Chapter 11

Vietnam’s Small and Medium Sized Enterprises Development: Characteristics, Constraints and Policy Recommendations

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Chapter 11

VIETNAM'S SMALL- AND MEDIUM–SIZED ENTERPRISES DEVELOPMENT: CHARACTERISTICS, CONSTRAINTS AND POLICY RECOMMENDATIONS

Tran Tien Cuong, Le Xuan Sang, and Nguyen Kim Anh

Abstract

After two decades of *Doimoi* (economic renovation), Vietnam has attained remarkable economic growth and sustainability, foreign trade expansion, attraction to foreign investment, poverty reduction, and human development.

In line with the country's economic reform and development, small- and medium-sized enterprises (SMEs) have experienced phenomenonal growth, especially since 2000 to date when the Enterprise Law was promulgated. However, despite this impressive achievement, Vietnam's SMEs remain weak in terms of internal and external networking, competitiveness, innovativeness, human resource, and readiness to globalization. Apart from the SMEs' low starting points, these shortcomings and weaknesses have been largely due to the prolonged discrimination against private sector access to capital or credit and land, lack of a pro-private and competitive business environment, and poor quality of human resource and business support development services.

To enhance SMEs networks, competitiveness, and innovativeness, Vietnam should abandon the advocacy for retaining the lead role of state-owned enterprises in the national economy. There is a pressing need to level the playing field, create solid supporting industries, enhance quality of human resource, and improve infrastructure.

Key words: SMEs, networks, innovativeness, business environment, Vietnam.

INTRODUCTION

Vietnam introduced officially the economic renovation *(Doi moi)* in 1986, but it was only in 1989 that it actually adopted a comprehensive and radical reform package aimed at stabilizing and opening the economy, as well as enhancing freedom of choice for economic units and competition. Nevertheless, during 1997-2000, the reforms were to a certain extent retarded, especially after the Asian financial crisis. Since 2000 to date, a new wave of economic reforms has been stirred up with emphasis on private sector development, further trade and investment liberalization with deeper international economic integration. The accession to the World Trade Organization (WTO) at the end of 2006 marked a new milestone in the country's economic reform and development. Through the market-oriented reforms and WTO–driven adjustments, Vietnam has achieved remarkable achievements in the country's economic growth and stability, foreign trade expansion, attraction to foreign investment, poverty reduction, and human development improvement.[1]

It is worth noting that the socioeconomic successes have been significantly attributed from the country's small- and medium-sized enterprises (SMEs). The SMEs occupy an overwhelming proportion in total number of country's enterprises accounting for 97 percent and 87 percent by regular workforce and registered capital criteria in 2005, respectively. They have contributed 39 percent of gross domestic product (GDP), 32 percent of total investment outlays in 2006 (Ho Sy Hung 2007), and about 85 percent of total corporate workforce in 2004 (Le Xuan Ba *et al*. 2006). Apart from being a relatively dynamic sector in the economy, SMEs have also played an important role in creating jobs, maintaining high mobility of the labor market, and narrowing development gaps among localities of the country.

The WTO accession is expected to bring about new opportunities for SMEs development like the creation of a level playing field, easier access to production factors and cheaper imported inputs in the domestic market, expansion of export markets, and facilitation of the national economy to engage more in-depth in regional and global production networks. After the WTO accession, Vietnamese SMEs anticipate tremendous difficulties in both domestic and global markets because they lack a competitive edge over foreign rivals. Many SMEs experience high production costs, poor quality of products, and low degree of innovativeness. Moreover, capital shortage, lack of advance technology, management skills and expertise, and insufficient market information, and so on hindered these young SMEs to compete globally.

Strengthening SMEs networking with other stakeholders and developing supporting industries have long been considered as an effective way to enhance SMEs competitiveness or capability. To a significant extent, this strategy can accelerate the industrialization process in the country. Nevertheless, Vietnamese SMEs networks are still limited. Primary assessment suggests that, apart from weak internal networks, there has been not yet a close link between dynamic multinational corporations (MNCs) and non-integrated domestic SMEs (Ho Sy Hung 2007), import-substitution and export-oriented sectors (Ohno 2004), and upstream and downstream industries (Vo Tri Thanh *et al.* 2004).

The enormous endeavors of the government in nurturing the country's supporting industries have seemingly suffered fiasco, particularly the automobile industry. Up to date, local content or procurement ratios for most industries are low and far from being able to achieve the planned targets. According to Mori (2005), in 2003, the average of local parts procurement ratios in the manufacturing sector is around 22.6 percent at the value base which is significantly lower in other ASEAN countries[2]. After more than a decade of undertaking policy stance on localization, the local content ratio of the automobile industry remains low, ranging from 5-10 percent (Ohno 2004). A similar pattern can be seen in the garment and electronics sector (Vo Tri Thanh *et al.* 2004). The local procurement ratio of consumer-electronics sector has been encouraging for TVs but disappointing for PC peripherals. In 2003, it was around 20-40 pecernt for garment and 5-12 percent for electronics (Mori 2005).

Given the weaknesses of, and constraints for, Vietnamese SMEs development, there is an urgent need to shed lights on characteristics and factors of SMEs development (growth and dynamism) such as SMEs networking, innovativeness, markets extention, and effectiveness of policies and programs in promoting SMEs in the country.

This paper makes an attempt to analyze key characteristics of, and challenges to Vietnam's SMEs development focusing on networking with other stakeholders in the globalization era. The paper is structured as following. Section 1 provides analysis of Vietnam's SMEs development and characteristics focusing on domestic and export market, internal and external networking, and innovativeness. Section 2 discusses key factors of the country's SMEs development highlighting impacts of economic reforms, SMEs promotion policies and programs, especially identifying the constraints and challenges to further development. The last section suggests maior policy recommendations in fostering SMEs development in the context of economic integration.

2. SMES' ROLE IN VIETNAM'S ECONOMY

Vietnam's private sector had long been depressed and even eliminated in some economic domains in the northern part of the country during the wars against France and the United States of America (from 1945 to 1975) and countrywide after its unification (in 1976) to 1985. The genesis of the private sector development in unified Vietnam started in 1986 when the Government adopted the *Doi moi* (renovation) policy and recognized multistakeholder economy. Another bold step made was the revision of the 1992 Constitution recognizing the private sector in the economy along with the commitment to protect private ownership and restructuring of state-owned enterprises (SOEs). It is worth noting that the promulgation of the Enterprise Law (1999) has created a breakthrough for the private sector's development. To conform to WTO rules and provisions, many law documents were amended and newly promulgated, creating a fairer competition in the country. Furthermore, Vietnam has adopted more in-depth reforms as committed after recent WTO accession (2006) contributing to the establishment of a level playing field, which is considered to be very important for private sector development in the country.

It is worth noting that after 20 years of Doi moi introduction, it was only on November 2001 that Government Decree 90/2001/ND-CP, a first pro-SME development legal document, was born. The Decree provides the official definition of an SME as *"a business establishment with registered capital of no more than* Vietnam dong (*VND) 10 billion (equivalent to USD 630,000) or with an workforce of no more than 300 regular employees."*

Before 1998, some provinces had defined their own SME criteria including: (1) number of regular laborers of less than 500; or (2) fixed assets of less than VND10 billion; or (3) mobilized capital or monthly revenue of less than VND 20 billion.

In June 1998, the Government issued Public Letter 681/CP-KCN on the policy and strategic directions in developing SMEs, according to which.SMEs are defined as establishments with a registered capital of less than VND 5 billion or regular workforce of less than 200 laborers. This legal document had laid an initial legal ground for implementing supporting measures to SMEs' development.

Recognizing that the SME grouping by Decree 90/2001/ND-CP is too general to provide useful data for policy formulation, hence, in June 2005, the Agency for SME Development (ASMED) introduced a further size segmentation in its SME Development Plan for 2006-2010 period. According to the new segmentation, SME is categorized into micro enterprises (less than 10 persons), small enterprises (10 to 49 persons) and medium-sized enterprises (50 to 299 persons).

It is important noting that the current SME categorization still suffers from some limitations. *First,* it doest not "separate" enterprise domains which may need different amount of capital for production activities or employ different number of workforce. For instance, the services sector does not normally need as much capital as the production sector. The limitation can be a possible reason explaining for the fact that SMEs operating in trade and repair services occupy a big proportion in total number of SMEs. *Second,* the registered capital criterion is not "effective" in the sense that, at the moment of categorization, enterprises' working capital would increase much more than the initially registered capital.

2.1 SMEs and the economy

SMEs have played an important role in the national economy. The sector has long been a major source of employment generation accounting for about 85 percent of the total corporate workforce in 2004 (Le Xuan Ba *et al*. 2006). SMEs are a main vehicle for poverty alleviation particularly in rural areas and narrowing development gaps among provinces, urban, and rural areas. In addition, SMEs help maintain the high flexibility of the labor market. It also contributed significantly to absorb the "shocks" associated with the transition from a centrally planned economy to a market-oriented one especially the collapse of the socialist bloc in Eastern Europe (Le Xuan Sang 1997).

The contribution of the SMEs to economic growth is also important. They occupied a proportion of 39 percent of GDP in 2006 (Ho Sy Hung 2007). The "precise" trend of the SMEs proportion in overall GDP over the recent years, nevertheless, is hardly identified due to the lack of systematic and reliable statistical data. In comparison with the SOE sector, the SMEs have likely played a minor role as they account for only 32 percent of the total investment outlays while the former do more than 50 percent. In addition, the SMEs have very limited export and technological capability.

3. SMEs DEVELOPMENT CHARACTERISTICS

The radical reforms in the business environment since 2000 prompted Vietnam's private sector to experience a phenomenonal growth in the number of registered enterprises and capital. For the period of 2000-2007, about 250,000 new non-state companies were registered under the Enterprise Law alone increasing in five and half times compared to preceding 10-year period (1990-1999). In 2007, a year after the WTO accession, there are 54,000 units of registered enterprises making an increase of more than 120 percent of that 1990-1999 data. Similarly, the registered capital amount surged from VND 25,742 billion during 1991-1999 to VND 213.039 billion during 2000-2004. The investment proportion of non-state sector in total investment outlays increased steadily from 26.2 percent in 2002 to 32.6 percent in 2006 (CIEM 2007). Furthermore, the number of actual enterprises have grown at a quite high rate being 27.9 percent annually and adding 14,213 units on the average.

