

SMALL- AND MEDIUM-SIZED INDUSTRIAL ENTERPRISES IN VIETNAM OVER THE LAST TWENTY YEARS OF RENEWAL

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During the last twenty years of the country's renewal, our economy has recorded numerous achievements, to which contributions given by small- and medium-sized industrial enterprises (Industrial SMEs) should be included. Industrial SMEs have not yet increased in terms of quantity, but also of quality (capital, dynamics, creative in business and production, adaptable to developments of the market, generating jobs to attract labor from the society, refreshing in management, etc...). This article concentrates its analysis on the situation of Industrial SMEs during the last twenty years and suggests some solutions for continued development of this sector.

Prior to the renewal, we held an opinion that a prosperous unit must be a large-sized one and the larger one was the better. Thus, there happened changes of size, from working teams, for instance, to village, communal and inter-communal cooperatives, respectively, focusing on the construction of large-sized structures like the Great Irrigation System of Northern Hung Hai, great-scoped factories. Hanoi was geographically enlarged to Xuan Mai (Hoa Binh province), Ba Vi, Hoai Duc, Thach That (Ha Tay province). Many small provinces were merged into large ones, such as Hoang Lien Son, Ha Son Binh, Nghe Tinh, Song Be... Less attention was paid to the development of small-sized production units.

Since the renewal started, the situation in Vietnam has escalated in a way that many large-sized units have been separated into

smaller-sized ones. Ha Son Binh province, for instance, was separated into Ha Tay and Hoa Binh provinces; Binh Tri Thien into Quang Binh, Quang Tri, and Thua Thien-Hue; Dak Lak into Dak Lak and Dak Nong. In the meantime, village, inter-communal cooperatives were split up into special small-sized ones: cooperatives, for example, for land, electricity, plant management...services. During the last twenty years of renewal, large-sized units have developed, but in a step-by-step manner. Hanoi and Hochiminh city has been expanded both in terms of space and population; at the same time, various small cities have been shaped, such as Dien Bien, Lao Cai, Yen Bai, Phu Tho, Hai Duong, Quang Minh, Gia Lai, Binh Thuan, Ca Mau, etc..., along with hundreds of townships, counties. The number of

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medium- and small-sized cities increased from four in 1986 to twenty five in 2004, while townships and counties from one hundred in 1995 to 59 and 583 respectively in 2004. The large-scope economy has been shaped with parent companies, including affiliate companies, joint-ventured companies, FDI companies, corporations, economic groups or consortiums. The economies of selected regions in the Northern, Central and Southern parts of the country have been formulated and developed. With the establishment of large-sized units, there immediately appeared a tendency that small units were attached to the bigger ones. The bloc character has shifted to the grouping nature, in which cooperation between semi-autonomy and dynamic units is strengthened. Small- and medium-sized units have emerged, developing at the expense of their advantages: dynamism, creativeness, adaptability to complex developments, high self-reliance, easy renovation and management. The co-existence of large, medium and small-sized units demonstrates a dialectical unity of two sides of the coin, which are liberation and order. The practice demands for liberation of small self-management units, at the same time it requires the ordinal discipline imposed on the large-sized units working on the basis of the general situation, unity and coordination. The theoretical and practical issue concerning small- and medium-sized units is very broad. Hence, we concentrate our analysis on the situation as well as some relevant solutions to the development of Industrial SMEs in Vietnam during the last twenty years of renewal.

1. Industrial SMEs in Vietnam have had various changes

The main character of Industrial SMEs is the small scope of capital and labor force. The number of Industrial SMEs has rapidly increased, attracting

different kinds of labor, being present in all localities, from the urban to rural, the low-land to the upland areas, the east to the west, and the south to the north, operating in various fields, sectors and branches. Industrial SMEs count for ninety percent of private-run enterprises. During the last twenty years of renewal, the development of Industrial SMEs demonstrates in the following aspects:

