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CẢI CÁCH KINH TẾ VIỆT NAM VÀ TÁC ĐỘNG ĐẾN HUY ĐỘNG VỐN CHO SỰ PHÁT TRIỂN TRONG GIAI ĐOẠN 1986-NAY

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Tóm tắt

Kể từ năm 1986, khi những thay đổi sâu rộng của thời kỳ Đổi Mới được thực hiện, bối cảnh kinh tế của Việt Nam đã trải qua một sự chuyển đổi đáng kể. Những thay đổi này báo hiệu sự kết thúc của nền kinh tế kế hoạch hóa tập trung sau Thế chiến thứ hai của đất nước và sự khởi đầu của kỷ nguyên tự do hóa kinh tế và chính sách dựa trên thị trường. Bài viết đi sâu tìm hiểu hành trình cải cách kinh tế của Việt Nam từ năm 1986 đến nay và ý nghĩa của nó đối với việc huy động vốn cho phát triển. Thông qua phân tích chuyên sâu từ nhiều nguồn khác nhau, bao gồm các nghiên cứu học thuật, ấn phẩm của chính phủ và báo cáo ngành, bài viết khám phá tác động biến đổi của đầu tư trực tiếp nước ngoài (FDI), tự do hóa tài chính, phát triển thị trường chứng khoán và cải cách doanh nghiệp nhà nước về vốn huy động ở Việt Nam. Nghiên cứu nhấn mạnh vai trò của kiều hối, FDI, vốn hóa thị trường chứng khoán và tái cơ cấu doanh nghiệp nhà nước trong việc thúc đẩy tăng trưởng và phát triển kinh tế ở Việt Nam. Ngoài ra, bài viết thảo luận về những thách thức và cơ hội liên quan đến huy động vốn ở Việt Nam, đưa ra những hiểu biết sâu sắc về các cách nâng cao hiệu quả và hiệu quả phân bổ vốn cho phát triển bền vững.

Từ khóa: Cải cách kinh tế, huy động vốn, Đổi mới, thay đổi chính sách, đầu tư

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VIETNAM'S ECONOMIC REFORM AND ITS EFFECT ON CAPITAL MOBILISATION FOR DEVELOPMENT IN THE PERIOD 1986-NOW

Abstract

Since 1986, when extensive changes known as Doi Moi or "Renovation" were put into place, the economic landscape of Vietnam has experienced a significant transformation. These changes signalled the end of the nation's post-World War II centrally planned economy and the beginning of an era of economic liberalisation and market-based policy. This paper delves into the economic reform journey of Vietnam from 1986 to the present day and its implications on capital mobilisation for development. Through an in-depth analysis of various sources, including academic studies, government publications, and industry reports, the paper explores the transformative impact of foreign direct investment (FDI), financial liberalisation, stock market development, and state-owned enterprise reform on capital mobilisation in Vietnam. The study highlights the role of foreign remittances, FDI, stock market capitalisation, and state-owned enterprise restructuring in driving economic growth and development in Vietnam. Additionally, the paper discusses the challenges and opportunities associated with capital mobilisation in Vietnam, offering insights into ways to enhance the efficiency and effectiveness of capital allocation for sustainable development.

Keywords: economic reform, capital mobilization, Doi moi, policy changes, investment

1. Introduction

The capital mobilisation for development has been a crucial component of Vietnam’s economy transition from one dependent on agriculture to one of Southeast Asia's fastest-growing economies. The process of generating capital for investment, known as capital mobilisation, is a key factor in the expansion and prosperity of the economy. It has been crucial to financing infrastructure projects, promoting industry, encouraging entrepreneurship, and growing Vietnam's economic influence abroad in the context of the country's reform path.

This essay explores the complex relationship between economic reform in Vietnam and how it has affected capital mobilisation for development from 1986 till now. By scrutinising this transformative journey, we aim to shed light on the complex interplay between policy changes, economic growth, and the tactics used to generate and deploy capital. All of these factors have played a significant role in forming Vietnam's contemporary economic landscape. We want to gain insights into the major forces, difficulties, and effects of capital mobilisation in Vietnam's continued pursuit of development and prosperity by a thorough investigation of this topic.

2. Overview of Vietnam's economy and Capital mobilisation

2.1. Overview of Vietnam's economy

Vietnam is now experiencing a prosperous period of economic growth and international connections. Not only is it unavoidable within our nation, but many of our international neighbors also acknowledge Vietnam's explosive rise. Before COVID-19, Vietnam's economy was among the fastest-growing in Asia, with a 6%–7% annual growth rate in GDP. In 2022, it also increased by 8% as it bounced back from a COVID-19-related downturn (Nitta, 2023). Furthermore, Vietnam has been actively extending trade and investment ties with 230 markets across all continents through economic diplomacy. However the economy in Viet Nam have not alway been as we know of today, endeavours from the government and leaders have been made to revive its economy up to the current states (Minh Pham, 2021). Before the 1980s, while VietNam was still focused on its political restoration after the unification of the North and the South in 1975, it was one of the poorest countries in the world due to the aftermath of the constant conflict within the country. Despite the fact that the government had put in place the Five Year Plans for industry and agriculture, which were intended to rebuild the country after the war and establish a socialist one. Unfortunately, small-scale industry, low labor efficiency, and a lack of modern technology remained dominated the economy, which led to Vietnam's economy experiencing hyperinflation and stagnation at the time. In 1986, the rate of inflation even hit a peak of 453.5%.

