

1. Small and medium enterprises in the Socio-Economic Development Strategy for 2001-2010

The Strategy adopted by the VCP and Government plans to industrialize the economy and double the GDP during the 10-year period from 2001 to 2010. In this period, Vietnam will face many problems: high rise in the working population (an estimated increase of some 11 million in this period) and high unemployment rate (some 7%). This is what causes poverty and hunger.

Small and medium enterprises (SMEs) are given an important role in dealing with these problems. At present, the SMEs account for some 25% of the GDP and employ about 50% of the working population. The number of SMEs is on the increase now. The Government had better support the development of SMEs, especially private ones, and provide a level playing ground for both private and state-owned ones by:

- Simplifying the tax system,
- Reducing administrative fees,
- Fighting against bureaucracy and corruption,
- Restructuring the banking system,
- Beefing up SME supporting institutions.

In doing so, full attention must be given to SMEs in rural areas where hunger and poverty are more serious.

Before the Socio-Economic Development Strategy for 2001-2010, some studies of this issue have been carried out, such as the Germany-financed "Reform of the Macroeconomic Policies and Administrative Procedures for the SME Development" in 1999 by the Ministry of Planning and Investment in cooperation with the UNIDO, and "Promotion of SMEs in Socialist Republic of Vietnam" in 1999 by said ministry and JICA. In addition, the Vietnamese and Japanese governments agreed on a Plan to Promote the Private Sector in 1999.

2. How to implement the Strategy

a. Better legal infrastructure for SMEs: In January 2000, the Companies Law came into effect. For the first time, all private persons are allowed to establish their own businesses without asking for permission from authorities. After submitting application, they will get licenses within 15 days. This is a breakthrough in the administrative reform but the enforcement of the law isn't consistent. Private persons have to get various permits, depending on

COOPERATION FOR DEVELOPMENT AMONG PRIVATE SMALL AND MEDIUM ENTERPRISES

by MEcon. VŨ BÁ ĐÌNH



what business they want to start, before receiving licenses to establish their companies. At present, the Government is studying how to remove more unnecessary permits. At provincial level, the implementation of the Companies Law needs more specific guidelines from the central government.

As for land use rights, vague and complicated procedures make it difficult for SMEs to secure land needed for their factory building. This is a great obstacle to SME development because they can mortgage the land use rights to get bank credit. To help them solve this problem, the govern-

ment could (1) simplify procedures for granting land; (2) modernize the land registration; (3) cut fees of land registration; and (4) introduce clear and reasonable methods of settling dispute.

Reforming the tax system: This system has experienced many reforms but it is still complicated and less transparent. The tax reform must aim at: (1) making the tax system more transparent and simpler; (2) reducing the personal income tax to the level accepted by ASEAN countries; (3) applying the same tax rates to all concerns regardless of what class their owners belong to.

Table 1: Tax rates imposed by ASEAN countries

Country	Personal income tax (% of taxable income)	Company income tax
Singapore	2-28	26
Malaysia	2-30	30
Indonesia	10-15- 30	10-15-30
Philippines	1-35	35
Thailand	5-37	30
Vietnam	0-50 on foreigners 0-60 on nationals	15-20-25-32

b. Better institutions: One of the most important measures to support SMEs but hasn't been carried out is to form a national agency for SME development, and moreover, a national agency for the private sector.

Considering the engineering industry as vital to the industrialization and modernization process, the Government has established three Technical Assistance Centers in the North, Central and South Vietnam. They aim at developing and transferring know-how and technology to many industries (textile, ceramics, rubber, plastic, food processing, etc.), and to SMEs in particular.

Another important agency is an information center for SME and private sector. Provincial governments had better include the private sector

ments, state-owned commercial banks don't have SMEs as their regular customers. And most SMEs in their turn don't want to depend on state-owned banks for capital and as a result they usually rely on informal credit.

A government plan to deal with this problem introduces over 40 measures which is based on three principles: (1) affirming the policy to support the private sector; (2) offering equal treatment to both private and public sectors; and (3) allowing private concerns to do any businesses according to laws. This plan has led to many decrees and circulars encouraging the private sector to do business with the governmental bodies and the public sector.

In 1999, JBIC, a Japanese bank

in foreign countries is their lack of experience and knowledge of foreign trade and markets. Other obstacles are poor competitiveness and low production capacity. It will take a long time for SMEs to deal with these problems so, again, they need help from governmental bodies.

3. Cooperation for development of SME and private sector

The cooperation between governmental bodies and SMEs along with the private sector is one of preconditions for their development.

The government must provide legal infrastructure and level playing ground, and develop channels for capital from both domestic and foreign sources. The Ministry of Planning and Investment is given the



and SMEs in their development plan. Many SMEs didn't know the existence of such centers at central level and their services, or couldn't afford such services, so local governments must help them get access to these centers and support them when buying these services.

Many business associations, such as commerce and industry chambers, have been established. Procedures for forming such associations for the private sector, however, are still complicated and the Government is working out measures to deal with this problem.

c. Access to form credit: Most SMEs couldn't secure long-term loans from banks or find ways to mobilize equity capital. With complicated procedures and strict require-

ments, the Vietnamese government agreed to form a credit fund to supply long-term loan to the private sector. Capital will be transferred to related institutions in Vietnam and it's estimated that 70% of customers of the fund will be SMEs.

d. Export promotion: Issue of three decrees relating to the Companies Law and removal of quota on imports came from an effort to improve the business climate for the private sector and SMEs in general. Export license and import quota become less and less important. However, certain limits and quotas on private companies must be lifted, and bidding held by governmental bodies must be more transparent.

One of the greatest obstacles to SMEs in taking business opportunity

task of working out strategic direction for the private sector and SMEs. The Ministry of Finance must solve the tax problem while the SBV deals with the shortage of capital; Land Registrar with land use rights; Ministry of Education and Training with technical education and Ministry of Science, Technology and Environment with technology transfer.

Business associations must make voice of the private sector heard by governmental bodies.

Suppliers of services needed for the development of SMEs and private sector (universities, vocational training centers, cooperatives, information and advisory centers, etc.) also have important roles in developing human resource for SMEs. ■