

Promoting Small and Medium Enterprises in Vietnam Today: Current Situation and Solutions

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I. INTRODUCTION

In the context of deep and broad international integration and especially the impact of the Fourth Industrial Revolution has opened up many opportunities, and at the same time posed many challenges to each country, organization and individual, which has been having an increasingly strong impact on all areas of economic life. the country's society.

Small and medium enterprises (SMEs) are an important part of the private sector and account for a large proportion of the Vietnamese business community. Currently, the country has about 541,753 SMEs operating in the economy, with a total registered capital of about 130 billion USD, accounting for about 1/3 of the total registered capital of enterprises. Every year, SMEs contribute about 40% of GDP, pay 30% to the state budget, contribute 33% to the value of industrial output, 30% to the value of exported goods and attract nearly 60% of labor... Although the number of SMEs is large, the scale of small and micro enterprises accounts for a very large proportion, the number of medium-sized enterprises accounts for only 1.6% of the total number of small and medium-sized enterprises. Because of its small scale, the operation of this business sector is facing many difficulties, such as the ability to access capital sources to invest in modern machinery and technology, serving production and business; lack of experience in business administration; competitiveness, market dominance right in the domestic market... In the coming time, it is very necessary to have effective solutions so that this business sector, although very dynamic, but also vulnerable, has rapid and sustainable development in the new context. The article analyzes the innovation of mechanisms and policies of the Party and State of Vietnam to support the development of small and medium-sized enterprises; evaluate and clarify the achievements and limitations of the current small and medium-sized enterprise sector. On that basis, provide basic solutions to develop SMEs in Vietnam. Along with the rapid development of the industrial revolution 4.0, one of the appropriate responses offered by Vietnam is to promote start-up activities. The orientations show that business start-up activities, especially small and medium-sized enterprises, have been of interest to the Party and the State. The policy of developing the small and medium economy shows that promoting start-up activities and encouraging entrepreneurship in Vietnam based on the foundation of private enterprises, SMEs has become the right direction.

For the above reason, I have chosen the research topic: "Promoting SMEs enterprises in Vietnam today: current situation and solutions" as my research topic.

II. GUIDELINES AND POLICIES ON INNOVATION FOR SMALL AND MEDIUM-SIZED ENTERPRISES.

The Industrial Revolution 4.0 takes place at a fast pace and spreads widely in all aspects and fields of economic and social life. In particular, in this context, Vietnam is having to carry out a number of major and strategic tasks to restructure the economy, promote growth and transform the growth model from mainly based on breadth to reasonable development between breadth and depth. both expanding the scale and focusing on improving quality and efficiency. In 2016, the National Assembly issued a Resolution approving the economic restructuring plan for the 2016-2020 period, which determined that the general goal is to focus on improving the efficiency of allocation and use of development resources, thereby changing the structure and level of the economy. to form a more rational and dynamic economic structure, with higher productivity, higher competitiveness, greater growth potential and ensure green, clean and sustainable growth. To achieve this goal, the issue of strongly developing the domestic private economic sector, especially small and medium-sized enterprises. Since then, rationally attracting foreign direct investment and improving the business environment have been identified as the focus of the Government's policies.

In the context of the ongoing industrial revolution 4.0, the requirements for the development of the private economy and SMEs are becoming more and more urgent and a series of guidelines and policies of the Party and the State have been promulgated, including: Resolution No. 10-NQ/TW dated June 3, 2017 of the Fifth Meeting of the 12th Party Central Committee on the development of the private economy has become an important driving force of the socialist-oriented market economy; the Draft Law on Support for Small and Medium Enterprises, including regulations on mechanisms and policies to support start-up enterprises; Resolution No. 35/NQ-CP of the Government dated May 16, 2016 on support and development of enterprises to 2020; Decision No. 844/QĐ-TTg of the Prime Minister dated May 18, 2016 approving the Scheme "Supporting the national innovation startup ecosystem to 2025".

