The Global Financial Crisis in Vietnam: An Example of SME Resilience

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ABSTRACT

In the context of the global financial crisis of 2007-2008, small and medium-enterprise sectors all around the world were dramatically hit as global financial systems froze, and economies crumbled. For SMEs especially, this context represented a particular threat. As smaller structures that are known to face numerous characteristic challenges in their regular business cycle, the occurrence of an economic shock only rendered their traditional hurdles more acute. In developing countries especially, where economic and political systems in place are not necessarily stable or function well, SMEs were even more likely to become insolvent in the absence of a proper support-system. As a developing economy that is majoritarily composed of SMEs, Vietnam would thus seem to present an outlier as an economy where SMEs would have displayed resilience to the crisis, as corroborated by impressive survival rates. As priority drivers of growth and innovation globally, SMEs are crucial actors of the world economy. Understanding how to build their resilience is thus primordial and requires a careful assessment of successful strategies. This piece therefore explores the various reasons why SMEs in Vietnam were resilient, and tries to clarify which factors were determinant in this survival through a qualitative approach.

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I - INTRODUCTION

Small and medium-sized enterprises (SMEs) employ two in every three people globally. They furthermore represent over 90% of all businesses registered all over the world, and are thus priority drivers to employment and economic growth (OECD 2019, 3; World Trade Organisation 2016, 6). SMEs differ from larger enterprises in their scale, but also in their somewhat systematic focus on niche markets and products. As they grew increasingly prominent, a substantial outpoor of market-specific information became readily available globally, and contributed to the creation of an innovation loop. Through it, not only was the development of new technology facilitated, but the creation of new jobs as well as a significant contribution to economic growth ensued. Nowadays, the SME contribution in fact makes up for an impressive 55% of GDP in developed economies and 70% in emerging economies (World Bank 2021; Keskġn). SMEs are thus truly vital actors of the global economy.

Rather paradoxically to their crucial role, SMEs are very vulnerable to risk and actually face a high risk of insolvency, much more so than larger structures (OECD 2009, 6; Narrada Gamage et al. 2020, 1). This specific type of business structure is most often characterized by an employee pool of less than 250 employees, and must also not exceed a 50 million turnover for medium enterprises, and 10 million turnover for small enterprises (OECD 2005). This definition is however not universally applicable as SME regulations are very much context dependent and thus tend to vary across countries (Mwika et al. 2018). Still, one already assumes that the characteristics of a firm operating at such a scale come with a myriad of challenges.

Not only does a smaller scale preclude SMEs from achieving stability, it also makes it harder for them to have access to capital. The latter is in fact very much constrained as a result of institutional barriers and credit costs being skewed in favour of larger more financially stable structures. SMEs also struggle to integrate themselves in international markets, as they are less significant than their larger counterparts when considered individually. They are thus also often forced to focus solely on small domestic markets, which reduces their chances of growth and survival in itself.

In the case of developing countries especially, the risk of insolvency would appear to be even higher for SMEs. This development category is indeed associated with a lower level of economic development as well as increased social and economic impediments such as important poverty gaps, famines, high unemployment rates or corruption (OECD 2009, 6). Coupled with political and financial institutions that are often unstable or inexistent, SME survival challenges are understandably aggravated in such a context. SMEs in developing countries are thus disproportionately affected by external shocks (Bourletidis and Triantafyllopoulos 2014, 640).

As an economic shock that was categorized by many as the worst financial crash in global history, the global financial crisis of 2008 is a notable event that unsurprisingly forced SMEs all over the world into a context that made it almost impossible for them to survive and drastically exacerbated their traditional problems (Ozili 2020).

Indeed, as millions of people were losing their jobs, houses, and savings, global banking and financial markets froze and SMEs, especially, were left vulnerable to the tightening credit conditions and decreasing demand. This seems logical in that large firms with more financial stability and support systems in place were naturally much better equipped to tackle these shocks than companies which are essentially self-reliant, lack access to financial markets, and face an aggravated version of their traditional constraints. The already high insolvency risk faced by SMEs as part of their regular business cycle was thus consequently exacerbated by the crisis. Even more so in developing economies as they faced increased socio-economic issues related to political stability, poverty, or corruption which became even more acute in the context of a crisis (Keskġn et al. 2010, 3).

Vietnam thus presents a highly interesting research case as its SMEs appear to have shown resilience to these risks. Indeed, the country seems to have weathered the crisis exceedingly well despite being a developing economy, mostly reliant on SMEs which account for 96% of all business registered in the country and as much as 47% of its total workforce (General Statistics Office of Vietnam 2016). Let us specify that the Vietnamese government has for its part categorized small and medium-sized enterprises as companies which are registered under the Enterprise Law (1999) and employ less than 300 employees. Additionally, their capital must not exceed 100 billion VND. The country's SME sector thus in fact succeeded in surviving despite the traditional hurdles associated with small and medium scale companies.

Based on risk management literature, the general expectation would have been for Vietnam to struggle enormously in the face of the global financial crisis. However, data seems to suggest otherwise. As an indicator for SME survival, Liedholm and Mead (1999) have established a yearly average exit rate for a number of developing countries specifically. Due to the aggravating circumstances synonymous with this development stage, and its direct consequences on SME survival, they in fact decided to compile data from a number of developing countries to come up with an average exit level. Their finding was that it is average for developing countries to experience a 9 to 10 percent of SMEs 'exiting' or going bankrupt per year (Rand and Tarp 2008, 87). However, the number they bring forth does not take into account extraordinary economic conditions, and would thus in principle be much higher during a financial crisis.

To measure Vietnam's performance on the basis of this indicator, data from Rand and Tarp has been collected and interpreted by way of tables. The scholars, having completed most of the academic research on the topic of Vietnamese SMEs have indeed published comprehensive reports, from 2005 up until 2011 documenting SME 'survival and exit rates'. A survival rate meaning that the firm still operated by the time of their following report, and a firm exiting if it had gone bankrupt. Though their dataset is not as extensive as the general SME population, as they measure 2400 out of the 758,610 formal small and medium-sized enterprises operating in Vietnam at the time, they do apply a stratified sampling procedure to ensure that a representative number of each type of enterprise from each of the 10 provinces, sector and form of ownership is represented (Rand and Tarp 2011, 144). We thus consider the data to be representative of the business population in Vietnam and thus use it as a basis for further research into the topic of SME resilience in the country.

Table 1 gives an overview of data collected by Rand and Tarp in their series of *Characteristics of the Vietnamese Business Environment Evidence*. Although limited samples were surveyed (approx. 2,500 firms), it seems quite obvious that Vietnam performed exceedingly well in terms of survival rate compared to the level 9 to 10 percent level established for a number of developing countries identified by Liedholm and Mead (1999). Indeed, it ranked consistently below, with annual survival rates ranging from 6 percent (2007) to 8.4 percent (Rand and Tarp 2008, 87; 2010, 152; 2012, 146).

SME SURVIVAL OVERVIEW IN VIETNAM (2005-2011)

	2007 Survey (published 2008)		2009 Survey (published 2010)		2011 Survey (published 2012)	
	2005	2007	2007	2009	2009	2011
Survivors	2 603	2 298	2 413	2 026	2 354	1 999
Exit Confirmed		269		387		355
No Data		36				
Survival Rate (2 Year Period)		88,3%		84,0%		84,9%
Average Annual Survival Rate		**94,0%**		**91,6%**		**92,2%**
Average Annual Exit Rate		6,0%		8,4%		7,8%
New Entrants		337		517		450
Total Number of Firms Surveyed		2 635		2 543		2 449

** declined to answer or could not find

Table 1: SME Survival Overview in Vietnam
(Rand and Tarp 2008, 87; 2010, 152; 2012, 146) (Table by author)

If one looks at economies which seem to have more in common with the Vietnamese patterns, the Vietnamese SME survival rate seems to stand out. If we take the example of the Philippines, which has a similar land area, population, as well as where firms by size and employment however essentially come under the form of micro-sized (89%) and small enterprises (10%), we may note that the average Filipino annual SME survival rate has been estimated to be 68.8 percent between 2006 and 2008; which means an exit rate of 31.2 percent (Baustista et al. 2018, 2). As the country furthermore has a GDP per capita that is consistently higher than that of Vietnam as shown on figure A.1, it seems even more interesting to note that Vietnamese SMEs displayed a better survival rate despite the Vietnamese economy being poorer. More interesting, regarding this country, Baustista et al. take a particular look at the behaviour of export-oriented SMEs and their chances for survival, through time. Regarding this matter, they come to the conclusion that survival rates make a sharp decline after the first year of existence of the firm, with variations according to the destination of the exports; and that they then stabilise (Baustista et al. 2018, 3). Which is to stress the importance of surveying samples over long periods of time, in order to get a more complete overview of their individual survival.

Additionally, though growth rates of real domestic products do not provide one with the full picture of an economy, they do provide a strong indication as to the general health of economies, as well as how they have performed at a given moment. Looking at figures 1 and 2, one can only confirm that Vietnam was in fact impacted by the crisis. However, it also shows that it also appears to have weathered the crisis very well in comparison to most of its Asian peers with respect to both its GDP growth rate, as well as SME survival rate in selected East Asian countries, 1995-2011). Compared to OECD countries, it also quite clearly performed better in terms of growth performance as shown by figure A.2. One must wonder how maintaining growth was possible. A potential explanation could be that as a developing economy, Vietnam was not yet integrated in international markets and consequently did not feel the full-blown impact of the crisis. Taking into account the fact that growth seems to have been increasing for more than a decade, it could also be possible that the country was in fact experiencing a growth momentum at the time of the crisis. A combination of both mechanisms could in fact explain why SMEs survived, and why the economy as a whole performed well. However, it is also possible that SMEs in Vietnam are specifically resilient for other reasons. This thus requires further research.

Still, it is clear that despite unfavourable global economic conditions, SMEs appear to have been more resilient in Vietnam than elsewhere in the context of the global financial crisis. As such, it seems only crucial to try and find out why Vietnam presents an outlier as an economy and which mechanisms in place were decisive in SME survival in that period. This paper will thus attempt to provide the answer to "Why were SMEs resilient to the Global Financial Crisis in Vietnam ?" in order to ultimately comprehend how such a swift response to the event was possible.

