economic development in China. Before the open door and reform policy, Zhejiang was a poor province in China, with GDP per capita ranking at 13 compared to other provinces (Zhang and Liu, 2013).

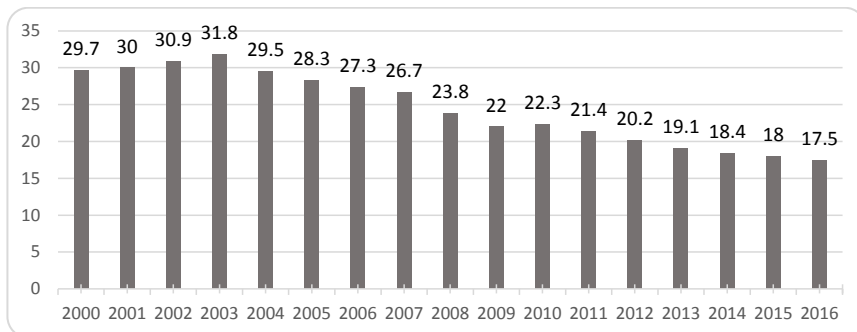
The private sector in Zhejiang developed exponentially from the late 1970s and early 1980s of the 20th Century. Zhejiang dynamically grasped the open-door reform and transition policies to the market economy of China. The local government played an essential role in introducing supportive policies for private enterprises to form industrial clusters with a development guideline such as “getting the market started as a start”, “small products, big market” led by family businesses. The provincial government respected the right of individuals to do business, supported and encouraged millions of people doing business, which gradually transformed the private economic sector to become a vital part of the economic growth of Zhejiang. In 2017, Zhejiang’s GDP ranked fourth in China (for 22 consecutive years) after Guangdong, Jiangsu and Shandong. The private sector contributed 65.4% of total GDP, 74% of total tax revenue, 76.9% of total export goods, 80.4% of employment, 91% in number of enterprises in the province (Sina, 2018). From 1979 to 2017, the private sector contributed 75.2% of the province’s GDP (Di, 2018).

Fifth, is the difference in the structure of GDP. The main reason that can explain why Vietnam’s private sector has not contributed much to the transformation of the industrial structure was her starting point from when renovation began. China’s and Vietnam’s economies were undeveloped when these two countries started their economic reform. However, in terms of GDP structure, they were different. The industrial sector was dominant in China (48.2%), while in Vietnam, agriculture was the vital sector (38.1%) (*Bao Dat*

Viet, 2013). For China, the vast industrial sector, mainly owned by the State, creates a more solid foundation for industrialization. For Vietnam, the core agricultural sector can allow “leapfrogging” with new industrial development projects. However, the small industry also means that Vietnam has difficulty finding skilled workers and building an auxiliary industry network right from the beginning of the industrialization process.

Sixth, the scale of Vietnamese private enterprises is mostly small and weak; productivity and competitiveness are still low since they are newly established and the operating time is short in an unstable business environment. A number of private enterprises of international stature, operating in specific areas such as real estate, coffee and fisheries and so on up to 97% of all Vietnamese enterprises are small and medium-sized enterprises (according to Vietnamese standard) (Vu, 2017: 123-143). According to the Provincial Competitiveness Index (PCI) survey in 2017, over 50% of businesses have less than ten employees (85% of enterprises have less than 50 employees). For small and small-scale enterprises, the ability to invest in R&D is shallow.

Figure 2 Declining Average Number of Employees in Vietnamese Private Enterprise (Unit: person)



Source: Malasky (2018).

Decree No. 95/2014/ND-CP by the Vietnamese government on October 17, 2014, required state enterprises to deduct from 3% to 10% of pre-tax profit annually to set up a science development and technology fund of the enterprise. Non-state enterprises have the right to deduct from the pre-tax income up to 10% to set up a fund for scientific and technological development. However, because most of the Vietnamese enterprises are small or very small, their turnover is low, thus the profit before tax is not much. If only 10% is spent on R&D investment, this expense is not enough to promote new business activities. Besides, according to regulations, the expenditure on R&D of enterprises is exempted from income tax, but the tax authorities still

maintain that enterprises are not interested in this. Only a few businesses are willing to invest in R&D (Nhat Minh, 2017).

Seventh, China is more successful than Vietnam in attracting FDI, particularly in absorbing technology transfer from foreign investors. FDI activities have been channels for China to absorb technology and enhance her creativity. China's policies to attract FDI follow a gradual approach and is adjusted to each stage of China's economic development. At the beginning of the open-door reform phase, China encouraged FDI in labour-intensive and export-oriented industrial sectors and was focused in the eastern coastal area. After China joined the WTO in 2001, China made adjustments in its FDI policy to follow the requirements of the WTO and meet the development needs of China. The incentive adjustments for China's FDI sector are towards export-oriented industries, high-tech industries, and to the less developed western region of China (Martins, 2013).

