Chapter 2

Medium–Sized Enterprises in the Socialist Republic of Vietnam:
How to Grow in the Future?

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ABSTRACT

Based on Vietnam's enterprise census data this research analyses development of Vietnam's medium enterprises for a period 2007-2015, assessing their economic performance, efficiency, and elaborating their evolution over the period. The research found that there is tendency of shrinking and decreasing efficiency of medium enterprises (MEs), very few could be able to grow to join "large enterprises," while majority had to exit market or shrink to fall into "small and micro enterprises." The research also shed light on what factors explain economic performance and evolution of MEs, and found that macroeconomic management, ownership forms, economic sectors, size of MEs, and some other factors matter for their performance and evolution. Some policy implications for the next period drawn from the analysis and put in the new context of development are improving macroeconomic stability, creating level playing field between private, state-owned enterprise (SOE) and foreign direct investment (FDI), rebalance priority toward agriculture, improving implementation of MEs supporting policies.

INTRODUCTION

Criteria for identifying SMEs in general and MEs in particular are not consistent among countries in the world. According to Khrystyna Kushnir et al (2010) in the MSME dataset of 132 countries only 46 countries identified MSME as enterprises with less than 250 employees. 29 other countries, either use alternative criteria instead of the number of employees (e.g. sales, investment), or have no definition of MSME. In many cases, despite the same criteria, the cutoff point is very different, for example, for Australia, the maximum number of employees of SMEs is 200, while for Malawi that is 50 (van der Vaart & Gibson, 2008).

In this study authors define MEs according to the Vietnam's official classification as mentioned in the next paragraph and prefer number of employees as a variable of defining rather than total capital of enterprises since given quality of statistics collection in Vietnam data on the former is more accurate than the later for defining "size" of an enterprise.

According to the classification of Vietnam's government Decree 56/2009/ND-CP dated 30/6/2009 on small and medium enterprises (SMEs), medium enterprises (MEs) comprise those with capital from 20 billion to 100 billion VND, or with employment by from 200 to 300 employees for industrial and agricultural sectors, and respectively from 10 billion to 50 billion VND, or from 50 to 100 employees for service sector. MEs nowadays account for 1.7 percent of total enterprises, declining from 2.5 percent in 2007, while the share of micro enterprises shows an increasing trend.

Numerous studies have been conducted on SMEs in Vietnam as well as SMEs - supporting policies have been issued, meanwhile no study has been conducted on specific MEs and no policy has been issued on support to MEs specifically as well. This chapter is the first study in Vietnam on MEs, therefore it is more of exploratory by nature.

The objectives of this research are expected to answer the following four research questions:

1. How is recent performance of MEs in comparison with other enterprise groups (small and large ones)?
2. What are the factors affecting this performance (capital, employment, ownership, economic sector, etc.)?
3. What are the factors supporting or hindering MEs development in growing up to the group of large enterprises?
4. What are policy implications from the above analysis?

To answer the above research questions authors perform a statistical analysis based on data from Vietnam's Enterprise Census 2007-2015. Authors estimate performance of MEs (using indicators of loss-making enterprise share, return on assets - ROA, return on equity - ROE), detect development trend (jump to upper group of large ones, or fall into lower group of small ones) broken by ownership (state-owned, private, FDI), economic sector (primary, secondary, tertiary).

Secondary materials on policies, performance of MEs are also used to complement the statistical analysis with Enterprise Census. The reason to choose 2007 as a starting year of analysis is that this year Vietnam acceded WTO and with that accession legal framework has been improved to provide level playing field between economic players (private, state and foreign ones).

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