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DIFFICULTIES OF SMALL AND MEDIUM-SIZED VIETNAMESE MANUFACTURING ENTERPRISES ON THE ISSUE OF ACCESS TO FINANCE IN THE CONTEXT OF THE COVID-19 EPIDEMIC

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ABSTRACT

The Covid-19 impacts businesses in Vietnam in many ways. Most enterprises said that the Covid-19 epidemic had affected customer access, directly affecting the cash flow and the enterprises' labor and labor issues. As one of the components constituting the whole of the economy, enterprises, especially small and medium enterprises, with the number of establishments always have fluctuations, accounting for a large number and majority of the enterprise development structure in Vietnam. It requires enterprises to identify difficulties before the impact of the Covid-19 epidemic so that they can adjust their direction and develop to limit the effects of the Covid-19 epidemic. The article identifies the difficulties of Vietnam's small and medium manufacturing enterprises based on which solutions are provided to the problem of access to finance for small and medium manufacturing enterprises in the context of the Covid-19 epidemic.

Keywords: Enterprises, Small and Medium-Sized Manufacturing Enterprises, Finance, Covid -19 Epidemic.

INTRODUCTION

In the past, small and medium-sized manufacturing enterprises in our country have played a significant role in providing domestic products. Small and medium-sized manufacturing enterprises also address the great demand for jobs for employees, which is also the central area of consumption of agricultural, forestry, and aquatic products and domestic extracted raw materials. In the market economy movement, small and medium-sized manufacturing enterprises are essential contributors to the logistic transportation industry, which thrives on the excellent transportation demand of the manufacturing industry. Along with large enterprises, small and medium manufacturing enterprises also contribute to the export market.

Currently, enterprises in the country and small and medium-sized manufacturing enterprises face many challenges in the face of the international socio-economic context and the complicated global epidemic. Countries in general and Vietnam, in particular, consider the development of small and medium enterprises as the driving force for economic growth and become the spearhead of the country's sustainable socio-economic development strategy. The objectives of Vietnam's economic development in the document of the 18th Party Congress, based on the master plan for socio-economic development to 2030 with a vision to 2045, affirmed that Vietnam would become a developed, high-income, powerful and prosperous country in the international arena. The industry continues to be an important area, and developing small and medium-sized Manufacturing Enterprises is one of the breakthroughs in our country's rapid and sustainable development strategy in the new period.

Situation of Development of Small and Medium Manufacturing Enterprises in Vietnam

Growth of Small and Medium Manufacturing Enterprises in Vietnam

In the period 2011-2020, the number of small and medium-sized manufacturing enterprises operating annually in Vietnam has been growing: the number of small and medium-sized manufacturing enterprises has increased over the years (left-hand axis, Figure 1), the growth rate in the number has also tended to increase over time (right-hand axis, Figure 1). Remarkably, 2016-2020 saw strong growth in the number of small and medium-sized manufacturing enterprises operating in the country, with a growth rate of over 12%/year. It can be explained by the period of 2016 - 2019. Vietnam's economic growth is relatively high (right-hand axis, Figure 1).

