



Understanding the Socialist-Market Economy in Vietnam

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Abstract

The economic reform started in 1986 has transformed Vietnam from one of the world's poorest countries 35 years ago to a lower middle-income country (MIC) in 2010. Poverty rates dropped from 70% in 1986 to below 2% in 2021. The transition from a central planning system to a socialist market economy is the fundamental underlying factor of Vietnam's success. Using the historical institutional framework that Lee (2018) [1] developed, this study aims to explore the country's transition from a central planning system to a socialist market economy over the past three decades. The findings demonstrate that the country's transition to a socialist market economy has been taking a gradualism and dualism path like China. In addition, the study also illustrates how the economic reform and globalization processes pushed the institutional transformation in Vietnam to meet the demands of multiple economic sectors and ownerships as well as accommodate international commitments that the country entered. Finally, Vietnam has been cautious in its political reform over the past few decades. Yet, this is inevitable as a result of the country's socio-economic development process as well as the global and regional rapid changing context. The implications for Vietnam include: (i) Vietnam needs to transform its growth model toward a knowledge-based, higher-added-value, and more environmentally-friendly pattern; (ii) while there is significant progress in institutional transformation, bottlenecks and challenges remain. This should be addressed effectively to unlock the country's potential; (iii) political system reform is inevitable as conditions are mature. Domestic demands and international requirements are putting increasing pressure on the changes. However, this process will likely move forward and take place within the political system rather than by civil society or outsiders.

Keywords:

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1- Introduction

Vietnam has been achieving impressive socio-economic development over the past 35 years. From one of the poorest countries in mid-1986, Vietnam has become a lower middle-income country in 2010 [2]. In addition to the economic growth that is among the world's highest, other social indicators such as education, healthcare, and access to basic services (electricity, clean water, and sanitary facilities) have improved significantly. The country's poverty rate fell from 70% in 1986 to below 2% in 2021 [3]. From a closed and embargoed economy in 1986, Vietnam has become one of the most open economies in the world at present. The country established partnerships with 189/193 countries in the world and signed 185 bilateral agreements and 77 multilateral agreements. These include 15 free trade agreements (FTAs) with 57 economies in the world [4]. Vietnam achieved the Millennium Sustainable Goals (MDGs) in 2005 and is making impressive progress toward the Sustainable Development Goals (SDGs).

Since 1986, Vietnam has been looking for an optimal growth model that can accelerate its socio-economic development while the ruling Communist Party of Vietnam (CPV) can retain its power and achieve its socialism goal. The "socialist market economy," which has proved quite successful in China, seems to fit well with Vietnam after many heated debates and cautious discussions among the Party's leadership. At CPV's Congress IX in 2001, the "socialist

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market economy" was officially adopted and has been continuously improved over time. As the Credo for the country's development in the transitional period to socialism (revised and supplemented in 2011) outlines, Vietnam aims to become a modern industrialized country with a socialist orientation by the middle of the 21st century. The development of a socialist market economy is one of eight key strategic tasks in this transitional period.

While there have been notable accomplishments, critical challenges and unknown factors remain. The research on the socialist market economy in Vietnam is therefore important not only for Vietnam but also for other countries. There are several studies on this topic. The notion of "socialism" refers to a civilized and equitable society in which the state represents the long-term interests of the nation [5]. Neubart & Roeckel portray the Vietnamese dynamic process of economic transition and illustrate its socialist market economy concept. The authors discuss the extent of the socialist ideological influence on the country's impressive growth performance and its future course [6]. Rather than experiencing a linear transition out of socialism, Vietnam is undergoing a highly variegated and complex transformation of socialism [7, 8]. Nghia points out that while Vietnam's Constitution 2013, which contains the seeds of future political and legal guarantees for protection of individual liberties, fails to lay down the foundations for far-reaching comprehensive institutional reforms due to ambiguity in terms of people's ownership of land and natural resources [9]. Hansen et al. argue that the socialist market economy model in China, Vietnam, and Laos performs better than the economic systems of countries at a similar level of income per capita on a wide range of development indicators [10].

The socialist market economy does not represent a model that is easily transferred and copied to other states [11]. Vietnam's development model has been labeled as "market-Leninism", "state capitalism with a Leninist orientation" [10] and yet another example of Asian state developmentalism [12]. Sen & Thong summarize the process of economic reform policy development in Vietnam and draw out lessons learnt [13]. Thuy & Ha argue that the achievements of the country's reform process prove that the development of a socialist-oriented market economy is the right choice for Vietnam [14]. Loi points out that the inclusive and people-centered approach is the key to Vietnam's socialist market economy [15]. The Socialist-market economy in Vietnam is an economic model operating under the market mechanism in which the state sector plays a key role, especially in achieving the construction of socialism [16]. The socialist market economy construct is not static or unchanging, but rather in constant flux between market, state, and society, shaped by domestic and international events and trends [10]. While there is a fear that economic liberalization would eventually harm or erode the CPV's power, the transition proved that it helps consolidate the CPV's power thanks to improved socio-economic conditions and better international relations [17]. However, there is a gap in researching the impacts of Vietnam's transition to a socialist market economy on the institutional transformation and political system reform. This study, therefore, aims to fill in this gap. In essence, it explores the country's transition process from a central planning economy to a socialist market economy as well as its impacts on the country's institutional transformation and political system reform.

2- Literature Review

"Market socialism" is a combination of a market economy with social control of capital and employee control of workplaces [18]. The phenomenon of market socialism in the state sector constitutes one of the major tendencies in the move away from classical socialism [19]. Market imperfections are recognized, and government intervention is necessary [20]. Stiglitz proposes an alternative model of a market economy and clearer guidance for the setting of policy in transitional economies [21]. Conciliation between bourgeois and Marxist economics is possible. Rational economic calculation is feasible under socialism [22].

The definition of "socialist market economy" first appeared in 1992 in China [23]. The theory of a socialist market economy constitutes an important part of the political economy of socialism with Chinese characteristics [24]. "The School of New Marxist Economics scholars in China have made an outstanding contribution not only to the construction of the socialist market economic theory and socialist political economy with Chinese characteristics academically but also to the comprehensive deepening of reform and the strengthening of technology power building in practice" [25]. The theory of a socialist market economy drove China's reform and opened a new stage of development [26].

The first proposal to establish a socialist market economic system in China was made in the early 1990s [27]. The Chinese theory of the socialist market economy includes the following five major pillars: (i) the combination between the basic socialist system and market economy and the co-existence of a multiple ownership system; (ii) the phased "transition period", which includes three stages, e.g., the transition from a planned economy to a market economy, the transition from a "dual economy" to a modernized economy and the transition from extensive growth to intensive growth; (iii) establishment of a relatively mature and standard market economy and integration with the world's economy; (iv) establishment of an income performance-based distribution system, in which some dynamic regions and some groups of people are encouraged to grow faster and pull over other regions and people along; and (v) economic development and social stability through multileveled social insurance system [26].