This research is thus highly relevant for several reasons. Not only does Vietnam appear to defy expectations and present an outlier which is in itself interesting, its example also offers the potential to contribute to the general attempt to understand how to build resilience in developing economies.

Especially in the case of developing countries, SMEs are key in establishing competitiveness, entrepreneurship, as well as innovation systems which may not yet be there at all (Keskgin et al. 2010, 3). They have indeed demonstrated a strong ability to mitigate poverty, support economic integration and enhance productivity both through innovative practices, as well as through the high rates of individuals they employ (Hansen, Rand and Tarp 2009). Large enterprises are furthermore less prevalent in developing countries where SMEs in fact account for a significant 95% of total employment and 70% of GDP (Keskġn 2010, 183). A figure which is far from negligible and only highlights the need to understand how to promote SME survival to external shocks such as this one in developing countries. If anything, the current pandemic context will have also highlighted the need for adaptability and resilience to tackle periods of economic distress and uncertainty. Research in that area should therefore not only be encouraged, but given precedence. Even more so as governments increasingly start to resort to SMEs to drive sustainable economic growth globally (World Bank 2021).

As with most topics, the question of where the Vietnamese SME resilience stems from in this particular context cannot be answered comprehensively from a single perspective. Therefore, a combination of insights from both economics and history shall be introduced and directly interact and shape the analysis of this paper. Individually, too, both disciplines will contribute to the research.

On the one hand, an economic perspective will be instrumental in shaping the theoretical framework and conducting the analysis. Indeed, not only will it perit the explanation of economic concepts such as export strategies or institutional links to capital access, it will also allow for a deeper understanding of the Vietnamese economy. Moreover, economics are also at the heart of questions relating to SMEs and insolvency risk, and will be essential in establishing why SMEs are more likely to suffer from a crisis.

History too, will be crucial in understanding the topic and answering the research question from a global perspective. First, history will allow us to look into the economic history of the country through different perspectives. Not only will it permit a broad exploration of policy implementations or economic reforms that have been implemented, it will also allow for Vietnam's economic history to be studied. Theoretically speaking, it will also enable the study of SMEs in their relation to economic shocks. Finally, history is also indissociable from research on the role of key actors in an economy. Namely when exploring the role of the government as well as the underlying dynamics that may exist between the state and its SME sector, history will be extremely valuable.

In order to conduct thorough research around our question of interest, this paper will be structured in several parts. First, the theoretical framework surrounding this topic will be presented and explain what academic literature says more broadly on the matter of SMEs and insolvency risk in the context of developing countries and economic shocks. Then, we shall proceed with the analysis which will be conducted in four parts. It shall begin with context on the Vietnamese economy, its market liberalisation reforms, but also the importance of SMEs in this specific economy and their resilience in this instance. Then, a part on how Vietnam has in fact protected itself from global downturns will be conducted. Third, the potential nature of Vietnam as an entrepreneurial economy, as well as the ensuing implications will be explored. Finally, the role of the government as a constraining or enabling actor with regard to SMEs will be delved into.

II - LITERATURE REVIEW - THEORETICAL FRAMEWORK

This part will attempt to present general theory on the matter of SMEs and risk, and thereby also substantiate the need for analysis of the Vietnamese case. It will first explore the topic of SMEs and insolvency risk more generally. Then, it shall delve into the insolvency risk for SMEs in developing countries. Finally, it shall study SMEs and economic shocks to ultimately try and ascertain what literature would expect the Vietnamese performance to be.

1. Why do SMEs face high insolvency risk generally?

Insolvency is commonly defined as a state of financial distress in which companies find themselves when they are unable to pay their debts and when the latter exceed their assets. When delving into the topic of SMEs and risk, academic literature seems to overwhelmingly associate small and medium-sized enterprises with an increased amount of challenges that would be responsible for a high risk of insolvency (Asgary and Özdemir 2020, 1). It thus seems essential to understand where they stem from, and to what extent SMEs are in fact more likely to be insolvent than larger structures.

The traditional question of scale is of course essential as the size of an enterprise appears to be a decisive determinant behind the survival and smooth-running of any business entity. First, SMEs are unable to make use of mechanisms to reduce company costs such as economies of scale or scope. Due to their reduced size, the production orchestrated by SMEs is only very rarely substantial. Therefore, the latter cannot make economies on their orders as they only request smaller amounts. Furthermore, as a lower scale is synonymous with less funds being invested in research and development activities, SMEs furthermore rarely have access to innovative means of cutting costs on their existing production. This thus very much poses a challenge as higher costs are synonymous with lower chances of generating profit, and thus increased chances of failure. Furthermore, as SMEs tend to specialize in a given product or service, they are also not entitled to the financial benefits that accompany a company's economic diversification or production of a related good known as economies of scope (Yoshino and Hesary 2016, 5).

Additionally, operating on a smaller scale effectively prevents SMEs from establishing a competitive advantage against larger companies which are able to establish efficient processes and business practices, but also develop new products as a result of the larger investment in innovation permitted by a bigger structure. Not only this, they are thereby also precluded from developing the essential know-how obtained through trial and error as well as product and activity diversification.

Another interesting point is that despite SMEs being essential drivers of economic growth as a collective ensemble, they are regarded as close to insignificant individually. A finding which seems rather paradoxical, but does explain why it is extremely hard for SMEs to connect with the right support networks, domestically or abroad, something which defines their chances for survival in itself (Yoshino and Hesary 2016, 6). Integration in both the globalization process and world economy thus remains complex. This in turn puts them at a great disadvantage compared to multinationals as they lack both experience of international markets, connections, and are less concentrated and influential actors in their given business ecosystem.

Unfortunately, these characteristics also preclude SMEs from developing responsiveness to external risks as experience very much contributes to becoming resilient and able to identify and tackle risk promptly. They are thus more vulnerable to external risk as a result of their internal structural features (Zoghi 2017).

Directly related to the issue of scale and the challenges it entails, the characteristic hurdle of limited financial resources is also a crucial determinant in SME survival. Pissarides, Singer, and Svejnar (2003) as well as Gree and Thurnik's (2003) all unite in saying that financial constraint is the main obstacle to SMEs growth (Wang 2016, 3). Indeed, as businesses grow in size, resources become more readily available to them both in terms of quantity and access. Therefore, as smaller structures, SMEs possess less funds but are also in more dire need of them in order to grow, and survive.

However, as a result of their size and the instability accompanied with their status, it is much harder for them to obtain credit from formal institutions. Indeed, credit is also often granted on the basis of historical working practice. In other words, public banks are more likely to lend to state-owned or larger enterprises (Wang (2016, 3). Banks indeed prefer to allocate their resources to large enterprises as they have a lower risk of default and a proper accounting system in place (Yoshino and Taghizadeh-Hesary, 2016, 6). Additionally, larger firms are easier to control and to monitor and contract enforcement issues rarely occur, as opposed to SMEs which pose significant issues in this regard (OECD 2021, 6). State-owned enterprises also represent less risk as the state provides an accountable guarantor for the companies. Yin (2012) and Ji (2011) explain that ownership indeed comes as a decisive factor in SME vulnerability. As public firms are furthermore "too big to fail", they encounter significantly fewer obstacles than SMEs in general and thus also have a greater growth (Wang 2016, 4).

In the case of SMEs, transaction costs are also higher to compensate for the risk incurred by lending institutions. In fact, as they are less stable due to their size and structure, the likelihood of them being able to pay their debt back is smaller. In other words, the more stable the firm, the easier its access to capital (OECD 2009, 6; Narrada Gamage et al. 2020, 1). It thus becomes evident how a structure that is by definition less stable than a multinational due to its size could be impaired by such mechanisms and thus be more likely to declare insolvency.

Overall, restricted access to financial resources thus represents a crucial impediment to SME growth and survival (OECD 2009, 6; Narrada Gamage et al. 2020, 1). As such, it is also a key explanatory factor behind the higher insolvency risk faced by SMEs.

We have seen in this part that SMEs were in fact more exposed as well as vulnerable to insolvency risk. Their structure in itself indeed comes with an array of constraints and challenges which renders them more likely to remain unstable and fail. They can hardly cut costs in traditional ways due to their scale, which prevents them from making economies of scale or scope. They also face various constraints in accessing capital, namely incurring higher transaction costs than their larger and older counterparts, amongst others. They also struggle to establish competitiveness under the weight of larger structures existing in the same business environment.

However, we have also indirectly established the importance of the environment SMEs evolve in, with regard to determining whether they would survive and grow. Indeed, we have seen that several obstacles were the direct result of a lack of a support system from institutions and international integration. Therefore, it can be argued that one's environment is a crucial factor to consider when exploring the field of risk management.

A country's development stage appears to be systematically associated with higher levels of risk of insolvency in the case of SMEs. The following part will thus focus on explaining why that is, and to what extent a developing environment is a non-negligible factor in SME survival.

2. Why is this risk higher in developing economies?

By definition, being a developing country means there is still a significant provision for further ameliorations. The latter are furthermore characterized by a "substantial and increasing dependence on often inappropriate technologies, institutions, and value systems" (West and Desai 2002, 28). Levels of living furthermore range from low to very low, and socio-economic issues related to poverty and corruption are omnipresent.

In 2019, the World Economic Forum published a list of global risks, distributed across five categories; economic, environmental, technological, societal and geopolitical. Whether individually or collectively, the latter would in fact significantly jeopardize SME survival and growth when present (Asgary and Özdemir 2020, 3). Gree and Thurnik further posed the crucial question of which of these pre-established obstacles were most important in determining SME survival and growth. Out of the thirty obstacles, finance was ranked most important, followed by corruption, regulations, technology, management skills and location (Wang 2016, 2).

As these obstacles are consistent with the defining features of developing nations, it is only logical for insolvency risk to be increasingly high in these settings, considering that SME challenges are only accentuated there.

With regards to the obstacle of accessing finance, both the unavailability of means in the country, as well as lack of systems in place to support SMEs only naturally lead to higher financial constraints. Considering that societal, economic and institutional risks are furthermore defining constants in SME risk, it only seems natural that the institutional and business environment companies evolve in would be an important factor in whether they would survive or not (Beck 2007, 3).

