



Delegation of the European Union to Vietnam



SME SECTOR AND THE EVFTA

A READER PREPARED FOR ROUNDTABLE SERIES ON EVFTA, EVIPA AND POST-COVID-19
ECONOMIC RECOVERY IN VIETNAM

Hanoi, March 2021

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This report has been produced with the assistance of the European Union.
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ACRONYMS

ASEAN	Association of South East Asian Nations
CPTTP	Comprehensive and Progress Agreement for Trans-Pacific Partnership
DN	Doanh nghiệp
EVFTA	European Union (EU) – Vietnam Free Trade Agreement
EU	European Union
FDI	Foreign Direct Investment
GDP	Gross Domestic Product
GSO	General Statistical Office
MPI	Ministry for Planning and Investment
OECD	Organization for Economic Cooperation and Development
PCI	Provincial Competitiveness Index
SME	Small and Medium-Sized Enterprises
SOE	State-Owned Enterprises
CPTPP	Comprehensive and Progressive Agreement for Trans-Pacific Partnership
VCCI	Vietnam Chamber of Commerce and Industry
WTO	World Trade Organization
HCI	Human Capital Index
IFC	International Finance Corporation
SMEDF	SME Development Fund
AED	Agency of Enterprise Development
TAC	Technical Assistant Center
VC	Venture capital
PE	Private equity
IPR	Intellectual property right
STI	Science, technology, and innovation

INTRODUCTION

In the last three decades, the SME sector in Vietnam has grown exponentially. The number of registered businesses has dramatically increased, reflecting both the formalization of existing household businesses as well as the creation of new firms. The rise in the number of SMEs has resulted in a dramatic growth in the capital stock of private sector enterprises. SMEs have been a key contributor to Vietnam's economic growth in recent years by creating jobs, contributing to poverty reduction, improving living conditions, and inclusive and sustainable growth in Viet Nam. SME sector in Viet Nam has benefited significantly from international trade agreements which Vietnam have adhered to in the last three decades. The EVFTA, a new generation trade agreement, is expected to offer both incentives and pressure for the SME sector in Vietnam to grow faster, become more competitive and to overcome the inherent constraints that they are currently facing.

The SME sector in Vietnam are expected to lift themselves to a higher technical, social and environment standards and performance level in order to reap the benefits, especially in terms of market expansion and lower tariff, brought about the EVFTA. The SME sector in Vietnam will also benefited from a wider and deeper exchange with European businesses and institutions. This will be very supportive for the transfer of knowledge, expertise, know-how, skill and technology from European businesses to Vietnamese SMEs. Innovation among Vietnamese SMEs are believed to be promoted thanks to more effective enforcement of intellectual property regulations, to the cross-investment between European and Vietnamese SMEs and to the efforts of Vietnamese SMEs to innovate to meet the complex needs and demands of European investors.

According to EuroStat, SMEs accounted for 98 % of exporting enterprises in the EU in 2018. The EVFTA are expected to bring benefits and opportunities for European SMEs as well. The EVFTA will open new market opportunities for European businesses, especially SMEs. SMEs in many sectors in the EU will have much easier access to the more than 90 million Vietnamese consumers. Products of European SMEs in Vietnam market will become more price competitive as Vietnam will eliminate all its existing export duties besides the removal of tariff. Other benefits for European SMEs thanks to the EVFTA include more effective enforcement of intellectual property rights as required by the EVFTA resulting in better protection of the trademark, brand, copyrights, etc. of products by European SMEs, a more simplified and more transparent import and export licensing procedures.

In such a context, the EU Delegation to Vietnam organizes a series of roundtables on economic and business development in the context of a post-Covid-19 world and the EVFTA. This is the third of the series is with the theme "SME Sector in Vietnam and the EVFTA". The roundtables are to be implemented by EU Delegation in Vietnam under the framework of the EU-Vietnam Partnership Facility (EVPF). This reader, which is prepared by Dr. Le Duy Binh and Dr. Tran Thi Phuong under an agreement between Economica Vietnam and GOPA and, is to provide background information for the roundtable.

I. OVERVIEW OF SME SECTOR IN VIETNAM

1. Growth of the SME Sector in Viet Nam

According to the SME Support Law (2017), small and medium-sized enterprises (SMEs) in Viet Nam are defined by two criteria: the annual average number of workers, and the total value of the enterprise's capital (or its total revenue, as identified in the enterprise's balance sheet). These criteria are applied differently in the two main groups of enterprise sectors in Viet Nam: (1) agriculture, forestry and fisheries and industry and construction; (2) trade and services. Table 1 gives details on SME definition based on Decree No. 39/2018/NĐ-CP under the SME Support Law.

Table 1. Vietnam SME Definition

Enterprise Size	Indicator	Sector	
		Agriculture, forestry, and fishing Industry and construction	Trade and services
Micro	<i>Either</i>		
	Total revenue	< VND 3 billion	<VND 10 billion
	<i>Or</i>		
	Total capital	< VND 3 billion	<VND 3 billion
	Employees	≤ 10	≤ 10
Small	<i>Either</i>		
	Total revenue	< VND 50 billion	<VND 100 billion
	<i>Or</i>		
	Total capital	< VND 20 billion	<VND 50 billion
	Employees	≤ 11-100	≤ 11-50
Medium	<i>Either</i>		
	Total revenue	< VND 300 billion	<VND 300 billion
	<i>Or</i>		
	Total capital	< VND 100 billion	<VND 100 billion
	Employees	≤ 101-200	≤ 51-100

Source: Decree No. 39/2018/NĐ-CP on the Implementation of SME Support Law

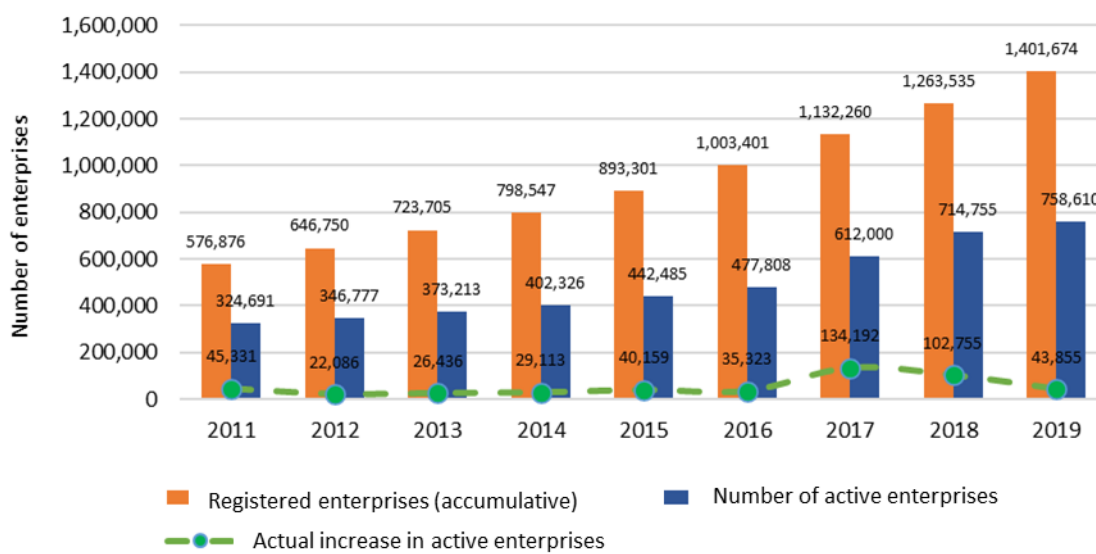
Over the last three decades, the number of registered enterprises has increased significantly, reflecting both the formalization of household businesses as well as the creation of new ones. Formally registered enterprises were non-existent before 1990 as the laws simply did not allow the establishment of private sector enterprises. The first private enterprises were established in 1991 after the Sole Proprietorship Law and Company Law were promulgated in 1990. But establishing a private company was both complicated and prohibitively costly during that time. Within 9 years after the laws were introduced until 1999, only 14,500 private enterprises were established.