The number of registered enterprises and those that are operational differ. At the end of 2002, there were 62,908 enterprises in operation, much lower than the cumulative number of enterprises (100,292 units) registered during 1991-2002. This discrepancy maybe due to the following: (a) the figures are provided by different government bodies[3]; and (b) some of the registered firms have not started any operations yet. Based on the World Bank database, Hakkala and Kokko (2007) argued that 8 percent of the registered firms did not get into tax code stage because they never actually started operation. There are cases where enterprises have registered to obtain invoices and books for the Value Added Tax (VAT) then sold to other enterprises. Some businesses close down their operation and simply exit. According to surveys conducted by Rand and Tarp (2007), the average annual exit rate ranged from 9 percent to 10 percent[4]; the average annual survival rate of SMEs during 2002-2005 was more than 91 percent, somewhat above that between 1997-2002.

3.1 SME distribution and development

Vietnam's SMEs account for an overwhelming proportion in the total corporate sector by both regular workforce and registered capital criteria. That sector represents for 95 percent, 97 percent by regular workforce criterion and 86 percent, 87 percent by registered capital criterion in 2002, 2005 respectively (Table 1). Majority of the large enterprises are SOEs and foreign-invested enterprises (FIEs). Notably, the increase of SMEs' share in the context of substantial growth in the number of registered firms implies that the newcomers are mostly SMEs.

By size of SMEs labor force, it should be noted that almost all of SMEs are micro- and small sized firms accounting for about 52 percent and about 35 percent on average in 2002, 2005, respectively. Medium- and large sized firms are very few having on average only 11 percent and 2 percent of the total number in the same period, accordingly (see Table 1).

However, that structure is only true for non-state SMEs since they occupied as much as 91-95 percent in 2002, 2005. Indeed, a majority of state-owned SMEs (about 73 percent) and most of FIEs (about 54 percent) are medium- and large-sized (Table 1). The declining proportion of medium-sized firms and the increasing proportion of micro- and small-sized ones imply that the increased number of SMEs is mostly contributed by the latter from non-state sector. Another feature is that mostly SMEs are concentrated in the forms of limited liability and sole proprietary companies, accounting for 47 percent and 32 percent in 2005 by workforce criterion respectively.

Table 1: SMEs distribution by size of employees and by type of enterprise (2002, 2005).

Corporate form	Year	Total number of enterprises by corporate form (unit)	As percentage of total number of SMEs by size segmentation (%)				Total number of SMEs (unit)	As percentage of total number of SMEs by corporate form (%)
			Less than 9 employees	10-49 employees	50-199 employees	200-299 employees		
TOTAL	**2002**	**62908**	**50.5**	**34.6**	**12.6**	**2.3**	**59831**	**100.0 (95.1)**
	2005	**112952**	**52.9**	**35.6**	**10.0**	**1.5**	**109338**	**100.0 (96.8)**
State-owned enterprise	2002	5364	1.4	26.2	55.8	16.5	3631	6.1
	2005	4086	1.6	25.4	56.3	16.7	2675	2.4
Non-state enterprise, *of which*	2002	55236	55.1	35.2	8.7	1.0	54400	90.9
	2005	105169	55.3	35.9	8.0	0.8	103794	94.9
Cooperative	2002	4104	36.8	48.7	13.0	1.5	4025	6.7
	2005	6334	52.5	39.2	7.4	0.8	6266	5.7
Sole proprietary	2002	24794	69.4	26.7	3.6	0.3	24716	41.3
	2005	34647	68.1	28.1	3.6	0.2	34537	31.6
Partnership	2002	24	50.0	41.7	8.3	0.0	24	0.01
	2005	37	35.9	53.8	5.1	5.1	39	0.01
Limited liability	2002	23485	46.0	41.3	11.4	1.3	23020	38.5
	2005	52506	50.4	39.6	9.0	1.0	51815	47.4
Joint- stock company having State capital	2002	557	1.9	26.6	59.3	12.2	425	0.7
	2005	1096	3.0	27.1	57.7	12.3	839	0.8
Joint- stock company having no State capital	2002	2272	34.2	43.3	19.9	2.6	2190	3.7
	2005	10549	43.3	41.9	13.5	1.4	10300	9.4
Foreign-invested enterprise, *Of which*	2002	2308	9.4	35.3	43.3	12.0	1800	3.0
	2005	3697	12.2	36.6	40.9	10.4	2869	2.6
100% foreign capital	2002	1561	9.3	35.3	42.2	13.2	1187	2.0
	2005	2852	12.9	36.5	40.3	10.4	2191	2.0
Joint venture	2002	747	9.6	35.2	45.5	9.6	613	1.0
	2005	845	10.0	37.0	42.6	10.3	678	0.6

Notes: Figures in parentheses represent for the proportion of SMEs in total number of enterprises.
Source: General Statistical Office (GSO) (2007).

By the size of registered capital, 90 percent of the firms have a registered capital less than VND 5 billion (about USD 330,000). Most types of SMEs fall well into the range of VND 1-5 billion.

By the averaged size of regular labor force, SMEs are small in size, too. In 2005, the labor force averaged to 32 laborers per enterprise. This is a very slight increase because in 2000, it was only 30 laborers per enterprise. During the same period, the average capital of SMEs increased from VND 3 billion to 7 billion.

By economic activities, SMEs are concentrated in trade, repair of motor vehicles and household goods (42-44 percent), manufacturing (19-21 percent), construction (12-13 percent) during 2002-2005. Within the manufacturing sector, food and beverage sector attracts more SMEs, with the largest proportion of more than 4 percent in 2005 (Table 2). There are new shifts of SMEs "employers" in the corresponding period. SMEs' proportions in manufacturing and construction sectors tended to decline while, trade, repair of motor vehicles, and household goods increases. One possible explanation for that situation is that in the third subsector, the entry and skill requirements are less stringent.

Table 2: SME distribution by size of employees and by kind of economic activity (2002, 2005)

Economic sector	Year	Total number of enterprises by economic sector (unit)	As percentage of total number of SMEs by size segmentation (%)				Total number of SMEs (unit)	As percentage of total number of SMEs by economic sector (%)
			Less than 9 employees	10-49 employees	50-199 employees	200-299 employees		
Total	**2002**	**62908**	**50.5**	**34.6**	**12.6**	**2.3**	**59831**	**100.0 (95.1)**
	2005	**112952**	**27.2**	**20.8**	**42.6**	**9.4**	**98233**	**100.0 (87.0)**
Agriculture and forestry	**2002**	**972**	14.6	38.5	40.1	6.8	821	**1.4**
	2005	**1071**	25.2	38.9	30.4	5.5	935	**1.0**
Fishing	**2002**	**2407**	42.5	53.4	4.0	0.0	2402	**4.0**
	2005	**1358**	29.6	62.7	7.3	0.4	1354	**1.4**
Mining and quarrying	**2002**	**879**	20.2	49.1	26.1	4.6	801	**1.3**
	2005	**1277**	19.9	54.2	23.5	2.5	1211	**1.2**
Manufacturing	**2002**	**14794**	28.5	43.1	23.6	4.8	13143	**22.0**
	2005	**24018**	30.2	44.9	20.9	4.0	21841	**22.2**

Manufacture of machine and other equipments	**2002**	**398**	16,53	47,66	29,75	6,06	363	**0.3**
	2005	**690**	27.0	49.6	20.4	3.1	653	**0.7**
Manufacture of office accounting and computing machinery	**2002**	**12**	40.0	50.0	10.0	0.0	10	**0.1**
	2005	**26**	31.8	40.9	22.7	4.5	22	**0.1**
Manufacture of engines and other electrical equipment	**2002**	**243**	15.6	50.5	29.2	4.7	212	**0.4**
	2005	**421**	26.9	44.0	24.0	5.1	375	**0.4**
Manufacture of radio, television and communicative equipment	**2002**	**121**	14.3	32.7	42.9	10.2	98	**0.2**
	2005	**212**	26.8	41.0	24.6	7.7	183	**0.2**
Manufacture of motor vehicles and trailers	**2002**	**273**	20.5	51.6	22.5	5.3	244	**0.4**
	2005	**377**	26.7	51.3	17.8	4.2	337	**0.3**
Electricity, gas and water supply	**2002**	**185**	42.5	25.1	24.0	8.4	167	**0.3**
	2005	**216**	53.6	20.3	18.2	7.8	192	**0.2**
Construction	**2002**	**7845**	24.1	51.2	21.2	3.4	7189	**12.0**
	2005	**15252**	32.1	48.8	17.0	2.1	14638	**14.9**
Trade, repair of motor vehicles and household goods	**2002**	**24794**	72.3	23.0	4.0	0.7	24578	**41.1**
	2005	**46847**	70.5	26.2	3.0	0.3	46644	**47.5**
Sale, maintenance and repair of motor vehicles and motorcycles	**2002**	**5007**	78.9	18.5	2.4	0.2	4980	**8.3**
	2005	**8616**	80.0	18.0	1.9	0.1	8594	**8.7**
Whole sale trade and contract basic (Except of motor vehicles)	**2002**	**24794**	72.3	23.0	4.0	0.7	24578	**41.1**
	2005	**24927**	62.3	33.3	4.1	0.4	24777	**25.2**
Repair of clothing, footwear and household goods	**2002**	**2843**	60,38	31,17	7,45	1,00	2804	**5.2**
	2005	**13304**	79.7	18.5	1.6	0.2	13273	**13.5**
Transport, storage and communications	**2002**	**3242**	34.3	44.5	18.3	3.0	3088	**5.2**
	2005	**6755**	34.1	31.9	11.4	22.7	8790	**8.9**
Financial intermediation	**2002**	**1043**	73.8	20.8	4.6	0.9	1025	**1.7**
	2005	**1139**	63.2	29.1	7.0	0.7	1105	**1.1**
Activities related to real estate business and consultancy	**2002**	**3235**	57.0	31.2	10.4	1.4	3185	**5.3**
	2005	**8674**	62.7	30.6	5.9	0.8	8600	**8.8**

Notes: Figures in parentheses represent for the proportion of SMEs in total number of enterprises. Some ("minor") economic sectors are excluded from Table 2.

