

# Development of Vietnam's Small-and Medium-Sized Enterprises in Their International Integration

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## 1. Introduction

Vietnam has recorded a lot of achievements in economic development with an average GDP growth rate of 5.9% and 7.7% in 2006 since it started renovation in 1986. Given such situation, small and medium enterprises have made significant contributions to the country's progress and grown fast. The whole country has so far about 270,000 enterprises, 96% of which are small and medium-sized, 3 million sole proprietorships, and 18,000 cooperatives. They generate more than 40% GDP, 31% of total industrial output value and 12 million jobs; and account for 26% of the national working population and 49% of non-farm jobs in rural areas. These facts show the establishment of this business type has diversified economic activities and accelerated the country's economic restructuring process. Nevertheless, the Vietnam's per capita ratio of businesses remains only 1/300,000 while the world's figure is 1/20, proving our country's number of businesses is still very modest. Moreover, in the process of international economic

integration, besides golden opportunities, Vietnam's small- and medium-sized enterprises (SMEs) have to face great challenges, namely the global competition since the country implemented its commitments to open its markets when joining the WTO. Therefore, the problem of SMEs' development becomes urgent to reach the goal of 500,000 SMEs by 2010 and turn Vietnam into an industrialized country by 2020.

## 2. SME's role and position

In our country, SMEs are independent registered businesses with limited capital of VND10 billion, and a number of workers not exceeding 300. These criteria are only administratively conventional to build policies on supporting SMEs. In practice, either one of them (capital and labor) can be used.

SMEs include businesses operating in compliance with the Law on Enterprises, the Law on State-owned Enterprises, cooperatives following the Law on Cooperatives, and sole proprietorships following Government Decree 02/2000/NĐ-CP.

More than 80% of SMEs get involved in commerce and service.

In the meantime, other countries have different classification:

In the US: Labor < 500 persons, capital < US\$3 million.

In Japan: Labor < 100 - 300 persons, capital: from 30 to 100 million yen.

In Philippines, Korea, Malaysia, Indonesia: Labor < 500 persons.

The survey shows the capital and labor-based classification of SMEs is rather reasonable because:

Most of countries over the world also depend on capital and labor to determine SMEs.

Their business performance remains dependent upon the labor factor.

This classification will facilitate the evaluation of business efficiency.

The relation between labor and capital in businesses is in directly proportional trend.

The country's SMEs hold increasingly important positions and roles in economic development. This can be proved as follows:

They take a large proportion of business number, namely 90%.

Their contribution to economic growth, gross domestic products, job offers are extremely significant.

They are able to mobilize a lot of social resources.

They play an important part in the national economic restructuring, industrialization and modernization.

## 3. SME's advantages in Vietnam

The country's socio-economic situation has been improved drastically after more than 20 years of renovation as follows:

Industrial production, trading and services are widely expanded.

Business forms are diversified and there is an abundant supply of goods on the market.

The infrastructures are upgraded.

Houses, roads, schools, offices, hospitals, hotels, telecommunications are built and expanded.

Cultural and tourism activities are mushrooming.

These above pictures express the emergence of an economy, changing from centrally subsidized into open one along with successful renovation. That economy consists of positive



operations of various types of businesses including SMEs. They are in the majority with the following advantages:

Flexibility and easy adaptability to market changes and easily changing products to make the economy more dynamic.

Not requiring large capital, and easy establishment with tailing strategies and suitable for niche markets.

Ability to take full advantage of labor resources and versatility in employing workers.

Having advantages in trading and buying goods right from producers, and selling goods to end-users with reasonable prices.

Easy improvement in designing and meeting the market demand fast.

Simple and neat management, less labor, easily hiring local workers at low costs.

Ability to cooperate with, and process products for, and support large companies in supply, production, and distribution.

Helping stabilize the economy and enhance rural development.

#### **4. SME'S difficulties and limitations**

Besides their advantages, Vietnam's SMEs still encounter the following difficulties and limitations:

The legal system and business climate are more liberal, but they have not yet met the robust expansion of busi-

nesses and sometimes become obstacles to their growth and entry to the market.