Seeing the dire state of the economy at the time, the government introduced the "Đổi mới" reform policy in 1986. This set of political and economic changes has led the nation toward becoming a "socialist-oriented market economy," avoiding the mistakes made with the adoption of self-isolation and central planning following the nation's 1975 unification. Thanks to the implementation of the "Đễi mới" policy, Vietnam was on the verge of economic collapse. However, it has since recovered and is currently aiming to become one of the world's strongest developing nations. It enjoys great international status as a result of its participation in numerous regional and global organizations, including the World Trade Organization, the Association of Southeast Asian Nations, the Asia-Pacific Economic Cooperation forum, and the United Nations.

2.1.1. Vietnam's economic situation before 1980s

Both the North and the South embraced distinct economic philosophies—one communist and the other capitalist—when they were split apart in 1954. Under the First Five-Year Plan (1961–1965) of the communist state, heavy industry was prioritized in the North; however, later on, light industry and agriculture took precedence. But by the end of 1966, the American airstrike had caused significant economic distress in the North. In the meantime, the Southern economy saw a growing reliance on foreign assistance from 1954 to 1975, especially from the late 1960s until Saigon's collapse (30 April, 1975).

Vietnam's economy has suffered greatly from production issues, supply and demand imbalances, inefficiencies in distribution and circulation, high rates of inflation, mounting debt issues, governmental corruption, and unlawful asset confiscations by local authorities since the country's reunification in 1975, which was delayed for more than 20 years. In 1984, Vietnam's GDP was assessed to be worth US$18.1 billion, and the country's per capita income was expected to be between US$200 and US$300 annually (Fazalali, 2022). By the middle of the 1980s, Vietnam had discovered that the development model it had adapted from the former Soviet Union and its Eastern Europe allies was proven to be outdated and flawed. Vietnam found itself in a challenging situation on the political and diplomatic front due to its strained ties with China, the significant weight of its soldier presence in Cambodia, and the severe sanctions imposed by the US. Conversely, Viet Nam was subjected to severe sanctions by the US and was thus prevented from fostering diplomatic ties with other nations.

It was evident that Vietnam's economy was struggling both after the country's reunification and prior to the 1980s. This condition was made worse by the Soviet Union's abrupt withdrawal of its military and economic support for the country in the middle of the 1980s, because Vietnam had been largely dependent on it. One of the most noticeable consequences almost immediately was a dramatic decline in the value of the dong, the Vietnamese currency, which made it challenging for companies to function. Additionally, Vietnam became more open to Chinese assault as a result of the Soviet Union's withdrawal of military support. Vietnam's economic development slowed down, export income fell short of the whole amount of imports, and the country's inflation skyrocketed to nearly 700 percent in the years before the Doi Moi Reforms (Anja, 2020).

2.1.2. Vietnam's economic reform

Vietnam's authorities were compelled to implement political and economic change, known as Doi Moi in 1986, which had been started in the early 1980s, in order to ensure the survival of their nation. Establishing a "socialist oriented market economy"—a move from a centralised to a market economy that combines state planning with free-market incentives—is the goal of the Doi Moi Reform. Doi Moi started pro-business reforms, opened a closed economy to the outside world and commerce, and destroyed the heavily controlled economy (starting with agriculture reforms). Doi Moi was followed by a broad social agenda with the explicit intention of "leaving no one behind," which was driven by the spread of electricity and education. This unique blend of socialism and market principles has propelled Vietnam from the brink of economic collapse to a rapidly emerging player on the global stage.

These changes permitted private ownership of small businesses and the establishment of a stock exchange for both state and non-state corporations. They also gave market forces a bigger role in the coordination of economic activity between businesses and government agencies. As a step toward creating a socialist economy, the Vietnamese economy was to be reorganized from the central planning of the Soviet model toward a mixed economy based on the market. This economic system aims to improve Vietnam's production forces, provide a strong material and technological foundation for socialism, and facilitate the country's economic integration with the rest of the world.

To promote foreign direct investment and private sector activity, particularly in trade, into Vietnam, the state implemented an export oriented strategy and moved forward with opening up to international commerce under the new Doi Moi Reform policy. With millions of Vietnamese homes and small businesses, as well as foreign investment firms utilising underutilised land and profiting from cheap but skilled labour in the production of goods for export, this had turned the formerly impoverished nation into one that was becoming increasingly industrialised. This was the driving force behind Vietnam's continuously expanding manufacturing sector.

Following its implementation, the Doi Moi Reform produced unexpectedly encouraging data that suggested Vietnam's economy was rebounding. From a nation that experienced severe starvation, Vietnam exported 1.4 million tons of rice for the first time in 1989 and has since continued to be a major player in the rice export market. The Doi Moi reform's success has allowed Vietnam to have consistently strong economic development. Twenty years following the Reform, there was an average yearly economic growth of 6.5 percent, which was among the greatest rates in emerging nations. Furthermore, Vietnam's $1,000 yearly per capita income in 2008 saw it taken off the list of the least developed nations in the world (Anh Tuan, 2009).

2.2. Overview of Capital mobilisation in Vietnam

The process of raising money or financial resources for various uses, usually for enterprises, projects, or investment opportunities, is referred to as *capital mobilisation*. Capital mobilisation can be used for a number of things, such as launching a new business, growing an existing one, supporting R&D, making investments, or paying off financial debt.