Source: GSO (2007).

Table 3: SME distribution by size of employees and by province (2002, 2005)

Province/ region	Year	Total number of enterprises by province/ region (unit)	As percentage of total number of SMEs by size segmentation (%)				Total number of SMEs (unit)	As percentage of total number of SMEs by province/ region (%)
			Less than 9 employees	10-49 employees	50-199 employees	200-299 employees		
WHOLE COUNTRY	**2002**	**62908**	**50.5**	**34.6**	**12.6**	**2.3**	**59831**	**100.0 (95.1)**
	2005	**112952**	**52.9**	**35.6**	**10.0**	**1.5**	**109338**	**100.0 (96.8)**
Red river Delta	**2002**	15998	42.9	40.9	13.7	2.4	15156	**25.3**
	2005	30510	47.5	40.7	10.5	1.4	29530	**27.0**
Ha Noi	**2002**	9460	48.7	38.7	10.5	2.1	9023	**15.1**
	2005	18214	53.5	37.8	7.7	1.0	17696	**16.2**
Hai Phong	**2002**	1586	33.3	44.8	17.6	4.3	1458	**2.4**
	2005	3143	41.1	44.0	12.9	2.0	3000	**2.7**
North East	**2002**	3682	32.0	46.0	18.1	3.8	3455	**5.8**
	2005	7292	42.8	43.7	11.8	1.7	7086	**6.5**
North West	**2002**	607	24.4	45.1	27.6	2.9	579	**1.0**
	2005	1338	33.7	49.4	15.8	1.1	1306	**1.2**
North Central Coast	**2002**	3794	40.2	41.9	15.2	2.6	3622	**6.1**
	2005	7212	49.4	38.7	10.6	1.3	7045	**6.4**
South Central Coast	**2002**	4574	52.5	32.3	12.6	2.6	4332	**7.2**
	2005	7821	50.2	37.5	10.4	1.8	7554	**6.9**
Da Nang	**2002**	1397	55.3	31.5	10.8	2.4	1319	**2.2**
	2005	2622	54.7	35.5	8.5	1.3	2543	**2.3**
Central Highlands	**2002**	2142	49.1	35.0	13.6	2.3	2035	**3.4**
	2005	3564	51.4	36.4	10.6	1.6	3458	**3.2**
South East	**2002**	21008	53.4	30.5	13.6	2.4	19842	**33.2**
	2005	40793	56.8	31.1	10.4	1.7	39289	**35.9**
Binh Duong	**2002**	1704	31.5	35.0	27.5	5.9	1525	**2.5**
	2005	2918	30.1	38.6	26.4	5.0	2622	**2.4**
Dong Nai	**2002**	1750	47.4	30.6	18.7	3.3	1592	**2.7**
	2005	2820	46.9	33.4	16.8	2.8	2610	**2.4**
Ho Chi Minh City	**2002**	14506	20.8	36.1	30.6	12.5	13480	**22.5**
	2005	31292	60.4	29.9	8.4	1.3	30422	**27.8**
Mekong River Delta	**2002**	10900	66.6	27.3	5.3	0.8	10705	**17.9**
	2005	14258	64.0	29.7	5.5	0.8	14029	**12.8**
Others	**2002**	203	1.2	12.8	43.0	43.0	86	**0.1**
	2005	164	0.1	7.3	56.1	36.6	41	**0.1**

Notes: Figures in parentheses represent for the proportion of SMEs in total number of enterprises.
Source: GSO (2007).

By region, SMEs are mostly located in HCMC (23-28 percent), Ha Noi (15-16 percent) during 2002-2005. Other provinces or cities, as individual accounts, have a share of less than 4 percent (Table 3). SMEs are gradually 'moving' to HCMC, Ha Noi along with the provinces of Hai Phong and Da Nang. This may reflect*, inter alia*, the efforts of the provincial governments in improving business environment, particularly in attracting investment inflows through many kinds of incentives, even beyond what their authority can provide.

Nevertheless, the dynamics of SMEs in terms of employment transition is not high. According to surveys conducted by Rand and Tarp (2007), majority of micro-sized enterprises (88 percent) have tended to stay within their size category. In 2002, some 12 percent in this category remained as micro. But in 2005, some graduated to the small category only. A similar tendency can be observed on small- and medium-sized enterprises. Vice versa, enterprises in these categories appear to have a stronger tendency to move downward in the size distribution over 2002-2005 period (Table 4). Similarly, this tendency is also observed during the 1995-2000 period.

Table 4: Employment transition matrix

	Micro 2005	Small 2005	Medium 2005	Large 2005	Total	Percent
Micro 2002	578	76	4	0	658	(67.1)
	(87.8)	(11.6)	(0.6)	(0.0)	(100.0)	
Small 2002	56	188	26	0	270	(27.5)
	(20.7)	(69.6)	(9.6)	(0.0)	(100.0)	
Medium 2002	1	12	30	3	46	(4.7)
	(2.2)	(26.1)	(65.2)	(6.5)	(100.0)	
Large 2002	0	1	1	5	7	(0.7)
	(0.0)	(14.3)	(14.3)	(71.4)	(100.0)	
Total	635	277	61	8	981	(100.0)
Percent	(64.7)	(28.2)	(6.2)	(0.8)	(100.0)	

Note: Percentage in parenthesis. One missing observation in the size category in the 2002 data.

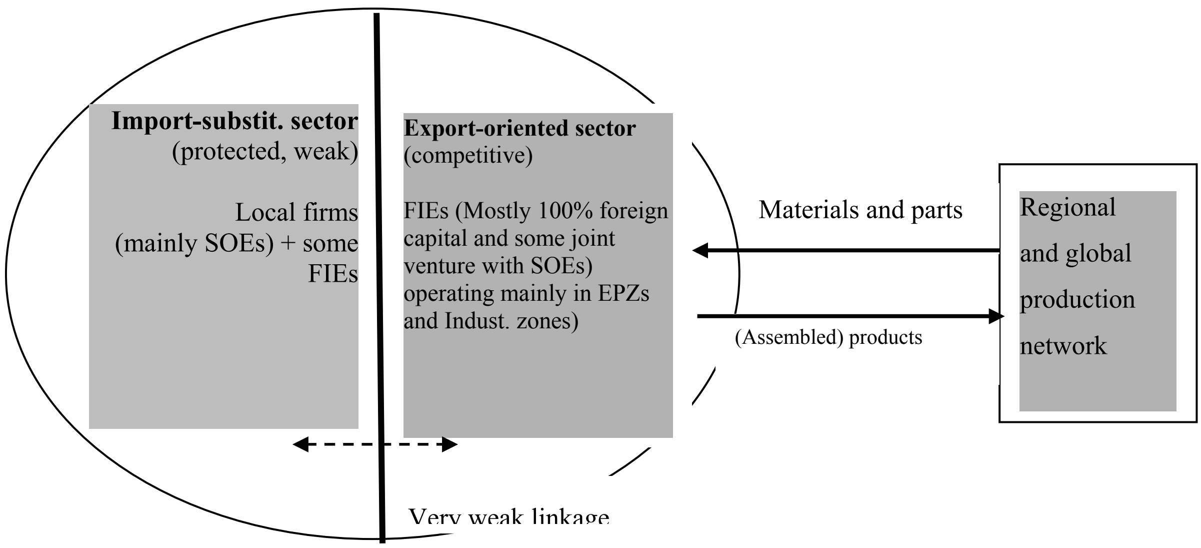
Source: Rand and Tarp (2007).

The last tendency can be partially interpreted by the practices that large firms generally appear to face greater scrutiny from tax and licensing officials (i.e., generating higher costs) (Hakkala and Kokko 2007) than do their smaller counterparts. There is also a number of anecdotal evidence that successful entrepreneurs in Vietnam prefer to spread their capital across multiple companies rather than concentrate on individual company growth, specifically in order to avoid what has been referred to as "the tall poppy syndrome" (Taussig 2005). Moreover, a significant number of firms decline to stay small in order to get more the tax incentives (Nguyen Xuan Trinh and Le Xuan Sang 2007).

3.2 SMEs networks

Interfirm networks among SMEs as well as external networks between them and large enterprises through subcontracting are generally weak. Incubators and clusters are still in their infant stage. Presently, there are four newly established incubators in operation.

Figure 1: Vietnamese industrial dualism



Source: Onhno (2004), Vo Tri Thanh *et al* (2004) and authors' modifications.

Almost all of Vietnam's clusters are concentrated in the countryside in the form of handicraft and industrial or trade villages. Though there are no vigorous and comprehensive studies on interfirm cooperation in the villages, internal network among SMEs (mostly household enterprises) is not close as it can be observed in many economic ties.

External networks between SMEs and multinational companies (MNCs) is not yet that strong. The weak linkage can be observed between upstream and downstream industries (Vo Tri Thanh *et al.* 2004), more evidently in import-substituting and export-oriented sectors (Ohno 2004), creating industrial dualism in the national economy. On the one hand, export-oriented manufacturing firms, especially the FIEs, have constituted a sector with global linkage and competitiveness. On the other hand, the import-substituting firms, especially the SOEs and some FIEs, have been weak and protected. These two sectors have very weak linkage between each other (Figure 1). This situation has been largely due to industrial and trade policies by which Vietnam has pursued for industrial protection for a long time.

The weak network between SMEs and large MNCs can be seen in the low level of subcontracting and localization. Proportion of SMEs engaged in subcontracting or assembling has been modest, being merely 14 percent in 2003 (Le Xuan Ba *et al.* 2006). It is worth noting that as subcontractors and assemblers, SMEs have tended to become marginalized at the lower/lowest end of the production supply chain.