According to the announced guidelines and policies, especially Resolution No. 35 of the Government, the goals set by 2020 are: to build Vietnamese enterprises with

competitiveness and sustainable development; the whole country has at least 1 million operating enterprises, including large-scale enterprises with strong resources; Vietnam's private sector (mainly small and medium-sized enterprises) contributes about 48-49% of the gross domestic product (GDP), about 49% of the total investment capital of the whole society; the productivity of aggregate factors (TFP) contributes about 30-35% of GDP; social labor productivity increased by about 5%/year. Every year, about 30-35% of Vietnamese enterprises have innovation activities. Next, the project "Supporting the national innovation startup ecosystem by 2025" shows the specific goals: (1) by 2020 to complete the legal system to support innovative startups; establish the National Innovation Startup Portal; supported 800 projects, 200 start-ups, of which 50 enterprises successfully raised capital from venture capitalists, carried out mergers and acquisitions, with a total estimated value of about 1,000 billion VND; (2) by 2025, support the development of 2,000 innovative start-up projects; supporting the development of 600 innovative start-up enterprises; 100 enterprises participating in the Scheme have raised investment capital from venture capitalists, carried out mergers and acquisitions, with a total estimated value of about 2,000 billion VND.

III. SMES IN VIETNAM'S ECONOMY

Identifying the important role of SMEs in the economy, over the years, Vietnam has had many policies to support this group to develop. The policies promulgated and implemented have closely followed the actual requirements in the short term, immediate and strategic. Specifically, to promote and improve the efficiency of SME operations, the Government has issued many preferential policies on tax and credit for businesses in general, especially for SMEs; creating capital sources and production and business premises; providing market information and trade promotion, improving corporate governance capacity, vocational training for laborers; especially, the establishment of the SME Support Fund...

On that basis, SMEs have developed strongly, accounting for a large proportion of the total number of enterprises. In all types of production and business in our country, SMEs are now pervasive in all fields of socio-economic life. Vietnam currently has over 800 thousand enterprises, SMEs account for 98%, contributing up to 45% of GDP, this sector also contributes over 31% of total state budget revenue and attracts more than 5 million workers. SMEs have been present in most regions and localities to take advantage and exploit on-site resources well. Currently, SMEs use about 1/2 of the non-agricultural labor force (accounting for 49%) in the country, and in some regions have used the vast majority of non-agricultural labor production forces. In addition to labor, SMEs also use the financial resources of the population in the region and raw materials in the region for production and business activities.

Although many significant achievements have been achieved, the development of the SME sector has not reached the desired level from both the State and businesses, not commensurate with the potential of this area. According to statistics, in the Top 10 highest tax-paying enterprises, there

are 5 state-owned enterprises (SOEs) and 5 foreign direct investment (FDI) enterprises, no private enterprises (PTEs) have appeared. According to a survey by the Ministry of Planning and Investment in 2023, among PTEs, SOEs account for 99%, of which the number of micro and small enterprises accounts for the majority (over 90%) of the proportion of enterprises in all 3 groups of agriculture, industry - construction and trade - services. Although, dominating in number (accounting for more than 96% of the total number of enterprises), the total fixed assets and long-term investment of the PTE sector only account for about 50% of the total fixed assets and long-term investment of the entire enterprise sector.