In Vietnam, there are 2 common means of capital mobilisation being managed by businesses, in which both of them have various methods to achieve:

First, as stated in Vietnam Enterprise Law 2020's Clause 34, Article 4, charter capital is the total par value of shares sold or registered for purchase upon the establishment of a joint stock company. It also refers to the total value of assets contributed or committed by the company's owners and members when forming a limited liability company or partnership. A variety of assets that may be valued in Vietnam Dong can be employed, including gold, land use rights, freely convertible foreign currencies, intellectual property rights, technology, and technical know-how. One approach involves *foreign parent companies contributing more capital* to their Vietnamese subsidiaries. This allows parent companies to increase the charter capital of their Vietnamese entities. However, if this increase exceeds the permitted investment capital amount, the subsidiary must adhere to the relevant investment laws. On the other hand, joint-stock companies have the privilege of *issuing shares* to mobilise capital. The issuing of shares has to adhere strictly to enterprise legislation and associated rules. There are three ways that shares can be issued: privately offered shares, shares to the public, and shares to current shareholders. Finally, this tactic is flexible and works with joint-stock companies as well as limited liability companies. Businesses have the option to increase their charter capital, and all of their present owners contribute equally to the additional amount. As a consequence, the current ownership ratios are maintained while charter capital increases. If not, businesses have the option to expand their charter capital, with the extra amount going to new shareholders. As more stakeholders become involved, this raises the charter capital and modifies the ownership ratios.

Vietnamese businesses look into loan capital mobilization in addition to charter capital in order to get outside finance. For this, a number of strategies are used, such as borrowing money or assets from parent firms. However, credit organizations—which include microfinance organizations, banks, and non-bank credit organizations—can also provide fixed-term loans to assist with business operations. Businesses that want to obtain these loans have to fulfill specific standards and offer collateral, which can be either their own assets or assets from other people. Alternatively, businesses can pledge to repay creditors' principle, interest, and other debt obligations by issuing bonds. As long as they guarantee their ability to pay debts, issuing companies are able to raise cash.

In conclusion, capital mobilisation is a fundamental aspect of business sustainability and growth in Vietnam. Enterprises employ a range of strategies to raise charter capital and secure loans. By understanding and strategically utilising these approaches, enterprises can effectively fund their operations, expand their businesses, and navigate the dynamic economic landscape of Vietnam. As the business environment continues to evolve, staying informed about the latest regulations and opportunities for capital mobilisation is crucial for success.

3. Effects of Vietnam's economic reform on capital mobilisation for development

3.1. Increased government budget

Economic Structural Reform – State-Owned Enterprise (SOE) Equitization

Prior to 1980, the government subsidised some SOEs, which helped to keep their prices low. However, these subsidies consumed a sizable percentage of the government's budget. Overall, despite the considerable contribution of SOEs to government revenue, the government was unable to reduce public debt since SOEs were also a major source of spending. In our country, the majority of SOEs are formed due to the subjective will of state agencies, not due to the objective requirements of the level of development of the productive forces. This is the root cause leading to the ineffective operation of most of those businesses.

Following Doi Moi (1986), Vietnam transitioned to a market-based economic model, and these businesses were then given more equity to mobilize social resources in order to significantly contribute to the nation's economic development and alleviate the financial burden on the government (Knutsen and Khanh, 2020).

Despite a notable drop in the number of SOEs equitized, the value of divestiture return has been showing positive outcomes, as shown in Figure 1 (Dang et al., 2020).

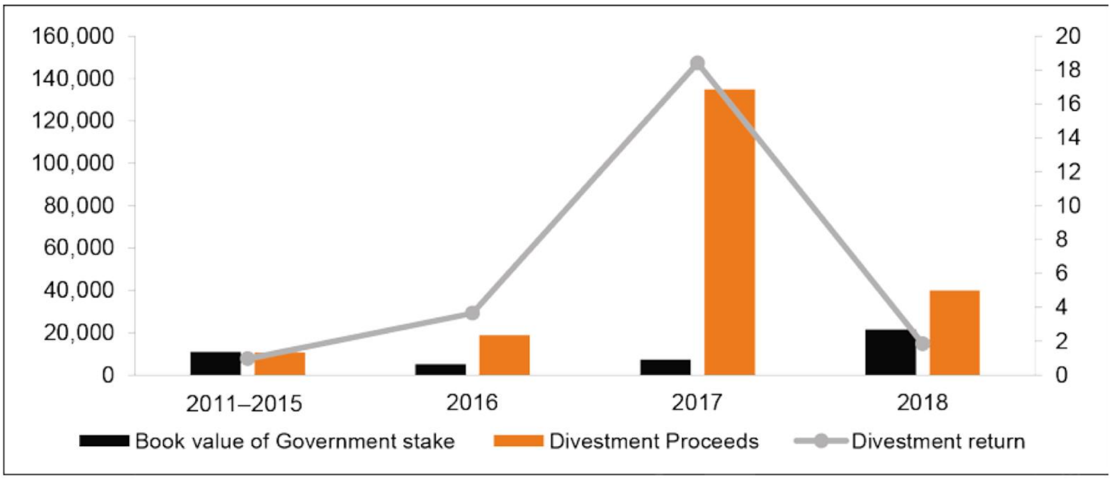

Figure 1: Equitized Value and Proceeds

Source: Ministry of Finance

In order to improve the effectiveness of business operations in general and to turn 100% state-owned enterprises into joint-stock companies in particular in the future, the state has continuously issued decrees and circulars. This has helped to prevent losses in capital and state assets, particularly when valuing the assets, land, and real estate of the equitized enterprises. As a result, about 220,000 billion VND in total funds were raised through equitization and divestment between 2016 and 2020, which is 2.8 times more than during the years from 2011 to 2015 (78,000 billion VND). The amount transferred to the state budget according to the resolution of the National Assembly reached 221,700/250,000 billion VND, achieving 90% of the plan (Mai Hà, 2022).