Institutional quality, especially, appears to be an essential factor in securing sustainable support for SMEs and extended financing options. Indeed, it seems only sensical that a stable and well-functioning institution would be more capable to provide sustainable support for this specific type of firm. Whether by acting as a reliable customer to SMEs domestically, or by way of loans or good credit information for instance. Strong legislation is additionally very much correlated with SME survival as the general business environment becomes more regulated, and traditional SME issues such as contract enforcement problems are mitigated (Wang, 2016 168). In the same manner, the development stage of capital markets is also a crucial determinant behind insolvency risk. In fact, properly developed capital markets create less risks for businesses as they have reliable markets which can provide funds for them (Federal Reserve Bank of Saint Louis 2021).

When poorly developed they thus pose a clear obstacle to a country's growth and survival. An environment with developed institutions and markets is thus much more likely to face a lesser insolvency risk than one that is not, potentially even mitigating some aspects of traditional SME constraints. Therefore, the weak institutional and economic environment characteristic of developing countries will undoubtedly be synonymous with struggles in establishing proper means of helping domestic SMEs in a sustainable way.

Levy's (1993) case study on the Tanzanian leather industry perfectly demonstrates this conclusion. Its results in fact unequivocally point towards the SMEs' lack of access to finance as the binding constraint on growth and survival for all categories of SME. The effect of the constraint would furthermore be increasingly important the smaller the structure would get, a finding which seems rather logical as the need for financial resources is higher the smaller a structure is. Finally, the author's main conclusion is in fact that lack of financial resources would have become an obstacle to SME survival in developing economies as a result of imperfect and inadequately developed capital markets, and institutions (Levy 1993, 82). A conclusion which concurs the fact that developing countries face an even higher insolvency risk.

Finally, risk management also appears to be crucial in enabling SMEs to generate profit and grow. Whether through culture, expertise or support, proper risk management is essential to survive in today's business environment. It is indeed necessary to be constantly aware of the ongoing market and general situation and therefore to properly identify, monitor, assess and analyze it, in order to properly respond to change. SMEs, especially, rarely have the means and expertise to conduct such activities and establish risk management practices. Furthermore, their lack of experience with international markets and diverse economic activities also puts them at disadvantage. As a result, they are thus more vulnerable to both internal and external risks which in turns also frightens lending institutions (Asgary and Özdemir 2020, 3). SMEs in emerging economies specifically lack management culture and systems and do not have the necessary crisis management skills to allow business continuity (Asgary and Özdemir 2020, 3; Asgary et al. 2013). However, considering the structural features and restricted resources that come with being a developing economy, one understands that the need for SMEs in these environments to promote stability is very much necessary and would thus be a game-changer if implemented. This once again justifies a higher insolvency risk in developing countries which are less prepared to face uncertainty, and do not have systems in place to promote internal stability in the face of disruption.

3. SMEs and Economic Shocks

In the face of economic shock, two opposing schools of thought seem to exist. One the one hand, scholars such as Ozili or Asgary et al argue that SMEs are highly vulnerable to economic shocks and extremely likely to face insolvency in such instances as they aggravate traditional issues of access to finance, absence of crisis management in place and little to no institutional support in place (Ozili 2020; Asgary and Özdemir 2020, 3).

In effect, economic shocks cause credit conditions to tighten significantly in the face of economic shock. Demand also decreases by a significant margin and credit loans are even harder to obtain than in more regular economic conditions. Therefore, it seems rather logical to think that considering the array of challenges SMEs face they are left without many alternatives when under such duress. This argument is even more sensical considering that even a somewhat 'normal' economic context requires governments to establish specific SME policies in order to ensure and facilitate their survival and growth. Periods of economic shocks only exacerbate their characteristic issues as general economic imbalance prevails (OECD 2009, 6). Even more so in the case of developing countries, where means are already restricted, SMEs are unable to face the disruptive shock as suggested in the previous part. As a result, it is believed by many that SMEs are almost inevitably bound to fail in such circumstances (Skorvagova and Pasztorova 2013).

However, an increasing number of publications seem to dispute this view, and argue that despite being more exposed to economic shocks, SMEs are not necessarily more likely to reach insolvency but would in fact be better equipped to tackle the challenge than larger structures. Even more so in developing economies.

In their *Review of Global Challenges and Survival Strategies of Small and Medium Enterprises,* Narrada et al. argue that, contrary to Ozili and Asgary's idea, SMEs would in fact be more flexible in tackling economic shocks than larger business structures. The reason behind this would be that as a result of facing more challenges than larger business structures in 'normal times', they would be highly adaptable and thus prompt in dealing with economic shocks. When looking at characteristic challenges faced as a small and medium enterprise, a one-sided focus on the matter seems to prevail in academic literature. The latter indeed seem to only be considered in their role as a catalyst, exposing SMEs to more risk, such as in the renowned OECD's analysis of typical SME hurdles (OECD 2009). From this, one understands that SME characteristics are only seldom regarded as potential strengths, especially in times of economic distress. On this, McMahon further argues that crisis management systematically plays a paramount role in an SME's life cycle, going as far as referring to it as a "day to day occurrence" (McMahon 1998, 23). One can thus only deduce that SMEs would as a result be better equipped as well as more experienced in tackling external changes to their environment as those are a recurring pattern in their existence. Gamage et al. in fact seem to agree with this insight as they further base their argumentation on the idea that flexibility and adaptability are mandatory requirements to survival.

In the case of developing countries more specifically, as they present the case of imperfect business environments that are constantly subject to change and increased socio-economic issues, they would prove to be incredibly resilient to disruptive shocks as they evolve amongst it, and are able to adapt to it. More so than this, despite being less apt to mitigate the direct effects of a shock than developed countries, it is argued that their lesser integration in the global economy would come as an advantage in the face of global economic shocks. Indeed, when global economic shock arises, countries that are most connected and entwined in global markets are the most impaired by it (Gurtner 2010, 2). Being a developing country would thus come with the ability to avert some aspects of the shocks as a result of a lesser connection and integration in international financial markets (Gurtner 2010, 1).

Both lines of thought seem valid based on the information brought forth on how SMEs function and manage risk. Still, both arguments are not necessarily mutually exclusive in their entirety. A new understanding combining both insights thus seems most sensical.

It is very logical to establish that SMEs would be more exposed to the adverse economic impact of a crisis. They are less supported and face many challenges, which become even more acute in the context of a financial crisis. This would in itself make them more prone to insolvency risks. However, this does not mean that they are necessarily unable to adapt to their external conditions, and survive the disruption they are facing. Gurtner agrees that SMEs face more risk than larger structures. He however nuances his argument in saying that though it might present a bigger challenge for them, nothing precludes SMEs from developing and using their flexibility to tackle risks and be successful in their approach. Even more so as they evolve in an ever-changing environment.

On the question of SMEs in developing countries, Gurtner makes a very valid point in saying that these are extremely resilient countries. Another point to be made that seems only seldom mentioned in literature is also that despite suffering from more socio-economic issues, not all developing countries possess an institutional system that does not support SMEs, nor an environment that will systematically impair their growth.

Finally, the notion of a country's integration as a potential explanation behind mitigated adverse effects to shock seems very convincing. In the case of global economic shocks especially, literature unmistakably correlates a close link to international markets with a higher exposure to any consequences resulting from an economic crash (Gurtner 2010). However, it is my belief that though this pattern tends to happen more frequently in the case of developing countries, it is also applicable to countries which make a conscious choice to not rely much on their link to the world economy in their economic strategy, or to third-world countries that do not keep up with the globalization process.

The case of Vietnam is a very interesting one as it seems to corroborate this framework quite well. The general expectation behind its SMEs' performance is in fact that the country's development stage and commencing integration in global financial markets could have acted as a damper to some of the crisis' adverse effects. Furthermore, it can also be assumed that the institutional context in Vietnam, which controls most financial constraints for SMEs, would also be rather supportive of the latter and have facilitated their survival in various ways. Finally, elements of the explanation behind this performance might also lie in the country's economic history and the adaptability of the general business environment in Vietnam.

III - SOURCES AND METHOD

With regard to this specific research question, a qualitative and interpretive research approach seemed most appropriate. The analysis of this paper will study the various roles of the government, the Vietnamese economic context, and the SME sector in Vietnam during the global financial crisis (GFC). Moreover, its goal is to clarify a given setting with its underlying dynamics, actors, and the causal links there might exist between them, in order to make inferences and establish which determinants are responsible for Vietnamese SMEs' resilience to the GFC. Consequently, research involving the collection and thorough analysis of literature seems most pertinent as we are dealing primarily with the understanding of various concepts and correlations between non-numerical factors and patterns. As qualitative research furthermore focuses on formulating in-depth insights, the aim of identifying determinants of Vietnamese resilience through a careful analysis is very much aligned with this specific form of research. A descriptive case study will be the method of choice throughout the analysis. We shall furthermore engage directly with the various aspects identified in the literature review

First, a contextual analysis will be conducted on the Vietnamse economy, its economic reforms and rise, as well as its specificity. This will set a general picture and allow for us to better understand the type of environment we are dealing with. Data will be collected by way of a literature review mostly based on OECD's 2021 "SME and Entrepreneurship Policy in Viet Nam" report and a series of academic articles on the Vietnamese economy.

Second, the effects of the global financial crisis on the Vietnamese economy will be assessed in order to try and comprehend the true impact felt by the country and its SME sector. This will allow us to understand to what extent there was indeed resilience, or whether the economy was in fact simply not hit as badly as one could assume. This part will consist of a literature review based around Gurtner's idea that countries that are most connected and entwined in global markets are the most impaired by the crisis. We shall try and assert the extent to which Vietnam fits this line of thought and what strategies were in fact put in place to avoid the global economic downturn. Should we find that the Vietnamese economy was less integrated into global financial systems, we would have a partial explanation behind the country's SME resilience, as the economic context would be responsible for a lesser impact. Should it not have been, we could exclude the country's economic context as having a role in SME survival.