Firstly, it is a fantastic increase in number. Since the economy of Vietnam has shifted to the market mechanism under the state management, the number of Industrial SMEs increased splendidly, from 567 units in 1986 to 770 (1990), 14,275 (1995) and 28,700 (1999). In the course of 14 years, an average increase of 2,009 units was registered. The entry into force of the Law on Enterprises (in 2000) is a crucial thrust to excessive development of Industrial SMEs, from 35,004 units in 2000 up to 64,562 and 74,366 units in 2003 and 2004 correspondingly. It was estimated that in 2005, the figure would be 83,206 units. Between 2000 and 2004, an annual increase of 9,833 units was registered. Hanoi, Hochiminh city, Dong Nai, and Binh Duong saw the fastest development of enterprises. Each of these localities houses tens of thousand of enterprises. Bac Kan, which had the lowest number of enterprises, also registered with 869 units (2000). The growth rate of Industrial SMEs (21%, 23%, and 22% in 2000, 2003 and 2004 respectively) stood at higher than that of Vietnam's industrial economy (17%, 14.4% and 16% in 2000, 2002 and 2004 respectively). In the five recent years, (2000 – 2005), the growth rate of Industrial SMEs had always reached over 22%, of which in the first nine months of 2005 the growth rate was 26.5%. GDP of Industrial SMEs rose rapidly, from 4.7 billion in 2000

up to 171.06 billion and 196.15 billion VND in 2003 and 2004, respectively, in comparison with the real price (1). This is a new point of Vietnam's industry. The economy formed by Industrial SMEs has become a strong driving force contributing to speeding up the production force in Vietnam.

Secondly, Industrial SMEs vigorously attract social investments and operate in all fields across the country. In recent years, Industrial SMEs have attracted a vast amount of social investments, from 996,423 billion VND in 2000 to 1,956,348 billion VND in 2004, and possibly the figure would increase up to 2,345,933 billion VND in 2005, making it an annual average increase of 269,502 billion VND. The investment volume registered by Industrial SMEs in the total investments of the entire society went up from 20% (2000) to 23.5% (2001), 25.3% (2002), 26.7% (2003), and 30% (2004). The amount of registered capital of Industrial SMEs was progressively increased. In the 1991-2000 period, the average amount of capital registered by one SME was 0.57 billion VND. This figure turned out to be 1.5 billion VND in 2003 and 1.8 billion VND in 2004. Industrial SMEs have been become the main investors in socio-economic development of many localities. Increased investments, for instance, made by Industrial SMEs in 2004 accounted for 40% of the total social investments in Hochiminh city(1).

Industrial SMEs are present in all sixty four provinces and cities of the country, operating in all fields that are not prohibited by Vietnamese laws. At the time being, Industrial SMEs produce about 20% of the aggregate industrial value of the country with diversified categories of products.

2. Contributions by Industrial SMEs in Vietnam

During the last twenty years of renewal, Industrial SMEs have made following important contributions.

Firstly, industrial SMEs enhance the possible employment resolution. State-owned enterprises in Vietnam are still in the restructuring process, therefore they are not generating more jobs. Hence, it is the development of private-run businesses and Industrial SMEs that makes them become principal job generators of the society. The number of workers employed by Industrial SMEs has significantly increased. The corresponding figures in 1986, 1995, 2000, 2003 and 2004 were 5,753; 305,800; 1,040,902; 2,049,891; 2,386,220 workers(1). In the past five years alone, Industrial SMEs have attracted an increased number of 520,105 workers per annum. Non-agricultural private-run businesses have attracted 20% of the labor force in society. This is not only to generate more employment opportunities, contributing to enhancing the industrialization-oriented employment structure, but also more importantly to mitigate the pressure posed by unemployment, strengthening the social-political stability.

Secondly, industrial SMEs have contributed to the increased level of science – technology development. Since the start of the transition to a market economy and integration into the world market, Industrial SMEs have had opportunities to get in touch with the world market, absorbing and putting into operation various advanced technologies. Industrial SMEs have developed in quantity; at the same time, they have gradually shifted from labor-intensive businesses to the ones that apply advanced technologies to increase the

intellectual content in their products. Governance capability as well as qualification of workers is progressively enhanced. These altogether have contributed to upgrading the science-technology level in Vietnam.

Thirdly, industrial SMEs have contributed to the growth of exports and revenues by foreign and domestic currencies of localities. Along with the increased number of enterprises and mobilization of non-used capital kept by the people as well as labor forces in society, exports by private-run businesses have substantially increased year-by-year. Export volumes were 48% in 2002, 49% in 2003, and 51% in 2004 in comparison with the total exports of Vietnam. Industrial SMEs are the driving force in developing traditional and new product items, expanding export markets. Exclusively in some localities, industrial SMEs are the main contributors to the exports, such as in Binh Thuan with 45%, Quang Ngai with 34%... (1).