Tax Reform – The Introduction of a Value-added Tax (VAT)

The relationship between budget revenue from taxes and the development of the economy can be measured through several indicators, among which the notable ones are the "elasticity" of taxes and the tax elasticity. A good tax system is one that has tax elasticity, meaning that tax revenue must increase as the scale of the economy expands or the standard of living of the people is raised (Tuan, 2022).

Vietnam implemented VAT in 1999 to replace a cumbersome and ineffective system known as turnover tax. The turnover tax was imposed at every level of production and distribution, resulting in double taxation and a significant compliance burden for enterprises. Because it is imposed only on the value contributed at each step of production and distribution, VAT is a more efficient tax system (Indochine Council).

Since then, VAT has been the most important source of incentive for the state budget. In the period from 2011 to 2020, the share of VAT income (excluding refunds) stood for 24.4% of total state budget revenue, with revenue from domestic production and consumption tax accounting for 17% of total state budget revenue (Tuan, 2022).

Therefore, the modification of VAT can result in a tremendous change in the government budget. According to Government Decree No. 44/2023/ND-CP dated June 30, 2023, the VAT will be reduced by 2% for a period of 6 months, from July 1, 2023, to December 31, 2023, bolstering stimulus measures to support consumption and business activities as the export-oriented economy grapples with an economic slowdown. In terms of its impact on the state budget, it is estimated that the reduction will amount to approximately 24,000 billion Vietnamese dong (Vietnamese Government Portal, 2023).

3.2. Increased loan sources

Finance Reform - The Road to Financial Liberalisation

Before Doi Moi, Vietnam had a single-tier banking system, where a mono-bank served solely as a government planning and administrative tool. In May 1990, the State Council transitioned to a market-based banking system (two-tier). The State Bank of Vietnam (SBV) became the central bank, responsible for implementing government policies and providing credit to priority sectors. Commercial banks, at the second level, mobilised capital and lent it to businesses and individuals (Thành, 2023).

Furthermore, Vietnam's interest rate management mechanism has gone through various periods. In June 2002, interest rates were fully liberalised (Huy et al., 2022). Banks are now allowed to set their own interest rates with reference to the one set by SBV. Entrepreneurs, enterprises, and individuals now have access to a wider selection of credit solutions, each of which is tailored to meet specific financial needs in a more rapid manner (Thành, 2023).

Savings were swiftly drawn to banks with competitive deposit rates as interest rates were liberalised. This not only increased the security of deposits, but it also funnelled private funds into the official banking system for productive projects. However, the interest rate race created challenges for smaller banks, as they struggled to compete with larger banks by offering low lending rates. As a result of the lack of an interest rate ceiling or a base rate-plus-band restriction, they often boosted deposit rates and engaged in riskier ventures owing to competition pressure (Thành, 2023).

Finance Reform - The Establishment of The Stock Market

Given that Vietnam is among the few communist nations still in existence, combining SOE equitization with a stock market—a symbol of capitalism—is a step toward developing a financial system that is focused on the market (Nasir et al., 2020). Prior to the stock market, banks were the only source of cash available to enterprises. But since its founding, a lot of companies have successfully drawn substantial sums of money from regular investors, signaling a big shift in the financial scene (Thoa, 2021).

During the early stages of Doi Moi, Vietnam swiftly established the necessary infrastructure for the stock market, including the establishment of the State Securities Commission in 1996. Vietnam's securities industry was launched in 2000 when the Ho Chi Minh City Securities Centre opened for operation. After that, the Hanoi Stock Trading Center opened its doors in 2005, and in 2007 and 2009, both of them turned into exchanges. In 2017, the financial derivatives market was launched with the aim of diversifying Vietnam's stock markets. The Vietnam Stock Exchange (VNX) was created in 2021 by the merger of the Hanoi Stock Exchange (HNX) and the Ho Chi Minh Stock Exchange (HoSE) (Ministry of Finance, 2021).

The State Securities Commission of Vietnam reports that between 2011 and 2020, the amount of money raised through the stock market amounted to around 2.9 quadrillion Vietnamese dong, which is almost ten times more than what was raised between 2001 and 2010. This helped restructure Vietnam's financial system in a way that was more sustainable and balanced by adding, on average, 19.5% to the total capital allocated to social investments (Ministry of Finance, 2021).

There was also a notable growth in the capitalization of the stock market. It was around 1% of GDP in 2000–2005, but with the global financial crisis of 2008–2009 and Vietnam's entry into the WTO, it increased dramatically. The value of the stock market as a percentage of GDP increased to 72.6% in 2019 from 12.4% in 2008, according to the SSC (Figure 02).