Third, we shall then attempt to verify whether Vietnam fits the model of the entrepreneurial economy brought forth by Audretsch and Thurik (2004). Should the answer be positive, then we would know that the Vietnamese environment is resilient at its core and fosters entrepreneurship and SME survival through a strong support system. The global financial crisis would thus not have had an equally adverse impact on SMEs as they would have evolved amongst external turmoil and be flexible to disruption. There are three criteria to this model. First, the external environment of SMEs must be turbulent. Second, the economy must be highly adaptable. Lastly, government action must be enabling rather than constraining with regard to the SME sector. It should also promote an entrepreneurial culture. For each criterion, a brief literature review shall be conducted to verify that each is met in a convincing and sufficient manner. In order to verify our findings, the literature will then be matched with data from Rand and Tarp's *SMEs in Vietnam* book (2020), be substantiated by appropriate indicators, or refer back to the context part. Rand and Tarp's book shall furthermore be referred back to throughout this part and the following as it is the most extensive piece of writing and data on the topic of SMEs in Vietnam aside from the GSO. The piece compiles findings of research from 2005 until 2020 on the matter of SMEs and represents 3000 enterprises from each sector and province. As mentioned it is the most extensive writing to date on the matter which comes with thorough analysis. It also attempts to be as representative as possible by way of stratified sampling. As such, it represents good research material to draw from.

Lastly, the relationship between the Vietnamese government and SMEs in the context of the crisis will be explored. Thereby, this part will attempt to unveil underlying dynamics and clarify the role of the government in SME resilience to the crisis. Data will once again come in the form of a literature review which will draw information from the context part, but also from the OECD's SME and Entrepreneurship Policy in Viet Nam report and the General Statistics office of Vietnam which is the official database for topics related to the Vietnamese economy.

Finally, findings from each part shall be brought together in order to find common ground and reach a new understanding on the source of SME resilience in Vietnam.

IV- ANALYSIS

This part will thus attempt to clarify the determinants of SME survival in Vietnam during the crisis. First, context will be explored to understand how Vietnam's economic history might have affected its SMEs' performance. Then, the effects of the crisis on the country's economy will be analysed. Third, Vietnam's entrepreneurial character will be measured. Finally, the role of the government will be explored.

1. Context

Vietnam and Economic Reforms

Ever since its reunification in 1976, the Vietnamese communist government has experienced in many ways, in order to improve productivity, manage risk, while remaining in the overall control of the country. In reaction to its failure, but also because of the success of China, Vietnam's communist regime therefore decided to launch an economic renewal initiative in 1986. The Đổi Mới reforms aimed to vitalize the economy by making gradual transitions towards a market-driven economy, open to trade with markets globally, while keeping government planning in its center. The reforms in effect liberalized the economy and encouraged the growth of private SMEs. Indeed, Vietnam's socialist economy did not allow for private entrepreneurs to establish businesses up until that point.

Before the economic reforms initiated in 1986 (Đổi Mới), 72 percent of the Vietnamese labour force was agrarian. Within three decades this portion was brought down to 28 percent, essentially at the profit of the industrial sector which accounted for 55% of the national workforce in 2016. As for the services sector, it represented 17% in 2016 (Rand and Tarp 2020, 6; OECD 2021). Such a significant shift as well as such a different repartition only show the Vietnamese economy's efficacy and potential for quick growth. It also suggests how the industrial and services sectors effectively contributed to the economy's development (OECD 2021). Additionally, the still high share of employment occupied by the agricultural sector in Vietnam also suggests that the mecanisation of the agricultural field would allow the Vietnamese industry to grow even more, thereby highlighting Vietnam's enormous potential for growth even more.

Vietnam's development is furthermore very much the result of a strategy in which exports play a major part. These have more or less tripled in volume during the period between 1986 (Đổi Mới) and the global financial crisis (2008), and accounted for 70 per cent of the GDP in 2005. One may therefore consider that this sector has strongly driven the Vietnamese economy as well as social progress, and alleviated the general level of poverty (Tarp and Abbott 2011, 5).

Vietnam is indeed a country with both mineral and agricultural resources. Because of the stretch of its shoreline, it is naturally open towards the sea, and hence maritime trade. Therefore, as Vietnam provided the appropriate conditions to thrive in the export business it naturally investigated an increasing number of free-trade agreements as shown by table 2. Agreements which are part of a global integration approach which will have undoubtedly contributed to Vietnam becoming the highly dynamic economy it is today (Lee 2021).

However, by opening its market to the rest of the world, ever since the Đổi Mới reforms in 1986, Vietnam has become increasingly dependent on foreign finance; also regarding its import-export activities. It has therefore been exposed to global phenomena such as the Asian financial crisis (1997-1998), the global financial crisis (2008-09) as well as the global trade collapse (2009).

Privatisation and the rise of SMEs

Before the Đổi Mới reforms, the government's strategy consisted in securing wealth and employment through state-owned enterprises (SOEs), which were the pillars of the Vietnamese economy. Ever since the socialist-oriented economy opened itself to the world market, efforts have been made to reform these structures.

As per the most recent data available, there were 758,610 enterprises operating in Vietnam in 2019 (GSO 2021). It is particularly interesting to see that 1 percent of the largest firms account for approximately half of the country's workforce; and that 10 percent of the largest firms employ up to 83 percent of the working population. It is therefore important to confound the number of firms with the number of employees or the national value-added; the actual 'weight' of each enterprise. What one also understands is that, despite their smaller size, micro enterprises seem to have a better ratio between employment and contribution expressed in terms of value added; better than small firms (OECD 2021, 3). Indeed, despite the latter employing 17% of the workforce, small-sized firms only contribute to the national value added as much as micro-firms. Overall, it is quite clear that SMEs represent a significant portion of employment (47%) and are very much crucial actors of the Vietnamese economy (OECD 2021, 3). The portion of SOEs would however still account for the major part of both employment and added-value. These remainders of a centrally-planned country indeed still make up for 4 percent of the largest firms and 64 percent of the national value added (Nguyen and Taghizadeh-Hesary 2020, 1; (OECD 2021, 6). They also include 4% of the SME stock. However, as the added-value portion doesn't quite follow the large portion of SOEs, the state realizes that efforts must be made in this sector, in terms of efficiency, transparency and innovation, in order to make SOEs more efficient. As the total factor productivity growth (TFP) in the state sector is by far inferior to the one of the private sector's, SMEs appear to be the more powerful engine of growth and innovation. The private sector indeed accounts for an increasing share of national value added as well as employment (Rand and Tarp 2011, 131). Private-owned SMEs indeed account for 96 percent of the total stock of businesses (OECD 2021, 3). For the reasons mentioned hereinabove, they are central to the Vietnamese development process.

Moving on to how the Vietnamese economy and its SME sector were affected by the crisis, it is crucial to try and understand how this context and Vietnam's history actually fits into the general narrative.

2. Protection from Global Downturns

The global financial crisis (GFC) refers to the period of extreme stress in global financial markets and banking systems between mid-2007 and early 2009. According to Gurtner, the global financial crisis of 2008 was different from previous crises in the sense that it did not originate in developing economies but was caused by the financial centers in developed countries (Gurtner 2010). Through linkages in the global financial system, the financial crisis spread from the United States to the rest of the world. Many banks around the world suffered large losses and called upon their government to bail them out. The crisis sparked a global recession and brought millions of people out of jobs.

Looking at the Asian continent, most economies were at the time less integrated to global supply chains and international financial markets. Asia in general was in fact not excessively affected although there are discernible patterns within countries and subregions, Especially South Asian countries were less integrated in global supply chains and international financial markets (Brunschwig et al 2011, 2). Reliance on external demand, as well as credit were decisive factors in how significantly economies were hurt. In other words, the more countries were coupled and dependent on global financial markets, the harder they were impaired (Gurtner 2010, paragraph 6; Te Velde 2008; IDS 2008; Toporowski 2009). As such, most Asian countries benefited from somewhat of a shielded effect from what transpired in the global economy, especially in South Asia (Gurtner 2010, 1).

With regard to their growth potential however, many developing economies were hit a lot harder than industrialized ones (Gurtner 2010, 2). While the GFC caused many developing economies to be stricken by unemployment, it is notable that this hasn't been the case for Vietnam; quite the contrary as can be seen on figure A.3 (Gurtner 2010, 1).

Looking at Vietnam's economic history, we see that by opening its market to the rest of the world, ever since the Đổi Mới reforms in 1986, Vietnam has become increasingly dependent on foreign finance; also regarding its import-export activities. It has therefore been exposed to global phenomena such as the Asian financial crisis (1997-1998), the global financial crisis (2008-09) as well as the global trade collapse (2009).

As can be observed in Table 2, it is however only very late that accession to essential international organisations happened. It is in fact only in 2007 that the country joined the World Trade Organization. Indeed, the organisation is famously key in speeding up trade liberalization and ameliorating market access for its new member nations (Cling et al. 2009, 3). In the case of Vietnam, Cling et al indeed identify this accession as the official beginning of Vietnam's integration in global markets, and refer to it as "the endorsement of a long process of reforms and integration into the world economy". A finding which is also corroborated by the Asia Pacific Credit Association, which refers to Vietnam as a country barely immersed into international markets before the crisis, as a result of its rapid emergence which meant that many mechanisms had yet to be put into place in order to catch up with its more advanced economic status (APRACA 2021). It would thus appear that both literature and data indicate that the Vietnamese economy was indeed not integrated enough to feel the full blown impact of the global financial crisis. Global shocks were thus not likely to impact firms and consumers locally if not through trade or foreign demand decrease, which would render the country forced to fend for itself.Thus, it can be inferred that Vietnamese SMEs, though they might have been resilient, were in fact protected by the country's late accession to global markets. As such, the country's economic context played an indirect role in their survival and partially explains why they tackled the crisis so well.

