

Vietnam Unleashes the Private Sector



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On a recent visit to Hanoi and Ho Chi Minh City, we saw a “quiet revolution” in motion. Communist Party General Secretary To Lam is driving the most sweeping and ambitious reforms Vietnam has witnessed in four decades, designed to shift the country from a low-cost export hub to an innovation-led economy driven by the private sector. The initiatives are part of the country’s strategy to retool its growth in the face of international trade challenges.

President Trump’s threat of a 46% “reciprocal” tariff, the latest in a series of measures targeting Vietnam’s export sector, served as a wake-up call to Vietnamese leaders. No longer able to rely on low-margin exports, they have decided to light a fuse to overhaul the economy.

Vietnam is the rare example of a country reforming despite stellar economic progress, while others often wait for a crisis when their back is against the wall. Despite being one of the fastest-growing economies of the world, Vietnam is quietly undergoing the most radical economic shift since the 1986 Doi Moi (“renovation”) reforms. But this time it’s not about opening up, it’s about handing over the reins to the private sector, a sharp departure from Vietnam’s long-standing, state-led model.

Vietnam’s combination of low wages and generous incentives has turned the country into an export machine, producing everything from sports apparel to electronic goods. The economy has grown by 6.2% a year over the past decade, where Vietnam’s share in global exports has grown by more than fivefold over the last 20 years (*Display 1* - following page). It is one of the few countries continuing to globalize in a deglobalizing world.

Yet about 75% of the country’s total exports come from international firms like Apple, Nike and Samsung that have received large incentives to build lots of factories assembling goods. The domestic private-sector firms have had much less success (*Display 2* - following page). In fact, for all the noise about Vietnam’s trade prowess, domestic firms actually run a trade deficit with the rest of the world!

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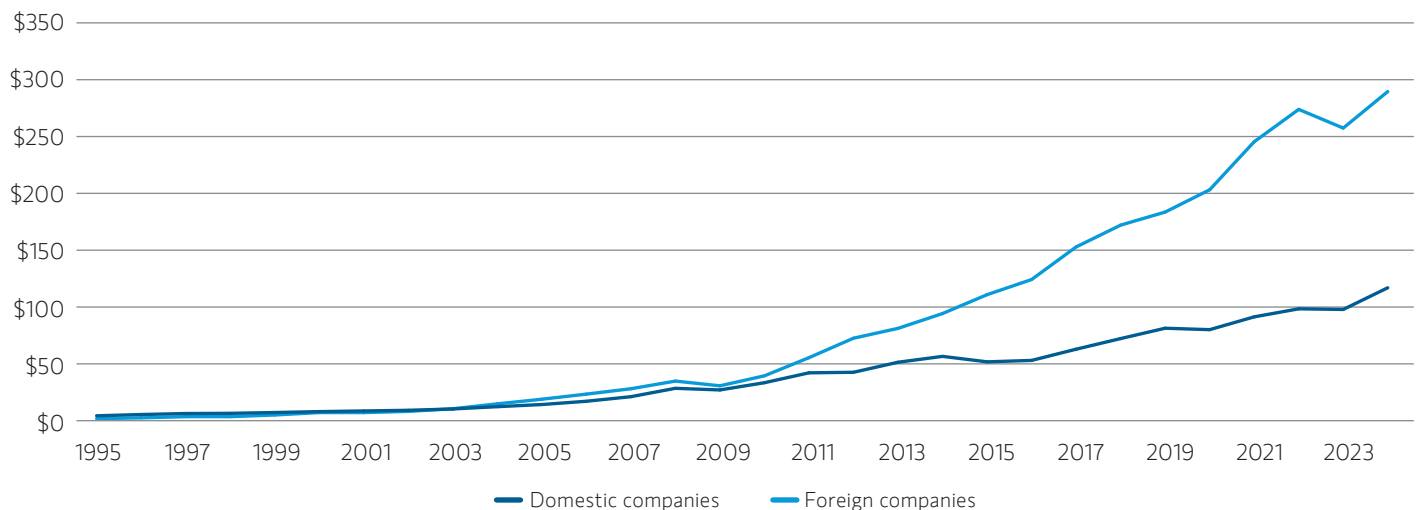
DISPLAY 1**Vietnam's Share of World Exports Has Jumped Fivefold in 20 Years***Share of Vietnam world exports (indexed to 100)*

Source: IMF. As of March 31, 2025.

This inherent dualism—of a successful export sector led by foreign companies, but a much less productive domestic private sector—explains why the domestic private sector, made up of more than 940,000 enterprises, employs 82% of the workforce, but only accounts for 50% of the GDP (*Display 3*).

Time is running short. The country needs to transition to higher-value manufacturing and services. Its cadre of a working-age population (15-64 years) is expected to peak around 2030. As Lam warned in a nationally televised address: “If we do not innovate, we will lose.”