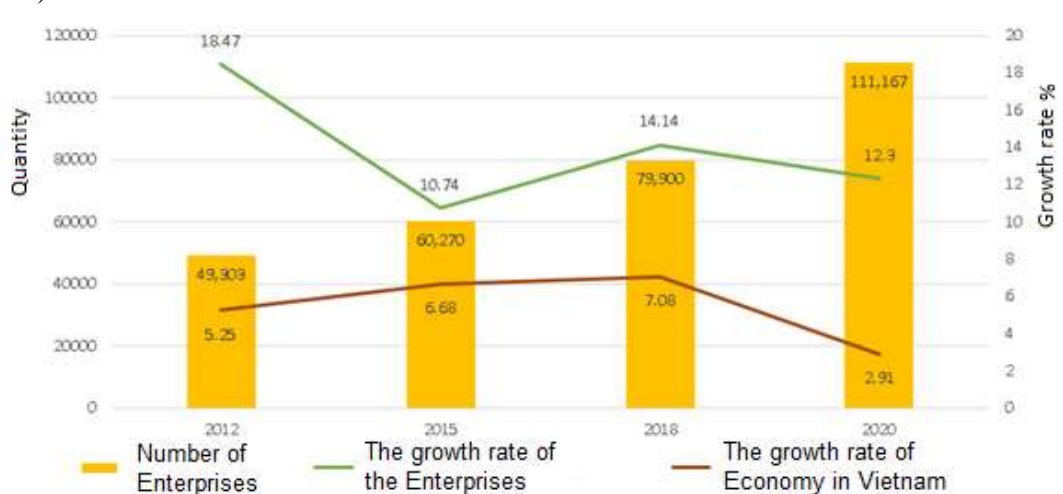


Figure 1: Growth in the Number of Small and Medium Manufacturing Enterprises in Vietnam, 2011 – 2020

(Source: Calculations from the Enterprise Survey for the years 2011-2020)

Considering the small group of enterprises, 2011-2020 has a high annual growth rate; in 2017, there was a negative growth rate due to the impact of world economic fluctuations (directly on the right, Figure 2). Small and medium-sized enterprises in the period 2011-2020 had lower growth rates than small enterprises (except in 2017). In general, the small business group proved more dynamic than the medium business group in the increase in the number of enterprises annually (on the left, Figure 2), but also proved more vulnerable to economic fluctuations in the world and domestic economic difficulties.

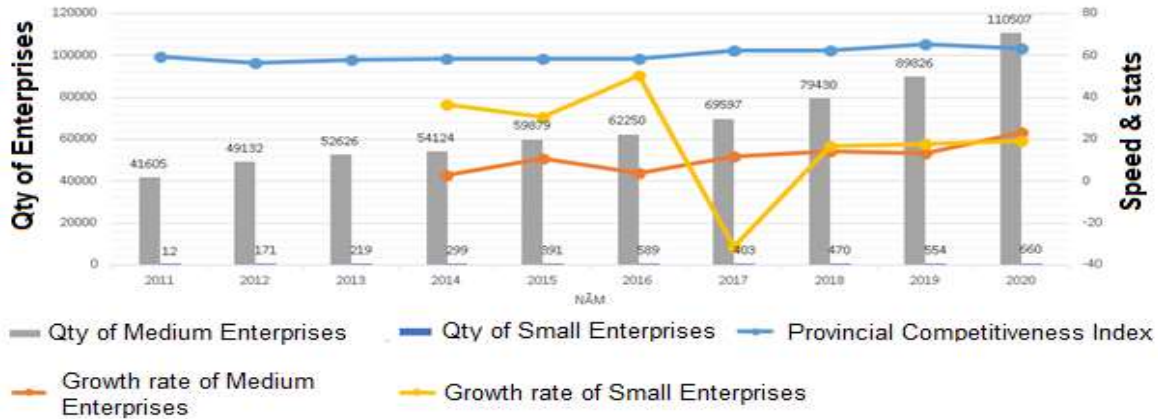


Figure 2: Variation in the Number of Small and Medium-Sized Enterprises in Vietnam, 2011 - 2020

Source: Calculations from the Enterprise Survey for the years 2011-2020

In general, policies and efforts to improve the business environment, primarily to simplify business registration procedures, and encourage entrepreneurship of the Government and local authorities (right-hand axis, Figure 2), have had many positive impacts contributing to the growth in the number of small and medium-sized Vietnamese manufacturing enterprises.

Business Efficiency of Small and Medium Manufacturing Enterprises in Vietnam

- On the business situation of small and medium manufacturing enterprises in Vietnam

The proportion of small and medium-sized manufacturing enterprises lost compared to the total number of small and medium-sized manufacturing enterprises continuously increased from 2011 at 30.0% to 2020 at 49.8%. This rate continuously increased in 2011-2020, although the economy in 2011-2020 has shown signs of recovery (Figure 3).

Figure 6 also shows that small and medium manufacturing enterprises with FDI have a reasonably stable rate of revenue and loss regardless of economic crises, macroeconomic fluctuations, and the business environment.