The market capitalisation of the Vietnam stock market reached 7.3 quadrillion Vietnamese dong on March 31, 2023, equivalent to 82.15% of the national GDP, a growth of 2.68% over the previous month and 4.86% over the end of 2022 (Tax Journal, 2023).

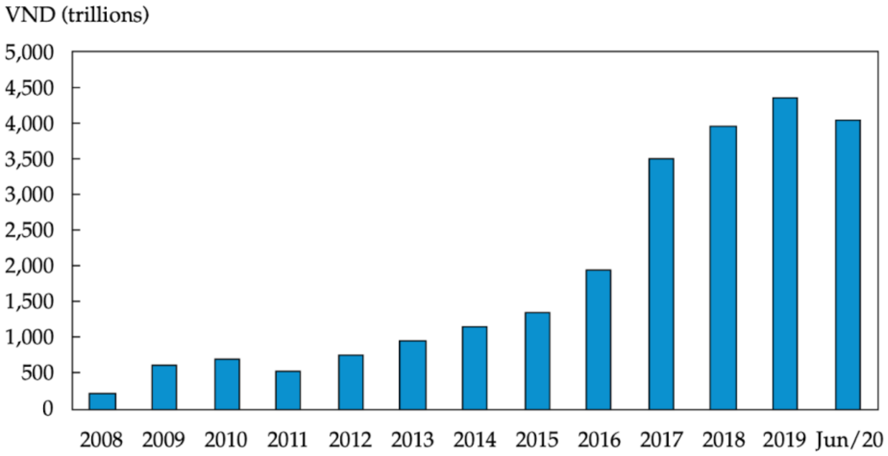

Figure 2: Vietnam’s Stock Market Capitalization (2008–2020; VND Trillion)

Source: CFA Institute Research Foundation

3.3. Increased foreign direct investment (FDI)

One of the main principles of this new approach was the country's readiness to attract FDI. During this time, the "Law on Foreign Investment", which was passed in 1987, paved the way for FDI to enter Vietnam and became a turning point in the country's economic history. With only 211 projects and a total registered capital of USD 1,603.5 million over the first three years of 1988-1990, the outcomes of attracting FDI were still modest.

Legal system reform & Openness to direct foreign investment

The revised Foreign Investment Law, which went into effect on July 1, 2000, intends to make Vietnam more appealing and welcoming to FDI businesses. The most significant change allows international businesses to utilise the assets and property of their company as security when borrowing money from foreign banks (Brown, 2002). This allows foreign businesses to mortgage their land-use rights. FDI inflows into Vietnam started to recover between 2001 and 2005, albeit slowly. The General Investment Law, which was passed in 2005, was a crucial turning point for this period. This extensive piece of legislation underlined Vietnam's commitment to fostering an environment that is welcoming to investors, expediting the investment process, and providing the legal protection of foreign investors. The year 2006 witnessed an increase of 75.5% in the total registered capital compared to 2005, reaching USD 12,004 million (Lăng, 2023).

The National Assembly's adoption of the revised Securities Law in November 2019 is a crucial first step towards improving the efficiency and transparency of the Vietnamese stock market. Vietnam showed tenacity in the face of the Covid-19 pandemic's difficulties. The nation rose to prominence as a symbol of stability, enticing companies looking for a stable working environment. FDI inflows dramatically increased as global investors became aware of Vietnam's effective reaction to the crisis. FDI inflows topped $38 billion in 2019 for the first time ever.

Foreign Trade Reform - through BIT and FTAs

Cross-border investment through the attraction of access to other markets, agreements and Bilateral Investment Treaties between Vietnam and the United States assist in boosting FDI in Vietnam. Vietnam's economic development remained strong from 1995 to 2000 following the normalisation of relations between the two countries in 1995. According to Chien Nguyen (2019), throughout the years 1991 to 2000, realised FDI capital totaled 19.462 billion USD, or an average of 1.95 billion USD per year. This BIT is without a doubt a crucial component in developing a more secure and alluring market for FDI. Due to Vietnam becoming an official member of the World Trade Organisation (WTO) in 2007, which was a significant accomplishment, FDI flooded into Vietnam quickly in 2007 and 2008. The third wave of foreign investment occurred in the span from 2011 to the present, and Vietnam also took part in a number of new trade agreements and reforms to the Foreign Investment Law and the Investment Law. Realised FDI investment capital in the years 2011 to 2016 totaled over 84 billion USD, which is 4.55 times the years 1991 to 2000 and 1.43 times the ten years prior (period 2001 to 2010), with an average attractiveness value of 12 billion USD each year. The amount of registered foreign investment capital in Vietnam in 2017 was close to 36 billion USD, while the amount of realised FDI capital was estimated at 17 billion USD, which is the biggest amount since the doi moi policy's adoption in 1986. In 2018, there were around 3,046 new FDI projects and 1,169 FDI projects with additional capital, keeping the capital source FDI at 35.5 billion USD. About 191.4 billion USD, or 27,353 FDI projects, are anticipated to have accumulated realised capital from FDI investments.

3.4. Increased remittances

In recent years, remittances have expanded quickly, making them one of the possible sources for global socio-economic growth, particularly in the setting of strong capital demand for economic recovery. Remittances, together with foreign direct investment (FDI), make up the largest percentage of foreign money entering Vietnam over time (Hồng Anh & Anh Tuấn, 2023).