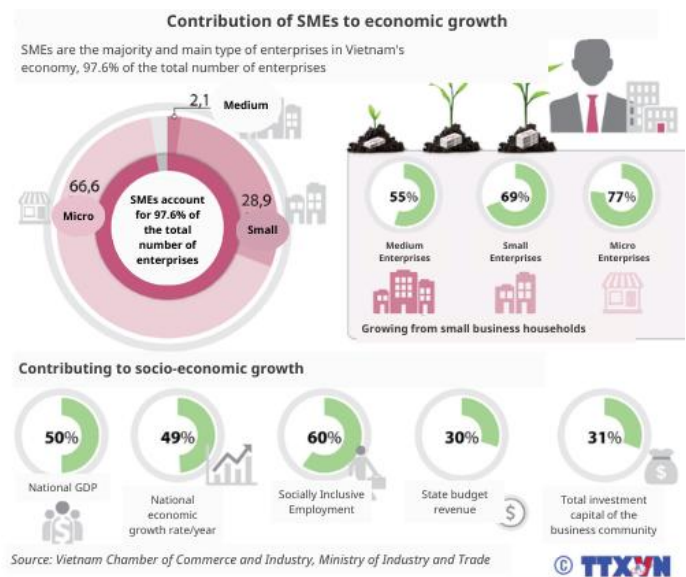


Figure 1.1: Contribution of small and medium-sized enterprises to Vietnam's economic growth

In addition, the linkage of Vietnamese PTEs is still weak, especially there are very few links between small enterprises and larger-scale enterprises. The links in the group model are still quite simple, other forms of "soft" links have not been implemented through agreements, cooperation in the use of brands, services, research and innovation results, and general application of science and technology according to market principles. The field of operation of economic groups and enterprises in the new private sector mainly focuses on a number of fields, such as services, real estate, industries and professions with quick capital recovery, etc.

Another study by the Central Economic Commission and the United States Agency for International Development said that the scale of most Vietnamese PTEs is still small and micro; the performance of this economic sector is still low and has declined. The rate of return of PTEs is very low, only 1/5 of FDI enterprises and nearly 1/2 of SOEs. The average return on equity of PTEs is only 4% compared to 16.3% of FDI enterprises and 11% of SOEs. This study also assesses the linkage with the global supply chain of Vietnamese enterprises at 21%, while this rate in Thailand is 30%, Malaysia is 46%. The investment cost for scientific and technological innovation of Vietnamese enterprises is less than 0.3% of

revenue, while in India this rate is 5%, South Korea is 10%, Japan is 50%... Thus, studying the current development status of Vietnamese SMEs, thereby proposing development solutions is necessary in the current context. Compared to other countries in the world, Vietnamese SMEs still have many limitations, including: Most of these enterprises provide services, only about 20% are production activities; up to 42% of enterprises have an annual revenue of less than 1 billion VND and 85% of officially operating enterprises have a revenue of less than 2 billion VND; although the number of private enterprises increases every year, the average size of each enterprise is not large. In Vietnam, there are currently nearly 100 million people and about 800 thousand enterprises in operation, an average of nearly 130 people/enterprise (This rate in ASEAN countries is over 80 people/enterprise).

The reason for the development of SMEs is not as expected is due to many factors, in which, there are factors stemming from problems in institutions, policies, administrative procedures, lack of capital, difficulty in accessing loans, science and technology, investment and business conditions, shortage of skilled labor; labor productivity is still low...

SMEs still have difficulties in accessing land (procedures for site clearance and land recovery are often time-consuming, affecting the business plan of enterprises; the method of calculating land prices, licensing procedures, and planning information also causes a lot of frustration, hindering the speed of recovery and handing over clean land to investors; land rental prices, high business costs...). These factors have reduced competitiveness as well as limited access to land, production and business premises of many enterprises. In addition, many enterprises have not attached importance to investing in technology because they do not have enough financial capacity to invest in fixed assets, machinery and technology, reducing costs, improving operational efficiency, leading to low production and technical levels.