Since taking over the top post in August 2024, Lam has pushed aggressively for change. In May, for the first time in history, the private sector was declared the “engine of growth” at the National Party Congress, a sharp break from the state-led model that’s defined Vietnam for decades.

DISPLAY 2**International Firms Dominate Vietnam's Exports***Vietnam merchandise exports (USD billions)*

Source: Customs, NSO, Vietcap. As of December 31, 2024.

The mood on the ground is one of unbridled optimism. One large local investor told us, “This is the most positive I’ve felt in over 20 years.” Even hardened cynics are acknowledging that the momentum for real change is unmistakable. Vietnam is finally unleashing its most underutilized asset: its own entrepreneurs.

Recent policy directives, Politburo Resolution 68 and National Assembly Resolution 198, chart a path for deeper private sector engagement development, tax exemptions, subsidies and incentives in science, technology, innovation, digitization and R&D.

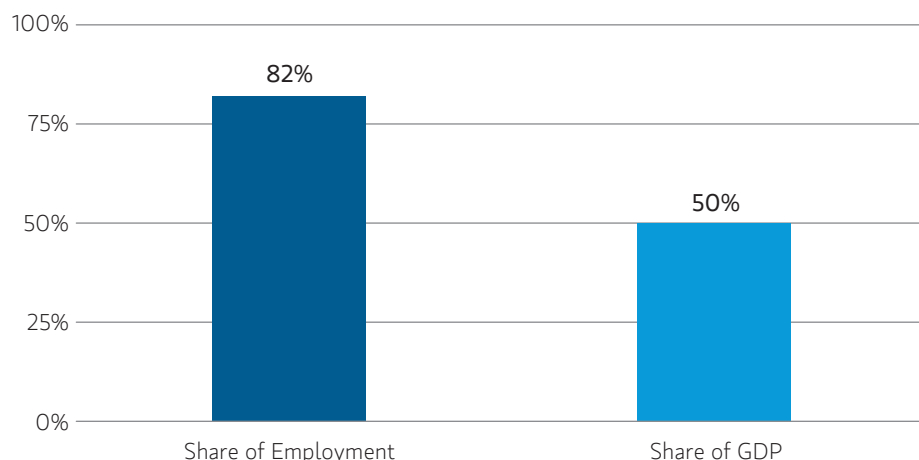
In addition, Lam has slashed the bureaucracy, aiming for less red tape and more green lights. He has also cut down ministries from 30 to 21, consolidated provinces from 63 to 34 and removed the entire “district” level of government. He plans to eliminate 100,000 civil servant jobs and called for a 30% reduction in red tape. The aim is for the private sector to generate more than 60% of the GDP by 2045.

More infrastructure will help. The most ambitious plan is a \$67 billion project to construct a railway line stretching 957 miles between Hanoi and the financial capital of Ho Chi Minh City in the south. The new trains will hit speeds of 217 miles per hour cutting travel time from over 30 hours to just five and a half.

A rising middle class over the past decade is transforming consumer behavior. Formalized retail formats are gaining ground in a country where 80% of all retail transactions still occur in mom-and-pop stores or informal markets. Formal grocery chains are scaling up rapidly at around 40% a

DISPLAY 3

Domestic Private Sector Big Employer, Economic Underperformer



Source: IMF, Haver. As of December 31, 2024.

year for each of the last five years, while pharmacy networks have grown by about 60% a year. Local brands are winning market share and global recognition. For example, the boutique chocolatier Marou has won global honors, including “Best Chocolate of 2025” at the 2025 Prix Epicures de l’Epicerie Fine in France, proof that Vietnamese brands can compete.

Yet if Vietnam is to fulfill its aims of becoming a high-income country by 2045, it must cultivate global export champions in key sectors. While there is fierce competition among small shopkeepers in Hanoi and Ho Chi Minh City, there is far too little in the established corporate sector. Access to credit, land and other resources still favors state-run and politically-connected conglomerates, especially in banking, real estate and construction, which face minimal competition.

Creating global champions is a much bigger lift. It requires not just R&D, but exposure to real market pressures, allowing firms to

rise to a level required for global competition. As author Joe Studwell has argued, countries that incubate multiple domestic firms in healthy competition—like Korea did in automobiles—stand a greater chance at producing world-class exporters.

Vietnam’s current landscape, by contrast, remains heavily concentrated. Without structural reforms, it risks repeating Malaysia’s missteps, where, to stick with the auto example, the protection of a single national carmaker (Proton) failed to deliver any success on the global stage.

The tariff war has forced Vietnam’s leaders to confront the difficult truth once voiced by Ho Chi Minh himself: “*Economic independence would be harder for Vietnam to obtain than political independence.*” No one remembers the leaders after Ho Chi Minh. But if To Lam succeeds with his reforms, maybe history will remember him as the architect of Vietnam’s private sector independence.

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