Trade & Development
(timeline)

1986	- Doi Moi reforms
1989	- Market oriented trade reforms - Unified exchange rate - State monopoly of foreign trade eliminated
1989	- Fall of Berlin Wall
1991	- End of COMECON (Council for Mutual Economic Assistance)
1992	- European Union Trade Agreement
1995	- Joined ASEAN
1997	- Asian Financial Crisis (December)
1998	- Joined APEC
2002	- USA-Vietnam Bilateral Trade Agreement
2004	- New laws on commerce and trade
2007	- WTO Accession
2008	- Commodity price boom ends in July - Great recession and financial crisis
2009	- Global trade collapse

Table 2: Timeline of Vietnam's Development, Free Trade Agreements & Major Events
Source : (OECD 2021)

However, the country's integration in the global economy does not suffice in explaining the country's overall performance as the Philippines which was mentioned earlier, presents a similar international integration timeline as a result of having the same development stage and being located in the same region than Vietnam, and was however much more affected than Vietnam (Baustista et al. 2018, 3). This can only suggest that a particular strategy or context must have contributed to its performance. This seems even more likely as the matter of trade and demand has not been delved into yet, and is paramount in understanding how the country managed to function independently.

In terms of growth rate, the Vietnamese economy seems to have weathered the GFC rather well, in a similar way that it behaved admirably during the Asian crisis (1997) as can be seen on figure 2. By actively reforming its trade policies, Vietnam has indeed tripled the GDP share of its import-export activities, between 1990 and 2008. It in fact went from 26,4% in 1990 to 77,9% in 2008 with regard to its exports as a share of GDP; and from 35,7% in 1990 to 93,1% in 2008 with regard to its imports as a share of GDP (Abbott and Tarp 2011, 2).

Tarp and Abbott (2011) thus pose the question of how such an export-driven economy doesn't come to a certain halt, in a situation where trade is compromised. Part of the explanation may concern the fact that the trade slow-down mainly affected the sector of heavy industrial products & minerals as can be seen on figure 1.

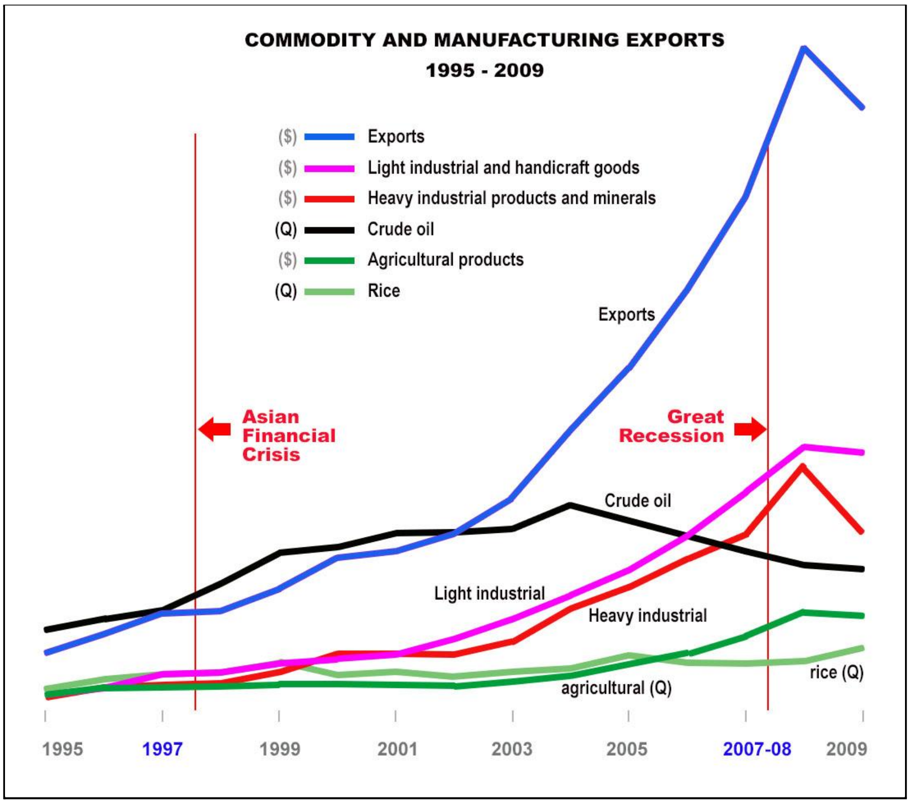

Figure 1: Commodity and manufacturing exports, 1995-2009
Source : GSO online database 2011; Tarp and Abbott, 24 (Figure by author)

The General Statistics Office of Vietnam indeed shows that the sector accounted for 23.87 % of the total share of exports (Hanh and Thi Anh-Dao 2009, 4). Therefore, as it is the only sector which displays a clear significant decrease as a result of the crisis, it can be argued that exports were hit, but not dramatically which thus only impacted the country and their SMEs in a moderate way. It is also crucial to note that 70% of Vietnam's SME export volume comes from foreign SMEs that have relocated to Vietnam and thus do not count towards the country's SME performance though they affect its trade. Additionally, as only 23.87% of the total share of exports was significantly impacted, if 70% of total exports are foreign-owned, the proportion of Vietnamese SMEs that could have suffered from the trade deficit is by deduction very low (OECD 2021, 8). Mr Tan CEO and General Director of Vietnam Bank for Agriculture further adds that an increase in prices of exported and imported goods in fact minimised losses resulting from the decrease in goods quantities, and thus the impact of trade losses on the country's GDP (APRACA 2021). Overall, the trade deficit resulting from the crisis had a mitigated effect on the country's gross domestic product.

However, this explanation alone is not sufficient in explaining how SMEs might have survived. Indeed, the country maintained its GDP level despite demand plummeting globally. There must thus be an explanation as to why SMEs did not go insolvent despite not relying on foreign demand to support the well-functioning of its SMEs, and managed to still generate profits.

A country's Real GDP is in such instances rather pertinent to observe, as it does point out discrepancies, as well as their origin. Looking at figure 2, we see that trade indeed decreased as a result of the crisis. However, it is also very obvious that the real GDP has not been impacted by such a decrease as we observe a clear rise over time, with no apparent decrease at any point in time, from 1995 until 2009. It is also clear that domestic consumption has risen throughout time, displaying figures rising from 600 billion to 750 billion by 2009 (Tarp and Abbott, 2011). One may therefore state that Vietnam is not only an export-driven economy but also a consumption driven economy with a large domestic market. This domestic market must thus also have a dynamic of its own; for which exports act as a driver, in a similar way that a pump primes the flow, but where stability can be achieved even as they decrease. This would thus explain why despite trade decreasing, the economy was not paralyzed and managed to function regardless. It also substantiates the fact that the Vietnamese economy and its SMEs functioned on their own before its integration to international markets and thus did not require substantial foreign demand to remain stable as they could rely on domestic sources. SMEs did not endure any significant demand decrease and thus did not go insolvent more than usual.

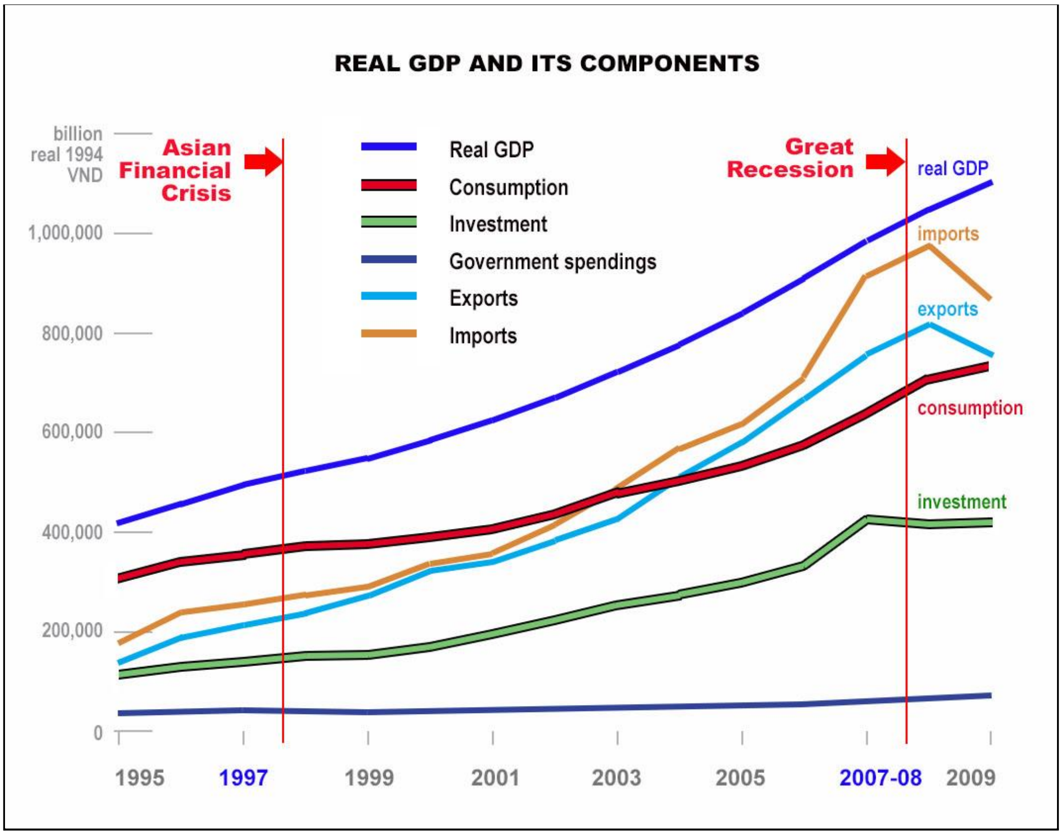

Figure 2: Real GDP and its Components
Source : GSO 2021; Tarp and Abbott, 22 (Figure by author)

The Vietnamese economy and SME landscape thus very much benefited from a lesser integration in global markets, as well as from having a large domestic market to rely on, as it allowed the country to function independently during the crisis. However, the dynamics of this market are yet to be unveiled and would be a pertinent addition to this analysis. Additionally, we also understand that Vietnam was experiencing a growth momentum at the time of the crisis as it was developing exponentially.

Therefore, we understand that both the country's less integration, domestic market, as well as the economic context it was in at the time of the crisis accounted for part of the SMEs resilience as they were not impacted by the full magnitude of the economic shock. It is now however essential to understand whether Vietnam's performance surpassed the expectations for a developing country only because of this, or because it actually possesses a key structure which developing economies generally lack, namely a strong entrepreneurial ecosystem.