IV. ACHIEVEMENTS AND LIMITATIONS OF SME DEVELOPMENT

A. *Achievements in developing SMEs*

In recent years, thanks to the promulgation of a series of mechanisms and policies and the implementation of many positive solutions, Vietnam's business environment has had a positive change; arousing the entrepreneurial spirit and the registration of SMEs to return to strong activities. The number of newly established enterprises and the number of enterprises temporarily suspended from operation to return to operation increased. Since 2016, more than 100 thousand new enterprises have been established each year. In the two years 2017-2018, the country had 258,134 newly registered enterprises and 60,458 enterprises temporarily suspended from operation thanks to the improved business environment and the State's policies to support and develop enterprises. This increase coincided with the time when the Law on Enterprises 2014 and the Law on Investment 2014 officially took effect in July 2015. In fact, these laws create an open mechanism, have a direct and favorable impact on enterprises in the business process, when enterprises have the right to decide on the

number, form and content of seals; to be free to do business in business lines not prohibited by law; at the same time, the time for registering the establishment of enterprises has been shortened to 03 days. According to the General Statistics Office, in April 2023, the country had nearly 16 thousand newly established enterprises with a registered capital of 154.6 trillion VND and a registered number of nearly 119.1 thousand employees, an increase of 12.3% in the number of enterprises, an increase of 6.2% in registered capital and an increase of 28.5% in the number of employees compared to March 2023. Compared to the same period last year, it increased by 6.4% in the number of enterprises, decreased by 5.7% in registered capital and increased by 13.7% in the number of employees.

In recent years, the trend of developing innovative startup business models has been active, focusing on a number of fields such as: construction, processing, manufacturing, automotive industry, air transportation, finance, banking. Currently, there are more than 3,000 innovative startups in operation, including many successful SMEs.

Along with the explosion in quantity, SMEs have made an important contribution to the transformation of the industry structure through job creation, attracting workers from the agricultural sector, investing in niche markets, and promoting production and business development.

The SME sector has shown an important role and contribution to promoting the transformation and take-off of the economy. In the period of 2015-2017, the private economic sector (in which SMEs are an important part) contributed about 50% of GDP, over 30% of state budget revenue, 45% of investment capital implemented by the whole society. In 2018, the private economy contributed about 42.1% of the economy's GDP and showed signs of increasing. State budget revenue from private enterprises has continuously increased to over 16%. In 2018, the private economy contributed about 42.1% of the economy's GDP and showed signs of increasing. State budget revenue from private enterprises has continuously increased to over 16%. State budget revenues from production and business of the private economic sector exceeded the foreign-invested (FDI) sector and the state-owned enterprise sector. These signals reflect the growth in scale, number of subjects and improvement in the efficiency of the private economy. The growth rate of labor productivity in this area is relatively stable. According to the survey results of the General Statistics Office in 2023, it can be seen that our country's enterprises are mainly small and medium-sized enterprises, accounting for over 97% of the country's enterprises, creating jobs for about 36% of the total number of employees working in enterprises, attracting about 32% of total capital, generating net revenue, accounting for about 26% of the total net revenue of the business sector. From the above figures, it can be seen that small and medium-sized enterprises occupy an important position in economic development in general and supporting industry development in particular.

Although the number of SMEs accounts for quite large, small and medium-sized enterprises with a limited number of employees and capital sources, so SMEs are also more

vulnerable to factors affecting production and business activities.

The textile and footwear industry is the most clearly affected industry group. In previous years, there was a shortage of raw material supply due to supply chain disruptions due to the impact of the COVID-19 epidemic, in the first months of 2023, domestic consumption demand and foreign markets such as the US, EU and some countries dropped sharply, directly impacting the production activities of enterprises. The textile industry production index in the first quarter of 2023 decreased by 6.5%; the apparel manufacturing industry decreased by 7.7%; the leather and related products manufacturing industry decreased by 4% compared to the same period last year. The manufacturing industry of electronic products, computers and optical products is on the same trend, down 6% over the same period. The motor vehicle manufacturing and other means of transport manufacturing industries also fell sharply with a decrease of 8.2% and 11.9% respectively over the same period due to a decrease in consumer market demand, the cost of input materials remained high. In order to achieve Vietnam's goal by 2030, supporting industries to meet 70% of domestic production demand need to have timely policies to remove difficulties and promote supporting industry enterprises of the Government, ministries and branches.