Most of SMEs lack capital because they use mainly their own funds. They have fewer mortgages for bank loans and no credit guarantors. Furthermore, they cannot make efficient business plans; their reports do not reflect accurately their financial and business situation, so they hardly persuade the bank to offer loans. The businesses which can take loans account for only 35%.

SMEs' obsolete technologies and equipment amount to 92%, only 8% of businesses use advanced technologies, and they are mainly foreign-invested businesses.

Managers' professional skill face a lot of limitations, their administration ability is weak, labor skill low, and productivity not high. They produce goods and services to fill orders and have no long-term development strategy, so their business efficiency is limited.

They obtain fewer opportunities for market access due to shortage of information. Their product competitiveness stays low since because they lack advanced services to meet requirements of international markets. Their product quality is uncertain because they are not yet aware of and

find troubles in apply the criteria of the International Standard Organization (ISO 9001 : 2000).

There is no association and cooperation between SMEs, so their business performance and competitiveness are weak. The SMEs' Association still gets confused with the operational method; therefore, it has not yet given necessary supports to SMEs for their development and integration.

#### **5. Solutions to SME'S sustainable development in international integration**

a. National and international circumstances

Nations are speeding up the process of globalization and liberalization via bilateral and multilateral agreements.

Vietnam became an official member of the WTO (November 7, 2006) under the circumstance that it had joined ASEAN (July 20, 1995), APEC (November 18, 1998), and normalized relations with the US (July 11, 1995).

On December 29, 2006, the US congress passed the Permanent Normal Trade Relations (PNTR) with Vietnam, which opened a prospect of trading promotion between the two countries to a new height.

The Party and Government's decision on equitization since 1992

showed a proper orientation of economic renovation towards market mechanism. It is estimated that all state-owned enterprises will be transformed into either joint stock companies or one-member limited company in compliance with law.

The economy continues to grow fast and its GDP hopefully increases from 8.5% to 8.7% in 2007.

b. Opportunities for Vietnam's SMEs

Local companies are able to get access to the markets of goods and services in 149 member countries without discrimination and have chances to expand export markets.

The country's business climate is increasingly improved due to legal and institutional reforms in compliance with the WTO regulations.

Vietnam's SMEs have opportunities to fight for legal interests and fair treatment via the WTO's judgment.

Vietnam's SMEs are given favorable conditions to approach new technologies of production, business management and market expansion.

Businesses will develop in fair competition and consumers are able to use goods with higher quality and lower price.

The investment climate is improved and more attractive, so Vietnam's SMEs can associ-



ate and cooperate with foreign partners in production, business, technology transfer and product distribution.

c. Challenges to Vietnam's SMEs

The competition will become fiercer with many multinational groups on local and foreign markets. SMEs have to encounter more anti-dumping lawsuits by importing countries.

Businesses did not yet get used to changes of trading environment in compliance with international regulations and legal systems.

Some SMEs will lose several privileges in production, business and distribution.

Vietnam's SMEs must recognize the importance of compliance with national and international standards.

d. Solutions to SMEs' sustainable development

- Training and developing the SMEs' human resources:

Only trained workers can produce good products. First, businesses are required to streamline the army of existing managers and workers in a logical structure. Employees should be assigned appropriate jobs in accordance with their professional skills. The enterprise must recruit qualified managers with a lot of chances of promotion, at the same time plan to train and retrain unqualified staff in new knowledge, technologies and manage-

ment skills. SMEs' administrators must be carefully provided with up-to-date information, knowledge and skill in modern corporate administration, international business profession, international market culture, the world economic outlook, marketing policies in the global era. In addition, they have to know how to use a personal computer and foreign language in order to communicate and negotiate with partners as well as convince them in negotiations.

In addition, SMEs have to attract high-qualified experts and get skilled employees attached to the business by actual incentives combining interests and responsibilities of employees such as: investing funds in education and training, securing long employment, and increasing wages and bonuses for those who contribute great efforts to the enterprise's development. The worker's skills and adaptability should be diversified and improved to cope with possible changes in labor arrangement for expansion.