Figure 3: Proportion of Small and Medium-Sized Vietnamese Manufacturing Enterprises doing Business at a loss (%), 2011-2020

Source: Calculations from the Enterprise Survey for the years 2011-2020

In production sectors, small and medium-sized manufacturing enterprises in the tobacco product sector had the lowest overall loss rate (14.0% in 2020), while the loss rate of small and medium-sized manufacturing enterprises in the remaining sectors was consistently high in 2011-2020.

For small and medium manufacturing enterprises in Vietnam, ROA has fluctuated up and down, reaching the highest value of 23.7% (2020) and the smallest value of 4.26% (2018) but generally increased over time (Figure 4).

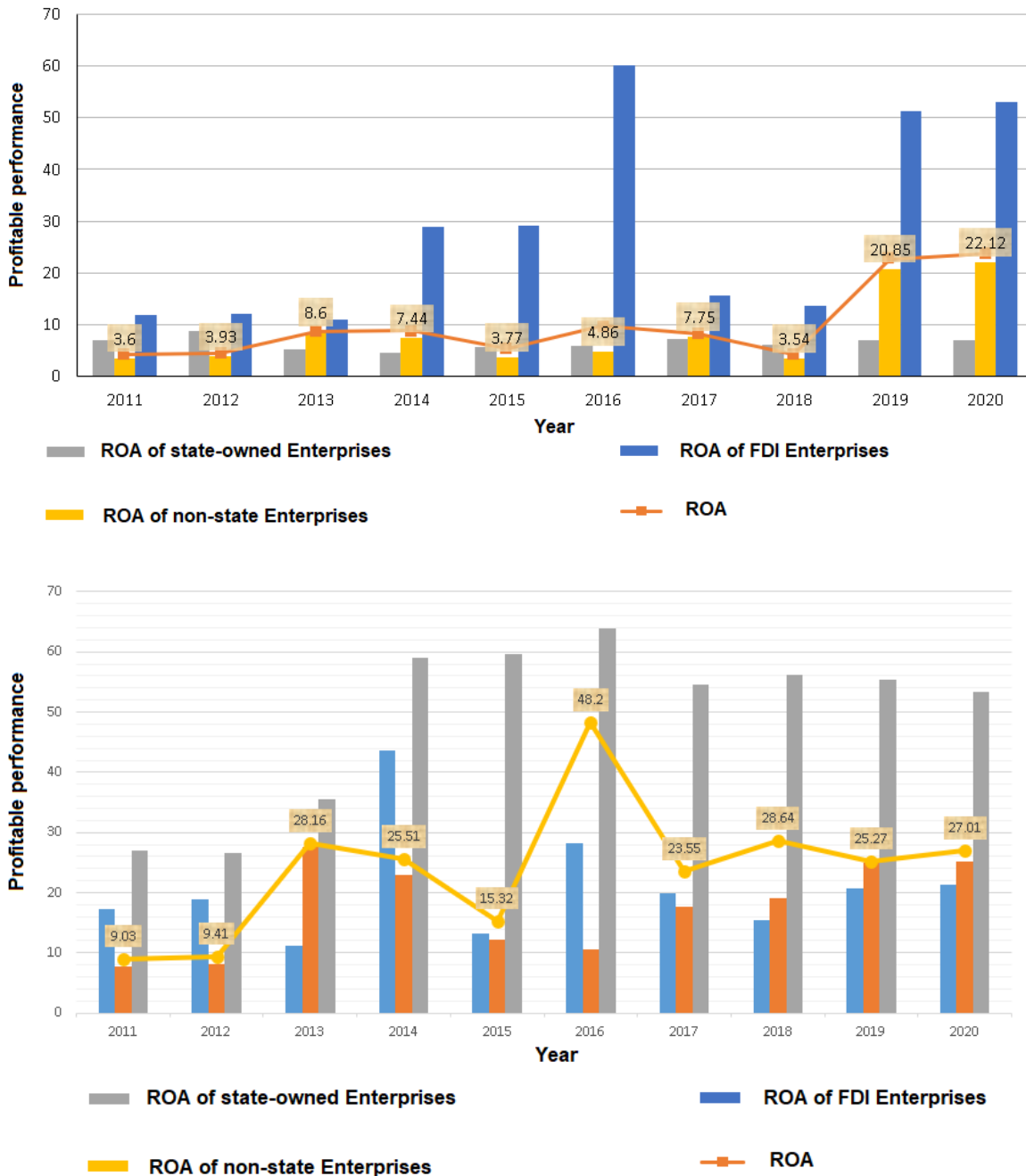


Figure 4: Yield Performance on Assets, Equity, and Revenue of Small and Medium Manufacturing Enterprises in Vietnam, 2011 - 2020