Remittances are relatively small in Vietnam when compared to export revenue, but they are much larger when compared to net exports. Even currency exchange has recently been higher than the capital distributed by foreign direct investment (FDI). In particular, cumulative remittances from 1993 (the first year the Politburo issued Resolution No. 08-NQ/TW on mobilising Vietnamese nationals overseas) until the present have surpassed USD 190 billion, a significant increase. Since 1986, FDI has been paid out in USD.

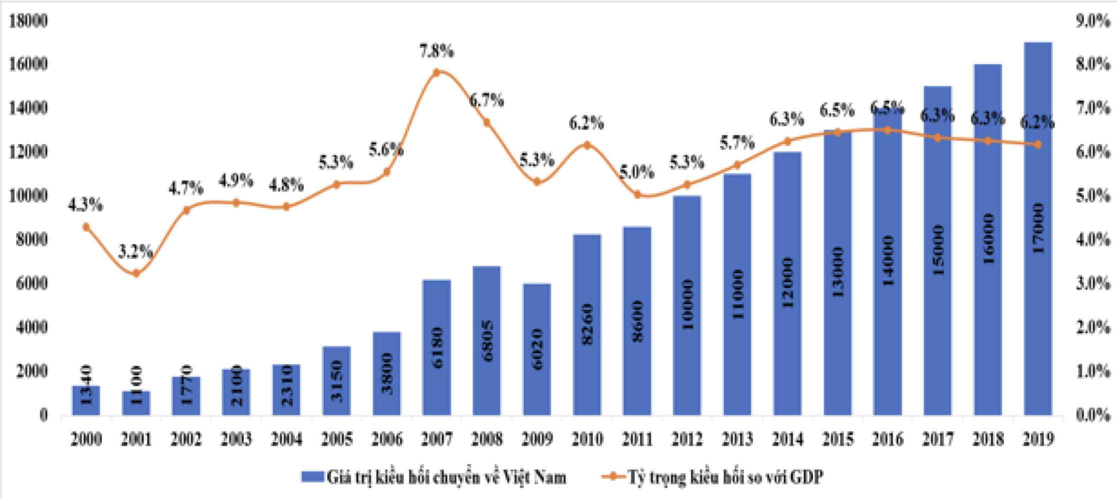

Figure 3: Remittances received in Vietnam during 2000-2019

($ million, percentage of GDP)

Source: WDI

Real Estate Ownership by Overseas Vietnamese

The Housing Law and Real Estate Business Law (effective as of July 1, 2015) have expanded the requirements for foreigners and overseas Vietnamese to purchase a home in Vietnam. By lowering interest rates on USD deposits, more remittances are flowing into production and business. By gradually lowering savings deposits, particularly remittances to take advantage of the difference in domestic and foreign interest rates. Open policies that let foreigners purchase homes simply by entering Vietnam won't "boost" the market, but they will promote investor confidence and attract more money to the country. With the implementation of this Law, it will be possible for foreigners to buy and own property in Vietnam, which has sparked the very genuine desire of Vietnamese living abroad to bring money home to invest and help develop their native country.

Legal system reform

The Government of Vietnam started issuing instructions on the task of encouraging and creating conditions for Vietnamese living abroad to transfer foreign currency back to Vietnam on their request in accordance with the laws of Vietnam and the countries in which they currently reside, with Decision 170/1999/QD-TTg supplemented by Decision 78/2002/Qđ-TTg.

Additional directives were issued by the government to broaden and expedite the remittance and investment attraction policy of overseas Vietnamese through Resolution No. 36-NQ/TW (2004), Directive 45/CT-TW (2015), Conclusion 12-KL/TW (2021), and Resolution 169/NQ-CP (2021).

The Vietnamese government encourages the expatriate community to send remittances through channels such as credit institutions recognized by the State, money transfers through international postal financial services providers, or bringing remittances in person into Vietnam in accordance with Decision No. 170/1999/QD-TTg approved by the Prime Minister.

The average annual growth rate of remittances to Vietnam over the course of almost a decade (2011-2022) is around 7%. Dr. Can Van Luc, an expert in economics, estimates that the World Bank will send around 19 billion USD to Vietnam in 2022—a 4.4% increase over the 18 billion USD transferred in 2021. "Clearly this is a good resource, as many of these invest in real estate, which is followed by consumption, sharing with family in the country, and for investment," Dr. Luc said.

4. Limitation and Recommendation

4.1. Inadequacy of Enterprise equitization

- *Limitations*

The recent development of equitization and divestment has not yet reached the planned level, and there are still certain inadequacies and restrictions. First to be mentioned is the approval and implementation of the project to restructure state-owned enterprises, transfer the owner's representative rights to the State Capital Investment Corporation, Transaction registration, listing, settlement and handover to a Joint Stock company are still slow. According to the directory approved by the Prime Minister in Decision No. 1232/QD-TTg, in the period 2017 - 2020, 403 enterprises must complete divestment, while only 21.8% of the plan has been achieved (Phuong Thao, 2023). Overall, over the past time, although more than 95% of state-owned enterprises have been equitized, the total amount of state capital sold is only about 8%.