Despite enormous efforts of the government in promoting localization, the local content or procurement ratios for some industries are still low and far from being achieved the planned targets. According to Mori (2005), the average of local parts procurement ratios in all the manufacturing sectors is around 22.6 percent in 2003 at the value base, which is significantly lower than in other ASEAN countries[5]. After a decade of the localization course, the local content ratio of automobile industry remains low ranging from 5 percent to 10 percent (Ohno 2004). A similar pattern can be seen in the garment and electronic sectors (Vo Tri Thanh *et al* 2004). The local procurement ratio of consumer-electronics sector has been encouraging for TVs (20-40 percent) but disappointing for PC peripherals (5-12 percent) (Mori 2005). Success in localization are solely evident in the motorcycle industry with an average local content ratio of 75 percent in recent years. The key reasons for the localization fiasco are:

1. lack of solid supporting industries;
2. low level of technology and absorptive capability of the SMEs; and
3. most SMEs cannot meet the MNCs requirements for quality and standards on goods and time delivery.

It is important to note that the weak linkage between foreign firms and local firms could obstruct FDI's spillover effects on the local economy and reduce the FDI efficiency.[6]

The informal network of owners and managers can help an enterprise do business easier. The social networks play a crucial role in many business aspects, such as the ease with which business licenses and permits are obtained, easier access to government contracts, easier access to preferred credit, lower tax, informal payments and so on. The research by Rand and Tarp (2007) reveals interesting features of specific formal and informal network ties. The share of owners—members of the Communist Party increases with enterprise size, with an average share 9 percent of all enterprises. Likewise, the share of enterprises having network ties with one or more bank officials is also increasing in enterprise size. A first glance at the differences in revenue growth rates between enterprises with and without network ties, however, does not show any significant differences in economic performance (Table 5). Thus, a more vigorous analysis is required to establish causality.

Table 5: SMEs' network ties

		All	Micro	Small	Medium	Large	*t*-test Member/No network	
Member of the Communist Party		9	6.2	12	18.1	43.8	0.023	(0.83)
Has an official position in a local cadre		6.1	5.2	8.2	5.2	6.3	-0.034	(1.04)
Manager/owner is a war veteran		7	6.6	7	10.5	6.3	0.024	(0.8)
Do you currently have regular contact with...(at least once every 3 months) which you find useful for your business operations	Bank officials?	34.1	25.3	43.3	66.7	81.3	0.005	(0.29)
	Mass organizations?	36.7	36.9	33.9	43.3	56.3	-0.018	(1.12)

Note: t-test performed on growth of real revenue per employee. *t*-stats in parenthesis.
Source: Rand and Tarp (2007).

Generally, SMEs do not buy services unless it is the only solution to a need. When they engage in one, they go for simple products first. To this end, demand-driven human resources training has been by far more popular than quality management consultancy. Many providers compete in providing supply-driven training services without thinking of moving into other business areas such as developing customized solutions. At present, the commonly available support services from domestic providers are training, partial consulting, marketing, and so on.

3.3 SMEs innovativeness

It should be noted that among the three stages of developing technology including adopting technology, mastering technology, and creating technology, to date, Vietnam is basically at the first stage. Technology creation requires efficient knowledge-intensive activities such as research and development (R&D), which are very limited in Vietnam. According to Dinh Van An and Vu Xuan Nguyet Hong (2004), investment value of SOEs in R&D accounts for merely 0.25 percent of their revenues, much less than developed countries (5-10 percent); private sector has virtually no investments in R&D.

The lack of technology-creating capability of Vietnamese private firms largely stemmed from the following:

1. Education and vocational training system have not been efficient with the university curricula being very theoretical. The private firms still pay inadequate attention to formal training of human resource (see, for example, Rand and Tarp (2007)[7]; and
2. Commercialization of technology products has been very limited due to the weak linkage among research institutions, universities, and enterprises. Additionally, majority of the labor force (70-75 percent) is unskilled causing the low absorptive capability of the domestic firms. Shortage in labor along with poor vocational training have significantly hindered every stage of technology development.

Making technology available for domestic firms is very important for many developing countries. Technological availability in Vietnam is varied. In the early 2000, Le Xuan Ba *et al.* (2006), found out that a significant number of Vietnam's SMEs used old or outdated machines and equipment. Over the years, in Rand and Tarp's 2007 study, SMEs technological innovativeness revealed the availability of new machinery and equipment in which some 88 percent of these SMEs have equipment no more than 10 years old.

Table 6: Innovation rates

	Introduced new product	Introduced new technology
All	**40.6**	**29.5**
New entry	44.3	33.1
Incumbent	39.1	28
Micro	32.6	19.1
Small	51.1	42
Medium	62.9	63.8
Large	87.5	81.3
Urban	47.2	36.2
Rural	35.6	24.4
Male	43.6	30.5
Female	34	27.3

Source: Rand and Tarp (2007).

However, around 10 percent of the SMEs still use hand tools and 4 percent use manually operated machines. As much as 25 percent of the firms already use power-driven equipment. Furthermore, more than 61 percent of the technology was purchased new and around 34 percent was bought second hand. During the past three years, around 41 percent of the SMEs introduced some new products; while only 30 percent was able to introduce a new technology in the production process. Larger enterprises are more innovative and able to improve technological production processes more often (Table 6).

According to respondents, the key driving force for introducing new products are: (1) requirements by purchasing customers (62 percent); and (2) increasing competition from domestic producers (29 percent). The enterprises' adoption of new technology has been largely due to: (1) needed upgrading in order to face competition (37 percent); (2) buyers' requirements (32 percent); and (3) increase benefits (22 percent).

3.4 Domestic market

As noted earlier, there has been an increasing tendency of GDP growth rate of non-state sector in Vietnam (from 6.4 percent in 2001 to 8.7 percent in 2006) unless its share in overall GDP tended to decline steadily over the past six years (from 47.8 percent in 2001 to 45.6 percent in 2006) (CIEM 2007). According to General Statistics Office (GSO)'s data, SMEs' gross revenues have also grown at quite high rate: 28 percent annually during 2001-2005. However, non-state loss-makers in total number of enterprises increased steadily accounting for 20.4 percent in 2002 and 24.5 percent in 2004. If that trend is true for the SMEs, it can be said that their production efficiency has declined.

Rand and Tarp (2007) have shown a relative high level of Vietnam's SMEs' capacity utilization and technical efficiency[8] in manufacturing. In the question on how much enterprises would be able to increase their production from the present level using existing equipment or machinery, only around 17 percent of the sampled SMEs said they would not be able to increase production but around two-thirds said they could increase production by no more than 25 percent. The surveys also indicated that micro- and small-size enterprises are closer to producing at their optimal capacity than medium- and large-sized enterprises. Likewise, 7 percent of urban enterprises could expand two times or more than their existing production as compared to 1.6 percent in rural areas. The results of surveys also showed the technical efficiency level of 68 percent of Vietnam's manufacturing, which falls well within the best practice frontier for developing countries (60 percent-70 percent).

By sales structure, SMEs sell most important products largely to the domestic non-state firms as intermediate inputs comprising 58 percent of the total sale revenues. The fact that very small proportions of products were sold to SOEs (6 percent) and FIEs (0.7 percent) re-confirms the very loose linkage networks between the SMEs and large enterprises.

3.5 SMEs export market and readiness to go global

SMEs directly engaged in export activities are still limited. The studies by Kokko and Sjöholm (2004), Le Xuan Ba *et al.* (2006), and Rand and Tarp (2007) revealed that direct export covered 3-6 percent in 2002-2005. Notably, direct exports are basically made on handicraft (ASMED 2006) and indirect exports are carried out through large (especially state trading) enterprises.

Moreover, Rand and Tarp (2007) found out that the larger the size of the enterprise, the higher is their probability of exporting. Additionally, on the average, the enterprises exported over 60 percent of sales. Exporting enterprises have relatively few foreign trading partners (i.e., only five foreign customers) when engaging in direct exports. Furthermore, around 72 percent of exporting enterprises are still much dependent on their foreign trading partners receiving product specifications, designs, or materials and 76 percent for technology or expertise. It is commonly agreed that Vietnam's SMEs lack international legal knowledge and expertise, nevertheless, only one-third of them use legal advisors when entering direct export contracts. Surprisingly, majority (two-thirds) of rural exporters seek legal advice before committing to an export contract (Table 7).

Vietnam has been a WTO member for only a year. SMEs' perception and knowledge of economic integration remain vague. Hence, readiness to inter-

Table 7: Details on exporting enterprises

	All	New Entrants	Incumbents	Urban	Rural
Observations	(119)	(44)	(75)	(87)	(32)
How many foreign customers does the enterprise have	5.1	5.1	5.1	4.8	5.9
What percent age of sales did the enterprise export	63.5	61.3	64.8	61.3	69.6
Receive product specifications, designs or materials from customer	71.7	78.1	68.1	69.5	77.4
Have long-term relations with your main foreign customer	86.6	84.1	88.0	86.2	87.5
Use legal advisors when entering direct export contracts	33.6	34.1	33.3	21.8	65.6
Foreign customers requested certification of your procedures/products	56.3	56.8	56	54	62.5
Cooperation with foreign partners provided technology or expertise directly	76.5	77.3	76	75.9	78.1

Notes: Figures in percentages (observations in parenthesis). Out of the 176 exporting enterprise only 119 enterprises provided information to the above questions.

Source: Rand and Tarp (2007).

nationalization is very limited although there are already a few enterprises which arepreparing. A 2003 survey[9] by Kokko and Sjöholm showed that SMEs' perception on internationalization revealed no expectation on any notable changes. Majority of the rural household enterprises (70 percent) do not know what liberalization means. A 2005 survey results[10] show a positive perception and knowledge on internationalization: 72 percent of the enterprises "have information on economic integration." However, there were 15 percent managers who do not know the challenges they are facing in the future, and 31 percent of firms who do not know WTO issues.