Source: Calculations from the Enterprise Survey for the years 2011-2020

From 2011 to 2020, the trend of the roe index of small and medium enterprises in Vietnam is similar to the evolution of the ROA index when increasing from 9.03% in 2011 to 27.01% in 2020 (Figure 4).

From 2011-2020, the ROS of Vietnam's small and medium manufacturing enterprises tended to increase from 3.1% in 2011 to 8.01% in 2020 (Figure 4).

- *In terms of revenue, labor productivity, and the average income of small and medium manufacturing enterprises in Vietnam*

Figure 5 shows that the average revenue of small and medium-sized manufacturing enterprises in Vietnam from 2011 to 2020 shows that the average revenue has increased steadily over the years, in which the average revenue of FDI enterprises is always at a higher level than the national average, the state enterprises have higher average revenue for non-state enterprises.

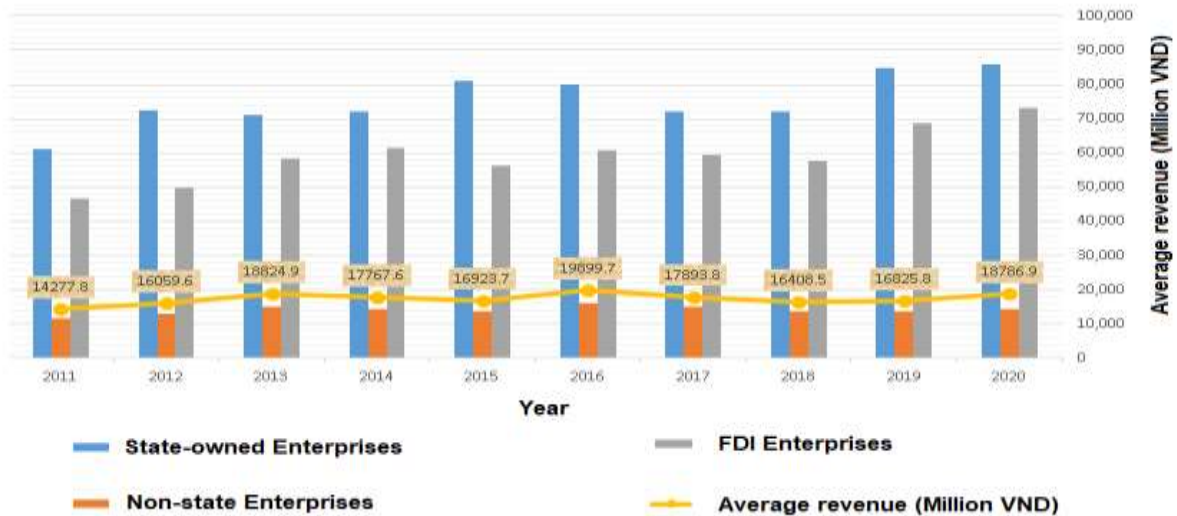


Figure 5: Average Revenue of Small and Medium Manufacturing Enterprises in Vietnam, 2011 - 2020

Source: Calculations from the Enterprise Survey for the years 2011-2020

Figure 6 shows that the average labor productivity of small and medium-sized enterprises in Vietnam from 2011 to 2020 shows that the average labor productivity has increased steadily over the years, in the average labor productivity of non-state enterprises is higher than that of FDI and SOEs.