3. Vietnam, an entrepreneurial ecosystem ?

Advocating for the impact of flexibility, the model of the entrepreneurial economy, as opposed to that of the managed economy, especially, is one of symbiosis between the various governing bodies within a given environment that promotes SME growth and survival. Together, these institutions would form what Audretsch and Thurik refer to as 'an entrepreneurial ecosystem' (Audretsch and Thurik 2004, 3). The latter relies first and foremost on the notion of continuous change, as well as disruption. In an entrepreneurial economy, the external environment is turbulent, diverse, and heterogenous (Audretsch and Thurik 2004, 14). Furthermore, firms function very cohesively with the government and financial institutions in place in their environment. The latter moreover provide strong and continuous support to them. Such support could be understood in the form of institutional quality, or a government's ability to foster SME growth. A characteristic which is moreover identified to be a major factor behind extended financing options in the case of small and medium-sized enterprises (Hansen, Rand and Tarp 2009, 1060). Following this model, SMEs also very much rely on the notion of flexibility, as opposed to large scale, to promote economic development. This namely explains why entrepreneurial bubbles such as Israel or the Silicon Valley are home to larger companies, but also a variety and majority of start-ups of all sizes. Overall, the model of the entrepreneurial economy relies on a strong support system at the heart of its economy as an efficient means to foster and protect SMEs. As such, the latter rely not only on themselves to survive, but are also continuously helped by the acting government in the environment they evolve in.

In the case of the global crisis, this model is even more interesting in that the criteria of an entrepreneurial economy perfectly matches with what Narrada et al identify as the major points which could mitigate the adverse results of the crisis Narrada Gamage et al. 2020, 8). Therefore this part will attempt to ascertain the extent to which Vietnam indeed fits this model. If it does, this would provide a partial explanation as to why Vietnam performed well as its SMEs would not be independent but part of a larger support scheme. The country would furthermore also face less of the typical structural hurdles associated with a developing country if the system in place is efficient. This could in turn mean that SMEs were helped, but also less affected than a developing country with traditional hurdles would.

Let us try and see to what extent Vietnam fits this model by assessing the disruptivity of its business environment, its ability to evolve in it, and the country's overall institutional quality.

The matter of external turmoil is an interesting one. Le Nguyen and Kock, who focus their research on SME survival in turbulent environments from a chaos theory perspective explain that firms that evolve amongst uncertainty are the ones that ultimately survive chaotic environments best. Regardless of the nature of the disruption, they believe that evolving in a changing environment would force business entities to become flexible structures and implement innovative business moves (Le Nguyen and Kock 2011). These would in turn be responsible for a more sustainable survival. Disruption would however be a key trigger point. The theoretical framework concurs with this explanation as SMEs tend to accept risk more willingly than other structures. They are in fact very much aware that it will undoubtedly accompany the scale they are established at and as a result embrace it, and evolve despite it, as well as with it. The argument here is thus that when a firm's surrounding ecosystem is also unstable and undergoing change, it pushes firms to grow to be innovative and prompt to adapt. This moreover rejoins Gurtner's argument that firms are more resilient in developing countries because they evolve amongst instability (Gurtner 2010, 2).

Historically, the Vietnamese institutional and economic environment very much fits criteria. Through the drastic alterations and changes it has undergone from the 1985's onwards, Vietnam has been a very turbulent and disruptive landscape for its SME-filled business environment. First, the country's transformation was extraordinarily rapid. It indeed shifted from being a closed economy to an open market one in a decade. Through liberalization, its economy was altered in substantial ways as a result of the strict economic reforms and trade policies it implemented. As explained in the context part, the repartition of its workforce shifted dramatically to accompany Vietnam's economic evolution. The Vietnamese business environment is in no way comparable to what it used to be. Additionally, it seems pertinent to mention that Vietnam also alleviated poverty in the country at an incredible pace, going from a rate of 58% in 1992 to one of 15,5% in 2008 (Asia Society 2021). Such rapidity and fast development once again only speaks to the country's potential for rapid and sustainable growth. It also portrays the highly turbulent landscape that ought to have transpired for such improvements to have been made. The country is indeed en route to becoming one of the most successful South Asian economies, and is often compared to China as an economy following in its footsteps and showing great potential for sustainable growth (Lee 2021; Chaponnière, Cling and Zhou 2010, 2). Considering this significant growth, which figure 3 shows, Vietnam must have represented a highly disruptive and turbulent environment for its SMEs as they evolved in a fast-paced ever-changing economic environment.

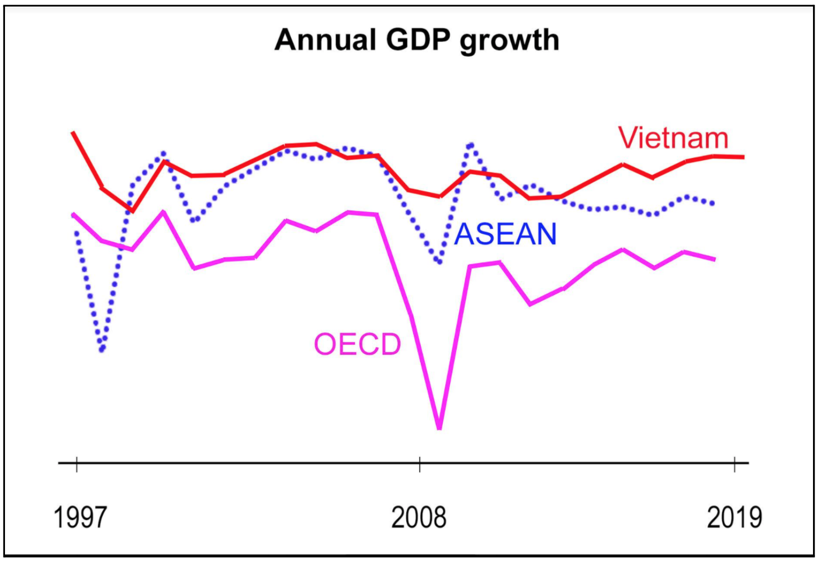

Figure 3: Annual GDP growth rate for Vietnam, ASEAN and the OECD
Source : OECD 2021, 5, 7 (Figures by author)

The following question that naturally comes to mind is thus, considering this disruptive environment, were Vietnamese SMEs and the Vietnamese economy flexible to this change?

The pertinence of a firm's ability to accompany change is evident, especially in the context of the global financial crisis. Indeed, flexibility appears to be a strong source of SME survival and resilience. Indeed, Hansen, Rand and Tarp, infer that when researching for the determinants behind SME survival in Vietnam, flexibility was positively correlated with firm survival, by a significant degree. Hansen, Rand and Tarp's in fact argue that innovative behaviour would create a context where firms perform significantly better, as they would be better equipped and experienced in adapting to trying circumstances. This seems logical as a firm's failure to adapt to change within an economy is commonly regarded as one which will stagnate, and ultimately fail.

The World Bank 2006 *Innovation Policy Report* categorizes a firm as innovative if it has notably improved an existing product or developed a new one every 2 years (World Bank 2006, 154). They in fact directly associate this requirement with a certain degree of flexibility to adapt to market changes. Through econometric models, they indeed infer that innovative firms hold substantially better odds at survival than those that are not. They explain that this would only be logical in that being innovative would allow a firm to effectively change with the market, accommodate demand and policy changes, and develop new products to match its new environment. An innovative firm would in other words be endowed to adapt to market and policy conditions (Hansen, Rand and Tarp, 2009).

As mentioned, Vietnamese SMEs represent 96% of Vietnam's economic landscape. Despite significant alterations to the economy, table 1 shows that SME survival rates have consistently remained below the norm. Considering how the workforce repartition shifted since the Doi Moi reforms, we furthermore understand that the sectors most prevalent to the country's economy have changed. As explained, the country focused increasingly on the manufacturing and services sector. However, if SMEs did not go insolvent, and labor became more concentrated on the two sectors, then the firms must have adapted to market fluctuations and accomodated the new Vietnamese economy requirements. It is also important to note how active and efficient the Vietnamese government was in implementing drastic economic reforms and policies. This itself speaks to a general approach that is very much aligned with innovation. Vietnam's innovative capabilities are in fact inherent to its economic development, as they are indissociable from such significant advancement. It is also interesting to note that even in the context of the crisis, Vietnam was ranked 64th in the global innovation index out of 130 economies. In 2020, the country reached the 42nd place (Nguyen 2020). Vietnam's innovative capabilities thus seem a primordial part of how the country functions. The country's environment would furthermore be an innovative environment that is very capable of adapting to market fluctuations.

Both the innovative and turbulent character of the Vietnamese environment have been explored. Let us now consider the quality of the institutional context in fostering SME growth.

In their *SMEs in Vietnam,* Rand and Tarp provide a thorough idea of the Vietnamese institutional system. First and foremost, they highlight the fact that access to finance is very much influenced by the Vietnamese government. They furthermore explain that politically connected firms are commonly known to be less constrained in the credit market and thus to access formal finance easier (Rand and Tarp 2020, 186). This phenomenon can be quite explicitly witnessed when looking at the differences in survival probability between rural and urban-located firms. (Hansen, Rand and Tarp 2009, 1060).

It would indeed appear that surviving in urban areas is significantly harder for firms, as a result of administrative and structural barriers to entry which the Vietnamese population as well as the academic realm both acknowledge as the government's way of protecting state-firms in the area

(Hansen, Rand and Tarp, 2009, 16). Beyond this, Smallbone and Welter also argue that interactions with state institutions are quite simply the most significant factor for firm dynamics in developing countries, as they are able to provide not only tax exemptions but also credit support at start-up, as well as a long-term client and reliable source of credit support (Smallbone and Welter, 2012). In the case of Vietnam especially, both Rand and Tarp, and Fajnzylber et al. (2009), argue that government support for firms is likely to increase firm growth as well as promote firm survival, a finding which is hardly surprising considering the economic importance of the government in the country (Fajnzylber et al. 2009, 1029; Rand and Tarp 2020, 14). However, such proximity between the both, either through policy implementation or facilitation of credit access do highlight the presence of underlying preferential dynamics between the state and Vietnamese enterprises. Preferential treatment which scholars furthermore consider common for state-owned enterprises SOEs), as well as politically-close enterprises, especially ever since the 1990's (Hansen, Rand and Tarp 2009, 14).