4. FACTORS OF SMES DEVELOPMENT

The rapid development of Vietnam's SMEs, especially the number of enterprises, has been supported by two groups of interrelated factors, namely (i) market-oriented and business environment reforms, and (ii) pro-SMEs policies and programs.

4.1 Market-oriented and business environment reforms

As stated earlier, in 1986 Vietnam officially embarked on Doimoi (Renovation). In 1989, the reforms were actually radicalized, especially in such areas as macroecomic and price stabilization, foreign trade, SOEs' sector, and money market. To a different extent, the economic reforms have had positive impacts on enterprises' development in general and SMEs in particular.

Vietnam's economic reforms can be regarded as bottom–up. This is particularly true for the first wave reforms for agriculture, private sector and SOEs. Since 1981, Vietnam introduced the farming contracting system through replacement of agricultural cooperatives by households as the basic decision-making units in production and security of tenure for farm households and then (1987) transferred to farmers durable land use (Box 1). The reform had been effective to the extent that from being a food-shortage country, Vietnam began to export rice and became the third in the world (behind Thailand and the United States). The successes of agricultural reforms have created an initial ground for non-agricultural cooperatives and infant private enterprises to survive and develop.

Box 1: Vietnam's key market – oriented economic reforms, 1986-2007.

Agricultural reforms

- Since 1981: introduction of farming contracting system through replacement of agricultural cooperatives by households as the basic decision-making units in production and security of tenure for farm families.
- Since 1987: transfer to farmers durable land use.
- In 1993, enacting Land Law and subsequent revision in 2003 creating a more solid legal ground for agriculture development.

Macroeconomic/price stabilization (during second half of 1980s and first half of 1990s)

- Almost completion of price liberalization, abolition of dual price system (1989-1991).
- Large devaluation and unification of the exchange rate (1991).
- Increased in interest rates to positive levels in real terms (positive real interest rates) to curb hyperinflation (1989).

Foreign trade and WTO-driven reforms

- Liberalization of external trade regime (eradicating SOEs monopoly in international trade. abolishing foreign trade right and licenses and trading authorization, and so on) (1989-1998).
- Building a more transparent and predictable export-import environment (2001).
- Reforming customs services.
- Further removing non-trade barriers (NTBs), lowering tariff rates and tariffication of NTBs to implement commitments in AFTA, VN-US BTA and so on).
- Since 2005, intensive efforts in amendment and newly promulgation of a huge number of legal documents to conform with WTO rules and provisions.
- Became WTO member in December 2006, began to implement WTO commitments in 2007.

Investment environment reforms

- Promulgation of Foreign Investment Law (1987) and making subsequent revisions in 1996, 2000 and 2002.
- Granting different kinds of incentives (especially taxation) to attract FDI inflows.
- Improving FDI environment significantly (streamlining administrative procedures; licensing, fairer treatment towards FIEs; expanding their scope of business; easing land clearance issues; and allowing FIEs to issue stocks and list in the stock market).
- Promulgation of Law on Promotion of domestic investment (for domestic companies) in 1999.
- Provision investment incentives provided by provinces for attraction of investment inflows.

Financial markets reforms

• Establishment of two foreign exchange trading centers in Ha Noi and HCMC (1991), inter-bank money market (1993) and inter-bank foreign exchange (1994).
• Liberalization of VND interest rate and foreign interest rates (2001).
• April 2001, commencement of state-owned commercial bank (SOCB) restructuring programmes, dealing with nonperforming loans (NPLs) by gradual reduction of policy lending practices to SOEs, increasing lending to private sector, and strengthening supervision and risks management.
• Establishment of official securities market in HCM in 2000, and second board (planned to be OTC) for SMEs in Ha Noi in 2005. In 2006, promulgation of Securities Law creating firm legal ground for the market development.
• Gradual opening more domestic market for foreign bank subsidiaries, especially as committed by Vietnam – US Bilateral Agreement and WTO accession.

SOEs reforms

• 1979 – 1988: giving SOEs more autonomy in business decision making.
• 1989–1990s, gradual reduction in subsidies to SOEs; since second half of 1990s, restructuring SOEs (through transforming, selling, leasing, contracting, and so on).
• Before 2004: Almost re-structured SOEs were small, with legal capital less than USD 600,000.
• Since 2004, putting more emphasis on aquitization (per se privatization) of medium and big SOEs; piloting/adoption of holding-subsidiary model and business group.
• Since 2005, encouraging/forcing more large equitized SOEs go to list in VSE.
• Since early 2007 more state corporations, especially SOCBs have prepared to IPO through Vietnam's Stock Exchange.

Non-state sector reforms

• Since 1986: recognition multi-stakeholder economy; since 1989, encouragement of the private sector as an economic component; revision of the 1992 Constitution to protect private capital.
• In 1997, enacting Cooperative Law to revitalize cooperatives as one pillar of market economy with socialist orientation.
• In 1999, promulgation of (Private) Enterprise Law (1999), allowing non-private in doing business in all lawful economic sectors/domains.
• In 2005, promulgation of (Common) Enterprise Law and (Unified) Investment Law creating a level playing field for every corporate forms (non-state, SOEs and FIEs).

Administrative reforms

• In 2001, the Government established its Public Administration Reform Master Program 2001-2010, with key reforms on legal and institutional framework, public organization, human resources, and public finance.
• Since 2006, application of one-stop-shop model for business registration to shorten business registration time.

Source: Compiled by the authors, and Vo Tri Thanh and Le Xuan Sang (2004).

The macroeconomic and price stabilization efforts also brought immediate effects on curbing hyperinflation (700 percent) during 1985-1986 down to single-digit inflation in 2006. The remedies involved the raising of interest rates to positive levels and abolishment of preferred interest rates for SOEs. This created easier access for non-state sector to borrowing interest rates.

SOEs reforms have been conducted through the gradual reduction in subsidies to SOEs and restructuring (transforming, selling, leasing, contracting, and equitization (*per se* privatization)). These efforts have, to a significant extent, put SOEs to equal footing with non-state sectors, and helped them to improve operation efficiency and performance. Bearing in mind that all state–owned SMEs established before 2004 stemmed from the SOEs restructuring.

Non-state sector reforms have been very meaningful to SMEs development. The status of that sector had been gradually improved by the enactment of the Enterprise Law in 1999 (Box 1). The private sector became one of the cornerstones of the national economy. In 2000, the Vietnamese Communist Party decision considered a member can own a private enterprise without any limitation of scale. The Enterprise Law has simplified the company registration process abolishing unnecessary business licenses and reducing business registration duration from 98days to 10 days. The cost was reduced from VND 10 million to VND 0.5 million (ADB 2007). The Enterprise Law has created a turning point in SMEs development in terms of the number of registered enterprises and capital. Recently, the WTO-driven reforms have also led to revisions and newly promulgated legal documents creating a more leveled playing field for both domestic (SOEs and non-state enterprises) and FIEs.

Foreign trade reforms have facilitated Vietnam's enterprises in general and SMEs in particular to expand export markets. During 1989-1998, gradual trade liberalization of external trade regime was carried out through eradicating SOEs' monopoly in international trade and trading authorization, abolishing foreign trade rights and licenses, and allowing enterprises of all kinds of ownership to engage *directly* in foreign trade activities. To comply with international commitments, efforts were geared toward building a more transparent and predictable export-import environment, reforming customs services, removing non-trade barriers (NTBs), lowering tariff rates and tariffication of NTBs to implement commitments in ASEAN Free Trade

Agreement (AFTA), the Bilateral Trade Agreement with the US (VN-US BTA), and ASEAN-China Free Trade Agreement (AC-FTA). The preparations for accession to the WTO, and its signature of VN-US BTA in 2001 have driven Vietnam to implement a full package of reforms including, *inter alia,* intellectual property protection, fair competition, commercial dispute resolution, judicial transparency, banking reform, and market access for foreign investors (ADB 2007). In 2007, Vietnam began to implement WTO commitments as scheduled.

Administrative reforms accelerated since 2001. The Government established its Public Administration Reform Master Program (2001-2010), with key reforms on legal and institutional framework, public organization, human resources, and public finance. These reforms, together with the application of one-stop-shop model for business registration streamlined significantly public administrative procedures and enabled non-state, especially private sector to shorten significantly business registration time limits and costs.

The efforts in improving investment environment are also noticeable. By granting different kinds of incentives (especially taxation), the promulgation of the Law on Promotion of domestic investment in 1999 is praised to be effective in terms of mobilizing local investment. It should be stressed that the provincial local authorities have an important role in creating an attractive business investment climate to promote private sector development[11]. Nevertheless, at countrywide level, a rationalization of incentives should be taken into account, as it should be in the best interests of the central government so as tax revenue is not foregone unnecessarily.

Financial market reforms have been meaningful for SMEs development in terms of the creation of easier access to banking and capital markets and a fairer business environment. Since 2001, the gradual reduction of policy lending practices to SOEs have not only enabled state-owned commercial banks (SOCBs) to dealing with non-performing loans (NPLs), but also strengthened supervision and risks management as well as re-channelling lending to the private sector, the share of which increased from about 35 percent to 55 percent during 1997-2005. The establishment of official securities market in HCMC in 2000 and second board (planned to be the over-the counter (OTC) for SMEs in Ha Noi in 2005 proved to be an effective way to mobilize long-term capital for their development (through SOEs' equitization and initial public offer or IPO), especially during 2006-2007[12].

It is worth noting that these market-oriented and business environment reforms have resulted in quite impressive socioeconomic achievements. Vietnam is among a few transitional economies that have been managed to maintain high, sustainable economic growth rates over the recent two decades (around 8 percent annually). With a GDP growth rate of 8.44 percent and registered amount of FDI of 20.3 USD billion achieved after one year of WTO accession, it is believed that these achievements can be maintained at least in subsequent five years[13]. Furthermore, relative macroeconomic and political stability have been also maintained and expected to be achieved in the future. These achievements have significantly fostered SMEs development and vice versa.