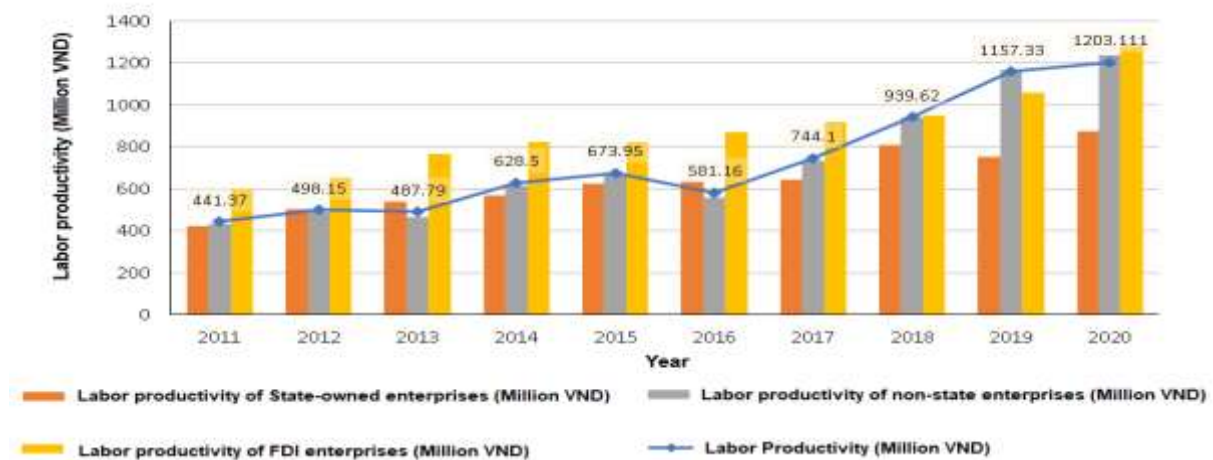


Figure 6: Labor Productivity of Small and Medium Manufacturing Enterprises in Vietnam, 2011 - 2020

Source: Calculations from the Enterprise Survey for the years 2011-2020

Figure 7 shows that the average labor income of small and medium manufacturing enterprises in Vietnam from 2011 to 2020 shows that the average labor income has increased steadily over the years, in the average labor income of non-state enterprises is higher than that of FDI and SOEs.

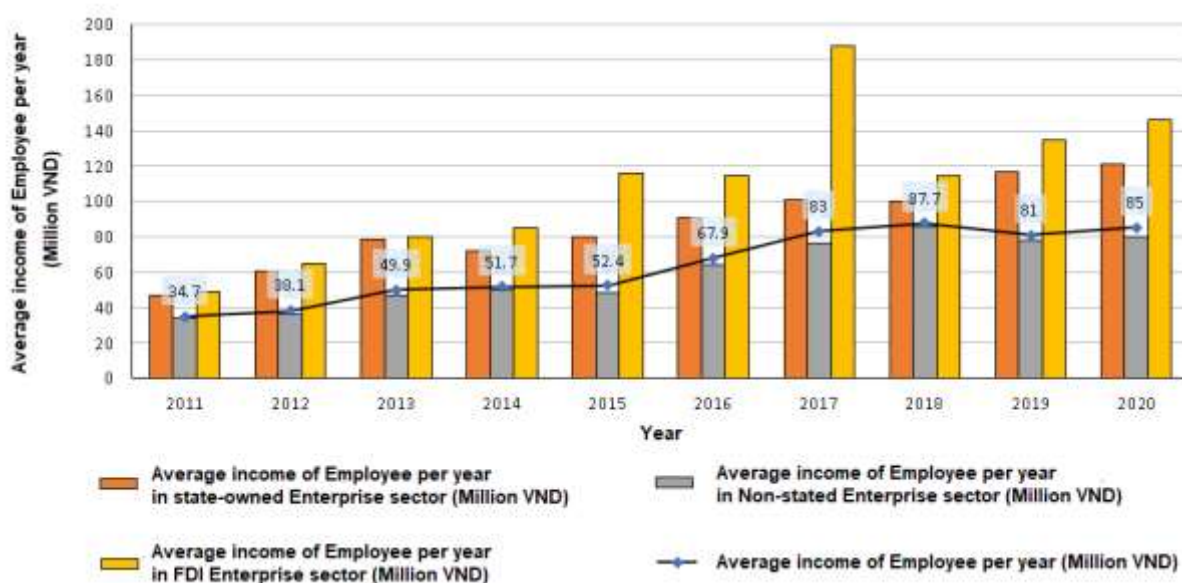


Figure 7: Average labor income of small and medium manufacturing enterprises in Vietnam, 2011 – 2020
(Source: Calculated from the Enterprise Survey in 2011-2020)