Their contribution to the state budget at local level was strongly increased, from 0.2% in 1986 to 6.4%, 7%, 9%, and 11% in 2000, 2002, 2003 and 2004 respectively. Commercial and industrial taxes paid by industrial SMEs have swollen and excessively completed the annual plan. For instance, in 2002, tax payment by industrial SMEs stood at 103.6%, an increase of 13% over 2001. Furthermore, industrial SMEs also paid for sales tax and VAT. In some localities, contribution made by private-run businesses to local revenues accounted for a great proportion. For example, the rate was 15% in Hochiminh city, 24% in Tien Giang, 16% in Dong Thap, 22% in Quang Nam, 33% in Binh Dinh, etc. (1)

Fourthly, industrial SMEs have made contributions to the preservation and rapid reclamation of the ecological system.

Human beings in any times are actors of production and business, but are created by nature. Thus, their actions must comply with the laws of nature, such as the recovery law, the law of diversification, the law of decentralization, the humanity law, etc. Where the laws of nature are resistant, the ecological system will be destroyed, including the law of small and medium size. It is because the individual entity (small and medium size) is always inferior to the recovery power of nature. Consequently, expansion of the small and medium size is of extreme importance for the preservation and reclamation of the natural environment.

Fifthly, industrial SMEs have made significant contributions to the renewed business environment, boosting a market mechanism and speeding up integration into the world economy. The development of industrial SMEs is a factor that creates a competitive environment for different types of enterprises, gradually eradicating business monopoly enjoyed by state-owned enterprises. A market economy mechanism has been shaped and is in progress. There have emerged different kinds of market: goods, services, labor, monetary-capital, real assets, science-technology, etc.

Since 1986 up to present, thanks to the renewal policy adopted by the Communist Party of Vietnam concerning the development of a non-state economy, discrimination against this type of enterprise has been eliminated. The idea of developing a non-state economy has been constantly supplemented in resolutions adopted by the Party. In 2000, the Law on Enterprises was passed. The private economy continues to exist and strongly develop on the basis of a more open system of new policies and the assurance of legal provisions. This has reassured private

businesses to put more investments in and to mobilize capital for their operation. The Resolution adopted at the Fifth Plenum of the Central Communist Party of Vietnam, 9th Tenure, in 2002, continued to affirm the position of private businesses in the economy of Vietnam. At the same time, the State has promulgated a wide range of policies with a view to create favorable conditions for owners of private businesses, to abolish the monopoly of large-sized enterprises, paving the way for industrial SMEs to operate in a breaking playground. Therefore, during the last twenty years of renewal, industrial SMEs have strongly developed. Nevertheless, this sector still has the following limitations:

a) Most of industrial SMEs have been newly established, thus their relevant experience and capability are still poor. At the time being, more than sixty percent of industrial SMEs are lack of basic resources, facing difficulty in getting access to assistant supporting sources, possessing low level of science-technology development. Only some major cities like Hanoi, Hochiminh city have seen growth of industrial SMEs; while in many rural, ethnic minority populated mountainous areas, there are few Industrial SMEs.

b) The mechanism is insufficiently open; the system of state policies towards private-run businesses is not yet complete, synchronically and transparent enough. Policies of the Party and State are not yet specified and properly implemented at the local level. There are not a few cases in which state agencies in drafting legal documents do not begin with demands of enterprises, but instead basically with their subjective thinking and effect of the "ask-give" regime. People's Committees in some localities issued documents that are inconsistent with the authority prescribed

in the Law on Enterprises. A number of ministries, sectors and localities were still confused in their management work, did not properly exercise their functions in providing instruction, information and assistance to enterprises. In some cases, enterprises faced obstacles to their development due to limited capability, partial and personal interests or old thinking line. It usually consumes a lot of time and is supposed to pay different kinds of charge for enterprises, especially those in the North, before entering into the production line. In Hanoi, for example, having been granted with a business certificate, owners of businesses have to do many cumbersome administrative procedures, such as registration for stamps, tax codes, application for bills of the first time, etc. It normally takes sixty days to be granted with a certificate for operation; business charges are at least between three and four million VND. Still, increased expenses paid for the middle level reduce the competitiveness of enterprises.