The political pressure to sustain the Chinese Communist Party's ruling power has led to a gradualism approach while historical and economic legacies induced the dual-track approach in the transition to a socialist market economy in China

[1]. The fundamental difference between China and the East Asian export-led growth is that China's reforms have been driven by the socialist state, which controls around 80 to 90% of its domestic assets (i.e., excluding FDI) at the beginning of the century [28].

“This is not capitalism, but a more sustainable and socially just way of making a market economy work for national development and the improvement of living standards” [29]. “In market-Leninist regimes, market economic institutions are subordinated to Leninist forms of political organization. These contradictory modes of social integration generate parallel and overlapping stratification effects” [30]. “It is important to balance between state leadership and the fast-growing foreign investment and domestic private sector as well as addressing the rising regional inequality and the emergence of a new social class structure [31].

Vietnam embarked on a transition to a socialist market economy in 1986 when the Soviet Union and socialist bloc collapsed. These pushed Vietnam to follow China's dual-track reform path [32]. The Soviet Union's aid accounted for 80% of the country's GDP, e.g. around US\$ 2 billion out of total Vietnam's GDP of US\$ 2.5 billion in 1975 [33]. When the Soviet Union's financial assistance dried up, the Vietnamese economy began to break down. The country was in an extremely difficult economic situation. GDP per capita dropped from US\$ 233 in 1985 to US\$ 86 in 1988, which is the lowest in the world [34]. The country's leadership was under huge pressure. The Soviet Union's perestroika was a scary experience. Therefore, Vietnam departed from the Soviet Union's big bang model, which undertakes simultaneous political and economic opening up [17] and started economic liberalization first and gradually relaxed political conditions [35]. After long debates on reform experiences of other countries, including China, the socialist market economy was officially adopted at the Vietnamese Communist Party Congress XI in 2001. Since then, the socialist market economy concept and policies have been improved over time. Improvement of the socialist market economy mechanisms is one of three strategic breakthroughs (infrastructure, human resources, and socialist market economy mechanisms) set out in the country's socio-economic development strategy 2021-2030, which was adopted at the Party's Congress XIII [36].

3- Research Methodology

This study follows the historical institutional framework that Lee [1] developed. He argues that political pressure to sustain the Chinese Communist Party's rule has led to a gradualism approach while historical and economic legacies induced the dual-track approach in the transition to a socialist market economy in China. Figure 2 illustrates these institutional processes in China. Also, Figure 1 shows the flowchart of the research methodology.

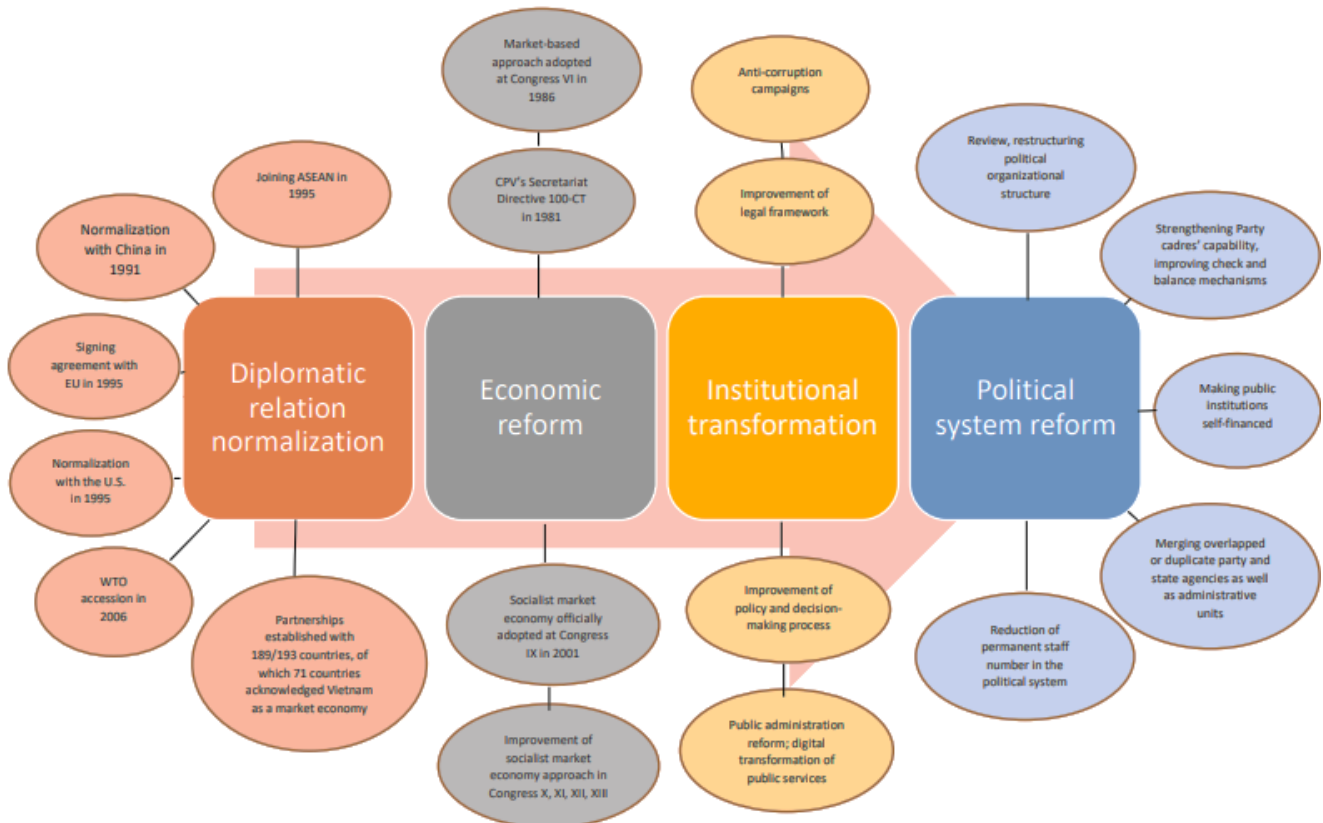
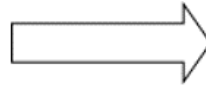


Figure 1. Flowchart of the research methodology

Institutional structure
(the CPC rule and survival)