The Impact of the Covid-19 Epidemic on Access to Finance of Small and Medium-Sized Vietnamese Manufacturing Enterprises

The Difficulties of Small and Medium-Sized Enterprises in the Current Context

Currently, enterprises in the country and small and medium-sized manufacturing enterprises face many challenges in the face of the international socio-economic context and the complicated global epidemic.

Firstly, regional and international integration is taking place extensively. In addition to creating small and medium enterprises, Vietnam has a more favorable business environment, opportunities to acquire superior production technology, and export opportunities. However, it also poses challenges, typical of fierce competition in the market and the ability to respond to the rapid pace of transformation of the economy in the integration process.

Secondly, the problem of climate change (climate change), sea-level rise with many natural disasters, and extreme weather are increasingly intense, causing impacts on all aspects of production enterprises, especially causing difficulties for small-scale enterprises such as increasing production costs, capital costs, reducing production capacity, complicated inputs, reducing demand.

Thirdly, the fourth industrial revolution with great opportunities and challenges in the improvement and innovation of management methods, high-quality labor resources, investment in advanced technology lines, and improving quality to compete with foreign products.

Fourthly, while the US-China trade war is creating many opportunities and challenges for Vietnam's export market, only a little later, the Covid-19 epidemic occurred and spread rapidly around the world, causing the global economy's purchasing power to decline, limiting international trade, and almost frozen export activities. Many agricultural, forestry, and fishery

products need help exporting to China, Korea, Japan, the US, the EU, and ASEAN markets. Enterprises in textiles, leather, paper, and wood products are seriously affected by the decline in domestic and international consumer demand. In March 2020, many US and EU enterprises announced the suspension of orders for textiles and woodwork from Vietnam. Many enterprises have had to close, and not a few have been dissolved. It can be said that the Covid – 19 epidemic has hit hard, disrupting the global supply chain, and causing heavy damage to DNSX, minimal and medium-sized areas, because of thin capital and all resources are not strong enough.

Fifthly, most recently, the war of conflict between Russia and Ukraine. Russia and Ukraine are Vietnam's long-standing and essential trading partners in the Asia-Europe region. This conflict is increasing the price of some unique goods to produce raw materials and fuel. If this conflict persists, it will seriously affect bilateral trade between Vietnam and these two countries.

The Impact of the Covid-19 Pandemic on the Operation of Small and Medium-sized Manufacturing Enterprises in Vietnam

The Covid-19 epidemic, since the beginning of 2020, has seriously impacted the production and business of businesses and pushed the world economy into recession. Like other countries, Vietnam has been hit hard by this global epidemic. In the 2020 Socio-Economic Situation Report of the General Statistics Office, the gross domestic product (GDP) in 2020 increased by 2.91%, the lowest increase of the year in 2011-2020. Most national economic sectors, such as accommodation, catering, travel, passenger, and freight services, were seriously affected.

The Covid-19 epidemic has generally had a very negative impact on businesses in Vietnam. According to the Vietnam Chamber of Commerce and Industry report in October 2020, 87.2% of small and medium-sized enterprises reported being affected at "largely negative" or "completely negative." Only 11% of businesses said they were "unaffected," and about 2% noted an "entirely positive" or "largely positive" impact.

The impact of the Covid-19 on small and medium-sized manufacturing enterprises in some industries is enormous such as Garment (97%), Communications (96%), Electrical equipment manufacturing (94%), Rubber and plastic processing manufacturing (82%), Other services (81%), Finance, insurance (80%), Mining (80%), Paper processing manufacturing (76%), and Real estate (76%).