Besides, the activities of the State Capital Management Committee at enterprises still have difficulties and obstacles: In particular, the policy of attracting strategic shareholders still has many policy constraints on finding strategic investors (in addition to the constraints on standard strategic investor conditions for each enterprise), such as the time limit for selecting strategic shareholders is short compared to cases of equitization of large enterprises and has a complex asset structure. The low public offering rate and the State still holding a controlling stake makes strategic investors afraid of the ability to control the business after investment, making investors less interested (Tuong Van - Thi Hai, 2023).

Other concerns include the fact that certain SOEs' production and business operations are inefficient, resulting in losses that are not proportionate to the resources they possess, and that there are projects that are inefficient, harming enterprise production and business outcomes.

- *Recommendations to reduce limitations:*

In order to tackle such limitations that SOEs in particular and the State in general are exposing, practical actions and policies are of urgent need. For the ensuing time, state-owned businesses and businesses with state capital must be reorganized in the following ways: preserving one-member limited liability businesses; equitization; restructuring (including mergers and dissolution); progressive divestiture of all or a portion of state capital. Maintain 195 single-member limited liability companies for the year 2022–2025 in accordance with the Prime Minister's Decision No. 1479/QD-TTg (a directory with 100% charter capital owned by the State for the period 2022–2025); implemented 19 enterprises' equitization and reorganized 5 firms; Execute the disposal of 141 businesses between 2022 and 2025; 21 SOEs and the 126 firms that maintain state capital will be organized in accordance with a different plan for the years 2022–2025. For enterprises that have not yet had their equitization or divestment plans approved by competent authorities, the owner's representative agency proactively adjusts the percentage of State shares held when developing plans according to the plan of rearranging state-owned enterprises and enterprises with state capital.

Finally, but just as importantly, it is critical that SOEs have a better understanding of business governance, responsibilities, and missions following equitization. Therefore, enhancing corporate governance entails putting contemporary corporate governance principles—such as information disclosure and transparency, the independence of directors, the board of directors' function and shareholders' rights—to use in accordance with global standards.

4.2. Shortcoming in loan sources control

- *Limitations*

In 2000, Vietnam began to put the stock market in operation. Although the number of investment accounts is increasing rapidly, they are mainly personal accounts, short-term stock trading and are influenced by large investors in the market. These investors lack investment and market analysis skills, thus affecting the stability of the market. Professional investors account for a modest proportion; some large foreign investors open accounts but have not yet participated in investing. Foreign investment funds participate in the domestic market through personal trust accounts and focus on investing in shares of equitized enterprises, not investing much on Ho Chi Minh City Stock Exchange and Hanoi Stock Exchange.

- *Recommendations to reduce limitations*

The risk of recession and collapse of the financial and banking system will increase, leading to long-term consequences. Unlike previous crises, the room for reducing interest rates of central banks in developed countries in the coming years is not large. Therefore, Vietnam does not need to prioritise macroeconomic stability and inflation control, but should continue to balance the implementation of both strategic goals of promoting growth and macroeconomic stability.

Regarding long-term solutions: Develop the capital market in a modern, complete structure. Strongly develop both domestic and foreign capital supply channels for the market, expand the system of investors, especially institutional investors; Fully develop intermediary institutions; diversifying service offerings, ensuring all the elements that constitute a developed capital market in the region; Closely combine monetary policy and fiscal policy; Harmonising the goals of mobilising capital for economic growth, sustainable development of the capital market with macroeconomic stability, curbing inflation, and ensuring national financial security.

4.3. Reliance on and inefficient utilisation of FDI

- *Limitations*

Even while FDI inflow was substantial, much of it was still directed toward taking advantage of Vietnam's cheap labor and lax environmental regulations, which prevented the country from experiencing sustainable prosperity. Vietnam's comparatively inexpensive labor costs and laxer environmental rules draw in a lot of international businesses. As a result, low-skilled individuals are engaged in labor-intensive industries like manufacturing and textiles, where FDI has concentrated.

Regarding technology spillover, many domestic companies are ill-equipped to profit from higher FDI imports. The transmission of technology and innovation is hampered by the lack of connections and cooperative partnerships between local suppliers and foreign-invested businesses. This hinders the competitiveness and long-term growth potential of local enterprises by limiting their capacity to update their capacities.

Foreign direct investment (FDI) corporations have gained significant market share in high-value added industries, particularly the retail sector, displacing local private investors. Local firms have faced difficulties due to the entry of multinational merchants that possess significant financial resources and well-established worldwide supply networks. The size, resources, and market dominance of international retail chains are too much for many local merchants to match.

Moreover, Vietnam cannot industrialise and modernise successfully if it only relies on FDI. The economy depends on FDI with a significant portion of its industrial production and export-oriented sectors being dominated by foreign-owned enterprises and this dependence can make Vietnam vulnerable to global economic fluctuations, geopolitical tensions, and shifts in investment patterns, posing risks to long-term sustainable development and limiting the country's control over strategic sectors. Presently, the FDI sector accounts for around 50% of industrial production and 72% of total export value, contributing up to 20.13% of GDP to the economy's structure; Based on the index of revenue, employment, and added value, FDI companies lead 4/5 subsectors of the manufacturing and processing industry and dominate 12 out of 24 sub-industries. Textiles, footwear, electronics, furniture, and products processed and manufactured by sectors that replace imports, such basic metals, rubber, and plastic, make up the majority of Vietnam's exports. The bulk of foreign direct investment (FDI) firms are currently based in emerging nations, particularly China. These enterprises mostly engage in production through imports, with minimal negative spillover effects on the home economy.