Looking at the government as a whole, close proximity to it is certainly key in the Vietnamese context. This does not come as a surprise considering that entrepreneurial terrains are crucial in promoting SME survival. Notably, they possess strong ties with their local governments and consider it a true pillar, which furthermore ought to be enabling and foster entrepreneurial development (Audretsch and Thurik 2004, 5). An entrepreneurial culture and closeness which the Vietnamese government has incessantly displayed through its business-friendly policies and regulatory frameworks, with lessened administrative procedures, lower taxes for SMEs, but also through its implementation of a proper process and funding system which eases the creation of companies in the country (Hansen, Rand and Tarp 2009, 1054). Indeed, initial government assistance is substantial in the country, and manifests itself in up to five different ways. Therefore, through either a recommendation on a fitted line of business, help with license application and registration, direct credit assistance, temporary tax exemption or reduction, or the combination of the latter, a firm can be thoroughly assisted and supported by the Vietnamese state (Hansen, Rand and Tarp 2009, 1055). Such support can thus only corroborate statements such as that of Gainsborough who goes as far as to state that for any firm to succeed in business, it would have to rely on the local government, which quite distinctly shows how beneficial such a relationship might be (Gainsborough 2010). A dependence which is furthermore facilitated by the fact that the political context in Vietnam is very stable (firms (Rand and Tarp 2020, 130). To summarize, the government appears to be very influential on access to funding, which is furthermore a pivotal factor to SME survival and growth (Ahmedova 2004, 1107). It is furthermore enabling in its taxation and initial startup support and facilitates the conduction of business significantly. Therefore, it can be inferred that the Vietnamese government does meet the criteria of the entrepreneurial economy by acting as a strong support system and enabling SME development.

From this, we also understand that Vietnam is in fact an entrepreneurial hub which fosters SME development. We also deduct that contrary to developing economies generally, it possesses an efficient government which actively fosters SME development. This in itself explains why Vietnam, despite not being a developed country, will face less constraints than expected as developing countries mostly suffer more risk due to a lack of institutional support (Wang, 2016 168).

4. The government during the crisis

Focusing on the global financial crisis, it seems interesting to understand what the government's approach was as political connection appears to have been linked with significant benefits during the crisis (Rand and Tarp 2020, 130). This part shall thus explore the effect of political ties as well as the magnitude of the government's role in enabling SME survival to the crisis.

First, the Vietnamese state appears to have been extremely active in implementing policies to ease the financial constraints faced by SMEs and increase productivity. Indeed, it reduced interest rates on loans and reinforced credit and mortgage assessments, in order to keep debts at an acceptable level. It also extended the preferential interest-rate policy for enterprises borrowing medium and long term loans, and supported interest rates for the agricultural sector willing to mechanize (and hence improve productivity) for its SMEs. Finally, the Vietnamese government also applied a series of tax exemptions, reduction and extension to support small enterprises. Statutory Corporate Income Tax (CIT) rate was reduced from 32% to 20%, between 2004 and 2017; which is lower than both OECD and ASEAN average rate (OECD 2021,10). According to the APRACA (2021) CIT has furthermore been reduced in the fourth quarter of 2008 and 2009 and individual income tax collect-time has been extended. Finally, VAT was supplemented by a timely refund policy and has been reduced by 50% on a number of goods, during 2009. Access to financial resources being classified as the first constraint to SME survival during economic shocks, it seems even more pertinent to note the impact that easing these constraints must have had on firm survival in this instance.

More specifically, politically-connected SMEs appear to have benefited even more from this context than non-connected ones. In terms of financial benefits, members of the CPV are linked with a lower likelihood of being constrained in formal financial markets. They, on average, face better loan conditions than non-connected SMEs, with higher default rates and lower interest rates on formal loans. (Rand 2017; Rand, Tarp et al. 2020). During the crisis, politically connected firms appear to have had less unfulfilled credit demand and face less financial constraints than non-connected firms (Rand and Tarp 2020, 130). Rand and Tarp explain that it is in fact up to three times easier for politically-connected SMEs to access formal credit in such a context. During the crisis, politically connected SME moreover also benefited from lowered interest rates on formal loans, with a 2.2–5.1 percent difference to non-connected SMEs (Rand and Tarp 2020, 128). The role of the government is thus even more crucial in promoting their survival.

However, the government also appears to have contributed significantly to SME survival in another way. The GSO gauges that 40.4% of the country's total annual investments were made in the SOE sector, in 2013; enterprises which are by definition connected (GSO 2021). Though official investment data could not be found for the period of the crisis, Rand and Tarp explain that total annual investments have remained somewhat constant ever since 2005 (Rand and Tarp 2020, 121). Such investments contribute to the explanation that the government was in fact acting as a reliable and strong customer for state-owned enterprises. Indeed, Rand and Tarp's data indicates that constrained firm demand for politically connected SMEs is as much as 22.4% higher in 2007, and 8% higher in 2009 than for non-connected firms (Rand and Tarp 2020, 131). Seeing as 4.5% of the Vietnamese SME stock is state-owned, which includes a majority of medium-sized enterprises, as well as larger small-sized firms, we hereby also understand that this in effect prevented this percentage of SMEs from going insolvent (GSO 2021).

Furthermore, another benefit of the continuing demand provided by the state is that seeing as SOEs could no longer rely on foreign intermediate goods, they started relying increasingly on local SMEs to provide these for them. Indeed, as industry intensive firms were majoritarily sourcing intermediate goods from abroad, the crisis called for a response based on home-based consumption and supply (Kokko and Sjöholm 2004). A pattern that is corroborated by the substantial increase in Vietnamese participation in local supply and the Vietnamese value chain for Vietnamese between 2007 and 2009 (OECD 2021, 10). This would also explain why the domestic market in Vietnam remained strong and majoritarily independent as touched upon in the context section. Overall, the government would have not only accounted for continuing demand for SOEs but also indirectly for SMEs. It was in effect thus keeping SOEs afloat which remained that demand was also high for SME products.

Looking at the government's role in explaining SME performance in Vietnam, we understand that the state thus carried a significant role in SME survival during the crisis. It was indeed very prompt in implementing monetary policies to ease financial constraints for its SMEs. Maintaining political ties also proved to lower interest rates, cost-of-capital, and demand constraints. Furthermore, the government would also appear to have acted as a strong customer to SOEs, which in turn helped raise demand levels for SMEs in general as they provided them with an array of goods they usually relied on getting from abroad. This in turn also dynamized Vietnam's domestic market and would all things considered explain why SMEs performed so well. The Vietnamese state was thus also a strong source of financial support.

V - CONCLUDING REMARKS

This research focused on establishing the determinants of Vietnamese SMEs' resilience to the global financial crisis. It went about it by evaluating the potential factors, which once combined could be able to explain Vietnamese SMEs' performance. The results from the analysis confirm the hypothesis that had been formulated from the integrated theoretical framework but also transcends it. Indeed, this performance is the result of a combination of factors. Context-wise, Vietnam's late integration into global financial systems undoubtedly shielded its economy from the full-blown impact of the crisis. Indeed, as it was not yet reliant and involved in international markets, only a portion of its trade sector was impacted, along with demand which naturally decreased. Moreover, the country's promptness in adapting its prices to mitigate the impact of decreased imports and exports resulting from the crisis also protected the Vietnamese economy and consequently also its SME sector. Furthermore, the country appears to meet the criteria of an entrepreneurial economy. As a consequence, this would imply that entrepreneurship would very much be fostered and supported in the Vietnamese landscape, and would be correlated with a higher survival probability for SMEs. This seems logical in that such a model relies on the existence of a strong institutional support system that fosters not only SME survival but also growth. It furthermore depends on a firm's ability to embrace disruption and adapt to it, but to also be able to survive turbulent conditions. This quite naturally explains why firms evolving in such a milieu would be better-equipped to survive an economic shock. As a country that very much behaves according to this model, SMEs were thus much more likely to survive the crisis. Additionally, the role of the state in Vietnam has proven to be not only prevalent, but a pivotal factor in SME resilience to the crisis. In more favourable economic conditions, the state is already very much considered essential to conducting business in the country. It accompanies SMEs in their development through credit support, information policies, and tax exemptions, amongst others. However, during the crisis, the effects of political ties and governmental action intensified significantly, removing numerous financial constraints for small and medium-sized firms. Not only was the government a source of financial support through SME-friendly monetary policies, it also directly invested in state-owned firms. This in turn provided all state-owned SMEs with a strong and reliable customer. It also allowed demand to remain high for private SMEs. Indeed, the crisis was correlated with a substantially higher local SME involvement in the Vietnamese supply chain. Literature furthermore appears to suggest that SMEs were in fact providing SOEs with intermediate goods and thus did not feel the demand decrease ensuing from the crisis. This in turn also explains how such an export-driven economy survived, and how SMEs were kept afloat. To conclude, the determinants behind SME survival in Vietnam were thus both the country’s late integration to the world economy, the general resilience and adaptability of Vietnam as an entrepreneurial environment, as well as a strong support system provided by the government. We also understand that the traditional risk associated with being a developing country does not apply to Vietnam. In fact, as a country with a stable and reliable political system as well as experience of the turbulence that accompanies rapid growth, Vietnam would appear to have displayed most of the advantages of the developing stage, and none of the disadvantages relevant to SME survival in this specific case.

Still, this research is sensitive to criticism for two main reasons. First, it is very much dependent on data available. The SME sector is indeed very hard to monitor and control. The GSO gauges that there would be about ten times more unregistered businesses than there are registered ones, a finding which undoubtedly impacts the results of one’s research(GSO 2021). Hence, though the main aim of this specific paper was to identify the main determinants behind SME resilience to the crisis, one cannot ignore the fact that lack of data might bias findings by excluding or mitigating the impact of key factors to SME survival. Second, the resilience of SMEs is also a very intricate topic to tackle as one can never know whether SME survival or exit is not part of a broader strategy, where postponing or reinventing growth plans and closing temporarily is not done out of necessity but merely to grow better. Still, such research ought to be conducted in order to make progress in the field. As such, further research focusing on the quantitative impact of each individual component would be very interesting in order to get a better sense of which ought to be promoted foremost, and could contribute to policy recommendations in the future.