The epochal Enterprise Law adopted in 2000 triggered a rapid growth in the number and size of private enterprises. It eased restrictions and conditions in market entry. Since then, the number of enterprises has increased at an amazing rate. By the end 2019, more than 1.4 million SMEs have been registered. In 2019 alone, more than 38,000 SMEs were registered. Despite the impact of Covid-19, 111,000 SMEs with total registered capital equivalent to USD 67 billion were registered in the first 10 months of 2020, promising to create 850,000 new

jobs in the years to come. Capital registered by SMEs in the first 10 months of 2020 are six times higher than the registered FDI capital inflow into Vietnam in the same period.

The exponential growth of the SME sector in Vietnam demonstrates the strong entrepreneurship of Vietnamese people, and that such entrepreneurship has been recently boosted by the liberalization and reforms in the introduced in the country’s legal framework for business and SME development.

Figure 1. Cumulative number of registered enterprises, active enterprises, and actual annual increase of active enterprises



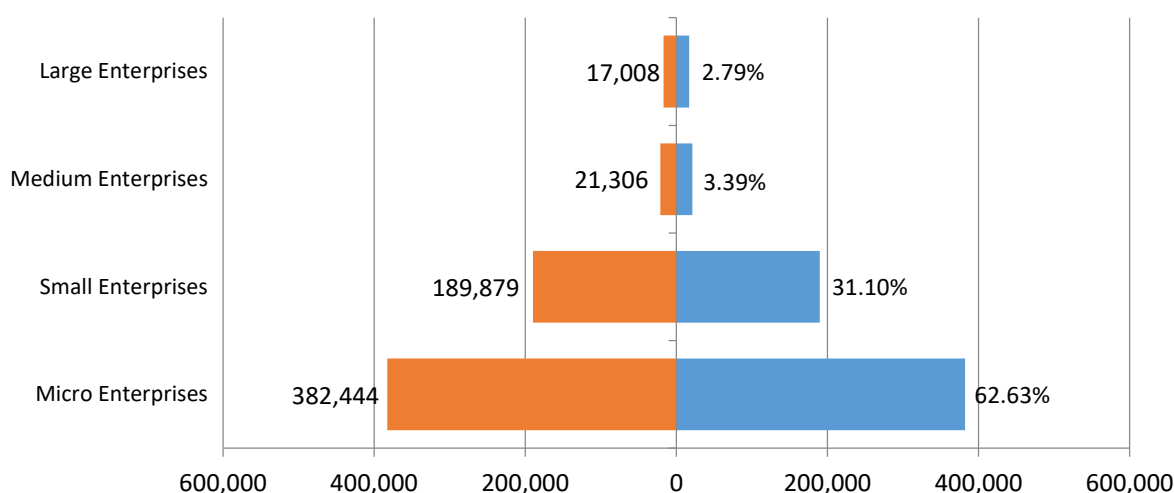
Source: *General Statistics Office (2020), MPI (2020)*

The rapid growth in number helps to increase the incidence of SMEs over 1,000 population. In 2019, the country has an average of 8 operating enterprises per 1,000 people, enabling Vietnam to gradually reach ASEAN average. Eight out of 63 provinces have a higher density of active enterprises per 1,000 people than the national average, including Ho Chi Minh City, Hanoi, Da Nang, Binh Duong, Hai Phong, Khanh Hoa, Ba Ria – Vung Tau, and Bac Ninh.

However, the gap between the number of registered enterprises and those that are actually active (or alive) is widening. This indicates a challenging business environment for most of the private enterprises in Vietnam. According to GSO, approximately 758,000 SMEs were active in 2019. This represented only 54.1 % of the total number of SMEs which had been registered until 2019. Figure 1 also shows a widening gap between the number of the enterprises that are registered and the actual increase in number of annual active enterprises over years. It is important to note that this gap has been widening in recent years.

In terms of composition by size, the Enterprise White Book released by MPI in 2020 disclosed that by January 2019, of the enterprises captured in annual survey by the General Statistics Office (GSO), the country counted 382,444 micro-enterprises (accounting for 62,6%), 189,879 small enterprises (accounting for 31.1%) and with the remainder of medium and large accounting for a total of 6% of the total number of Vietnamese enterprises (Figure 2).

Figure 2. Viet Nam’s enterprise structure by size and the “missing middle”



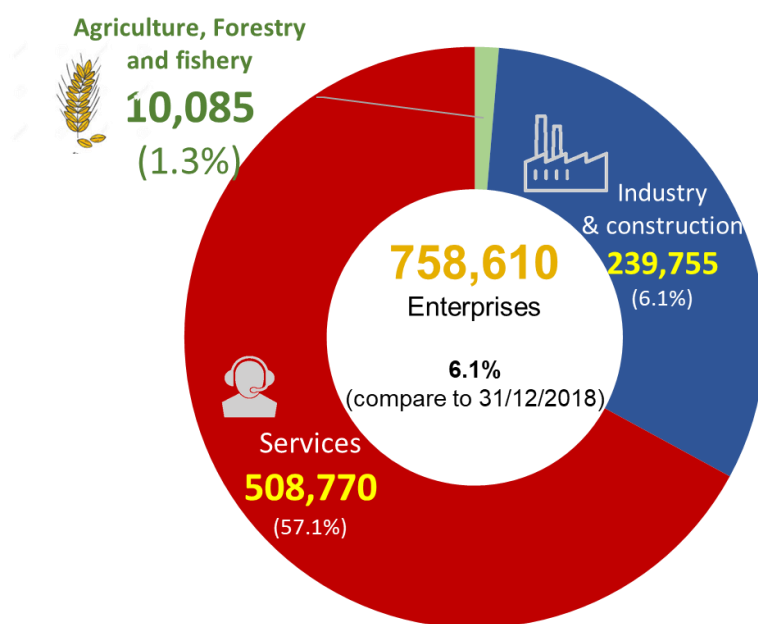
Source: Ministry of Planning and Investment (MPI) (2020)