Socialist Market Economy
with Chinese Characteristics

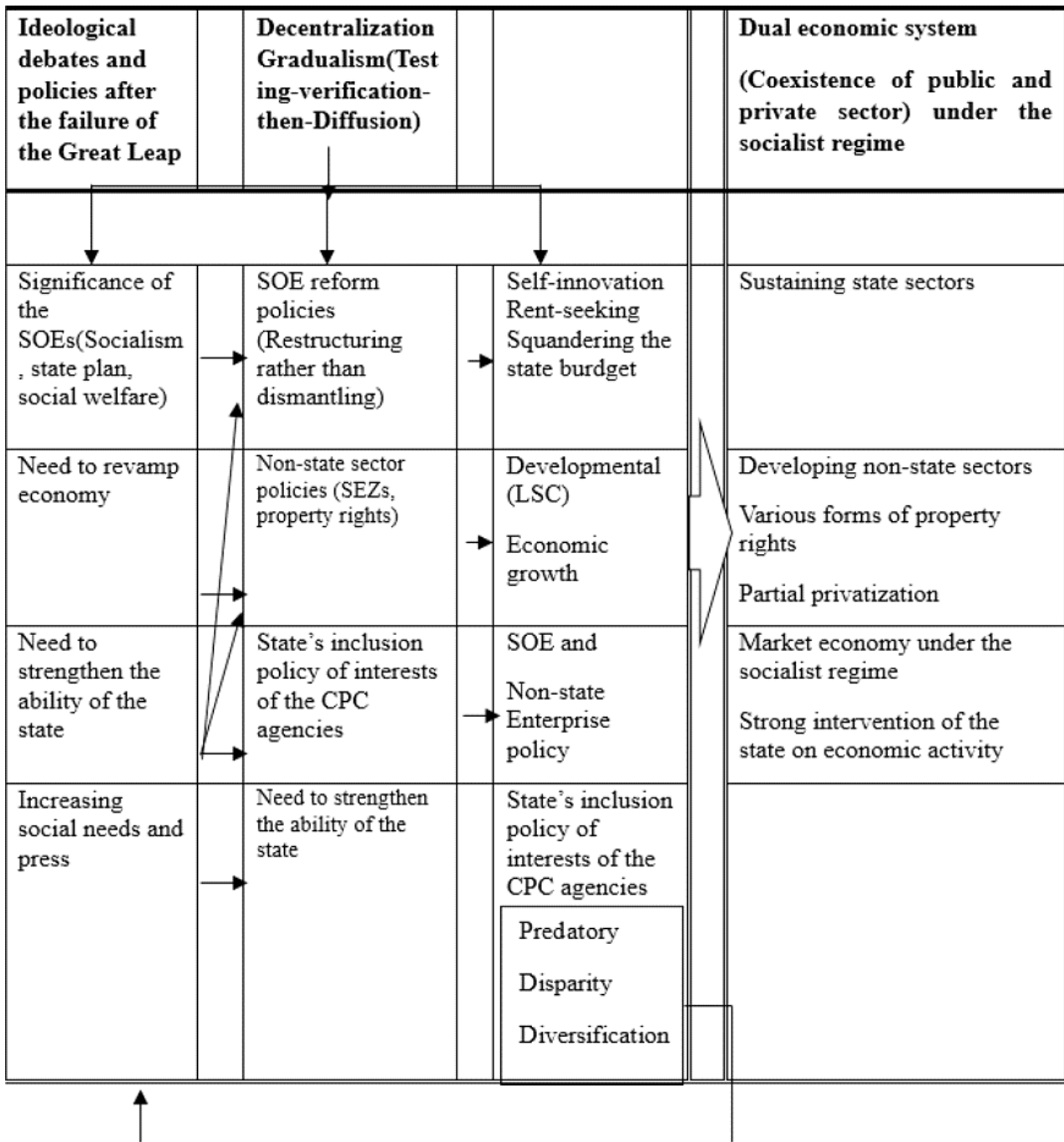


Figure 2. Institutional processes of market economy in China [1]

As a China's neighboring country, Vietnam shares many historical, cultural, and political similarities, including the transition from a central planning system to socialist market economy. The following hypotheses therefore will be tested: (i) Vietnam follows similar gradualism and dualism approach like China in transition from the central planning system to a socialist market economy over the past three decades; (ii) transition to a socialist market economy in Vietnam entails radical institutional transformation in order to accommodate domestic demands and international requirements; and (iii) the successful economic reform has had positive impacts on pushing the country's political system reform forward. An adapted model for Vietnam is presented in Figure 3.