In a nutshell, two decades of economic reforms have fostered the SMEs development mostly in respect to creating them easier access to factors of production and export markets, removing impediments to their development, and building up the level playing field. More importantly, there is a need for pro-SMEs specific policies and programmes.

4.2 Policies on and programs for promoting SMEs development

As mentioned earlier, before 2001, the market-oriented reforms and financial support to non-state enterprises had directly fostered the SMEs development. Just since that year, Vietnam's SMEs have received specific policies and programes from the government and international donors.

4.2.1 Vietnam's pro-SMEs' development institutions

Pro-SMEs legal framework and policy

On November 2001, for the first time, the Government issued Decree 90/2001/ND-CP on Supporting for Development of SMEs (hereafter Decree 90) defining officially SMEs in Vietnam. According to Decree 90, the Government objectives are to support and encourage SMEs development and covers the establishment of:

- an SME Promotion Council with cross-ministry membership to act as an advisory body to the Prime Minister; and

- the Agency for SME Development in the Ministry of Planning and Investment (MPI) to coordinate SME-related activities.

The key contents stipulated in Decree 90 include the following:

- the State encourages and creates favorable conditions for SMEs to bring into play their activeness and creativeness;
- enhance their managerial capability;
- develop sciences, technologies and human resources;
- expand their cooperation with enterprises of other forms and improve their business performance as well as competitiveness in the market; and
- create jobs for and improve the laborers' lives.

Key policy directions stipulated by Decree 90 are:

- Encouraging investment (applying financial and credit incentives for a certain period of time; and encouraging financial institutions, enterprises, and entities to contribute investment capital to SMEs);
- Setting up the Credit Guarantee Fund for SMEs (to provide them guarantee when they fail to acquire enough properties for mortgage or pledge to borrow capital from credit institutions).
- Creating favorable conditions for SMEs to have proper production ground (direct the reservation of land fund and implementation of promotion policies for the construction of industrial parks and clusters for SMEs to have grounds to build their production establishments or move from urban centers to outlying regions; ensuring SMEs enjoy preferential treatment policies regarding land lease, transfer, and mortgage as well as other land use-related rights as stipulated by law).
- Expanding markets for and raising competitiveness of SMEs (creating conditions for SMEs to gain access to information on markets and goods' prices and assist them to expand markets and sell their products; assisting in exhibiting, introducing, advertising, and marketing their potential products; facilitating participation in goods supply and service provision under the plans on goods procurement with State budget sources; prioritizing goods ordering and quota-regulated goods orders; creating conditions for innovation of technology, equipment and machinery).

- Encouraging SMEs to boost export and create conditions for them to cooperate with foreign partners, expand goods and service export markets. Through the export promotion-support program, partially funding SMEs' expenses for survey, study, exchange and cooperation activities, and participation in fairs and exhibitions to introduce their products and probe foreign markets (covered by the Export Support Fund).
- Providing information, consultancy, and human resource training (financial support for consultancy and human resource training to SMEs through training support programs; encouraging domestic and overseas organizations to support SMEs with the provision of information, consultancy, and human resource training; and encouraging the establishment of business incubators).

Improving quality of the human resource is critical for SMEs to enhance their competitiveness. On August 10, 2004, Decision 143/2004/QD-TTg on Approving the Program on Human Resource Training Support for SMEs in the 2004-2008 was promulgated. The key components of the Program are as follows:

- Training and enhancing human resources (training in the establishment of enterprises; enterprise administration training covers seven-day short-term training courses to enhance the SMEs' capabilities for elaboration of plans on, and management of, business and production activities through training courses on general business management, marketing capabilities, finance-accounting management capabilities, management of techniques, technologies, intellectual property, and quality standards.
- Enhancing quality of business support service providers (training in general consultancy and marketing skills for consultants, lecturers and creating opportunity for them to materialize the professional practice standards; training in start-up of enterprises, in general business management, marketing administration, finance-accounting administration, business planning, technical-technological management, and human resource administration).

On 22 September 2006, the Government issued Decree 108/2006/ND-CP providing detailed provisions and guidelines for implementing a number of articles in the (Unified) Investment Law, of which there are three specific groups of measures to foster SMEs in such areas as:

- technology transfer (creation of favorable conditions for technology transfer, encourage the transfer of technologies into Vietnam and have policies to support SMEs to invest in research, development and transfer of technology);
- training (training support fund of enterprises are subject to tax exemptions and reductions; training expenses are accounted for as reasonable expenses for the purpose of determining taxable corporate income); and
- development investment and investment services (providers of investment support services such as establishment of design centers and testing centers to support the development of SMEs are encouraged and supported by the Government).

On 22 October 2006, the Prime Ministry promulgated Decision 236/2006/QD-TTg, on the Approval of the Five-Year SME Development Plan 2006-2010 (Development Plan). The Development Plan emphasized on the State's role in the creation of "a sound policy, legal, and institutional environment that ensures fair competition for SME, so as to mobilize all internal and external resources for development investment." The Development Plan stressed the viewpoints of developing SMEs so as to "realize the goal of contribution to employment generation, poverty reduction, ensuring social safety and security. SME development objectives are also to be integrated into national goals, and specific socioeconomic goals of every region and locality, encouraging agricultural industries, traditional trade villages with a focus on SME development in disadvantaged areas and regions". The Development Plan also stressed the importance of raising awareness for all-level authorities on the SME role. In addition, the support from Government is planned to be shifted from direct support to indirect support in the future.

The Development Plan provides 10 major tasks in SME development with 7 groups of measures to be taken by line ministries (Box 2).

The pro-SMEs policies have created key necessary grounds to support their development. The SME Development Plan 2006-2010 provides a framework needed for the planning and implementation of a "sector-wide approach" (SWAp) in promoting SMEs' development.

Box 2: Decision on Approval of the Five-year SME development plan 2006-2010

I. SME Development viewpoints

1. Realize consistently the policy of building a multi-stakeholder economy. Economic sectors that do business in compliance with legal regulations are all important constituent parts of a socialist oriented market economy with a vision of long term development, cooperation and healthy competition;
2. The State creates a sound policy, legal and institutional environment that ensures fair and healthy competition for SMEs and service providers of all economic sectors so as to mobilize all internal and external resources for development investment;
3. Develop SMEs in an active but sustainable way, enhancing the quality, increasing the quantity to have economic efficiency and realize the goal of contribution to employment generation, poverty reduction, ensuring social safety and security; SME development objectives are also to be integrated into national goals, and specific socioeconomic goals of every region and locality, encouraging agricultural industries, traditional trade villages with a focus on SME development in mountainous areas and regions having socioeconomic difficulties; SMEs owned by people of ethnic minority groups, women and the disabled…should be prioritized and supported, priorities should also be given to SMEs having production and investment in sectors that can be competitive;
4. State support will gradually shift from direct support to indirect support to enhance the capacity of SMEs;
5. The State will link business activities with environmental protection and assurance of social security and safety;
6. Raise awareness of governments of all levels about the role played by SMEs in socioeconomic development.

II. Goals of SME development

1. Overall objective:
   Boost the progress rate of SME development, creating environment for healthy competition,
   strengthening the national competitiveness, SMEs are to contribute more and more to the growth of the national economy.
2. Specific objectives:
   a) The number of newly established SMEs will be 320,000 (annual growth rate of 22 percent);
   b) The number of newly established SMEs in disadvantaged provinces will have increased by 15 percent by 2010;
   c) The ratio of SMEs having direct export is 3-6 percent;
   d) SMEs will create about 2.7 million new jobs in the period 2006-2010;
   e) There will be additionally 165,000 technical workers in SMEs.

III. Main tasks

1. The stability of the legal framework and the reform of the administrative procedures will be continued to be improved to create a transparent, stable, and equal business and investment environment for SME development;
2. Assess new policies' impacts on SMEs, organize periodical dialogues between public authorities and SMEs to give instructions and answers to pressing demands for business development;
3. The tax system is to be adapted to encourage start-ups, conduct the reform of the accounting system, and reporting requirements to simplify them and encourage the tax self assessment system that is both convenient to the enterprises and against the tax losses;

4. Improve the lack of work premises, and enhance the environment protection by formulating and publicizing the land master planning and land use plan; facilitate the development of industrial zones, industrial clusters of appropriate size with suitable land lease price for SMEs; support the relocation of polluting SMEs from residential and urban areas to industrial zones and industrial clusters;
5. Revise regulations to boost the establishment of SME credit guarantee funds at the local level; Take steps to restructure the state-owned banking sector, encourage the emergence of different forms of banking services, joint stock commercial banks for SMEs, including the development of the leasing service and the extension of non-collateralized finance for SMEs that have feasible business plans in order to satisfy the need of finance for investment and business;
6. Boost the implementation of support programs disseminating and applying modern technologies and advanced techniques for SMEs, enhancing technology management capacity; encourage the cooperation and sharing in technology among enterprises of different sizes; develop effectively research program that can be developed in reality; study, revise and issue the system of technical standards, quality assurance system and quality certification system in conformity with international standards. Encourage SMEs to participate in programs for industry linkages, regional linkages and developing supporting industry;
7. Accelerate the development of the business information system to have the background for the assessment of this sector's state, for the process of policy making and at the same time to provide business information to enterprises;
8. Conduct general information and awareness raising activities to disseminate entrepreneur spirit and the awareness of legal wealth creation to all. Carry out pilot projects of integrating specific enterprise-related training modules into education schemes at high schools, colleges and universities, technical high schools, vocational schools in order to foster entrepreneurial spirit and entrepreneur culture and create supporting social attitude towards legal business activities;
9. Develop market (both supply and demand) for business development services; improve the legal environment of business development services, with the focus on the management of service quality. Encourage associations to have business development services; implement actively SME support programs; participate in the policy making process of SME support policies and support programs in order to strengthen the supporting role of these associations and to make them really become the legal representative for SMEs' interests;
10. Improve the effectiveness in coordinating SME development support activities, enhance the role played by the SME Promotion Council; enhancing capacity at the local level in the management, promotion and development of SMEs.