- *Recommendations to reduce limitations*

To ensure that FDI contributes to sustainable economic growth and the overall development, Vietnam needs to shift its focus to investment in high-value added industries and sustainable practices. This can be achieved by implementing policies that incentivize technology transfer, promote research and development, and support domestic firms' participation in global value chains. Encouraging the adoption of sustainable practices, such as green technologies and environmentally-friendly processes, will contribute to long-term sustainable growth and mitigate environmental impacts. Strengthening the capacity of domestic firms through targeted training programs, access to financing, and fostering innovation ecosystems can enhance their competitiveness. Additionally, creating a level playing field for domestic and foreign investors, ensuring fair competition, and promoting collaboration between foreign and domestic firms can help mitigate the crowding-out effect in various industries as well as lead to knowledge sharing, skill transfer, and the development of mutually beneficial relationships.

To reduce dependence on FDI, mitigate risks, and enable Vietnam to have greater control over its economic development trajectory, the government and authorities need to diversify its sources of investment and reduce the over-reliance on FDI. This can be achieved by promoting domestic private sector growth, supporting entrepreneurship, fostering innovation and technology development, promoting inclusive growth, ensuring sustainable investment practices, and creating a favourable business environment for local businesses. Besides, encouraging investment in research and development, innovation, and human capital development can enhance the competitiveness of domestic firms, reducing the dependence on foreign investors. Additionally, strengthening regional economic integration, attracting diversified investment sources, and fostering strategic partnerships can contribute to a more resilient and sustainable economy.

4.4. Limited impact of remittance on productive investment

- *Limitations*

According to the World Bank, Vietnam is one of the countries that receives remittances but does not have a major impact on economic development, because most of it is used for consumption and bank debt repayment. Despite attracting remittances, Vietnam still lacks business investment-oriented policies from the government. People still tend to use remittances to buy gold, real estate or save money, but the proportion of remittances used for production and business is still low. Data show that remittances to Vietnam mainly go to real estate investment (accounting for 22-25%) and the rest is to support relatives and other fields. In addition to direct transactions, most overseas Vietnamese ask their relatives to buy real estate or invest in real estate projects with the main form of investment being "surfing" (Peter Hong, 2023). Besides, administrative procedures are cumbersome, limited human resources, lack of transparency in the investment environment... are also the reasons why overseas Vietnamese businesses seek to expand their investment scope to neighbouring countries such as Laos, Cambodia, and Thailand, instead of investing back home. This can hinder the long-term and sustainable growth of the economy. The lack of effective mechanisms and support to channel remittances into productive activities has hindered the transformational impact of remittances on the economy.

According to Dr. Vo Tri Thanh, former Deputy Director of the Central Institute for Economic Management (CIEM), about 12 billion USD/year in remittances, equivalent to businesses with 280 billion USD in revenue, corporate income tax 20%, 10% profit, economic expert Nguyen Minh Phong believes that there needs to be the most favourable policy for remittance flows into production and business, including investment in real estate - which many people do not consider, is production and business that is speculative.

- *Recommendations to reduce limitations*

To overcome this limitation, many experts believe that the government needs to implement directional or motivational policies to direct remittance flows to invest in high-tech projects; support start-up investment; Establish remittance and venture funds to create sustainable development for the country. These fields are truly necessary for the development of the Vietnam economy and overseas Vietnamese possess all conditions and potential to be a strong force to support that as they have been working and living in developed countries, which give them better comprehension of the situation. The government also needs to develop an investment-oriented policy, which provides full information on the investment situation, market, and key industries requiring capital as well as preferential policies for overseas Vietnamese to choose investment and business activities.

5. Conclusion

In conclusion, Vietnam has experienced a remarkable economic transformation, propelled by the Doi Moi reforms. These reforms have significantly boosted capital mobilisation through various means, such as SOE equitization, the introduction of VAT, liberalisation of interest rates, and the development of the stock market. Additionally, Vietnam's openness to foreign direct investment (FDI) and legal reforms supporting remittances from overseas Vietnamese have played pivotal roles in its economic expansion. These reforms have not only spurred economic growth but have also created a more stable and sustainable financial landscape, positioning Vietnam as a dynamic player in the global economy.

However, Vietnam does face several economic development challenges. Progress in the equitization of SOEs has been slow, marked by challenges in project approval, divestment, and attracting strategic investors. Managing foreign capital is essential, but lenient borrowing conditions can lead to inefficiencies and environmental concerns. The country's heavy reliance on FDI raises concerns about its impact on long-term sustainable development and domestic control over key sectors. Moreover, despite substantial remittances, they are predominantly used for consumption and real estate investment due to complex procedures and the absence of business-focused policies, limiting their transformative potential.

To address these issues, experts recommend that the government enact targeted policies to encourage remittances toward high-tech projects, support startups, and establish remittance and venture funds to foster sustainable development. Leveraging the expertise of overseas Vietnamese, who often reside in more developed countries, can be instrumental in these efforts. Additionally, the government should formulate investment-focused policies that offer comprehensive information on investment opportunities, markets, and priority industries requiring capital while providing incentives for overseas Vietnamese to engage in investment and business activities. These steps can further propel Vietnam's economic growth and development in the years to come.

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