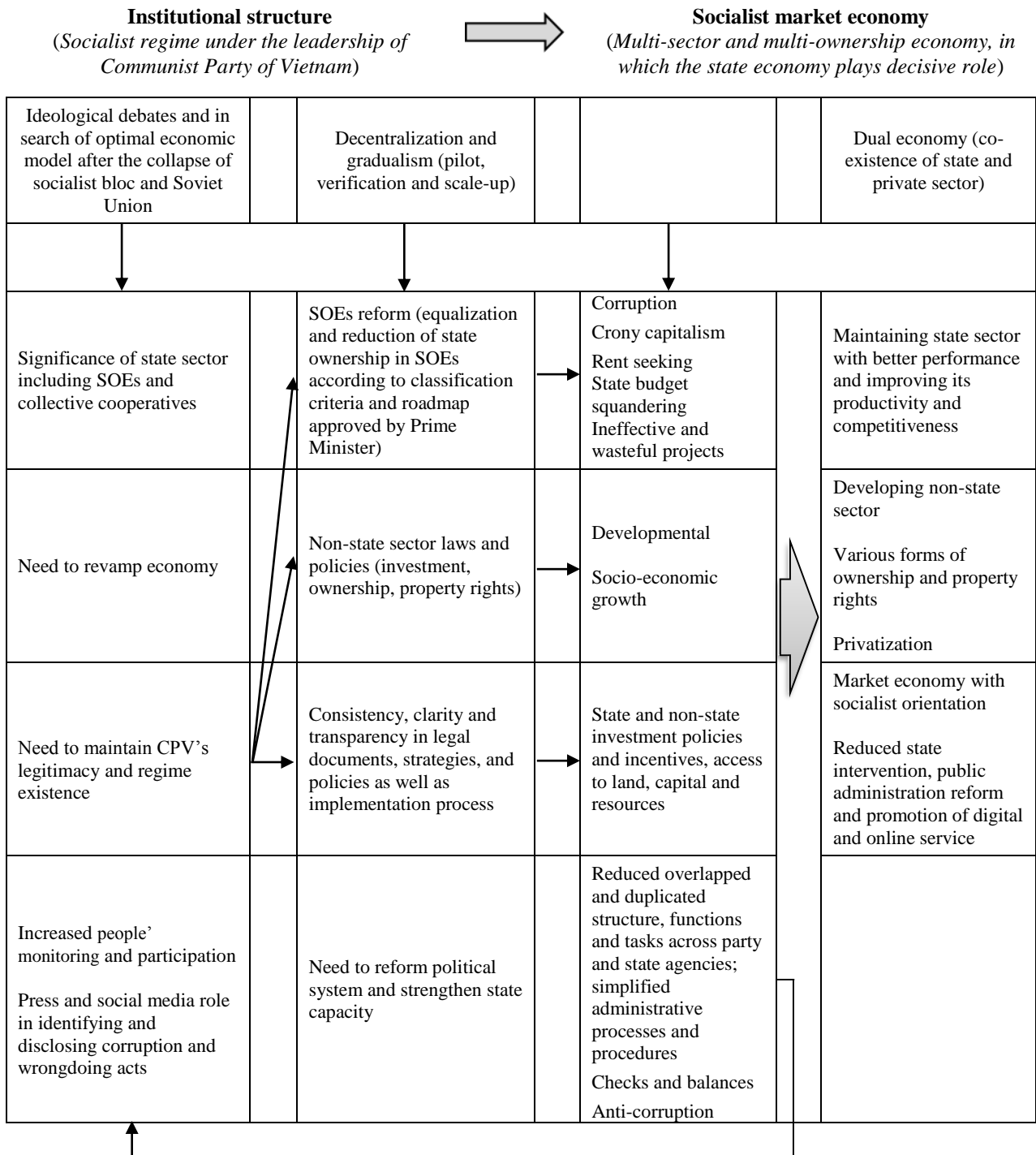


Figure 3. Adapted historical institutional model for Vietnam

4- Discussion

4-1- Transition Process to a Socialist Market Economy in Vietnam

“The Vietnamese dynamic process of economic transition illustrates its unique concept of a market economy with a socialist orientation” [6]. While Vietnam and China share some similarities, there are significant differences in their welfare regimes. Vietnam’s welfare regime is more redistributive in its character [37]. “Vietnam is facing a critical crossroad, after a period of steady growth, in a desperate effort to save its economy from going virtually bankrupt as a result of ideological ambiguity, cronyism, vested interests, corruption, poor governance, and the absence of stakeholders’ participation in the process of sustainable development of the country” [38]. Reform in Vietnam is a protracted process, in which a stop-go cycle has been induced due to different political motivation and drivers at different stages. While the achievements are irreversible, the comprehensive advances would seem to depend on the occurrence of deeply unfavorable shocks [39]. There may not be a levelled playing field across economic sectors and within the private sector due to cronyism and the patronizing relationship between political leadership and the private sector [40]. As economic

inequality poses the greatest threat to political stability and Vietnam's single-party system, it is important to ensure that the development process is inclusive and vulnerable groups are not left behind [6]. The market reforms of Vietnam emerged from the economic crisis as the country was heavily impacted by the wars with the French and the American as well as sanctions imposed in response to the occupation of Cambodia [41]. "Vietnam shifted towards a more market-based economy using a trial-and-error approach, with a gradual recognition of the important contribution of private initiative to economic development" [42]. Vietnam's adoption of market institutions has brought impressive economic performance over the past decades [43]. The regime has in many ways grown 'business-friendly'. For example, it has opened up party membership for private entrepreneurs, encouraged domestic and foreign investment and promoted a stronger party presence in the non-state enterprises [44]. "The constitutional ideology of Vietnam remains Marxism–Leninism combined with 'Ho Chi Minh Thought', and Vietnam is simultaneously both a socialist country and developing towards socialism" [10].

In Vietnam, the socialist market economy model is seen as socialist because of its form of ownership, organization of management and distribution system. The socialist market economy is the application of the market economy as a tool for development rather than a social system. Trong [45] claims: "A socialist market-oriented economy is a multi-sector commodity economy, which operates in accordance with market mechanisms and follows a socialist orientation... This is neither a capitalist market economy nor a socialist economy". The characteristics of the socialist market economy in Vietnam include: (i) adoption and abiding to the market economy, which is applicable in various socio-economic forms and political regimes. It is important to have market-based conditions to unlock growth potentials, enhance productivity and achieve high economic growth; (ii) a market economy is the best means to achieve socialist goals in Vietnam. The market economy does not conflict with the socialist orientation. On the contrary, they complement and support each other. While the market economy has proven to bring positive economic results, the socialist orientation helps address market failures and ensure fair, inclusive, and sustainable development; (iii) a socialist market economy is proven a relevant choice for Vietnam, which aims to construct socialism from a low level of economic development. Therefore, it is important for Vietnam to use the market economy to unlock its potential and achieve high economic growth and encourage multiple ownerships and multiple economic players. The Party's leadership and state management aims to maintain the socialist orientation, address the market failures and ensure fair and inclusive development across ethnic groups and geographical areas of the country.

In party-state regimes, there are increasing risks of crony capitalism entailed by the complex connection between emerging powerful private corporations and powerful corrupt Party cadres and government officials. Anti-corruption and tackling crony capitalism are therefore critical." Private sector has been growing fast in Vietnam over the past 35 years. There are currently about 850 000 active private enterprises, which contribute about 43% of GDP and employ about 85% of the workforce. While there are some big private groups such as Vingroups, Sun Group, Thaco, TH, Sovico, Geleximco etc., about 96% of private companies are small and medium ones. Vietnam aims to have about 1.5 million enterprises by 2025, including 60 000-70 000 medium and large-sized ones [46]. The private sector's contribution to GDP is expected to reach 55% while about 5-10 national groups will reach international level. However, the Vietnamese private firms largely have low productivity, limited access to land, capital, and natural resources. While there has been sharp decline in number of state-owned-enterprises (SOEs), they still make up 28.8% of the country's capital and contribute 20% to the national GDP. The average capital per SOE is VND 3 821 billion (about US\$ 0.166 trillion), which is over 10 times and 100 times higher than FDI and non-SOE sectors, respectively. "The restructuring of state-owned enterprises (SOEs) since 1990 is considered as one of three crucial pillars in the process of economic reform toward a market-oriented economy under deeper international economic integration." [47]. Foreign direct investments (FDI) have played an important role in the rapid growth of exports in Vietnam. About 80% of electronics/ ICT hardware and over 30% of electronic-related products produced in Vietnam are for export, in which foreign manufacturing firms are dominant. Growing interest in Vietnam as a production base has led to strong FDI inflows, particularly in the manufacturing sector (Jinho Choi, Marthe M. Hinojales, Seung Hyun (Luke) Hong and Jade Vichyanond, 2021. The Role of Vietnam's FDI Inflows in Global Value Chains Participation and Economic Growth. The ASEAN+3 Macroeconomic Research Office (AMRO) Working Paper (WP/21-02). However, there is a weak link and limited technological transfer from FDI and domestic firms.