Although in recent years, the growth rate of employers in the country has continuously fluctuated, the growth rate of employers in the private economic sector, mainly SMEs, is still more stable than that of the state economic sector and the FDI sector, around 4.8%-5.8%. Generally, in 2 years 2016-2017, SMEs generated revenue accounting for the dominant proportion in the entire enterprise sector, on average each year SMEs generated 10.8 million billion VND, accounting for 56.4% of the revenue of the entire enterprise sector, up 64.4% compared to the average in the period 2011-2015.

B. Limitations and weaknesses of SME

Although in recent years, the number of newly established SMEs is large, but there is also a large part of enterprises that are unable to survive, stand firm in competition or operate inefficiently. Currently, it is still very difficult for SMEs to access social resources to serve production and business such as: the recruitment of a highly skilled workforce, access to land, credit capital from banks, capital from funds, and the application of science and technology. According to the World Bank's 2020 Business Environment Assessment Report, Vietnam's credit access index in 2020 was ranked 25th out of 190 economies. SMEs lack market information as well as a dialogue portal with ministries and sectors to seek support and protection, especially information on commodity prices, procedures for purchase, sale, import and export of goods as well as production processes and quality requirements.

The current highlight is that the linkage of Vietnamese SMEs is weak, there is very little linkage between small enterprises and larger-scale enterprises. According to the Asian Development Bank's Asia Development Outlook report, only 21% of Vietnam's SMEs are currently involved in the

global supply chain compared to 30% in Thailand and 46% in Malaysia.

The formation and development of private economic groups in Vietnam is mainly after a short period of accumulation, relying on own capital and little support from the State. The development process according to the group model of the group of private economic groups is currently facing some difficulties in management and model, due to the majority of development from the scale of family enterprises. The links in the group model are still quite simple, other forms of "soft" associations have not been implemented through agreements, cooperation in the use of brands, services, research and innovation results, and general application of science and technology in the group according to market principles. The field of operation of economic groups and enterprises in the new private sector mainly focuses on a number of fields such as services, real estate, etc. Therefore, there is a lack of a "leader" enterprise force strong enough to be able to lead the "train" of Vietnamese enterprises to participate in the domestic and international production and value chains.

V. ORIENTATION OF SOLUTIONS TO PROMOTE SMALL AND MEDIUM-SIZED ENTERPRISES IN VIETNAM IN THE COMING TIME

Firstly, to improve institutions, policies and legal systems on transparent, fair and healthy business with the aim of continuing to improve the business environment for enterprises, creating maximum convenience for enterprises when participating in the domestic and foreign markets. Promulgate a system of synchronous and long-term stable policies for the operation of the SME sector. Develop a variety of financial markets and securities markets to support enterprises to mobilize capital in the stock market and borrow capital in the corporate bond market. At the same time, supporting SMEs by answering legal problems, business registration; can also open more business consulting activities for enterprises or establish a separate specialized agency to help the development of SMEs in Vietnam.

Completing the legal framework and scope of support for SMEs to develop domestically and internationally integrate (clearly defining the framework for entry, operation, dissolution and bankruptcy of Vietnamese enterprises); providing technological, scientific and technical support for Vietnamese enterprises; developing human resources for SMEs, focusing on improving management capacity; promote the formation of Vietnamese enterprise groups; providing information to support SMEs and promoting market expansion; building a system of development assistance organizations; organizing the implementation of programs related to the development of Vietnamese enterprises.

Secondly, continue to implement the Government's mechanisms and policies in reforming tariff levels, cutting down on enterprise registration procedures along with "informal costs". Ministries and branches need to reduce unnecessary inspections and inspections of SMEs, especially drastically in the elimination of corruption and interference with enterprises. There is a mechanism to reduce corporate

income tax to support SMEs in solving the problem of creating jobs for society, with specific regulations on using that corporate income tax incentive to reinvest and create new jobs. Support and create favorable conditions for SMEs to access resources (land, finance, labor, science and technology, etc.). Building and developing information and data infrastructure for enterprises operating in the same industry in terms of capital market, labor market, science and technology market, etc.