SMEs supporting organizations

As stipulated by Decree 90/2001/ND-CP, the ASMED under the Ministry of Planning and Investment (MPI) is the authorized body responsible for policy–making in Vietnam's SME development. It oversees the implementation of all Government-funded SME support programs and international cooperation for SME promotion by allocating and balancing resources and raising external funds for SME assistance.

ASMED is the Secretariat of the SME Promotion Council, composed of 12 members (Vice-Minister-level officials, major province/city authorities, and associations/professional organizations). The Provincial Departments of Planning and Investment are assigned to be the focal agency for local SME development, covering policy works, support programs, and periodical updates on local SME status.

Vietnam has a multi-level system of SME support institutions with assigned mandates and functions. Table 8 presents current situation of different SME support institutions at different levels, namely:

Table 8: Levels/groups of SME support institutions in Vietnam

Group/ group	Institution name	Mandate/Functions	Operation's scale
I	SME Promotion Council	Advisor to the Prime Minister, public-private representation	National
I	Agency for SME Development (ASMED)	SME policy review, formulation, monitoring, provision of information on business regulations for SMEs, and similar responsibilities in business registration, SOE restructuring, and domestic investment encouragement, government agency for coordination, facilitation, does not get involved in direct service provision, expect in regulatory information	National
I	Provincial departments of planning and investment	SME policy at local levels, support programs at local levels and monitoring of SME state and needs at localities, local level policy coordination, does not get involved in BDS or financial service provision	Provincial
II	Sector- focused government agencies	-Provincial Industrial Promotion Agencies -Provincial Investment Promotion Agencies -Agriculture Encouragement Center of Ministry of Agriculture and Rural Development -Trade Promotion Agency under Ministry of Trade -Technical Assistance Centers (in Ha Noi and HCMC), ASMED/MPI -All agencies of this category that provide services to SMEs.	Provincial and national
III	Business associations	Of a general nature (VCCI, Young Entrepreneurs, Rural SME Association, Vietnam Cooperative Alliance, and so on) or sector-specific provision of BDS and advocacy functions	National and provincial
IV	Private BDS service providers and financial institutions	Training and consulting companies, independent consultants in BDS provision State- owned and joint stock banks and leasing companies in financial service provision	Throughout the country
V	Universities and research institutions	Provision of BDS to SMEs, through some SME Offices or Center, but mostly via their members acting as freelance consultants for SMEs	Throughout the country

Source: Nguyen Hoa Cuong (2007) and authors' modifications and supplements.

- SME Promotion Council, ASMED, and provincial departments of planning and investment;
- Sector-focused government agencies;
- Business associations;
- Private business development service (BDS) providers and financial institutions; and
- Universities and research institutions.

While institutions in Level I are responsible for policies and facilitation of market development in SME services, institutions in levels II-V have functions varying from advocacy to BDS and financial service provision to SMEs.

Before the Government sets up its own national and provincial SME support institutions, the business community had already established self-support systems. This includes mostly informal entrepreneur groups or clubs as well as independent service providers and business associations involved in training, consultancy, and facilitation. To date, approximately 200 major business associations are active in the country. Vietnam Chamber of Commerce and Industry (VCCI), Ha Noi and Ho Chi Minh City Union of Associations of Industries and Commerce (HUAIC), Young Entrepreneurs Association (YEA) are among the most prominent (Nguyen Hoa Cuong 2007).

SMEs' supporting funds and programs

SMEs have been, directly or indirectly, supported by the government and external supporting funds and programs. Before 2001, Vietnam's SMEs had partly benefited from the government's Export Support Fund and Development Assistance Fund. The Export Support Fund aims to: (1) cover interest costs on commercial banks' loans related to losses when the world market prices of agricultural products dropped sharply; (2) support for a number of export goods that suffer from high risk or low competitiveness; and (3) provide bonuses for works done in expansion export market, introducing products for export.

The Development Assistance Funds had provided long- and medium- term investment lending at preferential rate, post-investment interest subsidies, and credit guarantee. However, majority of the funds' beneficiaries were exporting enterprises and SOEs, out of which SMEs accounts for a very small proportion.

Since 2001, SMEs have actually received support from the government through the Fund for SMEs Credit Guarantee as well as the Program on Human Resource Training Support for SMEs (with total amount of VND 119.4 billion or USD 72 million). Though there is no comprehensive and rigorous assessment of the funds' significance with regard to the SME development, nevertheless, the funds can ease SMEs difficulties as the former provides direct support to the latter.

Foreign organizations are indeed very important for Vietnam's SME in terms of funding. Again, there has been no comprehensive calculation of the donors' total funding amount for SMEs. There is a large number of aid agencies and nongovernment organizations active in promoting private sector development in Vietnam. According to ADB (2005), there were 58 existing projects with a total funding of nearly USD 840 million over a 10-year period (2001-2010).

Private sector development activities in Vietnam fall into three categories:

- Business Enabling Environment (BEE): legal/regulatory environment, government capacity, and business culture/entrepreneurship;
- Access To Finance (ATF): short/medium/long-term credit, micro-finance, equity finance, and other non-banking financial services such as leasing, guarantees, insurance, and so on; and
- Business Development Services (BDS): business services (legal, accounting, finance, marketing, IT, and so on), consulting, training, business linkages (clusters, associations, incubators, and other types of groupings to achieve economies of scale), information on domestic market, information on foreign markets (trade promotion), and technology transfer.

Regarding pro-SMEs projects, which have been implemented by ASMED (2004-2009), international donors have granted total funding amount of around USD 120 million and EURO 72 million (Nguyen Hoa Cuong 2007).

Over the years, foreign donors have not only provided funding for SMEs development, but also have brought into Vietnam concept, awareness and lessons learned from experiences in supporting SMEs. In the case of supporting private sector development, most pro-SMEs donors' interventions can be also classified as BEE, BDS, and ATF. Under these broad categories, interventions either come under some subcategories such as direct support to policies through dialogue facilitation and research, institutional capacity building, and policy based lending, or a mixture.[14]

With regard to the “locations” or “levels”, there tends to be a shift where donors have positioned their interventions. During 1990s, most donors preferred to deliver their support at central levels, especially in Ha Noi. Since 2000, many donors shifted interventions to local levels like the provinces. The shift is in tandem with the priorities of the government because policy formulation should be supported with policy implementation which mostly happens in provinces in Vietnam.

4.2.2 The effectiveness of pro-SME policies and programmes

As Vietnam’s SMEs received different kinds of support, both direct and indirect, for their development, how effective were the above-mentioned polices and programs? This requires a comprehensive assessment and analysis through research. Some observations can be made from existing researches.

- The Enterprise Law is very effective in terms of creating a breakthrough for business registration removing impediments for SMEs start-up.
- Law on Promotion of Domestic Investment was effective in terms of encouraging SMEs to mobilize domestic investment capital.
- SMEs Credit Guarantee Fund has not been effective and poorly realized in practice due to poor feasibility and capital shortage of local authorities.
- Export Support Fund and Development Assistance Fund had very limited success in supporting SMEs due to their small proportion among the Fund beneficiaries.
- Only a few best practices from donors’ technical intervention can facilitate SME development due to its crosscutting nature and the characteristics of individual economic sectors (Nguyen Hoa Cuong 2007).

In terms of availability of funding at the individual enterprise level, direct Vietnamese authorities played a significant role in promoting private sector development. The study by Rand and Tarp (2007) showed that direct government assistance is very important at the individual enterprise level. Indeed, as much as 60 percent enterprises received government assistance, with the lowest share of receivers in HCMC and Ha Noi (Table 9).

Table 9: Government and business assistance

	Direct Government Assistance	Trade Promotion Agency	SME Promotion Agency	Industrial Extension Agency
Ha Noi	51.8	5.0	5.7	1.3
Phu Tho	61.6	0.7	2.2	0.4
Ha Tay	72.7	5.1	4.1	2.5
Hai Phong	90.7	2.5	3.9	1.0
Nghe An	81.6	3.9	4.9	2.3
Quang Nam	65.5	1.8	7.6	1.2
Khanh Hoa	70.0	2.0	2.0	2.0
Lam Dong	86.2	0.0	0.0	0.0
HCMC	29.2	4.0	1.6	1.2
Long An	66.7	7.0	5.4	3.1
Total	**60.5**	**3.6**	**3.6**	**1.5**

Source: Rand and Tarp (2007).

Only 4 percent of enterprises received other kinds of business support from Trade Promotion, SME Promotion and Industrial Extension agencies, and programs. This direct government assistance to the enterprise is often consequential to a bribe or other non-monetary favors such as employing a family member of the government official to that particular company, or selling goods at a price below the market price.

4.2.3 Remaining constraints of and challenges to SMEs development in Vietnam

The analyses in previous sections show that, despite the surge in number of registered enterprises and capital, Vietnam's SMEs still have many shortcomings and constraints to develop further.

Before analyzing constraints for the SMEs development, it should be noted that, SMEs are still in their infant stage of development. Indeed, the SMEs have long been depressed and got *de jure* freedom of doing business since 2000. Furthermore, as Vietnam is a developing, low-income country, the underdevelopment of the SMEs is understandable.

First of all, a constraint for SMEs development lays on retaining inefficient and ailing SOEs that have been announced explicitly in many Party's documents and national economic policies.[15] Since SOEs still play the *de-jure* leading role in national economy, private sector in general and the SMEs in particular are still discriminated and thus hindered to develop. In reality, continued subsidy and preferences to the SOEs in different forms has not only misallocated the state resources, but also erodes competition, which could stimulate and catalyze the business innovation. Additionally, the SMEs have been often crowded out from the government procurement biddings.[16]

Second, poor rule of law and unfavorable business climate hindered SMEs' development. Despite improvements since 2000, the legal framework still suffer overlapping, complexity, contradictions, implementation lagging, and absence of effective reliable mechanisms for resolution of commercial disputes. Additionally, Vietnam's overall business environment still ranks low in international rankings, and serves as an impediment to the development of higher value-added domestic industries. The cumbersome administrative procedures and poor rule of law have made the business environment less attractive despite being improved in recent years.[17] Together, these constraints create incentives for the SMEs to operate informally, placing themselves outside the formal credit and business networks (ADB 2007) and weakening the efficacy of the government's instruments for improving the business environment (Hakkala and Kokko 2007).