The Covid-19 impacts businesses in Vietnam in many ways. Most enterprises report that the Covid-19 epidemic has affected access to customers, directly affected the cash flow, and affected the labor and labor issues of the enterprises. The supply chain of many enterprises has been disrupted, from reducing orders, reducing production, having to delay, stretching the investment schedule even canceling projects that are or will be implemented. Businesses are also incurring additional costs for the Covid-19 prevention. Many cases said they were interrupted, suspended, or even stopped due to the trading situation. They stood on the verge of bankruptcy because of the sudden drop in market demand, leading to reduced revenue and risks of debt recovery and insolvency. Specifically, for small and medium-sized manufacturing enterprises, the impact ratio is customer access (50%), cash flow (46%), labor (38%), and supply chain (33%), respectively.

The survey results also show that in order to hold out before the epidemic, 35% of small and medium-sized manufacturing enterprises have sent workers off work. Small private enterprises have the highest proportion of this measure, at 36% and 35%, respectively. The highest

percentage of small and medium-sized manufacturing enterprises cut personnel for the information and communication industries, motor vehicles, and leatherworking production.

Solutions to Develop Small and Medium-Sized Vietnamese Manufacturing Enterprises in the Coming Time

Creating a Favorable Business Environment

Consistently exercising the people's right to freedom of business is the driving force and goal of social development, protecting that right by a system of strict, unified, and inclusive legislative and law enforcement agencies.

The State should continue to improve market economy institutions for the operation of enterprises in general in the direction of creating conditions for enterprises to quickly enter and withdraw from the market, ensuring equality among economic sectors.

Construction of a Separate Legal Corridor for Small and Medium-Sized Enterprises

The aim is to create favorable conditions for the operation of small and medium-sized enterprises, helping to improve competitiveness and create more jobs and income for the working class. This separate legal corridor must not conflict with commercial or competition law and other laws.

Finalize the Law on Support for Small and Medium Enterprises and Relevant Legal documents

The central and local ministries should quickly review the implementation of the Law on Support for Small and Medium Enterprises approved by the National Assembly in 2017 to evaluate and propose amendments and supplements to remove difficulties and obstacles in the implementation of the Law on Small and Medium Enterprises, creating conditions for SMEs to participate more effectively in regional and global supply chains.

The Ministry of Finance should soon issue a Circular guiding the mechanism of using state budget funds to support small and medium-sized enterprises as stipulated in Decree No. 80/2001/ND-CP of the Government to ensure the synchronization of legal documents, allocate state budget funds to support small and medium-sized enterprises.

The Ministry of Finance shall coordinate with the State Bank of Vietnam and local authorities to consolidate the apparatus and strengthen the financial capacity of the Local Credit Guarantee Fund to ensure guarantee activities for small and medium enterprises to borrow capital at credit institutions following the provisions of Decree No. 34/2018/ND-CP of the Government on the establishment, organization and operation of the Credit Guarantee Fund for Small and Medium Enterprises.

The State Bank of Vietnam proposes appropriate policies for credit institutions to focus loans to SMEs. The Ministry of Justice accelerates the implementation of Decree No. 55/2014/ND-CP and the Interdepartmental Legal Assistance Program for Small and Medium Enterprises 2021-2025.

The Ministry of Natural Resources and Environment shall study and amend the 2013 Land Law and its guiding documents by the provisions of the current law on supporting small and medium-sized enterprises in the direction of prioritizing the arrangement of land for the formation and development of industrial clusters, agro-processing zones, aquatic products, and concentrated seafood for small and medium-sized enterprises; facilitate small and medium-sized enterprises to access and lease land in industrial parks and clusters, and study solutions to support ground rents for small and medium-sized enterprises and innovative start-ups.

Furthermore, increasing investment attraction, financial support for product development, technology application, and innovation fund. Financial barriers are one of the main reasons enterprises do not invest in technological innovation, as well as a problem that hinders the ability of researchers to develop science and technology. Therefore, investing in the Product Development Fund and Innovation Fund and providing financial support such as funding, loans, and tax reduction is necessary. For enterprises that can afford to apply advanced technologies, pioneering the development trends in the world. In addition, more attention should be paid to individuals or scientific research organizations, creating conditions to increase resources such as investment in infrastructure, and information networks, creating technology parks and start-up incubators, helping these subjects have the basis to conduct research and manufacture technologies for domestic production and business.

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