

In the transition to the market economy, full attention has been given to the development of all kinds of companies and diversification of their ownership with a view to tapping potentials of the country. Many workshops and studies have discussed the situation of, and prospects for, small and medium businesses (SMBs) in Vietnam and presented experience of developing them in foreign countries. However, the role of these businesses in the economic development is still a controversial problem. The majority argued that SMBs could cope easily with changes in the economy, alter their business development plans and employ a large amount of laborers. But some others were of the opinion that SMBs should work as satellites of big companies in order to improve their business performance. Or more exactly, it's big companies that introduced new technology and produce higher economic and social efficiency (improving labor efficiency, employing more labor and protecting the environment) (1). In this article, we will keep ourselves away from this controversial problem and pay more attention to the need to develop SMBs strongly as a part in the strategy to ensure the sustainable economic growth.

1. Size and technology employed by businesses

To classify businesses according to their sizes, they usually take certain indicators, such as capital and workforce, into consideration. According to an official estimate, 40% of existing 32,000 businesses in Vietnam are SMBs. But we think that, regarding their capital, most of Vietnamese companies are of small and medium size. Most non-state businesses are small or very small and some important state companies have a capital of some VND18 billion (or US\$1.7 million). Compar-



ing with neighboring countries, all businesses with capital of under VND20 billion are classified as SMBs (2).

Because of their small capital, local companies meet with a lot of difficulties in changing technology. In recent years, the keener competition

competitive in foreign markets and in the past few years, local companies suffered great losses because of large stocks of unsold goods. In the regionalization and globalization trends, local businesses have to develop incessantly in order to survive the competition, that is, they have to be ready for business opportunities, work out reasonable business strategies, and import new technologies in order to reduce the production cost. However, we agree with the opinion that in developing the open economy, the Government had better use tariff and non-tariff barriers and exchange rate to help local businesses increase their shares in both domestic and foreign markets. As for SMBs, the Government can use the tax policy, or even price support, to protect them and orient them towards planned objectives.

2. Business Information

The business information service in Vietnam has been improved by degrees. This is an encouraging sign because we can't imagine what businesses could do without business information. Business information is

always of great importance to companies' decision making process. However, there are many problems with the information system of local businesses.

Generally, the information provided by this system is fragmentary, badly processed, and of low reliability. Information isn't analyzed and estimated on time correctly and as a result, most businesses fail to predict future changes in markets. This defect, in the last few years, has led to a serious imbalance between supply of, and demand for, certain products, and great losses on exportation of agricultural products (4). This situation has affected badly the socio-economic development, and if there is no improvement, we will have to pay a heavier price when Vietnam joins the WTO or fulfil AFTA requirements.

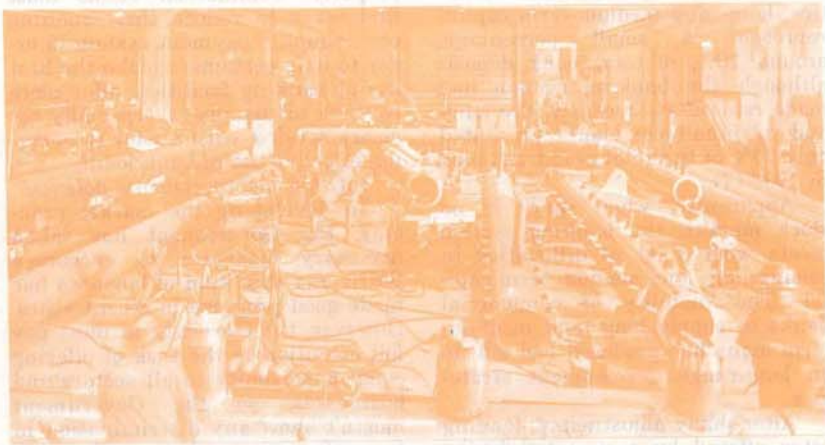
We see that the mass media in Vietnam have developed fast in recent years and more importantly,

SMALL AND MEDIUM BUSINESSES IN VIETNAM SITUATION AND PROSPECTS

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has forced all businesses to find access to new technologies. However, a rough estimate reveals that most technologies employed by local businesses are two or three, even four or five, generations older than modern ones. Some newly formed companies, especially foreign-invested ones, have been able to employ modern technologies. But we must recognize that most local businesses are using obsolete technologies resulting in their poor business performance and high production cost (3).

It's worth noting that although the labor cost in Vietnam is low (at some US\$0.2 per hour); the prices of goods made in Vietnam are still high because of high production cost. That is why they become less



the Vietnam Chamber of Commerce and Industry has made real efforts to play the role as an advisory agency to local businesses. However, to perform this function to the best, this Chamber should improve its operation in order to supply reliable information and predict, thereby helping local businesses enhance their international competitiveness in the coming years.

3.Cooperation and competition between local businesses

In the market economy, companies compete freely with one another under the direction of market laws. This principle is too apparent to be discussed. The problem we want to deal with here is whether we let the invisible hand, acting as the equilibrating mechanism of the competitive market, maximize individual welfare and economic efficiency, or we use macroeconomic instruments to encourage specialization and cooperation, and allocate optimally all resources with a view to increasing the output of goods and services. In fact, all nations are using both invisible and visible hands to direct the economy. Looking at East Asian NICs that have co-ordinated optimally businesses of all kinds, limited competition between them, and encouraged their cooperation, even with foreign-invested companies; or other ASEAN members, we saw that they all had an optimal co-ordination of businesses: Appropriate strategies were developed to encourage the formation of companies of all shapes and sizes. Small businesses were satellites of big companies and they co-operated closely with one another in



developing the economy for years.