Table 1. Share of SOEs' Contribution in Comparison with Others (2010-2017)-Unit: Percentage (%)

Categories	Number of Enterprises		Employees		Capital		Turnover		Profit Before Tax		State Budget Contribution	
	2010	2017	2010	2017	2010	2017	2010	2017	2010	2017	2010	2017
State-owned enterprises	1.2	0.4	16.5	8.3	33.1	28.8	27.2	15.1	32.3	22.9	36.3	29.4
Domestic private enterprises	96.2	96.7	61.4	60	51.2	53.1	54.3	56.8	32.5	33.3	40.4	42.7
Foreign direct investment enterprises	2.6	2.9	22.1	31.1	15.7	18.1	18.5	28.1	35.2	53.8	23.3	27.9

SOE=state-owned enterprise

Source: General Statistics Office (2018).

The socialist market economy concept in Vietnam has been improved gradually over time. The socialist-oriented market economy concept was officially adopted at the Party congress IX in 2001. Congress X in 2006 indicated that: “To establish multi-ownership forms and multi economic sectors, namely state, collective, private (individuals, small owners, private capitalists), state capitalist and foreign direct investment [48]. There has been a sharp change in awareness and acceptance of various forms of ownership. Congress XI stated that: “To develop socialist market economy with multi ownerships, multi economic sectors, enterprises, and distribution forms” [49]. It elaborated more clearly that “Various ownerships coexist and increasingly grow over time [49]. Congress XII defined that: “The socialist market economy is the market-based economy that follows the country’s socialist orientation and aligns with priorities of each development stage. This is a modern and globalized economy under the state management and leadership of the Communist Party of Vietnam, which aims to achieve the goal of “rich people, a strong, democratic and civilized country. There are multiple ownerships and economic sectors, which are equal to compete and cooperate within the laws” [50]. The ownership has been diversified with a shrinking SOEs, fast-growing private sector and export dominant FDI sector. This is consistent with other findings.

The socialist orientation has been more clearly defined recently. The Constitution 2013 noted that: “The Vietnamese economy is a socialist-oriented market economy with multi-forms of ownership and multi-sectors of economic structure; the state economic sector plays the leading role.” As Trong clarified: “A fundamental characteristic and important feature of the socialist orientation in the Vietnam’s market economy is the combination of economics and society, the coordination of economic and social policies. It also ensures that economic growth would be accompanied by social progress and equality in every stage, every policy, and throughout the development process [51]. Congress XIII further developed the socialist market economy in Vietnam as follows: “It is a modern, globally integrated economy that operates according to market rules under the state management and leadership of the Communist Party of Vietnam to ensure socialist orientation and achievement of the goal “rich people, strong, democratic, and civilized country.” The socialist market economy in Vietnam comprises multiple ownerships and multiple economic sectors, in which the state sector plays a key role, the collective and cooperative sector is encouraged to thrive, the private sector is an important driver and foreign investment is promoted to grow in line with strategies, planning and socio-economic development plans” [52]. In essence, Congress XIII added the following elements: *First*, better clarity on the position, role, and function of economic sectors. The state economy is an important force to ensure macroeconomic stability, orient, regulate, and guide the socio-economic development process as well as address the market failures. Collective and cooperative economy are mandated to provide services and protect its members, promote business linkage and cooperation, improve productivity and sustainability through business associations and unions. The private sector is encouraged in all areas that is not forbidden by laws, particularly in production and services. Strong and competitive private economic groups are expected to be formed. The foreign investment plays a big role in mobilizing investment capital, technologies and modern management models and export market expansion. *Second*, clearly defined relationship between the state, market, and society. Whereas the state carries out its functions by developing and implementing strategies, plans, mechanisms and policies and market-based allocation of resources. The state intervention should be reduced, and relevant works should be outsourced to social organizations. Social organizations help link and promote cooperation, conflict resolution, represent and protect members, policy advocacy and monitor the implementation of state policies and legal enforcement. *Third*, strengthened institutional arrangements for the socialist market economy. These include enhancing state management capacity, improving legal framework and policies development and implementation quality, public administration reform and addressing institutional bottlenecks and barriers... *Fourth*, improvement of domestic capacity, strengthening the economy’s resilience and diversification of markets and supply sources to cope effectively with global shocks and crises.

Yet, clearer quantitative and qualitative criteria would be needed for effective implementation, monitoring, measurement, and assessment of progress [53]. One of the core issues of Congress XIII is to further address the challenges and barriers for the socialist market economy. The political report at Congress XIII noted that: “there are challenges and discrepancies related to conflicting regulations in the legal framework, lack of enabling and transparent business and investment environment, inefficient mobilization, allocation, and use of development resources. Institutional arrangements and regional economic coordination remain inadequate” [54].

Priorities for the coming years therefore include:

First, consolidating and enhancing awareness on development of socialist market economy. Congress XIII emphasized: “the socialist market economy is our overall economic model of our country in transitional period to socialism” [52]. These involve not only the Party cadres and government officials but also businesses, media, and ordinary people.

Second, removing institutional bottlenecks and enhancing socialist market economy institutional quality. In essence, it is the improvement of legal framework, which remains complex, overlapped, and inconsistent. In addition, it is important to strengthen policy implementation and law enforcement as well as create enabling environment for innovation, start-up, digital economy. The congress XIII stressed that: “To develop legal framework, create enabling

environment for start-up, innovation, emerging areas, new business models. Revising the conflicting and overlapping regulations that hamper economic growth. Accelerating public administration reform, decision and authority delegation while strengthen checks and balances, accountability mechanisms and improve cross-agency cooperation [54]. It is important to: (i) have market-based price mechanism for goods and services, including public services and performance-based production and business mechanisms; (ii) develop market-based mechanisms for production factors and resource allocation; (iii) promote and apply modern and transparent transaction, e-business, digital economy; (iv) strengthen financial, monetary, insurance, stock markets; (v) effectively manage real estate and land market; (vi) improve labour market, reform salary regime and social welfare and insurance policy; (vii) protect the environment and respond to climate change. In addition, it is necessary to enhance the enterprises' performance. These include the SOEs restructuring and equitization, development of collective and household businesses and private sector promotion. Sufficient training and education are needed to build technological capacity, develop human resources, prepare labour force for future job requirements. Priorities should be given to high-tech foreign direct investment companies that are willing to transfer technology to the Vietnamese partners.