- Increasing finance resources for SMEs:

SMEs have almost no conditions to mobilize capital from the stock market, so they take loans only from banks, families and friends.

To promote their financial strengths,

SMEs are required to make great efforts to enhance their administration capability and capital. They also need strategies for business expansion, positively build investment projects in accordance with their capital, technologies and human resources. In investment projects, they should select advanced technologies to churn out high-quality and competitive products with a view to persuading banks to offer loans.

Banks should organize a special department for SMEs and earmark funds to support these customers.

- Investing money in innovation of technology and equipment:

Initially SMEs should invest funds in replacing outdated equipment and machinery with low productivity and high energy cost. They try to set aside 2-5% of sales for technology innovation instead of 0.5% as at present.

While SMEs' financial potentialities are not strong for investment in comprehensive innovation of technologies and equipment, they have to associate and cooperate with each other. The association and cooperation between businesses in the same industry will help reduce financial troubles and take full advantages of their technologies, equipment and market and promote their internal resources.

- Using e-commerce solutions to SMEs:

While Internet services are booming in the world market and e-commerce is regarded as one of the most effective tools for business, as many as 70% of Vietnam's SMEs have not yet built their own websites. With the assistance of current information technology solutions, SMEs are fully capable of building their websites at will and expanding them unlimitedly, advertise and sell their products to foreign markets, manage human resources and customer relationship, and control their inventory. When applying e-commerce, businesses easily establish close relations between them and customers; determine their position on relevant digital maps; easily build the equivalent system; and use the common resources between systems. This is just precondition for SMEs to see the efficiency of e-commerce solutions. E-commerce becomes a new, effective and economical channel of trading for SMEs.

- Building, developing and advertising SMEs' brand names:

At present, the Ministry of Trade is restarting the national brand name program, so this is a precious chance for SMEs if they can meet the program criteria as follows: the business is established in compliance with Vietnamese



law; applies quality management systems in accordance with international standard (ISO 9001 : 2000); well implement the social responsibility for workers following SA 8000 and WRAP; carry out eco-friendly production; and trademark their products which are great favorites on the market. This program is developed to help businesses including SMEs to build their brands and advertise them to foreign markets.

- Heightening the expansion of export markets:

After Vietnam is granted the US permanent normal trade relations, the world's potential and biggest market is opening good prospects to SMEs' exports, especially for garments and textiles, processed farm products, and hi-tech goods in such industries as software production, precise mechanical engineering, electronics,

bio-technology, new materials...These products bring in high profits and have large markets and a lot of development opportunities. As a result, the authorities should help SMEs promote their partnership and association to increase export turnover.

- Giving institutional supports to SMEs:

Due to SMEs' important role and position, the governments in many countries have made strong supports to their expansion. Institutional supports include fast perfection of legal system in accordance with the transformation into the market economy, namely:

Building the business climate favorable and equitable for SMEs in all economic sectors: Building and issuing the Law on SMEs, simplifying the licensing procedure, providing market information...

Establishing support policies on new modern

technologies for SMEs' development.

Providing credit by setting up the bank for SMEs and guaranteeing loans for businesses.

Devising policies on allocating land to SMEs for their business expansion.

Developing the labor market by establishing job transaction floors.

- Strengthening the role and activities of the SMEs' Association, club of businesses and specialized organizations with the aim to generate the dynamic for SMEs' fast and strong growth.

## 6. Conclusion

As many as 45,000 businesses were newly founded within 10 years from 1990 to 1999. Nevertheless, the number of new entrants soared to 207,415 for only seven years from 2000 to 2007, increasing four times. Most of them are SMEs, but they always face difficulties and limitations in financial resources, management

capability, competitiveness, human resources, shortage of professional skill and knowledge, obsolete technologies and equipment. To overcome these obstacles, SMEs are required to boldly change their concepts and make investments in training human resources and technology and equipment innovation with the aim to sharpen their competitive edges in the process of international integration. In the meanwhile, they need to carry out the above solutions to surpass challenges and create bigger opportunities for successful competition even on the home market and foreign markets. These results also assist SMEs in their reinvestment for business expansion and sustainable development in the process of international integration. ■

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