** Data is as of January 2019. In number of enterprises and by the percentage of the total enterprises*

Despite the impressive growth in quantity, the size of SMEs in Vietnam is small. Vietnamese enterprises, especially micro and small one, are slow to grow in size. Upgradation is a critical issue in Vietnamese SME sector due to constraint in the business environment, accessibility to capital and finance, human resources, managerial skills, access to market, technology and innovation capacity, etc. Due to limited upgradation, the SME sector in Vietnam is facing the “missing middle” phenomenon, i.e., the lack of mediums-sized enterprises. From SME development perspective, the “missing middle”, i.e., the lack and absence of medium-sized enterprises, is a big concern. The lack of medium enterprises has proven challenging in the efforts of private enterprises to bridge the missing middle and grow into larger corporations or create international brands (Light Manufacturing in Viet Nam, Hinh T. Dinh, World Bank, 2013). In Vietnam, there were only 21,302 medium-sized enterprises in the entire country as of 2019. This represents a proportion of merely 3.39% of total SME population in Vietnam. The proportion is much lower than that in other countries with sounder SME composition structure. For example, in Thailand, Taiwan, South Korea, the proportion range from 8%-15%. By sector, as of end of 2019, 508,770 enterprises (67.1%) are in service sector, 239,755 enterprises (31.6%) in industry and construction, and enterprises SMEs (1.3%) in agriculture and forestry. Agriculture and forestry remain the least attractive sector for SMEs and the number of enterprises which are active in this sector even decrease by 6.3% in 2019 as compared with that in 2018¹. SME are more numerous in the service sector.

¹ Enterprise White Book 2020, MPI (2019).

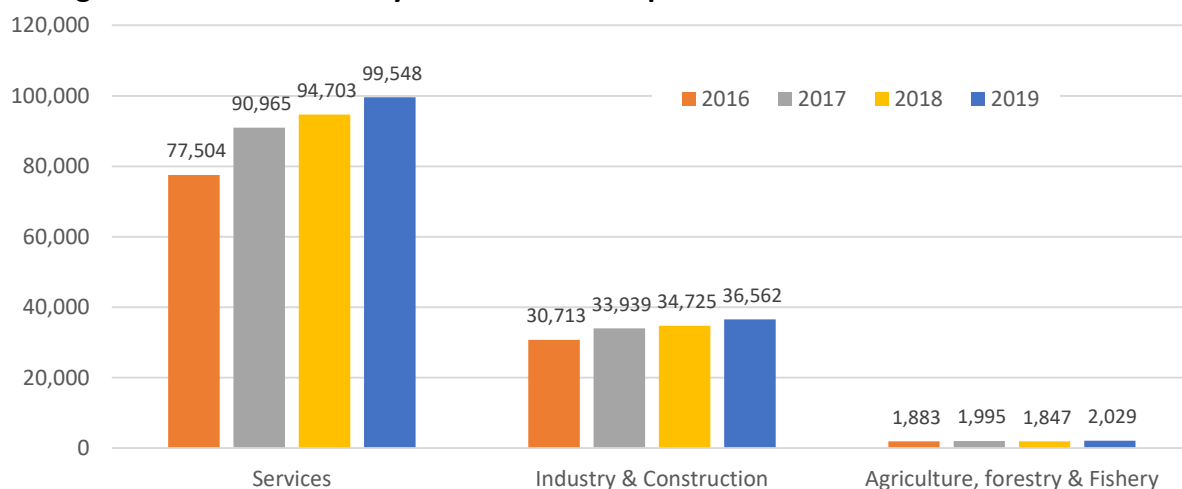
Figure 3. Number of Active Enterprises by Sector in 2019



Source: Ministry of Planning and Investment (2020)

Trade and service sectors are most attractive to SMEs. SMEs are more concentrated in services and trade and then followed by manufacturing and construction. This trend is also demonstrated by the number of newly registered enterprises in recent years as in the table below. In 2019, the service sector counted 99.5 thousand newly established enterprises, accounting for 72% of the total number of newly-established enterprises and an increase of 5.1% compared to 2018. This is followed by the industry and construction sector with 36.6 thousand enterprises, accounting for 26.6% of total and with an increase of 5.3%. Only more than 2,000 enterprises are registered in agriculture and forestry sector in 2019.

Figure 4. Number of newly-established enterprises in three main economic sectors



Source: The White Book on Vietnamese Enterprises 2020, (MPI, 2020).

2. Contribution of the SME Sector

The SME sector is the main contributor to job creation, poverty reduction, improved living conditions, and inclusive and sustainable growth. SMEs created 5.98 million jobs in 2010 and the figure soared to 8.8 million in 2018. On average, the SME sector created about 280,000 new jobs annually in the last decade. SMEs contributed about 45% of GDP and 31% of the State’s total budget revenue according to the Ministry of Planning and Investment (MPI).

Employment generated by the private sector enterprises has helped millions of workers to shift away from lower-paid jobs in the farm sector to jobs in more productive ones and those that are higher paying (see more details on the section on employment below). Furthermore, the development of the business sector contributes significantly to the expansion of the social insurance coverage with the rate of the labour force at the working-age covered by social insurance increasing from 28.4% in 2017 to 32.5% in 2019.

Business and entrepreneurship development have contributed significantly to women's economic empowerment, especially through job opportunities and income sources. Jobs play an important role for women to improve women’s status in the family and the community. It also helps women to strengthen their autonomy in decision making and in having their voices heard. In 2018, 46.7% of the employment in the whole formal enterprise sector were women. The share of female workers in the private sector SMEs is 38.7%.

Figure 5. Number of female employees by business sectors

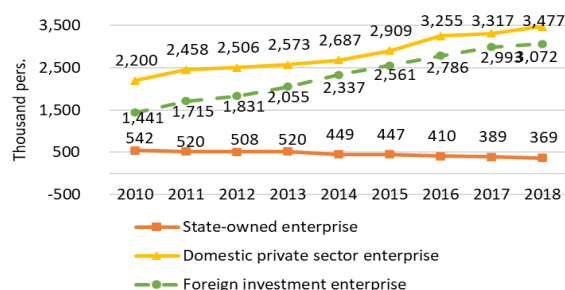
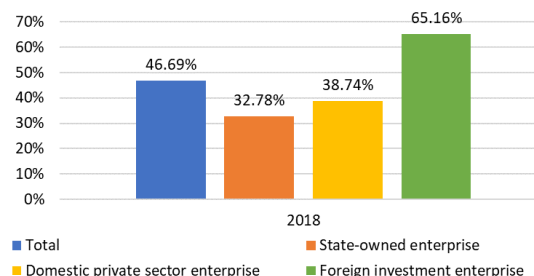


