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THE ROLE OF INSTITUTIONAL REFORM IN THE PRIVATE SECTOR DEVELOPMENT: EVIDENCE IN A TRANSITION COUNTRY

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ABSTRACT

The paper analyzes the role of institutional reform in the private sector development in a case of a transition country from 2010 to 2019. Despite the ample theoretical and empirical evidence of institutional reform on business development, only a few research examining this impact in the private sector vis-à-vis state ones. Furthermore, in the context of transition countries, institutional fragmentation (e.g., formal and informal institutions conflict) and political connections (e.g., business-to-state or central to local government) powerfully influence the relationship between institutional reform and firms' performance. Therefore, this study uses sub-nation level data in Vietnam (instead of business survey data) for 2010-2019 to shed light on this research gap with new findings. The study using two-step generalized method of moments (GMM) estimation with two instrumental variables shows: (i) a causal relationship between institutional improvement and private enterprise sector development; (ii) institutional improvement contributing to improved profitability of the private sector; (iii) institutional improvement has heterogeneous effects across regions in Vietnam and tends to increase over time. The results also imply some policy implications for Vietnam's private sector growth in the coming years.

Keywords: institutional reform, private sector development, transitional country, Vietnam.

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