Thirdly, promoting the role of society, socio-political organizations and socio-professional organizations to promote the development of SMEs, raise the awareness of the social community for the development of SMEs in Vietnam. Accordingly, it is necessary to improve the role and capacity of associations to support SMEs and strengthen the function of social consultation and criticism. On the other hand, strengthen the reception of feedback, opinions and needs from consumers using products of SMEs to improve themselves in business activities, provide goods and services to customers by solutions such as: improving social responsibility, business responsibility of enterprises to consumers; balancing the interests of traders and consumers.

Fourth, each SME must raise its awareness of rising, promoting its advantages, and improving its competitiveness. Vietnamese SMEs have many advantages in terms of business, market scope, and customers to participate in domestic, regional and international trade activities. In particular, in the context that Vietnam is a member of the ASEAN Economic Community (AEC), taking advantage of the inherent advantages of SMEs will promote the country's economic development in Southeast Asia. Grasping the needs and psychology of customers or customer groups in accordance with the type and business line of each enterprise is also a solution that SMEs can implement and create positive results. In addition, enterprises need to have a development strategy through specific plans, strategies, visions, and operational missions. A solution is also applied to SMEs, which is to build a vision in the development of their enterprises by clearly identifying economic issues, customers, competition, future orientation, prospects of enterprises, high specialization in customer contact, reputation, brand and core values that each enterprise provides to the market and society.

In order to minimize failures such as forced dissolution, self-dissolution, stagnation of business, suspension of operations, SMEs need to determine the scope and objects they are aiming for. In other words, on the basis of scale, potential, and type of operation, SMEs need to have an appropriate strategy in selecting markets and market segments for exploitation and business. Choosing the right market segment is a solution and at the same time a thorough and safe preparation for the stable development of each enterprise. On the other hand, each enterprise needs to effectively exploit resources to support and promote development such as: support solutions from domestic and foreign investors; the State's support policies and plans on capital, finance, technology, administration, business, etc. At the same time,

the alliance and association of business groups, operating in the same industry in the form of business cooperation, joint ventures, joint ventures, etc. is also a suitable solution to promote their roles and strengths.

Fifthly, in the context of opening up and deep international integration, Vietnam has signed a series of new-generation FTAs, in order to improve competitiveness, SMEs need to know how to make the most of the potentials in terms of capital, human resources, market, culture, business experience of enterprises, etc. This is an important self-advocacy of each SME in the plan to implement its business strategies and goals together with heavy competitors in the market. Understanding competitors and harmoniously balancing the interests of competitors in business will create stable development opportunities for SMEs. That means that SMEs need to know how to maintain good relationships with large enterprises in the context of fierce market competition. In particular, SMEs need to be transparent in their operations and financial reporting, improve the quality of corporate governance, and manage risks.

VI. CONCLUSION

Considering the current situation of business start-up activities in Vietnam, it shows that this is still a new problem, especially for small and medium-sized enterprises, which has not been fully recognized. Since the Prime Minister announced Decision No. 844/QĐ-TTg dated May 18, 2016 approving the Project "Supporting the national innovation startup ecosystem to 2025", the issue of startups has begun to receive more attention. However, the phrase "start-up" is mentioned relatively often does not mean that Vietnam is ready to promote start-ups from the perspective of institutions, policies and related conditions. On the contrary, the specific requirements related to start-ups and auxiliary conditions for this activity are still very lacking. Innovative start-up activities in Vietnam, although still young, have great potential for development. With the available advantages and synchronous coordination between ministries, sectors and localities, the system of solutions mentioned above will be the basis for the development and promulgation of necessary and specific mechanisms and policies to support and attract many investors, explore the development potential for innovative start-up activities in Vietnam, especially SMEs in the context of the rapidly developing industrial revolution 4.0 today.

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