Figure 6. Female employee percentage by business sectors



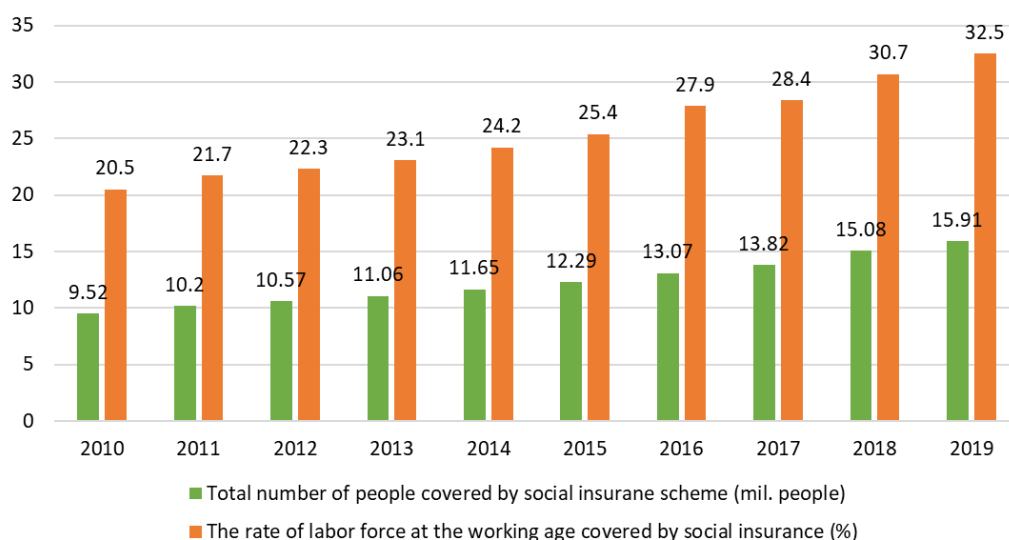
Source: GSO (2020)

According to MOLISA, businesses owned or led by women increased from 30,75% in 2011 to 31,44% in 2015. It then decreased to 26.54% in 2018. Despite the decrease, the percentage is compared favorably with the average of 8% in South Asia. About 5% of CEO of companies listed on the national stock exchanges are women. These numbers are encouraging. Women have taken a stronger role in leadership and management in companies². Viet Nam has been witnessing the rise of a prominent and influential female CEO, managers, and business owners of medium-sized companies, for example, the presidents or CEOs of Kova Paint, Nutifood, VN Direct, HD Bank, PNJ, REE, etc. These businesswomen are no less influential and inspiring than their male counterparts in the country.

² For example, women leaders in FPTSoft account for 31% of total leadership in the company (FPTSoft, 2018).

Private sector SMEs contribute significantly to the expansion of the social security coverage. With the total number of workers in State-owned Enterprises (SOEs) declining and the number of workers in the public sector remaining stable between 2010–2019, private sector SMEs have been playing the key role in increasing the number of people being covered by social insurance from 9.2 million in 2010 to 15.91 million in 2019. On average, each year social insurance coverage is expanded to cover 638,000 new workers, and the majority of these are working in private sector SMEs (Vietnam Social Insurance, 2020).

Figure 7: Social insurance and unemployment insurance coverage

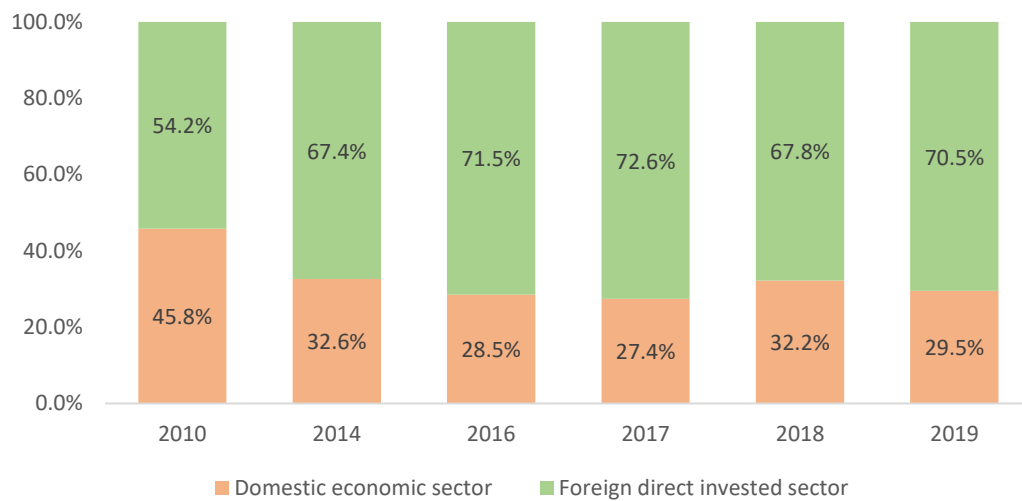


Source: *Vietnam Social Insurance (2020)*

Vietnam is performing well in export, even in 2020 when the economy is hit hard by Covid-19. Exports by the SME sector contributed significantly to the growth of the sector with an increasing number of SMEs export directly to foreign market. However, the share of domestic private sector enterprises, including that of SME, has been plummeting in the last few years and the economy heavily depends on exports by the foreign enterprises. Statistics show that the private sector in Viet Nam dominates the share in exports, a key driver of growth in Viet Nam in the last few decades. However, the share of domestic private companies and SMEs in total export is decreasing fast.

This aspect of internationalization of Vietnamese SME is a concern as domestic private companies are weak when it comes to international trade and therefore fail to reap the benefits brought about by international trade agreements, which Viet Nam has adhered to. According to GSO, the total share of export by domestic enterprises (in which private-sector SMEs is a subset) have declined rapidly from 45.8% in 2010 to 29.5% in 2019.

Figure 8. Share of export by FDI sector and domestic business



Source: *Vietnam General Statistics (2020)*

In addition, the linkage between domestic private SMEs, FDI sector, SOE and Global Value Chain remains weak. This lack of linkage and cooperation results in the phenomenon of “three economies in an economy”. According to VCCI (2019), a very limited number of Vietnam SMEs are supplying to FDI enterprises in Vietnam or are being part of the global supply chains. For example, as of June 2020, Samsung total investment into Vietnam reached USD 17.3 billion but only 42 enterprises based in Vietnam are tier-1 supplier to Samsung. But it should also be noted that the majority of these Vietnam-based enterprises are FDI companies in Vietnam. Only a handful of Vietnamese SMEs have become supplier to Samsung in Vietnam.

Furthermore, there is limited purchase and procurement by large enterprises, SOEs, and FIEs from small enterprises. SOEs and larger enterprises fail to provide the high-quality raw materials and machinery that small enterprises need to produce for their products (especially in higher valued added areas, e.g., production of mold, spare parts, etc.). Technology transfer between FIEs and domestic enterprises is insignificant. The fragmentation and lack of interaction are problematic because they limit the ability to source inputs, new technologies, expertise, and so on domestically, preventing the economy from becoming more productive.