3. Some solutions to the development of industrial SMEs

The formulation of new business and production forms, economic restructuring is fundamentally aimed at creating a new industrial relationship to enhance the development of production forces. The Communist Party of Vietnam holds a firm view that "all economic sectors are equally treated before the law, components of the socialist-oriented market economy, given space and conditions to develop rapidly, effectively and sustainably for the prosperity of the country"(2). The renewal practice over the last twenty years has shown that investments by the state revenues are increasingly earmarked to the construction of social – economic infrastructure, aiming at creating conditions

for enterprises to operate effectively. In many cases, state investment mainly focuses on large-sized and especially important enterprises operating in the fields of security, national defense, public welfare, environmental protection. In the meantime, other forms of enterprises, particularly private-run enterprises, principally drive their investments into areas and sectors that produce high profits and exert in rapid returns. Whether it is a large, medium or small size, all enterprises have registered for growth, but Industrial SMEs enjoy more rapid growth.

According to viewpoints of the Communist Party of Vietnam pertaining to development, the current situation of enterprises as well as the investment tendency show that it is imperative for state-owned enterprises to bolster reform, equitization, diversification of ownerships, restructuring, disuniting, selling and others, discontinuing enterprises on the edge of bankruptcy, creating partnerships, merging corporations of 90 and 91 in order to increase the asset value of enterprises. The Party and State shall undertake to further improve the investment environment by relaxed mechanism and policies, bringing about favorable conditions to invite foreign and domestic businesses for investment; to develop FDI large-sized enterprises; to establish some economic groups or consortiums by engaging state-owned enterprises and other into partnerships and joint-ventures in the three selected economic regions. In the up-coming five and ten years, the State needs to draw its attention to the development of industrial SMEs. Some solutions are suggested hereby for consideration in order to develop industrial SMEs in Vietnam.

Firstly, it is necessary to further improve the legal framework in order to create more

favorable conditions for industrial SMEs to develop. The policy for the development of private-run businesses is clear, but the legal framework plus psychological factors remain barriers to their development. Administrative procedures are still cumbersome, business registration fees remain high. Hence, it is recommendable for the Party and State to continue supplementing, making appropriate adjustments to policies and the legal framework in order to keep up with new developments, especially when Vietnam has joined AFTA and WTO, bringing about favorable conditions for industrial SMEs to develop. Local governments are strictly obliged to issue regulations that are contrary to laws and regulations adopted by the Government, ministries and branches at the Central level. All regulations inconsistent with the Law on Enterprises must be abolished. It is also important to improve the management capability of officials, particularly local officials, over the realization of the Law on Enterprises. Procedures relating to business registration should be further reformed: to simplify procedures, to minimize time for application, and to reduce charges on starting a business.

Secondly, it is necessary to develop industrial SMEs in all parts of the country, particularly in rural, remote and far-flung areas. In many countries, the proportion of population as per enterprise is very narrow. For instance, the figure is 4 in Singapore, 5 in Hong Kong, 8 in Britain and 13 in Germany, while that rate in Vietnam remains large. For example, it is 160 in Hochiminh city, 200 in Hanoi, and 520 at the national level. Therefore, first and foremost, public communication work should be strengthened to bring in a social psychological environment, encouraging

the people to do business and make rich in a legitimate way. Excellent businessmen are patriots, loving socialism. Prejudices and discrimination against private-run businesses must be abolished; excellent businessmen should be honored. Vocational training schools, special high-schools, colleges and universities should cultivate and provide psychological factors, theoretical thinking, knowledge, business management skills for all students, helping them to become owners of enterprises after their graduation. It is necessary to adopt policy to enhance development of industrial SMEs in all parts of the country. Now that, the State should have an incentive policy for starting business in rural, border highland areas.

Thirdly, industrial SMEs need to diversify their activities and products. As per the situation and characteristics of Vietnam, it is necessary to diversify crafts, business activities and products. It is recommendable that final products should match with the needs of both domestic and foreign consumers; raw materials need to be primarily processed into semi-products that are provided for large-sized enterprises. Industrial SMEs become satellites for state-run and FDI enterprises.

Based on work division and cooperation, industrial SMEs can enter into operation in such sectors as engineering, electronics, garment and textiles, foot-wears, building materials, etc...

Finally, local governments need to spare concentrated land plots, which are convenient for the construction of production establishments of industrial SMEs; at the same time, investments should be made in infrastructure construction, such as roads, electricity, water, communication facilities in small- and medium-sized industrial zones; price for land lease should be imposed on a preferential basis for enterprises; assistance should be given to the space-clearing work; tax exemption should be applied for the first years of business activities. Vocational training schools need to closely match their training activities with labor needs of enterprises.

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