

VIETNAMESE SME Achievements and Challenges

by MEcon. NGUYỄN BẢO TOÀN

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constraints and the SMEs' internal physical limitation such as capital shortage, old and slowly renewed equipment, outdated technology, poor diversification of product sample and lack of good skills and management experience.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.

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, cooperating and setting up joint ventures with SMEs in any economic sector on the basis of observance of its laws, equality and mutual benefits.

At present in Vietnam, SMEs exist and are developing in all economic fields and areas, under various forms of enterprise such as state-owned enterprise, private enterprise, corporate enterprise, joint stock company, limited company, foreign-owned company, joint venture company. These forms differ from that in the past when under a prevailing com-

count for 28 percent of the total national industrial output value.

This article tries to update and outline some statistics of Vietnamese GDP growth, foreign investment and export-import value. Then it indicates a striking event over the last five years since the promulgation of the Enterprise Law. It is the boom in the number of Vietnamese small and medium enterprises (SMEs). In addition, some major characteristics and shortcomings of current Vietnamese SMEs are also analyzed in the end of the article.

I. A GLANCE AT VIETNAMESE ECONOMIC FIGURES

1. GDP growth rate

Vietnam exhibits an impressive development record for the last two decades. The gradual shift from traditional central planning to a market ori-

In addition to high growth rates, the reform program has produced macroeconomic stabilization. As a result, real per capita GDP has roughly tripled since 1990 and the share of the population living below the international poverty line has fallen from 58 percent in the early 1990s to 28 percent in 2003 (IMF 2004).

Vietnam has recorded high GDP growth rate due to its renovation policies (See Table 1); its average annual growth rate posted 7.4% in the 1990-2003 period. In the meanwhile, the figure of Indonesia is 4.1%, Thailand 4.5%, Malaysia 6.2%, Philippines 3.3% and Singapore 3.8%.

Vietnam has recorded high GDP growth rate due to its renovation policies (see Table 1); its average annual growth rate posted 7.4% in the 1990-2003 period. In the meanwhile, the figure of Indonesia was 4.1%, Thailand 4.5%, Ma-

Table 1: Vietnam's GDP growth in the 2000-2004 period

Year	2000	2001	2002	2003	2004
GDP growth rate % (1994 base price)	6.79	6.89	7.08	7.34	7.69

Source: <http://www.gso.gov.vn>

mand economy, SMEs mainly existed in two forms: state owned enterprise and co-operative.

SMEs have contributed significantly to the economic development of the country and have resolved many social problems during the last 10 years of economic renovation. In industry, trade, service and construction sectors, SMEs have employed approximately 4.5 million employees (representing 13 percent of labor force in Vietnam). Total industrial output value by SMEs ac-

hieved economy, which started officially in 1986, has led to dramatic improvements in economic performance and living standards.

The GDP growth rate was over 8 percent per year during the period 1990-1995, and has averaged nearly 7 percent since then, in spite of the turbulence in international markets after the Asian crisis, the collapse of the IT boom, and the terrorist attacks in September 2001.

laysia 6.2%, Philippines 3.3% and Singapore 3.8%.

Nevertheless, the scale of Vietnamese economy is still too modest, its GDP reached US\$45.5 billion, ranking 55th among 182 countries and territories over the world, 18th among 47 countries and territories in Asia and 6th among 11 countries in the South-eastern Asia (see Table 2). In addition, Vietnam's per capita income still bottomed out in the ASEAN list, US\$471 in 2003 while Indonesia income reached US\$944, Thailand

Table 2: Comparison in selected economies (2004)

Nation	Population (million persons)	Density (person/km2)	GDP growth rate 2000-2004 (%)	GNP		GNP (Purchasing Power Parity - PPP)	
				US\$ billion	US\$/person	US\$ billion	USD/person
Vietnam	81.3	250	7.2	39	480	202	2490
China	1,288.4	138	8.5	1,417	1,100	6,435	4,990
Philippines	81.5	273	4.5	88	1,080	379	4,640
Indonesia	214.5	118	4.6	173	810	689	3,210
Malaysia	24.8	75	5.0	94	3,780	222	8,940
Thailand	62.0	121	5.0	136	2,190	462	7,450
South Korea	47.9	485	5.5	576	12,020	859	17,930
Singapore	4.3	6,967	4.10	90	21,230	103	24,180

Source: *World Development Report 2005* by World Bank, IMF, ESCAP

US\$2,273, Malaysia
US\$4,227, Philippines
US\$1,005 and Singapore
US\$21,195 USD (Source: www.unstats.un.org)

2. FDI inflows in the 1988-2004 period

In 1998, Vietnam promulgated the Law on Foreign Investment, this law has been executed and amended many times, the country still attracted large FDI inflows in spite of the East Asian financial crisis. Until 2004, Vietnamese government had licensed 6,164 projects with total registered capital of US\$59.8 billion and more than US\$30 billion was realized (see Table 3). At present, FDI inflows are increasingly revitalized. Vietnam is continuing to open its door and perfecting the investment climate for FDI attraction in the coming time.

3. Export and import value

Vietnam is promoting its foreign trade turnover to speed up its export-oriented industrialization.