II. EVFTA AND ITS IMPLICATIONS FOR THE VIETNAMESE SME SECTOR

Vietnam’s business sector has benefited significantly from the expansion of international trade in the last three decades. It is strongly believed that the EVFTA, a new generation free trade agreement, will bring about tremendous benefits for the SME sector in Vietnam.

1. A more enabling business environment - a result of reforms triggered by the EVFTA

The EVFTA will create an important impetus for Vietnam to accelerate reforms in business environment, investment climate and trade. Vietnam has committed to a wide range of

regulatory reforms in the EVFTA and is committed to implementing such reforms in 2020 and in the year to come. In a recent meeting with European and Vietnamese business, the Office of the Government disclosed that Vietnam will implement a comprehensive program to reform administrative procedures and the business environment³. The reforms will be in support of both Vietnamese, European and other foreign businesses and in light of FTA like the EVFTA. Important regulatory reforms will ensure consistent and predictable regulations for investment, import and export, cross-border trade, cross-border service provision, market entry, access to resources, government procurement, labor, etc. Vietnamese SMEs will benefit from a more enabling business environment to which the EVFTA has made and will continue to make important contribution.

2. Spurring internationalization of Vietnamese SMEs and boosting its growth

It is widely believed that the EVFTA will help to promote internationalization of Vietnamese SMEs and to boost the growth of the sector through expansion of international markets and business opportunities. Reality shows that international investment and trade agreements are critically important for SME internationalisation. And internationalization benefits SMEs in many ways as it has proven in Vietnam in the last few decades. In Vietnam, SMEs often use internationalization as a tool to grow and achieve economies of scale that would not be possible while operating in the domestic market alone.

In benchmarking with the definition by APEC and international organization, in internationalization, Vietnamese enterprises are mostly involved in international trade (which include direct exporting and direct importing) and being subcontractors to foreign enterprises by integrating into the global value chains.

2.1. Strengthening SME internationalization through increase in trade

The EVFTA is expected to increase the number of SMEs which participate directly in international trade and also to the share of domestic business and SMEs in total export of the country. The EVFTA help SMEs to diversify markets and exports, particularly agricultural and aquatic products as well as Vietnamese products in which SMEs have competitive advantages. Statistics show that SME sector in Vietnam contributed tremendously to Vietnam international trade. In the last few decades, Vietnam's export market has provided huge opportunities for Vietnamese SMEs in selling their products and services. SMEs in Vietnam has contributed significantly to exports which was estimated at USD 246.2 billion in 2019 and the imports of goods at USD 253 billion in 2019. SMEs also import directly from input market to produce for the 96 million consumer market in Vietnam and for the expanding export market. According to the Vietnam Customs Office, about 85,600 Vietnamese SMEs are involved in direct importing and direct exporting activities. In other words, about 11.5% of SMEs in Vietnam participate in international trade⁴. This figure is much lower than the figure of about

³ <https://congthuong.vn/cai-cach-toan-dien-moi-truo-ng-kinh-doanh-thu-tuc-hanh-chinh-139719.html>

⁴ Vietnam General Department of Customs (2019) and MPI (2019).

46% in Malaysia. Exports by SMEs in Vietnam account for only 20% of total export (VCCI, 2018). These figures can be increased with the support of free trade agreement like the EVFTA.

The EVFTA offer tremendous market opportunities for Vietnamese SMEs with much lower tariff, benefiting both SME exporters and importers. According to the Ministry of Industry and Trade, the EU is currently the second-largest export market of Vietnam. In 2019, export turnover to the EU will hit about 41.8 billion USD. After the EVFTA comes into force, 85 percent of Vietnam's export tariff lines to the EU will be abolished, equivalent to 70.3 percent of export turnover. The number of tariff lines removed after seven years of this agreement will be more than 99 percent, equivalent to 99.7 percent of Vietnam's export turnover. This will be a great opportunity for Vietnam's SME exporters to increase their market share in the EU. For exporters coming from the EU, Vietnam will eliminate 48.5% of tariff lines (accounting for 64.5% of the total import value). After ten years, tariffs will be eliminated on about 98.3% of tariff lines which account for 99.8% of total import value. For the remaining of EU tariff lines, Vietnam could apply tariff quotas in compliance with the World Trade Organization (WTO) commitments. Vietnamese SME importers will benefit from this as well.

The SME sector will benefit from the broad-based benefit to Vietnamese economy as result of the EVFTA. According to a research of MPI on the impact of EVFTA on Vietnam's economy, if the commitment to cutting down tariffs are fully implemented, the EVFTA will contribute to increase GDP of about 2.18% to 3.25% on average (for the first five-year period of implementation), about 4.57% to 5.30% (for the next five-year period) and about 7.07% to 7.72% (for the following five years after that). The EVFTA is expected to increase exports of Vietnam to the EU by about 42.7% by 2025 and 44.37% by 2030 in comparison without implementation of the EVFTA. Regarding to total exports of Vietnam to the world, total exports are also expected to rise on average about 5.21% to 8.17% (for the first five-year period of implementation), about 11.12% to 15.27% (for the next five-year period) and about 17.98% to 21.95% (for the following 5 years after that). Obviously, SMEs which are accounting for 98% of the enterprises sector in Vietnam will benefit significantly from this economic growth and export expansion.

2.2. Strengthening SME internationalization through higher participation in GVCs

The European Union is one of the most important foreign direct investors in Vietnam. According to the Foreign Investment Agency of the Vietnamese Ministry of Planning and Investment, the EU has committed to invest US\$24.6 billion into 2,235 projects over the past 29 years (by the end of 2019).

European investment tend to benefit more local suppliers which are mostly SMEs by outsourcing to and purchasing from them. For example, Piaggio Vietnam, an assembler of the scooters, motorcycles, said that they have localization rate of 89% for Vespa and 84% for Piaggio Liberty with 98 domestic suppliers and 78 foreign suppliers. The rates of Piaggio

Vietnam are higher when compared with other manufactures working on the similar ranges of products⁵.

Increased European trade and investment, with the support of the EVFTA will enable Vietnamese SMEs to shift away from the fact that they are currently operating in isolation, engaging in production of unsophisticated goods and services. Joint-venture and cross investment between European and Vietnamese SMEs will also support cross-collaboration and integration of Vietnamese SME into the global chains, especially those in which European companies are acting as the lead firms in the GVCs.