Third, strengthening the domestic capacity and economy's resilience to external shocks. Over the past 35 years, Vietnam has deeply integrated into global economy. The country's openness is high with the total import/export proportion of GDP is more than 200% [55]. Vietnam joined many multilateral agreements including the Comprehensive and Progressive Agreement for Tran-Pacific Partnership (CPTPP), Europe-Vietnam Free Trade Agreement (EVFTA), and Regional Comprehensive Economic Partnership (RCEP). Global integration brings good economic results and reforms the country's legal framework significantly. However, there are lessons learned in this process. These include the need to strengthen domestic capacity and resilience as well as selective foreign investment attraction to obtain high technologies and better linkage with domestic firms. Congress XIII stressed the importance of strengthening the economy's capacity and resilience with greater attention to economic security and diversification of markets and partnerships and ability to response to global shocks. It is important to undertake globalization process in line with the country's socio-economic condition and goals in each period, build capacity on international legal affairs, trade, and investment as well as conflict resolution.

This shows that the transition from the central planning system to a socialist market economy in Vietnam follows a gradualism and dualism path like China. The economic reform started in 1986 with cautious approach and heated debates among the Party leaders, scholars, and experts. The socialist market economy was officially adopted in 2001 and gradually improved over time. The ownership and economic entities have been diversified with a shrinking SOEs, fast-going private sector and export dominant FDI sector.

4-2- The Institutional Transformation in Vietnam

There are studies showing how economic growth could impact the institutional reform. The interaction of economic and political changes has impacted on institutional transformation in Argentina [56]. Economic growth leads to improvement of institutions [57]. "Structural transformation is associated with economic growth, especially when directed towards industry and manufacturing" [58]. "The relationship between growth in modern sector and the institutional environment is bidirectional and mutually reinforcing. The growth of the modern sector would result in structural change" [59].

The transition from the central planning economy to a socialist market economy in Vietnam over the past 35 years entails radical institutional transformation to accommodate the needs of the various economic ownerships, sectors, and entities. The CPV's Central Committee issued two important resolutions, which laid foundation for the development of legal framework on ownerships, property rights, business and investment, different market segments (goods, service, labour, real estate, business entities, science and technology, finance...), social security and environmental protection, conflict resolution and arbitration. These are (i) resolution No. 21-NQ/TW on continued improvement of the socialist market economy institutional structure dated 30 January 2008 of the 6th Central Committee Plenum, tenure X; and (ii) resolution No. 11-NQ/TW on further improvement of the socialist market economy institutional structure dated 3 June 2017 of the 5th Central Committee Plenum, tenure XII.

Important laws have been developed and revised, as necessary. These include: (i) *the laws that regulate ownership protection, property rights of people and businesses, contractual relationships, and freedom of contracting of people and businesses.* The Civil Law was developed in 1995 and amended in 2005 and in 2015. The Land Law was developed in 2003, amended in 2003 and in 2013. The Housing Law was developed in 2005 and amended in 2014. The Law on Property Rights was developed in 2005 and amended in 2009. The Commerce Law was developed in 1997 and amended in 2005; (ii) *the laws that regulate business and investment activities.* The Law on Private Enterprises and Law on Companies were developed in 1990. The Enterprise Law was developed in 1999 and amended in 2005, 2014 and 2020. The Law on Foreign Investment was developed in 1987 and amended in 1996. The Law on Domestic Investment Promotion was developed in 1994. The Investment Law was developed in 2005 and amended in 2014 and 2020; (iii) *the laws that regulate competition and protection of consumers' rights.* The Law on Competition was developed in 2004

and was later replaced by the Law on Competition in 2018. The Law on Protection of the Consumers' Rights was developed in 2010. The Law on Food Safety was developed in 2010. The Law on Quality of Products and Goods was developed in 2007; (iv) *the laws on important areas* including the Labour Law, the Land Law, the Housing Law, the Law on Real Estate Business, the Commerce Law, the Law on Credit Institutions, the Stock Law... (v) *the laws on social security and environmental protection*. These include the Law on Social Security (2006 and 2014) and the Law on Environmental Protection (1993, 2005, 2014, 2020); (vi) the laws on conflict resolution and bankruptcy including the Law on Civil Affairs Litigation (2015), the Law on Arbitration (2010), the Law on Bankruptcy (2004). In addition, the Laws address economic violations such as Civil Code (2015, 2017) and the Law on Penalization of Administrative Violations (2012, 2020).

In addition, there has been significant change in legal framework development mind-set. For instance, the shift from "freedom to do business within legal requirements" (Article 57, Constitution 1992) to "freedom to do business in all areas that are not prohibited by laws" (Article 33, Constitution 2013). This has an important implication in limiting the state's excessive intervention and liberating the people's freedom in doing business.

Furthermore, there are significant efforts in public administration reform, simplifying administrative procedures and improving the environment for business and investment, particularly after the government issued resolution 19/NQ-CP on key tasks and solutions to improve environment for business and investment and enhance national competitiveness. Since then, the government issued similar resolution 19 (2015-2018) and resolution 02 (from 2019 to present) every year. These helps improve environment for business and investment significantly. As a result, Vietnam's national competitiveness has been enhanced impressively with the country's business environment and competitiveness ranking was 70 and 67 globally in 2019, which increased by 20 and 10 ranks respectively compared to 2015. Over the past five years, Vietnam's logistics efficiency, global innovation, sustainable development rose by 25, 17 and 34 ranks, reaching 39th, 42nd and 49th in 2017, 2018, 2019, and 2020, respectively. In 2020, the Prime Minister asked ministries and provinces to support businesses to overcome difficulties caused by COVID-19 pandemic and recover quickly.

However, there are room for improvement. The Congress XIII assessed that: "There are challenges and discrepancies related to socialist market economy institutional arrangements... Quality of laws and policies remains low. Business and investment environment is not yet open and transparent. Resource mobilization, distribution and use is insufficient. Regional institution development and coordination has not been paid adequate attention and legalized accordingly. The market price-based mechanism faces critical challenges. Modern markets and transaction modes are slowly established or missing, particularly the production factors... Domestic market protection, international conflict resolution remain ineffective" [54]. In era of industry 4.0, there are apparently great demands for development and amendment of regulations related to land, property registration, digital transaction, consumer's rights protection, food security, personal data, business conflict resolution and new business models