Vietnam's policy to attract FDI has not been as methodical as China. Before Vietnam's joining of the WTO, its FDI policy, in general, is aimed at limiting the operation of foreign-invested enterprises and is always changing. After joining the WTO in 2007, FDI was allowed into all industries, including domestic businesses that can be invested. This led to a massive flow of FDI into Vietnam, while domestic enterprises are still weak (Tran, 2015). Thus, it causes a situation of lack of linkage between domestic enterprises and FDI enterprises; the ability of international integration is low (participating in value chains at low stages or not participating) and less associated with innovation (low technological level, lack of investment in innovation) (Nguyen, 2017: 236-271). Domestic enterprises have not taken advantage of the spillover effect of technology from FDI enterprises. According to the 2017 PCI report, the ratio of SOEs and supply of inputs for FDI enterprises is only 10%, whereas individuals and households provide 16.1% of inputs for FDI enterprises. The transfer of technology from FDI enterprises to Vietnamese enterprises is quite limited partly due to reasons stemming from the investment sector, market orientation and ownership form of FDI enterprises. At present, FDI into the industrial sector mainly focuses on export-oriented, labour-intensive industries such as textiles, leather goods, cars and motorbikes, with market-oriented directions still driven by importing countries like the EU, US and Japan mainly using imported raw materials as direct input for production. In terms of business ownership, most FDI enterprises in Vietnam are with 100% foreign invested capital, thus creating a specific gap in customs, production and business methods, and management capacity. Thus, the linkage and cooperation efficiency between FDI enterprises and supporting enterprises of Vietnam is not high (Do, 2018).

Eighth, in recent times, encouraging private enterprises to invest outside has played a role in promoting rapid R&D development and enhancing

China's position in the global value chain. Unlike the previous period, the Chinese strategy of "go global" is mainly to promote SOEs going out to invest. After the 18th CPC National Congress, China encouraged both private enterprises to actively invest outside to let businesses go out to join the global industry and supply chains, improving their international competitiveness (Sina, 2017). By promoting investment in the form of mergers and acquisitions (M&A), some large private enterprises such as Haier and Midea, through this method, have acquired quality assets, the right technology to increase their creativity and research capacity. Brand and patent advantage is strengthened (Zhou, 2017). In the context of price of domestic production factors rising, opening up international markets and utilizing external resources is an essential step for China to enhance its position in the global value chain.

5. Conclusion

It can be said that the process of developing the private sector in China and Vietnam have taken place along with the process of economic reform, changing from the centrally planned economy to the socialist market economy of these two countries (socialist-oriented market economy in Vietnam). Due to resemblances in economic and political institutions, the development of the Communist Party and the State's perceptions of each country on private economic development have many similarities – from the period of prohibited development to encouraging development and becoming "an important component" of the economy (for China) or becoming "an important driving force of economic development" (for Vietnam). Up to the present, the private economic sector is continuously developing and affirming its essential role in each country's economy. The contributions of the private sector to China and Vietnam are becoming an economic component that plays an essential role in economic growth, contributing to creating jobs for economic development in each country. It can be seen that the role of the private sector in the export, R&D, and transformation of industrial structure in the case of China is more significant than in the case of Vietnam.

For the development of Vietnam's private sector economy, some suggestions are as follows:

1. State policies should ensure fairness in market competition and equal treatment with different market entities. In terms of market access, the state should implement policies to support and create a fair, competitive market environment for businesses. At the same time, introduce policies on vocational training, insurance benefits for employees and creating equal opportunities for employees to compete. Fair, competitive environment means fair opportunity, from which the effective implementation of

social justice and production efficiency can be realized. Another condition to ensure the effectiveness of competition is to eliminate all economic and administrative obstacles for enterprises to access the market.

2. Promoting the role of the state in protecting property rights, supervising the contract performance and fair compliance, regulate macroeconomics, conduct income redistribution, avoid too much income gap, maintain a stable socio-economic environment; provide effective public products.
3. Reduce the burden of taxes and fees for private businesses. Currently, fee tax is the most significant barrier, reducing the competitiveness of Vietnamese businesses. Vietnam's business costs are still fundamentally high compared to other ASEAN countries. Therefore, reducing the burden of taxes and fees for businesses, creating incentives for production, increasing production scale is essential.
4. Solutions to encourage innovation: the ability of innovation of private enterprises in Vietnam is still limited. It should be determined that private enterprises are the subject of innovation. Since then, have appropriate policies, encourage innovation activities in these businesses. Quickly enhance the independent innovation ability of private enterprises
5. Supporting private enterprises to participate in state-run science and technology projects, build high-level research agencies. Development of innovative funds and technology applications. Focusing on improving the quality of growth of private enterprises such as focusing on improving productivity, business size, scientific and technological level, and investment in R&D. Ensure there are preferential policies to develop business clusters by industries to enhance the level of association to complement each other and develop together.
6. Introduce policies to strengthen the linkage of domestic enterprises with FDI enterprises. Priority is given to promoting medium-sized businesses with policies such as enabling enterprises to access resources: financial resources, land, and technology capital. To encourage and orient FDI enterprises to buy local goods and cooperate with domestic private enterprises.

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Notes

- * Bui Nhat Quang is an Associate Professor at the Vietnam Academy of Social Sciences. He obtained his Ph.D. in Economics in 2003 from the Vietnam Academy of Social Sciences. In 2011, Associate Professor Bui Nhat Quang was appointed as the Director of the Institute for Africa and Middle East Studies and concurrently was the Editor-in-Chief of the *Journal Africa and Middle East Studies* in 2013. In 2016, he was appointed as the Vice President of the Vietnam Academy of Social Sciences. Associate Professor Bui Nhat Quang is currently the President of the Vietnam Academy of Social Sciences. His research interests include Vietnam's Economy and International Economy. He can be contacted at <buihatquang@iames.gov.vn>.
- ** Ha Thi Hong Van (corresponding author) obtained her Ph.D. in Economics from the Vietnam Academy of Social Sciences in 2016. She is currently the Head of the Department of Chinese Economic Studies at the Institute of Chinese Studies, Vietnam Academy of Social Sciences. Her research interests include China's economic reforms, particularly China's SEZ and SOE reforms, comparing Vietnam and China's economic reform as well as China-Vietnam economic relations. She can be contacted at <vanhongha@gmail.com>.

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