Third, there are still three "bottlenecks" to SMEs development—underdeveloped infrastructure, poor quality and insufficient human resource, and lack of solid supporting industries. The first two 'bottlenecks' have resulted in high costs of doing business, low competitiveness, and poor absorptive technology capability of the SMEs. The third bottleneck hinders SMEs from doing subcontracts from the large firms, especially FIEs.

Fourth, Vietnam's SMEs, like many other countries, suffer from "traditional" constraints of development such as limited or unequal access to production factors, absence of effective, reliable dispute resolution mechanisms, and underdevelopment of BDS market. A consensus can be seen in large number of researches that the most pressing common constraints for Vietnam's SMEs are the limited or unequal access to credit and capital and to suitable land or business premises.[18] Such is caused by persistent constraints like: (1) crowding out by SOEs, especially access to credit; (2) weak credit evaluation systems (i.e., few evaluation mechanisms of borrowers' creditworthiness); (3) weak creditor rights regime (i.e., the cumbersome procedure to foreclose assets pledged against a loan have made banks reluctant to lend, or severely discount the value of assets pledged); and (4) cumbersome collateral requirements (i.e., land use right certificates).[19]

Fifth, the absence of effective and reliable dispute resolution mechanisms raises the risks of doing business[20] and drives foreign investors to either limit contracting with most SMEs or working with SOEs. Sometimes, commitments made in the absence of contracts are honored, thereby, restricting the development of domestic business networks.

Lastly, BDS market is still in its embryonic stage of development (equivalent to 1-2 percent GDP). It tends to be very highly fragmented and informal because of individual suppliers' reluctance to move beyond small circles of familiar buyers (Taussig 2005). A developed BDS market is believed to help SMEs reduce production-business costs, improve efficiency and competitiveness, and strengthen access to new markets.

Vietnam has made first steps into the global market after the WTO accession. Apart from having huge opportunities brought about by WTO accession, Vietnam SMEs likely face tougher challenges. Given their infant development and poor competitiveness, the SMEs are certainly confronted with many difficulties, particularly credit related. This calls for the urgent need in building the proper pro-SMEs policies and effective programs.

5. POLICY IMPLICATIONS FOR SMEs' DEVELOPMENT

As analyzed previously, for sustainable development of SME, a comprehensive, synchronized policy measures are needed; they are the following:

1) As Vietnam's market economy and SMEs are still in their infant stage of development, further promoting market-oriented, implementing WTO-driven reforms and improving business environment are vital for SMEs development. To implement this efficiently and effectively, Vietnam should abandon the advocacy for retaining the leading role of SOEs in the national economy. It is equally

important to level the playing field in reality by ensuring *equal* access to production factors (especially to credit and land), information on public investment plans, and procurement opportunities; and strengthening the public administration reform, with the emphasis on enhancing transparency, accountability, and wider adoption of one-stop shop model.

2) Developing internal and external SMEs' networks. To strengthen the internal networking it is important to foster the industrial clusters and wider establish (technology) business incubators. Closer linkages between domestic SMEs and FIEs can be achieved through the following ways:
   - Enhancing SMEs absorptive capability and creditworthiness by raising quality of human resource (with emphasis on strengthening practical engineering education, supporting and encouraging training programs, particularly collaborative training programs), developing credit valuation agencies, and improving SMEs financial and accounting standards;
   - Building up solid supporting industries and dealing with the industrial dualism efficiently (through lowering effective protection of highly protected sectors and inviting more foreign producers of intermediate inputs);
   - Encouraging long-term subcontracting system (between SMEs and SOEs, FIEs) and building up an effective framework or mechanism for business contracting and dispute resolution; and
   - Overcoming the information and perception gaps between SMEs and FIEs by establishing database on supporting industries, suppliers, and business broker services.
3) Implementing current SMEs' promotion policies and programs efficiently and effectively avoiding possible misuse and corruption; evaluating effectiveness, efficacy of the programs/policies; and enhancing business associations' role in sharing information, providing feedback to the effectiveness and efficacy of the government policies and offering solution to the problems that are possibly emerged.
4) Encouraging and supporting the creation of pro-SMEs business environments at the local level. The demonstrated best practices of those provinces with the highest business climate ratings should serve as a model for replication throughout the

country. The central government should play a role of the catalyst for improving countrywide business environment (for instance, developing further Provincial Competitiveness Index), meanwhile, preventing possible 'fence-breaking' practices (in offering tax or tariff incentives) and unnecessary budget revenues foregone.

NOTES

[1] Vietnam has sustained a relative high, stable growth rate of gross domestic product (GDP) (averaged at approximately over 7.5 percent) over 20 year of *Doi moi*. The hyperinflation (Consumer Price Index) occurred during the second half of 1980s was curbed down to double digits in 1990-1992 and thereafter to 2006 was kept at single digits. The value of foreign merchandize trade (export plus import) has substantially expanded over years and reached an equivalent to more 140 percent GDP in 2007, by doing so, this made Vietnam one of the most open amongst transition and developing economies. Vietnam has also been quite successful in attracting foreign direct investment (FDI) (more than 80 billion USD of the accumulated registered capital as at the year–end 2007). Thanks for high GDP growth, moderate inflation level, and low population growth rate, the real income of Vietnamese people has improved over years, contributing significantly to reduction of the poverty line from 58.5 percent in 1993 to about 20 percent in 2005.

[2] The local procurement ratios in Philippines, Indonesia, Malaysia and Thailand in 2003 were 28.3; 38.3; 45.0; and 47.9 percent, respectively (results from a survey conducted by Japan External Trade Organization (JETRO).

[3] The number of registered enterprises is provided by the National Business Information Center (under the MPI that are in operation: by GSO; the business census uses a business register that is updated through a link with Ministry of Finance database).

[4] The surveys on non-state manufacturing were conducted in 2002 and 2005 by the Institute for Labor Studies and Social Affairs (ILSSA), in collaboration with Department of Economics (DoE) at the University of Copenhagen. The number of enterprises interviewed was 2,821 and 1,392 respectively and operating in Ha Noi, Phu Tho, Ha Tay, Hai Phong, Nghe An, Quang Nam, Khanh Hoa, Lam Dong, HCMC, and Long An (Rand and Tarp 2007). A second series of surveys were conducted by ILSSA and Stockholm School of Economics (Kokko and Hakala 2007) for further information.

[5] The local procurement ratio in Philippines, Indonesia, Malaysia and Thailand in 2003 were 28.3; 38.3; 45.0; and 47.9 percent, respectively (result from a survey conducted by Japan External Trade Organization (JETRO).

[6] The UNCTAD's World Investment Report shows that, by FDI efficiency, out of 141 countries, Vietnam ranking were down from 46 in 2003 to 53 in 2005.

[7] Around 13 percent of enterprises formally train new employees and 6 percent offer training programs for existing workers.

[8] Technical efficiency is calculated using a stochastic frontier production model (value added as output measure), in which total employment and the value of physical capital is used as inputs. Technical efficiency indicates firm ability to produce the highest level of output from a given amount of labor and capital. A firm operating at the highest level of efficiency possible is expected to have a technical efficiency of 1.

[9] The total number of firms in the 2003 survey is about 1,600. The practical selection criterion for identifying SMEs has been total employment below 100 jobs.

[10] "Enterprises need more in information on economic integration", available online at URL: http://www.saigontimes.com.vn/tbktsg/detail.asp?SoTT=11&Sobao=805&muc=88).
[11] A study by ADB (2005) has shown that while some provinces have applied even shorter business registration time limits than that required by the Enterprises Law, others have yet to meet the Law's requirements. For instance, Binh Duong province were praised for attracting 50 percent more FDI inflow than its neighbor Dong Nai in 2001, and ten times more private domestic investment per capita. The province set up a "one-stop shop" to allow all administrative procedures associated with start-up of an enterprise to be processed by one office (at the Business Registration Office, Department for Planning and Investment). Binh Duong also worked to make credit more available by allowing 70 percent of capital goods purchased with a loan to count as collateral towards the loan used to purchase the goods.
[12] In 2006-2007, Vietnam's seven-year-old stock market had grown as one of the fastest development rate in the world—with the stock market index (VN-Index) surge in three times and total market capitalization increase of around two times.
[13] See, for example, CIEM's forecast (CIEM, 2006) on Vietnam medium- and long-term development perspectives.
[14] For example, European donors favor supporting measures to improve the business environment, while Japanese donors prefer direct technical support to Vietnamese partners (Nguyen Hoa Cuong 2007).
[15] For example, the *Strategy for Socioeconomic Development 2001-2010* proposed that "the leading role of the State economic sector is to be enhanced, governing key domains of the economy; State enterprises are to be renewed and developed, ensuring production and business efficiency". More specifically, State enterprise development is to take place in a range of domestic and international markets, "such as petroleum, electricity, coal, aviation, railways, high-way, and so on".
[16] For instance, ADB (2005) reveals that only about 10 percent of private enterprises were able to participate in publicly funded projects in the 2000-2002 periods.
[17] The World Bank's "Doing Business" survey (Doing Business, 2006) ranked Vietnam 104 out of 175 countries in terms of ease of doing business.
[18] See, for instance, Rand and Tarp (2007) and ADB (2005). The surveys by Rand and Tarp (2007) reveal that on the question of How can authorities best assist enterprises?, 26 percent of respondents stated that the State should provide easier access to credit and 22 percent needs in assistance with obtaining premises/land; similarly, most severe constraint when starting up new projects for 29.8 percent firms are lack of capital and 13.9 percent are difficulty in finding premises.
[19] See ADB (2005) for more details.
[20] Based on doing business 2005 database, the World Bank estimates that costs of enforcing contracts in Vietnam account for about 30 percent of debt, much higher than that in China, Thailand, and Singapore (25.5 percent, 13,4 percent and 9 percent of debt, respectively) (ADB, 2005).

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