Opportunities from the EVFTA are likely promote the development of SMEs in some sub-sectors which used to be less attractive for entrepreneurs and investors, e.g., agriculture and agro-processing. As mentioned in the first section of this background reader, the number of SMEs and their investment in agriculture and agro-processing is limited. Market opportunities brought by the EVFTA is likely boost the emergence of more SME in this sector. According to the Ministry of Agriculture and Rural Development, after two months that the EVFTA came into force, agro products export by Vietnam to EU rose to USD 766.3 million, with the month-on-month increase rate of 11.9% in August and 35% in September 2020⁶. Recent successes of some Vietnamese businesses like Vinh Hiep Ltd., Vina T&T Group, Dong Giao Food Export Ltd., etc. in exporting to EU will be very inspiring to Vietnamese SMEs and entrepreneurs. The investment by SMEs in agro-processing will be followed by other SMEs in Vietnam in supporting the agriculture, especially in supplying to agriculture, e.g., seedlings, breeding, digitalization solutions for bar-code, traceability, logistics, consulting companies in technical standards, social standards, etc. in order to meet the higher requirements by EU consumer markets and by the EVFTA.

3. Promoting the upgradation of the SME sector in Vietnam

To reap the tremendous potential benefits from an expanded market brought about by the EVFTA, Vietnamese SMEs are required to upgrade in order to meet the technical, social and environmental standards set for products and services in the EU market. Obviously, Vietnamese SMEs will be required to upgrade its production process, technology, managerial practices, labor standards, factory conditions to be eligible to be imported into EU markets. For example, an agro-processing SME will definitely have to improve farming techniques, agro-processing technology, factor conditions, branding and marketing, e-commerce platforms and overall managerial capacity in order to meet the requirements of European consumers.

In addition, Vietnamese SMEs will be subject to stricter requirements related to traceability, rules of origin, and geographic indications. SMEs will be under pressure to invest more into technology, production techniques, management of the production process. This investment in the long run will help to improve the competitiveness and operational efficiency of

⁵ Source: <http://baovinhphuc.com.vn/en/business/19290/piaggio-vietnam-confirms-the-vietbrand.html>

⁶ Source: <https://vietnamnet.vn/vn/kinh-doanh/thi-truong/hiep-dinh-evfta-co-hieu-luc-xuat-khau-nong-san-sang-eu-tang-manh-679630.html>

Vietnamese SMEs. Like elsewhere, internationally active SMEs in Vietnam are also found to grow faster than SMEs that focus only on their domestic market, especially right after entering the foreign market. The EVFTA will be an important contributor to faster growth of Vietnamese SMEs and to boost its productivity in that manner.

European investment and cooperation with local businesses will contribute to upgradation of Vietnamese businesses and SMEs. European investors in Vietnam invest significantly in human resources, expertise transfer and skill development. For example, Bosch has been laying a strong focus on training and expertise transfer to Vietnamese human resources right from the first days of its operation. Bosch is currently cooperating with the Department of Vocational Education and Training under the Ministry of Labor and Social Affairs, the Deutsche Gesellschaft für Internationale Zusammenarbeit (GIZ) and LILAMA 2 International Vocational Training College to implement an Industry 4.0, vocational training program to improve the capacity of Vietnamese engineers and workers to adapt to new technological changes and to the digitalization transformation process. The firm has cooperated closely with the Vietnam German University in training and research⁷.

The EVFTA and the EVIPA will promote cross-investment and cooperation between Vietnamese SMEs and European businesses. This will be followed by the transfer of technology, knowledge, expertise and skills from EU businesses to Vietnam. This will be one of the most important assets and gain for Vietnamese SMEs to grow and become more productive, more competitive. According to the Vietnam Engineering Business Association, “when working with European investor, Vietnamese businesses have better chance of winning sub-contracts with higher value and with higher level of technology transfer. European investors, unlike some other investors, often offer higher sub-contract value which is equivalent to 15-20% of the total contract. In addition, such contracts are conditioned on higher requirements applicable to Vietnamese businesses in terms of technical standards, social and environment norms, managerial capacity, worker skills, and technology transfer”⁸. This is obviously very beneficial for the upgradation of Vietnamese SME sector in the long-run.

The EVFTA devotes a chapter on sustainable development. Regulations in this chapter will promote Vietnamese SMEs to comply with regulations and requirements related to environment protection, climate change risk mitigation, social and labor standards, and business integrity and transparency. SMEs will need to learn more about ILO conventions or other international conventions which Vietnam adhere to and take measures to be on the path of sustainable development. Once these measures are taken, it will not be only for the benefit of the SME sector, but also for workers, Vietnamese citizens and the whole country as well.

⁷ <https://www.bosch.com.vn/news-and-stories/bosch-automotive-research-and-development-centre-celebrates-fifth-anniversary-milestone/>

⁸ <https://tinnhanhchungkhoan.vn/doanh-nghiep-co-khi-tim-cach-tu-chu-post96069.html>

4. Promoting innovation among SMEs

Intellectual property (IP) helps stimulate innovation and growth, as it helps bring in monetary returns, build brand visibility and ensure organizational growth. Vietnam is ranked 83 globally in International Property Right Index – a relatively low ranking in the list of 129 country ranked by the Property Right Alliance⁹. The EVFTA will require stricter compliance with intellectual property protection in Vietnam. The EVFTA has introduced new standards for intellectual property enforcement, ushering Vietnam into a new chapter of more effective IP enforcement. Compliance with regulations on intellectual property among SMEs and Vietnamese institutions and individuals will become stricter.

Intellectual property is a key consideration in everyday business decisions, especially for SMEs. While advanced countries have been traditionally investing in intellectual property, developing countries like Vietnam are following suit. The need to invest in IP is important as it helps drive in innovation and business growth. The EVFTA is expected to promote more investment by the business sectors and SMEs in intellectual property. Innovation and creativity bring forth new products and services – the catalysts for bringing in investment. For most businesses, investing in IP ensures that their legal right is protected and that they can sue in case of IP infringement. The EVFTA is believed to be an important contribute to strengthen this legal right.

With the EVFTA and other regulatory reforms introduced by the Government to reinforce intellectual property rules and regulations, SMEs in Vietnam can rely on IP to strengthen their innovation and boost productivity.

More effective enforcement of intellectual property as a result of the EVFTA will also promote investment by European investors in Vietnam, especially in areas where intellectual property protection is of prime concern. European investors will promote innovation in Vietnam in many ways. For example, Piaggio has opened a research and development centre based in Vietnam for the Asia Pacific Region¹⁰. It is likely that European venture funds and financiers are becoming more willing to invest into Vietnamese SME startups, fintechs, and in innovation projects by Vietnamese SMEs. It will also help to promote technology transfer by European investors, businesses and institutions to Vietnamese SMEs.

Encouraged by new market opportunities in the EU market, Vietnamese SMEs will become more innovative, in both products and services and the way such services are delivered to European consumers. This will be supported by the Industry 4.0, the digital transformation trends which are being promoted both by the EU and by the Vietnamese Government. Vietnam is ranked 42 out of 131 economies in the Global Innovation Index (GII)¹¹. The EVFTA is expected to be an important contributor to unleash that innovation potential of Vietnam in

⁹ <https://www.internationalpropertyrightsindex.org/>

¹⁰ https://www.vespa.com/vn_VI/Tin-t%E1%BB%A9c-ch%C6%B0%C6%A1ng-tr%C3%ACnh-%C6%B0u-%C4%91%C3%A3i/eurocham-vinh-danh-t%E1%BA%ADp-%C4%91o%C3%A0n-piaggio-vi%E1%BB%87t-nam.html

¹¹ https://www.wipo.int/global_innovation_index/en/

general and of the SME sector in particular for the long-term economic, social and ecological benefits of the country.

