

Capacity Building of SMEs in Vietnam



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Capacity Building of SMEs in Mekong Sub Region

(With special reference to Vietnam)

1. Program Brief

Mekong region comprises five countries sharing the Mekong River, namely Cambodia, Lao People's Democratic Republic (Lao PDR), Myanmar, Thailand and Vietnam. The Greater Mekong Subregion (GMS) Economic Co-operation Program also includes the People's Republic of China.

SMEs have played significant role world wide both in developed and developing countries. Their contribution to the national economies of the Mekong sub-region has also been quite significant. In the Mekong sub- region; SMEs comprise about 99 per cent of all enterprises, account for 50 per cent of manufacturing output and from 44 to 70 per cent of employment, and play an especially important role in employment generation.

However, despite inherent potential for growth, countries in the Mekong region could not reap the benefit from south-south interregional cooperation and economic integration. This has been depicted by the fact that while South-South trade increased from 6.5 per cent of world trade in 1990 to 10.7 per cent in 2001, this increase has been largely confined to countries in Latin America and in the Association of South East Asian Nations (ASEAN).

Despite the large proportion of local and regional business accounted for by SMEs in the Mekong region, most are not involved in international trade and investment. Numerous market failures prevent domestic enterprises from building competitive advantages in the regional and international markets mainly due to poor advocacy, lack of trade negotiation capacity and inadequate skills in cross -border trade.

Further these SMEs are often at a disadvantage in terms of finance, technology, human resource development and networking. In addition to this, the world of globalised markets carries both threats and opportunities for SMEs. Yet most SMEs do not possess the know-how or tools to overcome the threats and seize the opportunities. The latest information on the regional issues affecting the sector, various regulations including WTO provisions are also of great importance for the SMEs.

Understanding the fact that the vibrant sector of the Mekong sub-region is relegated to the background due to its inability to promote trade and sustain growth in line with the neighboring countries, this program teaming Indian Institute of Foreign Trade (IIFT) and International Institute for Trade and Development (ITD) -Thailand aims at development and trade capacity building of the SME sector and the stakeholders of GMS countries with special focus on Cambodia, Lao PDR and Vietnam with sponsorship of *Swiss Agency for Development and Cooperation (SDC)*.

Under this package of initiatives by the SDC, this program is financially supported by the Swiss Agency for Development and Cooperation, Berne, Switzerland. It aims at developing the capacity not only for formulation of national strategies for promotion of manufacture and trade in this sector, but also the capacity to network with other organizations involved in these countries for promotion of the SME Sector. These include Government Departments and Organizations, Research Institutions, Non Government Organizations, Industry Associations, various Trade Promotion Bodies etc in the region as also beyond the region. Such external interface is necessary for understanding the implications of globalization and deepening of the rule based multilateral trade regime after the formation of WTO. The program is divided into two phases:

- a) Phase I on International Trade issues to targeted beneficiaries of the sub-region was undertaken as a pilot phase;
- b) Phase II will undertake sub regional Programs on sectors of importance to the sub region. The finer details of Phase II are worked out, based on the feedback of Phase I.

Under Phase I, a five day sensitization program was conducted at Bangkok with sponsorship of SDC during 11-15th Dec 2006.

2. Program at Vietnam: Initiation of Phase II

Vietnamese SMEs have been playing an important role in the development of the country. Not only in generation of non-agricultural jobs, SMEs have made sizable contributions to the State budget (15 percent in 2003), formed the majority of the distribution (retail trade) network throughout the country (making up 80 percent of the network in 2003) and export activities (comprising 39 percent and 41 percent of the seafood and cashew-nut export revenue in 2004 respectively). Besides, SMEs have been active and effective actors in the preservation and development of traditional craft villages and supply of services for bigger businesses.

The trade profile of the countries in the Mekong sub region show that Vietnam accounts for the highest amount of trade amongst the Mekong countries. The East Asian countries are the major trading partners of Vietnam for both imports (74.5%) and exports (70.9%). Although they still are the major destinations, the share of Vietnam's exports to these markets reduced continuously to 45.8% in 2003. Hence there is a need to explore the possibility of trade diversion from the current markets to new emerging markets.

Further, the world of globalised markets carries both threats and opportunities for SMEs. Vietnam is set to become the WTO's 150th member. WTO accession of Vietnam poses major challenges to the Vietnam's economy. Most SMEs do not possess the know-how or tools to overcome the threats and seize the opportunities. The latest information on the regional issues affecting the sector, various regulations including WTO provisions hence are of great importance for the SMEs.

Therefore, understanding that more than 90 percent of the manufacturing comes from the SME sector in this region, there is the need for Capacity building of SMEs to make the most of the opportunity, successfully handling the challenges and ensure fast and sustainable growth by helping them diversify the trade to more profitable destinations including US & EU and Japan.

In this context, the first country specific programme of Phase II will be undertaken in Vietnam. The Specific objectives of the program are as follows:

2.1 Specific Objectives

The objective of the program would be to strategize the SME exports from the Vietnam region with the following objectives:

- i) To help promote inter regional and intra regional trade in/ from Vietnam
- ii) Exposure of the stakeholders to the sub regional, regional and global issues as also to their interface with the national scenario;
- iii) To impart training on management functions, market, product & quality aspects, sector specific tools and methodologies for business growth, and trade related issues for SMEs in Vietnam;
- iv) To understand the impact of WTO Accession on Vietnam and prepare the SMEs to successfully handle the challenges;
- v) Identify networks with local level support and public and private sectors service institutions existing in Vietnam at regional, national and International level to build capacities of SMEs on sustainable basis.

