



SMEs development in Vietnam

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Malaysia, April 24, 2006

Agenda

- Introduction
- Overview of Vietnam SME
- Some issues for SME development in Vietnam
- Policy recommendation
- Conclusion

Vietnam Background

- Location- Southeastern Asia, bordering Gulf of Thailand, Gulf of Tonkin, the South China Sea, and Laos
- Land areas:325,360 sq. km (125,621.496 sq. mi.)
- Population: more than 80 mil.
- Climate: Tropical in South
Moonsoon in North
- GDP:App.45 billion USD(2004)



Vietnam Economy

● GDP at market prices (VND trillion)	698.3
● GDP (US\$ billion)	44.4
● Real GDP growth	7.3%
● Consumer price inflation (average)	7.8%
● Population (million)	82.6
● Export of goods (US\$ million)	25,800
● Import of goods (US\$ million)	27,800

GDP structure by Economic Sectors

- State and public sector: 39%
- Foreign Invested Enterprises: 19%
- **Domestic private sector: 42%**
(of the 42%, 82% from household business and 18% from formally registered enterprises).

BUSINESS ENABLING ENVIRONMENT FOR PRIVATE ENTERPRISES - IMPORTANT MILESTONES

- **2004 (November):** Competition Law - A law designed to promote fair competition in the economy and is considered to be a tool to protect private enterprises against the monopoly of the big businesses.
- **2001 (Nov.):** Revision of the Constitution - private sector is recognised as an important part of the national economy; Government's Decree on SME Development
- **1992:** Revision of the Constitution, adopting multi-sector socialist oriented market economy in which the private sector is recognised as an element of the national economy
 - 1990:** Private Enterprise Law and Company Law, creating the foundation for the formation of formal private sector.
 - 1986:** Economic Reform (Doi Moi) started (open door policy)

Policy mechanism

- **Decision No 12/2003/QĐ-TTg, dated 17, January 2003 by the Prime Minister on the functions, tasks and members of the SME development promotion Council**
- **Decision No 185 QĐ/BKH, dated 24/3/2003 by the President of the SME development promotion Council on promulgating operating regulations of the Council**
- **Decision No. 504/QĐ-BKH, dated July 29, 2003 by the Minister of Planning and Investment on functions, responsibilities and organization of the SME Promotion Office**
- **Operating regulations of the SME development promotion Council (attached with Decision No185 QĐ-BKH dated 24/3/2003 by the MPI's Minister - Council's President)**
- **Centre for assisting SMEs has been establishing in Viet Nam Chamber of Commerce and Industry (VCCI)**

Enterprises in Vietnam-A snapshot (2004)

- Registered under the Enterprise Law: 150,000
- Household Business Registered under Decree No.109 (previously Decree 02) of the Government 2,400,000
- Co-ops registered under Cooperative Law 16,899
- Registered under State-owned Enterprise Law 5,200
- Farm households 10,000,000
- Registered under Foreign Investment Law 3,000

Enterprises in Vietnam-A snapshot

Four years after the Enterprise Law was introduced (as of June 2004):

- 115,000 enterprises have newly registered under the Law
- 20,000 existing enterprises registered to have their business diversified and expanded
- Total investment capital: VND 320 trillion (US 20 billion)
- These newly registered enterprises have created 1.6 - 2 million jobs
- Most of the newly registered enterprises are located in growth centers like Ho Chi Minh City, Hanoi, Da Nang, Binh Duong, Dong Nai, Hai Phong

Vietnam SME current status

- Obsolescent and obsolete production technology and facilities
- Problems in obtaining shortterm working capital and long term investment
- A shortage of staff capable of copying with technolocal innovation
- A lack of managerment experiences

Assessment of technology in SMEs

- Endogenous capacities for the management and leadership of technical change are weak.
- Little in the way of market-oriented relationship between the production sector, R&D institutions and universities.
- Quality control suffers from technological weakness and deficiencies in technologies, especially those required for measurement, experimentation and certification.
- The skill of labor is currently inadequate to support technological upgrading and there is very little R&D appropriate to support such upgrading.

Evaluation of tech. level of industrial SMEs in Vietnam **interm of machinery and labor**

- A generalized shortage of appropriately trained and skilled technicians, engineers and labors;
- Weak linkage between R&D institutions & productive sectors;
- A significant percentage of managers of industrial SMEs continue to “think” in term of fragmentation, of being self-contained and as not requiring external linkages or support.
- Enterprises contend with low productivity due to an excess workforce of unskilled and semi-skilled labor.

Evaluation of tech. level of industrial SMEs in Vietnam in term of training

- The existing technical, engineering and management training institutions are not enough producing human resources with skill and aptitudes required for firms needing to compete and upgrade;
- Management capabilities to manage firms in a competitive market economy are particularly lacking.

Evaluation of tech. level of industrial SMEs in Vietnam in term of policy

- Lack of financing, including access to credit on reasonable terms
- Unsuitable and exceedingly complex taxation system;
- Unstable policy climate with regard to bureaucratic, financial and trade regulations with generates confusion, entails high costs and discourages new investment.
- No specific organization for cordination among SMEs promotion like SMIDEC if Malaysia or Office of SME promotion of Thailand

Framework for fostering SMEs

1. Establishment of basic support systems

- Overall framework
- Legals system
- Taxation system
- Organization

2. Assistance with external resources

- Finance
- Technology
- Supporting industries

3. Assistant with internal resources

- Training
- Managerment

5. Support for entrepreneurs (assistance for start up business)

Policy recommendations for fostering SME

- Need for legal framework, especially basic law for SMEs
- Need for coordination among government entities involved with SMEs
- Improving access to finance
- Need for promotion/technical assistance
- Fostering development of supporting industry
- Improving export promotion policy
- Human resource development (training for SMEs)

More..

- Effectiveness of promotion program should be improved.
- More programs to support development of important products
- Creating databases for suppliers and buyers
- Restructuring and rearranging state owned enterprises, promoting equitization process in state owned companies

And Next:

- Viewpoint of an entrepreneur about SMEs development policy in Vietnam

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