Institutional priorities set by Congress XIII therefore include: (i) *further improvement of protection of ownership and property rights and freedom in doing business*. "To protect legal property rights, freedom in doing business, and rights in carrying out contracts in accordance with laws" [54]. "To undertake institutional reform with regard to property rights, focusing on property registration and usage, bank loan collateral, bankruptcy procedures" [54]. "To strengthen intellectual property rights protection and implementation [54]. "To improve legal framework to mobilize, distribute and use land resources effectively, openly and transparently and to address conflicts, complaints, corruption and wastes" [54]; (ii) *institutional reform on freedom in doing business, investment, and development of multiple economic sectors*. "To decisively, comprehensively, and effectively carry out public administration reform to remove barriers in freedom in doing business, improve business environment and ensuring fair, open, and transparent competition. Target to become a country in the top 30 in the World Bank business environment ranking by 2030" [54]. "To strongly promote Vietnamese private sector in terms of quantity, quality, efficiency, and sustainability as an important economic driver of the country. Remove all barriers, prejudices, enable and support private sector to grow, innovate, modernize, and enhancing labour productivity. Encourage the establishment of large-scale private groups that have strong capability and competitiveness with global and regional companies. Target to have two million private enterprises, which contribute 60-65% of GDP by 2030" [54]; (iii) *renewing institution on social security and environmental protection to ensure sustainable development*. "To improve legal framework on social insurance, develop a flexible, diversified, multi-levelled, modern and globally integrated social insurance system, and moving toward all-people insurance" [54]. "To promote green, low-carbon economy, reduce GHGs emission, encourage circular economy models [54]; (iv) *acceleration of digital transformation, development of digital economy, digital government, and digital society in the context of industry 4.0*. "To develop favourable legal framework and environment to promote start-up, innovation, digital transformation, and digital economy. Support and encourage the experiment of new areas and new business models" [54]. The Congress XIII set a target to complete digital government and reach top 50 in global ranking and the third in ASEAN in digital government and digital economy; (v) *addressing globalization related legal aspects*. "Improve legal framework in line with the international treaties and commitments that Vietnam entered. Further train and develop capacity of the cadres, particularly ones that work directly on globalization issues and international conflict resolution" [54]. "To protect legitimate interests of Vietnamese state, business and people in international economic, trade and

investment conflict resolution, reducing risks in globalization process” [54]; *(vi) promoting democratic and participatory socialist market economy institutional development process, particularly consultation with and participation of people, business and civil society organization in policy development and implementation.* “To promote the role of civil society organizations in establishing and monitoring market relationships” [54]. “State should develop and improve institutional structure, protect property rights, freedom in doing business, maintain macroeconomic stability, ensure an enabling, open and transparent environment for businesses, civil society organizations and markets...State should manage national economy by laws, strategies, policies, mechanisms, plans, standards and follow the market rules” [54]. “Market plays decisive role in setting price of goods and services, creates incentives for effective mobilization and distribution of resources, regulates business performance and filter out weak businesses” [54].

4-3- The Political System Reform Process

Over the past 35 years, Vietnam achieves impressive socio-economic development results. The country is among the countries that achieve high economic growth, improved growth quality and labour productivity. The country obtains relatively high economic growth, with average growth rate of 5.9% over the period 2011-2015, and 6% over period 2016-2020. Total investment capital reached US\$ 673 billion, of which non-state capital accounted for 44.9%. Total import-export turnover increased from US\$ 157.1 billion in 2010 to US\$ 543.9 billion in 2020 with constant trade surplus [60]. The poverty rate dropped from 57% to below 3% from 1993 to 2020. The GDP per capita rose from US\$ 159 in 1985 to US\$ 2 750 in 2020 and expected to be around US\$ 5 000 by 2025. The country integrated deeply into global economy with many partnerships established and 15 Free Trade Agreements (FTAs) signed, covering 60 economies including 15 G20 countries. Vietnam has an aspiration to become an industrialized country by 2030 and a high-income developed country by 2045 [61]. This requires systematic political and economic transformation.

However, the country’s political system remains almost unchanged over the past three decades. It therefore lags behind the socio-economic development process and hinders the country’s growth potentials greatly. As the Party noted: “The political system is complex, multi-layered, overlapped, inefficient and ineffective” [62]. In essence, these include: (i) old-fashioned political system model, which is designed for a Soviet-style central planning economy and therefore not relevant for an open, market-oriented and highly integrated economy; (ii) heavy, costly and bureaucratic organizational structure with overlapped functions, tasks and authority across Party entities, government agencies and mass organizations; (iii) limited transparency, weak power balance and check mechanisms; (iv) low operational efficiency and effectiveness; (v) unclear responsibility and accountability. The political system of Vietnam has shown increasing limitations in the current context of an open economy and global integration. These need to be reformed and improved [63]. As the resolution 18-NQ/TW on 25 October 2017 adopted by 6th Plenum of Communist Party of Vietnam (CPV)’s Central Committee Tenure XII pointed out: “Overall organizational structure of political system remains incomplete. Many agencies and staff are incompetent to do their task and fulfill their obligations in the new period” [64]. However, the political change in Vietnam will likely to come from changes within state institutions, rather than from the rise of an assertive civil society as imagined in the West [65].

As Vietnam makes significant socio-economic progress, the pressure for political system reform increases. The country’s economy has transformed from a very closed, centrally planned economy in the 1980s to one of the most open economies in the world at present. The GDP’s growth rate was 6.53%, 7.26% and 5.9% over the periods of 1986-2000, 2001-2010 and 2011-2020 respectively [66]. The country has young, dynamic, better educated, and richer population, which requires rapid changes in political system. Growing private sector, FDI and international standards and compliance requirements from the FTAs also put great pressure for the reform. The digital age requires a modern, efficient, transparent, and capable political system that can follow, interact, dialogue, respond and serve the people, business, and society quickly, effectively and efficiently. These contrast sharply with the old-day command-and-control leadership and administration. The political system therefore has been pushed to change, gradually but effectively. In addition, Vietnam’s economy high level of openness to trade makes it highly vulnerable to global shocks such as the trade wars, pandemic outbreak, supply chain disruption or escalated conflicts. All these factors demand a strong political system reform. “Political conditions have changed considerably since 2014, reverting to a more tectonic pace of change with limited space for innovation and real public debate” [30].