2.2 Program Highlights

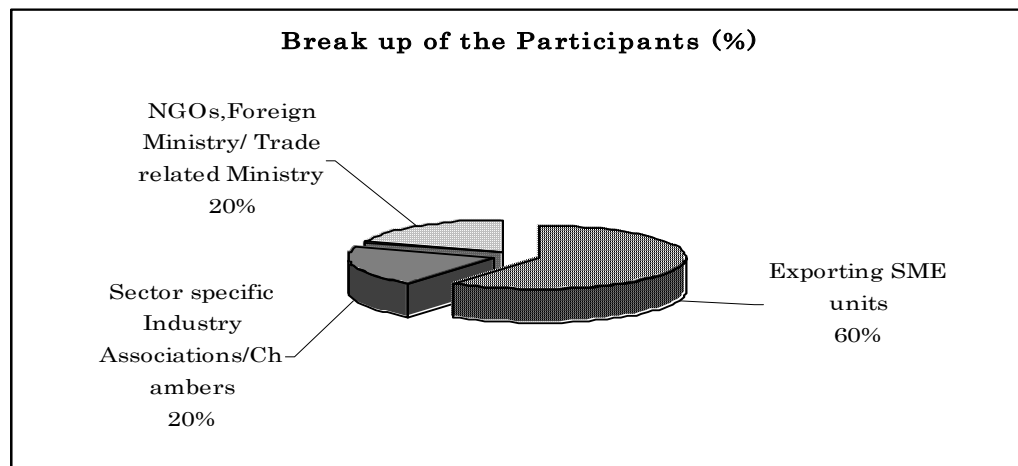
a) Time & Venue

The first Training program of Phase II will be of 6-day duration and is proposed during 2nd to 7th Nov 2007 at Ho Chi Min City, Vietnam.

b) Target Group

The target group will include Government Departments and Organizations, Research Institutions, Non Government Organizations, Industry Associations, various Trade Promotion Bodies etc from Vietnam, Lao PDR, Cambodia and Burma. Such external interface is necessary for understanding the implications of globalization and deepening of the rule based multilateral trade regime after the formation of WTO. The distribution of the participants would be as follows:

- ❖ 25-30 manufacturing/exporting Industry Associations of priority sectors for the sub region (e.g. textile, garments, agro-processing and/or wood), Chambers and training institutions from these regions.



- ❖ Out of the total of 30 participants, the breakup would be (i) Exporting SME units (60%), (ii) Stakeholders like sector specific industry associations/Chambers- 20% and (iii) NGOs, Civil Society, Foreign Ministry/ Trade related Ministry – 20%

c) Pedagogy of the Program

The training program will include series of informative and interactive lectures followed by panel discussions and group work. *Geographical variety of cases indicating classical success stories within the Asian and non Asian context which will be dealt with in groups overnight will be included.* To ensure much more involvement of the participants, *emphasis would be given on both pre and post classroom assignments.* Further to enhance the effectiveness of the program, *field visits will also be included in the program.*

Panel discussions on the success stories of the local/regional SME exporters will also be included. The inputs of the panelists will further be taken at the time of the presentation of the business plan by the participants on the last day of the program which will be helpful in evaluating the learnings of the participants through the five day training program.

In nutshell, the program in Phase II will include *more case-studies, more interactivity, more explanation, less knowledge gaps, more group works, and more attention to their limited capacity to understand non technical colloquial English. Further, the potential of interactive e-learning strategies would be explored.*

c) Sectoral Coverage

As indicated above, the SME structure of the SMEs in Vietnam highlights the dominance of the manufacture SMEs accounting for nearly one fourth of total SMEs. Garment and textiles SMEs together account for 2 percent. Agriculture and mining registered SMEs together account less than one tenth of total SMEs (agriculture SMEs alone account for 5.4 percent).

Major Sectoral Export Share - Vietnam 2005

Sectors	% Share to Total Exports
Crude Oil	22.9
Textile & Garments	14.9
Fisheries products	8.5
Others	53.7

Source: ADB annual reports, 2006

Further the schedule of concessions and commitment on goods submitted by Vietnam indicates that for majority of agricultural and non agricultural goods, the bound rates of duty lies between 0 to 35% to be further phased out by 2014. Among these, the majority with higher ceilings are agricultural products including alcoholic drinks, tobacco products, instant coffee while higher import duties are not allowed for rapeseed, derived meal and oil. Tariff rate quotas on agricultural products including eggs, tobacco, sugar etc has to be expanded and abolished as per the agreed time schedule.

Hence considering the fact that textiles include almost 16% of Vietnam' share of total exports (table above) and agriculture is the main income source for 100,000 poor farmers in the coastal areas of Vietnam the two main sectors identified for discussions in the training program includes (i) agriculture includes oil, marine products, fruits and vegetables and rice and (ii) Textiles including cotton yarn, fabrics, made-ups etc.