The country's major exports include clothing, footwear, aquaproducts, farm produce and crude oil; its industry is changing into hi-tech products such as autos, electronic appliances, software, but the movement remains slow. Vietnam's import demand becomes huge due to its transiting economy, mainly equipment, ma-

Table 3: FDI flows in Vietnam (1988-2004)

Number of projects	Registered capital (US\$ million)		Total realized capital (US\$ million)
	Total	Including	
	Foreign partner	Vietnamese partner	
Total	6,164	59,847.9	48,796.8 11,051.1 30,006.5

Source: <http://www.gso.gov.vn>

Table 4: Export-import value in the 2000- 2004 period (US\$ million)

Year	Total	Export	Import	Balance
2000	30,119.2	14,482.7	15,636.5	-1,153.8
2001	31,247.1	15,029.2	16,217.9	-1,188.7
2002	36,451.7	16,706.1	19,745.6	-3,039.5
2003	45,405.1	20,149.3	25,255.8	-5,106.5
2004	58,458.1	26,504.2	31,953.9	-5,449.7

Source: <http://www.gso.gov.vn>

chinery, and materials, so it is facing trade deficit (see Table 4)

II. VIETNAM SEES A BOOM IN SME START-UPS SINCE 2000

1. Facts of Vietnamese SMEs

The Vietnam Government defined: "SMEs are companies that own not more than VND10 billion and employ not more than 300 people". In the draft plan of Vietnamese SMEs' development for the 2006-2010 period, the definition is given more details as follows:

- Micro enterprise: 10 employees
- Small enterprise: 10 - 49 employees

- Medium enterprise: 50 - 300 employees
- Large enterprise : 300 employees

The number of enterprises established under the Company Law and the Law on Private Enterprises from 1990 to 1999 was 45,005 and in 2000 alone, the new Enterprise Law gave birth to 14,400 new businesses and this figure was increasing steadily in the following years (see Table 5). Vietnam actually experiences a boom in the foundation of new businesses.

The total enterprises newly established under the new Enterprise Law reach some 165,404 in the 2000-2005 period.

If local household enterprises and proprietorships are included, according to the general survey on economic and administrative establishments until 2002, Vietnam had more than 2.66 million micro businesses (see Table 6).

Table 6: Micro SMEs by labor force

Although there is a boom in business startups over the last five years, Vietnam is still required to increase its number of enterprises in the coming time if compared to the population of 80 million and the ratio of one enterprise to 50 people.

The capital size of Vietnam's business startups

Table 5: Newly-founded enterprises in the 2001-2005 period

Indicator	Unit	Realized in 2001	Realized in 2002	Realized in 2003	Realized in 2004	Planned for 2005	Performance in five years 2001-05
Total newly registered enterprises	Enterprise	19,773	21,523	27,751	36,795	45,162	151,004
Total registered capital	VNDbil.	25,610	38,422	57,965	75,125	108,000	305,122
Private enterprises							
Number	DN	7,100	6,532	7,813	10,283	12,500	44,228
% of the total	%	35.9	30.3	28.2	27.9	27.7	29.3
Limited company							
Number	Company	11,121	12,627	15,781	19,943	24,500	83,972
% of the total	%	56.2	58.7	56.9	54.2	54.2	55.6
Joint stock company							
Number	Company	1,550	2,305	4,058	6,438	8,000	22,351
% of the total	%	7.8	10.7	14.6	17.5	17.7	14.8
Partnership							
Number	Company	2	0	1	7	9	19
% of the total	%	0.01		0.004	0.02	0.02	0.01
One-member company limited							
Number	Company	0	59	98	124	153	434
% of the total	%		0.27	0.35	0.34	0.34	0.29

Source: Ministry of Planning and Investment

remains small but it is rising, the average registered capital of current Vietnamese SMEs is more than VND2billion/enterprise. The lowest capital is VND5 million and the highest is VND200 billion (US\$13 million)/enterprise.

According to the General Office's statistics in 2002, Vietnam had more than 2.7 million businesses attracting over 8.3 million workers. It is estimated that Vietnamese SMEs offered about 49% of non-farm jobs in rural areas, and 26% of the country's working population.

The major form of Vietnamese SMEs is limited liability companies and private enterprises. In 2004, limited companies accounted for 54.2% and private businesses 27.9% of total SMEs (see Table 5).

According to statistics in 2002, the amount of Vietnamese SMEs in agriculture and forestry remain too small, representing only 0.1%; but rather large in manufacturing, 26.4%; especially in whole-

Table 6: Micro SMEs by labor force

	Number of establishments	%/total micro SMEs	%/total SMEs
Total	2,660,439	1,598,440	100
1 employee	1,012,798	60.1	58.8
2-5 employees	49,201	38.0	37.2
6-9 employees		1.9	1.8

Source: General Office of Statistics' general survey on economic and administrative in 2002

sale and retail trading, 44.3%.

2. Some major characteristics of Vietnamese SMEs

- Vietnamese SMEs is growing strongly in number.
- As many as 97% of Vietnamese enterprises are SMEs.
- SMEs attract most of labor force in the economy.
- The share of SMEs in agriculture and forestry remains too small.
- Vietnamese government has recognized the role of SMEs but its supporting policies and measures are not yet effective.
- The SMEs' partnership capability is still poor.

- SMEs still face unfair opportunities for their survival and development.

3. Shortcomings of Vietnamese SMEs

- Their accessibility to credit sources is limited.
- The capability of information exploitation and marketing is weak.
- The managerial competence is still low, and commonly of household style.
- Skilled employees are lacking in most of industries.
- Their machinery and equipment are obsolete; they are not able to adopt new technologies.
- They cannot adapt themselves to market volatility.

III. CONCLUSION

Vietnamese SMEs play an extremely important role in the economy, exploit national sources, generate job opportunities, reduce poverty, increase revenues to the National Treasury and make significant contributions to the social welfare programs. Vietnam's government is improving conditions of legal system, infrastructure, and proper incentives; at the same time, maintaining and expanding cooperation with and assistance from international institutions and governments with a view to studying and sharing experience in spurring SMEs' sustainable development. ■