In brief, the EVFTA is expected to have strong implication on the SME sector and will bring about benefit to boost the growth of SMEs in Vietnam. SMEs in Vietnam are likely to benefit from a more enabling business environment and a more favorable investment climates thanks to the reforms and the implementation of reforms triggered by the EVFTA. Besides, the EVFTA will spur the internationalization of Vietnam SMEs and boosting the growth of the sector through expansion of international market. The EVFTA will contribute to accelerating the integration of Vietnamese SMEs into the global value chains and the linkage between the SME sector and the FDI enterprise sector in Vietnam. It will accelerate the upgradation of Vietnamese SMEs in all aspects, including quality of products and services, technical, social and environment standards, managerial skills, technological level, etc. With stronger requirement on intellectual property enforcement, the EVFTA will actively promote innovation in the SME sector and innovative business startups.

5. Promoting women economic empowerment and women entrepreneurs

The potential impacts as mentioned above will result in women economic empowerment and women entrepreneurs in Vietnam. Decent employment opportunities with better work conditions, worker rights and income thanks to the internationalization and upgradation of SMEs will definitely benefit female workers who are currently account for 38.7% of the workforce in the SME sector (GSO, 2019).

Expanded market opportunities brought about by the EVFTA are likely to contribute to the formation of more businesses owned or led by women which accounted for 26.54% of total businesses in 2018 (ILO and MOLISA, 2019).

III. EVFTA AND ITS IMPLICATIONS FOR EUROPEAN SMEs

In the European Union, there are slightly more than 25 million SMEs, of which 93% are defined as micro-SMEs. SMEs account for 99.8% of all enterprises in the EU-28 non-financial business sector (NFBS), generating 56.4% of value added and 66.6% of employment in the NFBS. International trade is very important for European SMEs: According to EuroStat, SMEs accounted for 99 % of the number of importing enterprises and 98 % of exporting enterprises in the EU in 2018¹². Free trade agreements therefore have important implications to the SME sector in Europe.

The EVFTA are expected to bring benefits and opportunities not only for Vietnamese SMEs but also for European SMEs - either currently present in Vietnam or based in Europe, and to strengthen the partnership between both economies...

¹² https://ec.europa.eu/eurostat/statistics-explained/index.php/International_trade_in_goods_by_enterprise_size

In doing so, the EVFTA will open new market opportunities for European SMEs. The two partners' economies built up a long-term business relationship and are strongly complementary. Vietnam's competitiveness in the agri-food sector and labor intensive industries is undeniable, while the EU, with its capital, high skilled labor force and high-tech and top quality management expertise, is a competitive and reliable supplier for Vietnam. The SMEs in the EU will have a great opportunity to supply advance technologies and sophisticated machineries and equipment matches Vietnam's needs for its manufacturing sectors.

The following table depicts an overview on benefits from the trade agreement for SME exporters of the EU.

Benefits from the tariff elimination under the EVFTA for European SME exporters

- Almost all EU exports of machinery and appliances will be fully liberalized at entry into force of the FTA.
- Around half of EU pharmaceutical exports will be duty free immediately and the rest after seven years.
- All EU textile exports will be liberalized at entry into force.
- Close to 70% of EU chemicals exports will be duty free at entry into force and the rest after three, five and seven years respectively.
- Frozen pork meat will be duty free after seven years, dairy products after five years and food preparations after seven years. Chicken will be fully liberalized after 10 years.
- As for fisheries, Vietnam has accepted liberalization at entry into force for salmon, halibut, trout and rock lobster and others after three years.
- Wines and spirits will be liberalized after seven years and beer after 10 years.
- Car parts will be duty free after seven years.

Source: <http://trade.ec.europa.eu/doclib/press/index.cfm?id=1437>

Improved market access is one of the key objectives of the EVFTA and European SMEs will definitely benefit from it. The EU-Vietnam trade agreement contains full dismantling of nearly all tariffs except for a few tariff lines that are subject to duty-free tariff rate quotas. Widespread coverage is achieved already at entry into force with 65% of EU exports to Vietnam coming in duty-free from day one. The remaining trade – with the exception of a few products – will be liberalized after 10 years. Custom duties will be removed over a transitional period of 10 years for EU goods. SMEs in many sectors in the EU will have much easier access to the more than 90 million Vietnamese consumers, especially the fast-growing middle-income class in Vietnam. This will represent an opportunity for European in traditional sectors for example food, wine and also for such sector as pharmaceutical products and automotive spare parts.

European Medicines Authority (EMA) has a strong policy of supporting SME in the pharmaceutical industry. The authority has set up an SME office as part of its structure.

According to EMA, SMEs applications for the marketing authorization of new medicines account for approximately 10 to 15% of the overall number of applications in Europe. More than one in two medicines developed by SMEs that were recommended for marketing authorization in the past ten years contained a new active substance; this shows that SMEs are an important source of medicines that have the potential to address patients' unmet medical needs. As of 2018, 1922 SMEs are registered with EMA.

Similarly, in the automotive industry, European SMEs also play an important role. For example, France has about 187 SMEs in the automotive industries with world-wide implications (The French Automotive industry. CCFA, 2017). In Germany, for example, over 600 companies are members of the German Association of the Automotive Industry (VDA). And these are not just large corporations: 70% of the added value comes from suppliers, many of whom make up the renowned SMEs of the "German Mittelstand".

Source: https://www.ema.europa.eu/en/documents/report/small-medium-sized-enterprise-sme-office-annual-report-2018_en.pdf; *German Association of the Automotive Industry (VDA), and The French Automotive industry. CCFA*

In addition, products of SMEs in many other sectors will become even more competitive in terms of price in the Vietnamese market as Vietnam will eliminate all its existing export duties with very limited exceptions as agreed in the EVFTA: Out of the 603 Tariff Lines (TL) subject to export duties at present, Vietnam has committed to a standstill on 134 TL currently subject to 0% export duties; elimination of export duties on 412 TL, either after five, seven, 10, 12 years in one cut, or after 10, 12, 15 years through linear staging; and capping at 20% on 56 TL after five years, and a 10% cap for one TL of manganese ore, also after five years.

Products made by European SMEs will be better protected in the Vietnamese market. The EVFTA prohibits discrimination between imported and domestically produced goods with respect to internal taxation or other government regulation. This principle will be key to ensure that EU goods are not treated differently from domestic goods once they are on the Vietnamese market.