Does this cooperation abolish the competition and lead to poor economic efficiency? The reality didn't prove this point because Southeast Asian countries are still capitalist market economies, and the competition includes a new feature: to compete for survival in national, and international, economic machinery. We think that this lesson is worth learning.

In Vietnam, however, local businesses operate rather separately, their development is a bit unruly and their management is ineffective. In recent years, many factories with old technologies have been built in provinces. When the economy is badly in need of capital, such investments are a great waste of money and they will cause great

damage to the environment. The unruly development of certain industries in recent years was one of main causes of the excessive supply of some products in Vietnam (5). Therefore the Government had better make a master plan to develop the system of local businesses. We think that in the near future there must be some big groups in key industries. These groups could be formed by local businesspeople, or in cooperation with foreign partners. Around these groups, there will be many satellites in different localities, especially in big cities or provinces. After beefing up their footholds in the home market, they can start finding a niche in foreign markets. To achieve this goal, a completely new business and technology strategy must be made and provide for the process of replacing

and transferring new technology optimally. The Government has to issue regulations on operation of these groups with a view to helping them play the role as the backbone of the economy in the next century.

4.Policies encouraging SMBs

a.Financial and credit support

Many problems arising from the financial and credit policies require careful studies with a view to meeting demand posed by the economic development as a whole, and the development of SMBs to be precise. We want to discuss here some of these problems.

-Tax policy on SMBs

The Vietnam's tax policy has been amended in recent years with a view to making it an effective instrument for accelerating the eco-

conomic growth, however, this policy reveals many shortcomings:

Firstly, tax rates are rather high in comparison with what imposed by neighboring governments. The tax take represented 28.5% of the budget income in 1994 and 21.9% in 1995 whereas this percentage in other Asian countries in 1992 was as follows: 18.75% in Indonesia, 18.22% in South Korea, 17.8% in the Philippines and 18.61% in Thailand (6). Generally, big tax take will increase the budget income, but this practice needs to be reexamined. High tax rates, to a certain extent, will induce taxpayers to evade or avoid them, or force businesspeople to let their businesses run down with the result that the economic growth will become lower and the tax take will reduce in the future.

Secondly, according to many businesspersons and researchers, the complexity of the present tax system are providing tax officials with opportunities to abuse their authority and cause a lot of difficulties to companies.

Thirdly, tax law enforcement is ineffective. In recent years, taxes on the non-state sectors haven't been collected fully. Tax evasion has become widespread. Morals and professional skills of tax officials are poor, and some of them even help companies evade taxes for a bribe. There are many inequities in the tax system: foreign-invested and local companies enjoy different rates of income tax and customs duties. These facts prove to us that the tax system has failed to create equal opportunities for all economic sectors and these inequities have led to a decline of moral standards in recent years. And in this situation, SMBs have also met with a lot of difficulties in developing their businesses.

We think that the Government must enhance morals and skills of tax officials, reduce the tax rates to a level equal to those adopted by surrounding countries and simplify the tax system in order to provide all companies with equal opportunity and encourage their development. Thinking through, we saw that taxes could be used by the Government to orient investments and companies towards targets planned for the future.

-Credit policy

Supplying credit has become an effective instrument for accelerating the economic growth and the development of SMBs, however, there are many problems with this policy.

One of the knottiest problems is

the shortage of long- and medium loans. According to official statistics, long- and medium-term capital represent a small percentage, around 10%, of total bank deposit although the banking system had made real efforts recently, the long- and medium-term loan represented only 29% of the total credit supplied in 1996 (7).

Apparently, when there is no stock market, the banking system meets with a lot of difficulties in raising long- and medium-term capital. The inability of commercial banks to supply long- and medium-term loans has produced bad effects on long-range development strategies.

After many adjustments, lending rates offered by commercial banks have become more reasonable, however, the supply of credit by banks still involves high degrees of risk because:



+ Regulations on bank investments aren't detailed enough and they aren't observed properly.

+ Professional skills of banking officials are poor. Besides loans, they can't supply other services (advisory service for example) to customers. Moreover, most banks didn't pay enough attention to the task of gathering information about customers' creditworthiness.

+ Many companies have wrong concepts of bank credit. Because of a permanent shortage of capital, many companies tend to depend on bank loans. When their businesses run down, they usually blame banks' high lending rates.

In our opinion, it's necessary to force all companies to produce honest balance sheets. Regulations on

bank investments must be enforced properly. Commercial banks must find ways to reduce their running cost, simplify payment system in order to help customers make the best use of banking facilities, offer more services to customers, especially advisory service, with a view to ensuring effective use of bank loans.

b. Other macroeconomic policies

In developing the market economy, the Government has taken necessary measures to encourage SMBs and this kind of business has made good progress in recent years. However, the Government must pay full attention to the task of offering equal opportunity to all sectors and businesses, so the Government mustn't show any discrimination in favor of state-owned companies.

We think that, besides perfecting the law system and working out master plans, the Government had better accelerate the equitization program. The public sector can undertake certain key industries and leave the rest to other sectors by equitizing all state-owned companies that don't affect decisively the economic development and social welfare. The Government must be determined to carry out this program regardless of objections from directors of these companies. This program is of great importance because it can help the Government recover initial investment to put it in more important projects, create commodities for the stock market and improve the business performance of these companies.

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