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APPENDIX

APPENDIX 1 - ABBREVIATIONS

ADB	Asian Development Bank
APEC	Asia-Pacific Economic Cooperation
APRACA	Asia-Pacific Rural and Agricultural Credit Association
ASEAN	Association of Southeast Asian Nations
CIT	Corporate Income Tax
CPV	Communist Party of Vietnam
FDI	Foreign Direct Investment
GDP	Gross Domestic Product
GFC	Global Financial and Economic crisis of 2008-2009
GSO	General Statistics Organisation (Vietnam)
HH	Household firm
ICA	Investment Climate Assessment
IFC	International Finance Corporation (World Bank Group)
ILO	International LAbour Organisation
MSME	Micro, Small and Medium-sized Enterprise
OECD	Organisation for Economic Co-operation and Development
PCI	Provincial Competitiveness Index
SME	Small and Medium-sized Enterprise (this usually includes micro enterprises as well)
SOE	State Owned Enterprise
S&P	Standard & Poor's
VAT	Value-Added Tax
VND	Vietnamese Dong (currency)
WBES	World Bank Enterprise Surveys
WTO	World Trade Organization

APPENDIX 2 - LIST OF FIGURES

In Text :

Appendix Figures :

APPENDIX 3 - LIST OF TABLES

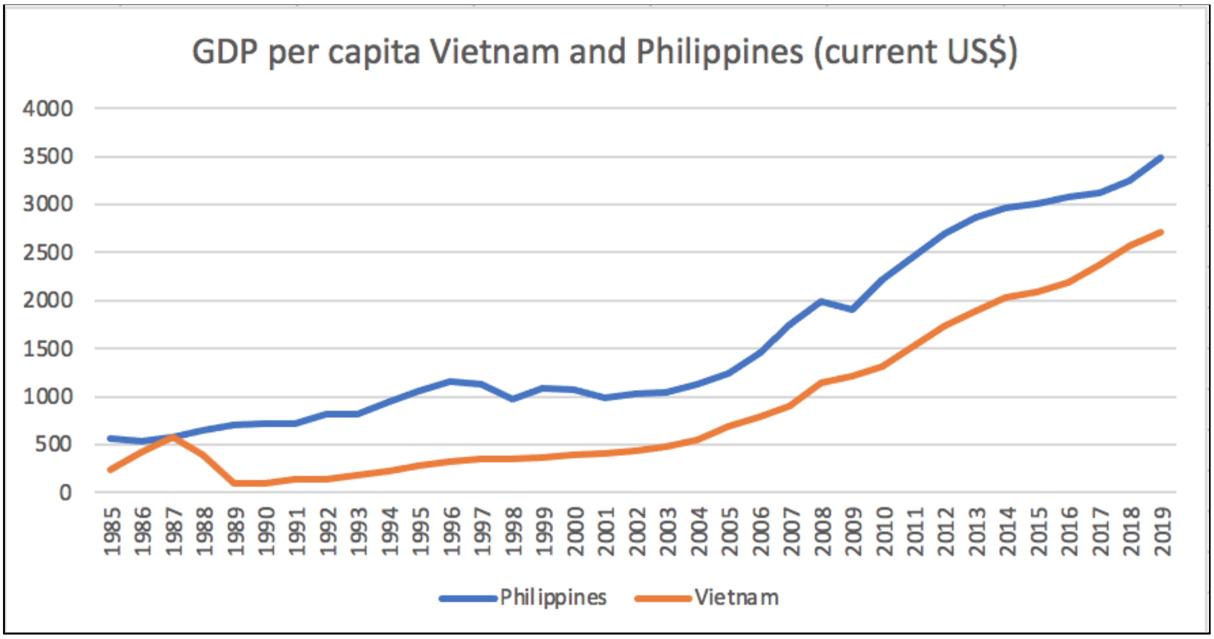

Figure A.1 : GDP per capita of Vietnam and the Philippines (current US$)
Source : (World Bank 2021) (Table by author)

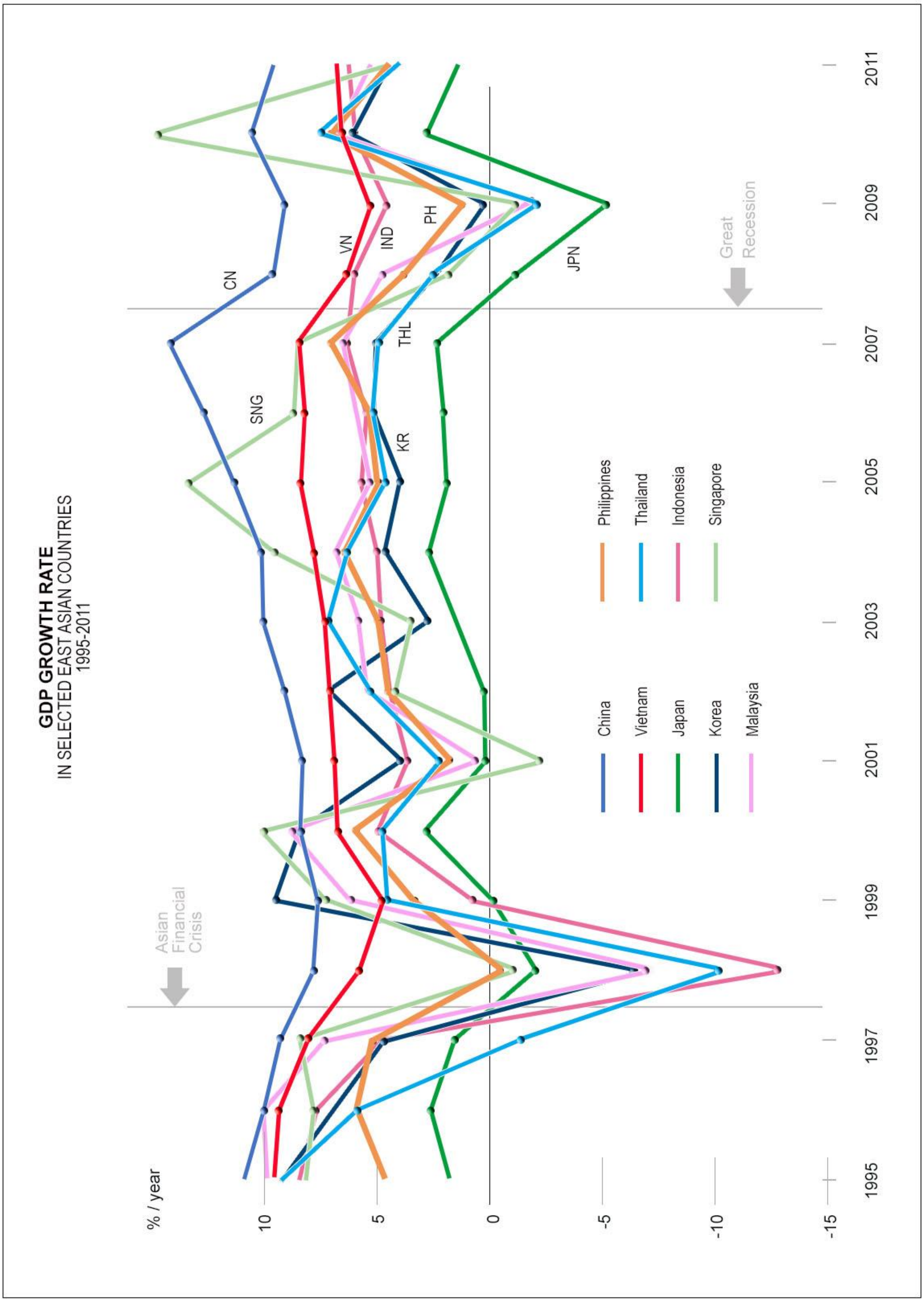

Figure A.2: GDP growth rates (%/year) in selected East Asian countries between 1995 and 2011
Source : Tarp and Abbott 2011, 21 (Figure by author)

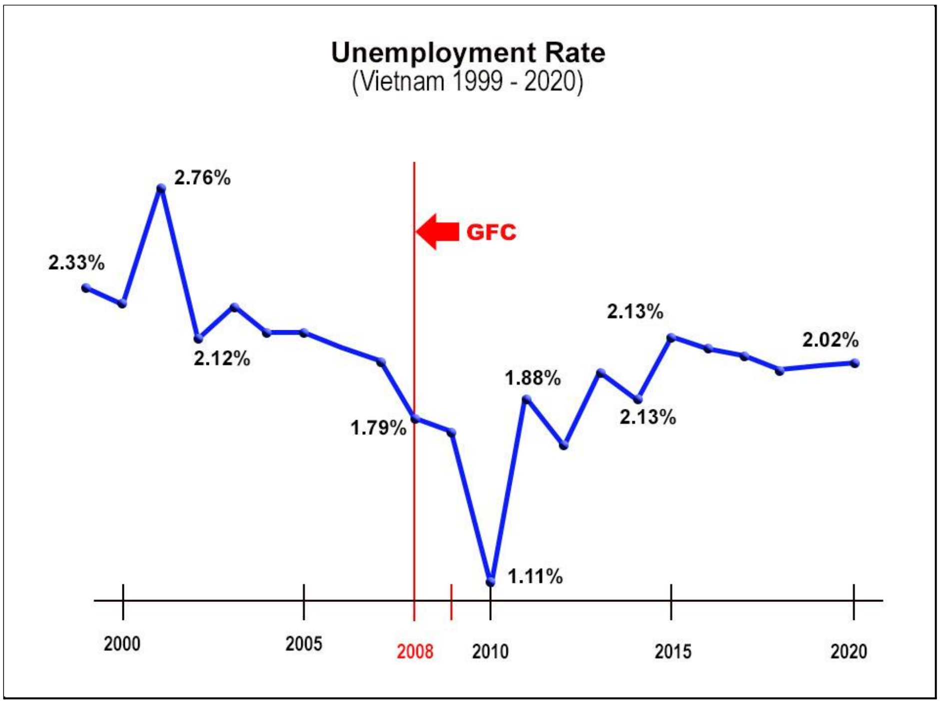

Figure A.3 : Unemployment Rate in Vietnam between 1999 and 2020
Source : Statista 2021 (Figure by author)