Additionally, stronger and more effective enforcement of intellectual property rights as required by the EVFTA will offer better protection of the trademark, brand, copyrights, etc. of European SMEs when they offer products and services in Vietnamese market. The aim of the EVFTA in relation to IPR is to complement and further specify the rights and obligations between parties under the TRIPS Agreement and other international treaties as well as to ensure their adequate and effective implementation. In practice, the aim of the EVFTA is to bring the Vietnamese IP regulatory system closer to international standards of IP regulatory systems (including EU standards), so that both parties can benefit from a more standardized system.

The table below summarizes the benefits for SMEs in the IPR:

Benefits of the EVFTA in IPR Field from the SMEs' Perspective: the EVFTA foresees major IP commitments for Vietnam. Even though Vietnam is currently committed to complying with the majority of international standards – as a member of the WTO, Vietnam had to upgrade its legal system to comply with the Trade-Related Aspects of Intellectual Property Rights (TRIPS); Vietnam has now acceded to the Paris Convention, the Madrid Agreement and the Berne Convention – there have been important changes introduced by the EVFTA.

In the area of copyright, Vietnam is expected to comply with the rights and obligations set out in the Berne Convention for the Protection of Literary and Artistic Works; the Rome Convention for the Protection of Performers, Producers of Phonograms and Broadcasting Organizations and the TRIPs Agreement and to accede the WIPO Copyright Treaty, a special agreement under the Berne Convention for the protection of works and rights of authors in the digital environment. Acceding to WIPO Copyrights Treaty will thus bring Vietnamese copyright law closer in line to the provisions of the European Union – good news for European SMEs in the creative industry, as their copyrights will be regulated and strengthened in Vietnam's digital environment.

In the domain of trademarks and Geographical Indications (GIs), the EVFTA will introduce some important and beneficial changes for European SMEs to help simplify and develop trademark registration procedures. The EVFTA will grant trademark revocation on the grounds of genuine use. The EVFTA will also strengthen the protection of Geographical Indications. A geographical indication is a name or a sign used on goods that have a specific geographical origin and possess qualities, a reputation or characteristics that are attributable to that place of origin.

In terms of industrial design, protection of industrial designs is granted in Vietnam by registration which confers an exclusive right for a maximum of 15 years. Industrial design constitutes a specific appearance of a product, embodied by three-dimensional configurations, lines, colours, or a combination of these elements. Vietnamese law states that an industrial design must be new, creative and industrially applicable in order to be granted an industrial design patent. Under the EVFTA the industrial design shall also be eligible for protection under the law of copyright of that party, as from the date on which the design was created or alternatively fixed in any form. In practice, this would add additional protection for European SMEs in this field. Under the EVFTA component parts of a product shall also be protected by the industrial design. This makes it easier for the European SMEs to protect their design.

Regarding patents, there will be some good news for the European SMEs working in the pharmaceutical industry. The pharmaceutical products are normally subject to an administrative authorisation procedure before being put on the market, which could take up to a few years. The EVFTA shall “provide for an adequate and effective mechanism to compensate the pharmaceutical patent owner for the reduction in the effective patent life resulting from unreasonable delays in the granting of first marketing authorization” in Vietnam. The maximum duration for the extension will be 2 years.

As for enforcement, the aim of the EVFTA also includes strengthening IP enforcement. “General enforcement provisions are included in the Agreement in relation to civil and border enforcement, improving complementary measures, procedures and remedies necessary to ensure the enforcement of intellectual property rights.

There is good news for the European SMEs engaged in literary and artistic work or in any other industry that relies on copyrights. The EVFTA shall grant the owners of copyrights a 'presumption of ownership'. As a result, if a copyright owner finds out that his or her rights are being infringed, they shall be entitled to start infringement proceedings. They will be presumed to be the owners of the rights if their name appears on their work. Currently, the copyrights owner needs to prove ownership to start infringement proceedings. This generally refers to copyright registration in Vietnam.

The EVFTA also strengthens IP enforcement by instructing the courts to give out injunctions aimed at prohibiting the continuation of the infringement against a party whose services are being used by the infringer. This should allow the European SMEs to stop the infringers faster and minimize damages, and therefore make the enforcement more effective.

European SMEs will also benefit from the Active Involvement of Customs Authorities clause in the EVFTA. Customs Authorities would "target and identify shipments containing import and export goods suspected of infringing an intellectual property right on the basis of risk analysis techniques". Currently, the Vietnamese customs authorities do monitor all types of intellectual property, but effective confiscation of infringing goods or imposition of fines on infringers still largely depends on the IPR owner's actions which can be cumbersome for foreign businesses, especially SMEs.

Source: *South-East Asia IPR SME Helpdesk*

As an example, 169 traditional European food and drink products from a specific geographical origin and which are mostly produced by SMEs will be protected against imitation on the Vietnamese market. This includes famous European delicacies, for example Champagne, Parmigiano Reggiano cheese, Rioja wine, Feta cheese, etc.

The trade agreement does not only shield European SMEs in terms of IPR but it will protect them also from measures on import and export restrictions. The EVFTA forbids any prohibition or restriction on the importation of any good of the other Party or on the exportation or sale for export of any good destined for the other Party, in accordance with the WTO rules. According to the EVFTA, there is only a short list of items where Vietnam can restrict importation, including righthand steering vehicles, used consumer goods such as textiles and clothes, footwear, electronic goods, furniture and used motor-vehicles more than five years old as well as a few other products.

European SMEs will benefit from "made in EU" as the marking of origin. The EVFTA marks the first time a trading partner officially accepts in an FTA the marking of origin of 'Made in EU' for non-agricultural goods.

European SMEs will benefit from a more simplified and more transparent import and export licensing procedures. The EVFTA articulate bilateral obligations to help and enforce the implementation of the WTO Agreement on Import Licensing Procedures. It also contains a number of substantive provisions that reduce the possibility of seeking recourse to these measures or that reduce any possible trade restricting effect. On export licensing, the EVFTA

provides for an obligation to first create full transparency regarding the existing export-related measures.

European SMEs will benefit from less administrative fees and more simple formalities related to consular transactions. Reduction in administrative costs and formalities are especially beneficial for SMEs, especially those in cosmetics, pharmaceuticals and vehicles exports. Under the EVFTA, consular transactions are prohibited under the trade agreement. Consular authentication shall no longer be required three years after entry into force. Many of the European SMEs will get immediate benefit in this regard from the EVFTA.

As it is in real life, there are still challenges for European businesses in reaping the benefits from the EVFTA. Knowing and understanding the complex agreement is one of the key challenges. In a recent survey by Eurocham¹³, 16% of its members respondents said that there is still little knowledge about the EVFTA and what it brings to the SME sector. Besides, key challenges which Eurocham members perceive in the implementation of the EVFTA include poor infrastructure, labor standards, customs procedures, foreign languages and import-export procedures.

¹³ EuroCham Business Climate Index for Quarter 3, 2020, Eurocham (2020).

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