

Supports to Small and Medium Enterprises' Development in the Integration Era

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Small and medium-sized enterprises (SMEs) are considered as solid pillars of the economy. Vietnam is building and developing forms of businesses including SMEs. Their role is significantly encouraged especially since the promulgation of the Enterprise Law.

I. An overview of SMEs in Vietnam

Government Decree 90/NĐ - CP dated November 23, 2001 defines SMEs as independent entities which have already registered their business in compliance with current laws with a registered capital of no more than VND10 billion and yearly employment of no more than 300 workers.

In the current condition of a commodity economy, the Government is required to make detailed regulations on SME classification for state management over this kind of business.

As compared to standards of the World Bank and the EU, Vietnam has the equivalent criterion in employment, but the SME capital is very small (the maximum is approximately US\$600,000).

Currently, 97 % of the total 300,000 enterprises operating in Vietnam are SMEs. The number of SMEs in the country is expected to reach 500,000 by 2010. Available statistics show that of the SMEs, 17% are operating in industry, 14% in construction, 14% in agriculture, and 55% in services. The SME sector is accounting for 26% of the country's GDP, 31% of total industrial production and 78 % of total retail sales. They also create jobs for 26 % of the national labor force.

Vietnam has been implementing a large number of measures to further encourage and support the development of SMEs. They are: step by step creating a favorable legal environment to ensure all the business activities are doing well; providing favorite and promotion policies for SMEs in sectors such as textile and clothing, shoe and leather, consumer goods and export production, parts and spare parts manufacturing, food and foodstuff processing, electrical and electronics and information technology; receiving and implementing a number of technical assistance projects of international organizations and countries to develop SMEs; establishing centers for consulting and supporting SMEs in sectors, cities and provinces; looking for and expanding internal and external markets.

Vietnam welcomes and encourages internal and external companies, as well as persons, to invest capital and technology in building, developing, co-operating and setting up joint ventures with SMEs in any economic sector on the basis of observance of its laws, equality and mutual benefits.

2. Evaluation of Vietnamese SMEs

SMEs of Vietnam have an important role to play in the country's industrialization and modernization process. The process of economic reform in Vietnam, during the last few years, has directly impacted and resulted in SMEs and has promoted the comprehensive development and diversification of trade, organization form and business areas.

The development however, is still limited in many aspects especially market constraints and the SMEs' internal physical limitation such as capital shortage, old and slowly renewed equipment, outdated technology, poor diversification of product sample and lack of good skills and management experience. SMEs have not reached their full potential. In addition, the lack of specific policies and strategies for the development of SMEs is also restricts their development. In short, Vietnam's SMEs are facing a lot of challenges and limitations as follows:

- Regulations on market entry remain complicated and waste SMEs' time and money due to ineffective coordination between functional agencies.

- SMEs lack working capital and hardly get access to official loans due to having no mortgages. Therefore, they are not capable of joining those industries and careers requiring huge funds and high technologies.

- SMEs' market research is still very poor.

- According to statistics, there are 55.63% of SME owners with schooling years under 12 years including those who are trained in vocational courses. Those with Ph.D. degree account only 0.66%; MA 2.33%; BA 37.82%; junior colleges 3.56%; secondary vocational schools 12.33% and 43.3% lower. Nevertheless, 83.47% of directors in state-owned enterprises (SOEs) have BA degree.

- Most of SMEs are not aware of direct effects on their production and business from the globalization process, even for export producers. In fact, the integra-

tion process requires SMEs to enhance their competitiveness for survival and expansion.

3. Solutions to development of Vietnam's SMEs

The Vietnam Association of Small and Medium-sized Enterprises (VINASME) have built a roadmap to help local SMEs overcome difficulties and become more competitive in the integration era. Harsh competition is likely between domestic SMEs and foreign enterprises in light of the fact that the competitiveness of local enterprises is limited by a lack of market information. The association must radically develop its role as a legal protector of SMEs, a bridge between SMEs and state administrative agencies, and a provider of market information and consulting services. Meanwhile, WTO membership will create favorable conditions for Vietnamese SMEs to access broader markets and further foreign capital sources. According to foreign experts, local SMEs should uncover and concentrate on their core values in order to achieve sustainable growth while fully integrating into the global economy. Three essential factors for Vietnamese SMEs' success include business specialization, skilled labor and prestigious brand names. The following are some suggestions:

(1) Perfecting legal framework:

- Amending or establishing new laws and legal documents. This practice must involve wide participation of government agencies, scientists, industry associations and entrepreneurs.

- Simplifying procedures of business registration by allowing online registration across the country.

(2) Innovating equipment and technology:

- Implementing programs of designing and manufacturing ad-

vanced equipment and technology at low costs to substitute imports by associating SMEs and universities, research institutes and scientists.

(3) Modernizing management

- Rectifying unsuitable regulations, merging, disbanding and forming new departments; then opening refresher courses and standardizing positions of management, recruitment, reward and promotion.

- Adopting advanced managerial technologies: information technology and realizing marketing mix.

(4) Developing human resources

- Perfecting the incentive mechanism for talents and high-skilled workers.

- Recruiting local and foreign consultants to build development strategies for key industries.

- Soon planning and implementing the programs to train high-quality manpower and improve skills for managers and workers.

- Holding training courses for management posts.

- Taking effective measures to encourage workers to promote

their educational attainment and professional skills.

(5) Sharpening competitive edges in the international economic integration

- Strengthening managerial skills for SMEs' directors and managers.

- Intensifying the role of associations and organizations supporting SME development.

- Improving knowledge and skills in international business and competition (Foreign language, awareness of cultural, social and historical issues in business, international common practice, professional and technical skills, etc.)

(6) Selecting suitable system for quality control

SMEs are required to adopt the following quality control systems such as: SA 8000:2001; ISO 9001:2000; HACCP, ISO14000, etc.

International integration is an inevitable trend for Vietnamese economy, so domestic SMEs are forced to renovate themselves for survival and development. The Government is implementing proper policies for their expansion in the next stage. ■