Vietnam’s transition process to socialist market economy contributes not only to the country’s socio-economic development but also to the changes in political leadership’s thinking and reform of its political system [17]. Rapid regional and global changes, technological advancement, and domestic demands pressure for a reform toward a modern, democratic, effective and growth enabling political system in Vietnam. The social conditions for a fundamental and comprehensive reform in Vietnam have matured [67]. “Major political reforms have yet to materialize, but quite significant reforms in governance at the national and local levels have already taken place in both countries” [68]. Far more than the economy is involved in the transition [69]. Vietnam needs to institutionalize three basic elements: a market economy, a law-based government and a civil society and get on the right future trajectory [70]. As a result, the Party set a high agenda for political system reform. Key related resolutions and documents include: (i) the Central Committee’s resolution No.18-NQ/TW on 26 October 2017 on continuation of the political system reform and restructuring; (ii) the

Central Committee's resolution No. 19-NQ/TW on 25 October 2017 on reform and restructuring of public institutions; (iii) the Central Committee's resolution No. 22-NQ/TW on 15 March 2018 on rearrangement of the district and commune-level administrative units; (iv) the Politburo's documents including plan No. 07-KH/TW on implementation of resolutions No.18-NQ/TW and No. 22-NQ/TW, Conclusion No.34-KL/TW on 7 August 2018 on piloting models in accordance with resolution No.18-NQ/TW etc. the resolution 18-NQ/TW on 25 October 2017 of 6th Plenum of Central Committee Tenure XII of Communist Party of Vietnam (CPV) set the following task: "Completing the research and carrying out the new overall organizational model of political system that is relevant with the country's new context and demands from 2021-2030." [64].

The National Assembly legalizes, and the government carries out the CPV's agenda of political system reform accordingly. The central Party's agencies, government ministries, and provincial authorities are charged with coordinating, implementing, and reporting on the progress of the reform process in their own respective levels of jurisdiction/authority. Each agency/unit should review their organogram, develop job descriptions for each position, and plan for changes. Heads of agencies are held accountable for the delivery of results. Lessons learnt from previous failures have been taken into account. The Ministry of Public Security, one of the most powerful and largest agencies, has been demonstrating a good example in restructuring its own organizational structure and staff reduction in line with the Politburo's resolution No. 22-NQ-TW on March 15, 2018 on restructuring the Ministry of Public Security. Key results over the past four years include: (i) reduction of seven directorates and similar levels; 60 departments and division-level units restructured with clear functions and tasks defined; reporting lines clarified and processes improved; (ii) reduction of 15-17% of total permanent staff at ministry-wide level; rearranging 35 directorate-level leaders; 421 department-level directors; moving 2,669 positions from central to local levels [71]. This shows a strong political determination from the highest level of the political system, good awareness of changes and strong actions.

Initial results over the last few years of implementation include: (i) significant reduction of the Party, state, and mass organizations; (ii) enhanced efficiency and effectiveness thanks to merging the overlapped agencies and similar positions; (iii) large reduction of administrative units. At the end of 2019, four central agencies, 97 provincial agencies, 6 directorates or similar level, 19 departments and bureaus, 90 public institutions, 3,768 division-level units, and 4,963 public institutions will be reduced. About 10,400 positions of heads of agencies and 4,800 deputies were cut. On September 30, 2020, six district-level administrative units, 565 commune-level units, and 20,910 villages and wards were reduced [72].

4-4- Challenges Related to Development of Socialist Market Economy in Vietnam

Key challenges related to the development of the socialist market economy in Vietnam include: (i) the transformation from a labor-intensive and resource-based growth path to a knowledge-based, higher-added-value, and environmentally-friendly growth model. This requires a shift in mindset, legal framework and policy development, human resource development, and institutional reform; and (ii) growing gaps across ethnic groups and geographical regions. There are vulnerable groups and communities that are at risk of falling into poverty or being left behind due to natural disasters, climate change impacts, or pandemic outbreaks. These groups should be paid adequate attention and supported effectively; (iii) environmental protection and responding to climate change. Prevention, reduction, and protection of environmental pollution are critical. Green and clean production, sustainable consumption, and an environmentally friendly lifestyle should be promoted. Strict environmental regulations and effective enforcement with a polluter pay principle need to be largely implemented. Vietnam's net zero emission commitment by 2050 has significant implications for transforming the country's investment, production, business, and consumption patterns, particularly in energy shifts towards renewable power. It also requires substantial investment finance from now to 2050 (estimated at around US \$350-400 billion depending on the scenario) [73].

In parallel, it is fundamental for Vietnam to undertake stronger political system reform. There are apparently challenges. These include: (i) strong inertia and resistance within the system, which is heavy, costly, inefficient, and ineffective; (ii) complex politics in this reform in Vietnam; and (iii) Confucian values that discourage the reform in society. It is unlikely to undertake shock reform in political institutions. Instead, a gradual, step-by-step, learning by doing approach seems more feasible in Vietnam. It is therefore important that political system reform should be designed, communicated and carried out in a more open, transparent and interactive manner. The public and people should see this process as a common exercise that involves the people, businesses, and society, not an internal business of the party, government, and local authority.

5- Conclusions

Using a historical institutional model, this study tests the following hypotheses: (i) Vietnam follows a similar gradualism and dualism approach in the transition from the central planning system to a socialist market economy over the past three decades; (ii) the transition to a socialist market economy in Vietnam entails radical institutional transformation to accommodate domestic demands and international requirements; and (iii) successful economic reform has had positive impacts on pushing the country's political system reform forward.

The findings support these hypotheses. In essence, they demonstrate that the transition to a socialist market economy in Vietnam has been taking a gradualism and dualism path like China. During the transition to socialism, the market economy has been used to grow the economy and integrate it into the global economy. However, the CPV's leadership and state management are critical to ensure inclusive and fair distribution of the development results as well as to address market failures.

In addition, the study also illustrates how the economic reform and globalization processes pushed the institutional transformation in Vietnam to meet the demands of multiple economic sectors and entities as well as accommodate international commitments that the country entered.

Finally, Vietnam has been cautious in its political reform over the past few decades. Yet, the country's socio-economic development process, together with the high openness of its economy as well as global and regional rapid changing contexts, is putting increasing pressure on the changes. Apparently, significant challenges remain. The reform, therefore, is expected to take a gradual pace but move forward as this is inevitable.

Therefore, the following are the implications for Vietnam: (i) Vietnam needs to change its growth model to one that is knowledge-based, higher added value, and more environmentally friendly; and (ii) despite significant progress in institutional transformation, challenges and bottlenecks still exist. To maximize the potential of the nation, this should be effectively addressed; (iii) political system reform is inevitable as conditions mature. Pressure on the changes is increasing as a result of both national and international demands. However, rather than being led by civil society or outsiders, this process is more likely to continue and take place within the political system.

6- Declarations

6-1- Data Availability Statement

The data presented in this study are available in the article.

6-2- Funding

The author received no financial support for the research, authorship, and/or publication of this article.

6-3- Institutional Review Board Statement

Not Applicable.

6-4- Informed Consent Statement

Not Applicable.

6-5- Conflicts of Interest

The author declares that there is no conflict of interest regarding the publication of this manuscript. In addition, the ethical issues, including plagiarism, informed consent, misconduct, data fabrication and/or falsification, double publication and/or submission, and redundancies have been completely observed by the author.

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