CHAPTER 1

Vietnam, Land of Opportunity

Roderick Macdonald

Abstract  Vietnam has overcome internal and external difficulties in the twentieth century to create a very inviting business environment as testified both by GDP per capita growth and by foreign direct investment in the twenty-first century. This chapter briefly touches on the different aspects of this environment that are detailed in subsequent chapters: economic policy and performance, participation in value chains, privatization, the market and financial services. It also provides an overview of the history and geography of the country.

Keywords  GDP per capita · FDI · Economic freedom · Ease of doing business · Enterprise survey · Policy

1.1  INTRODUCTION

Vietnam experienced a very difficult twentieth century. It started the century as a French colony. After the French were repulsed in 1954, Vietnam experienced an internal struggle for power at the same time as...
one party in that struggle (mostly the North with some support located in
Central and Southern Vietnam) fought against the American “helpers”.
Both the French and American opponents were militarily superior, and
the Northern Vietnamese won by accepting an incredibly high number of
casualties. This meant that any industrial base acquired under the French
was decimated. Although the “American war” ended more than 40 years
ago, the US-led embargo dragged on for another two decades. The first
94 years of the century were economically horrendous. Since then, the
country has had barely 25 years of normality to build up an industry and
skills base. The wars of the twentieth century have also left a legacy of
(fading) tension between the hierarchy-oriented North and the market-
oriented South. Also, as in many countries in Southeast Asia, locals of
Chinese descent are prominent in the economy.

Vietnam’s government used the years under embargo to test and
discard several doctrinaire communist methods borrowed from Russia
and China for dealing with economic policy, from communal farming
to command economics. While it is still true that local and central
governments can be heavy handed towards their citizens and there is
also some evidence of state-related actors carrying out cyber warfare on
behalf of well-connected private sector actors (Carr 2017; Lyngaas 2019;
Mitre 2019), successive administrations have been realistic and pragmat-
ically visionary in creating an environment that is business-friendly and
allows entrepreneurs to flourish. Several chapters in this book detail this,
especially Chapter 2 on the evolution of economic policy in Vietnam,
Chapter 3 on the privatization process and Chapter 6 on financial services.

Vietnam now has become a land of business opportunity for locals and
for foreigners. Vietnam is worthy of consideration by any business looking
to expand internationally, particularly into Asia.

Southeast Asia is a fast-growing region and, of the larger economies
in that region, Vietnam and the Philippines are the fastest growing.
Cambodia, Laos and Myanmar are also growing as quickly, but have small
economies that are far less developed. Of the more advanced economies
in the region, only Malaysia exhibits a comparable growth rate. Between
Vietnam and the Philippines, who are neck and neck in economic growth,
Vietnam is clearly far friendlier towards foreign business investment than
the Philippines. Since their devastating experience of free trade with the
United States at the time of independence, the Philippine business elite
has influenced government policy to limit foreign competition and owner-
ship. The “People Power Revolution” did not change this. Since the early
1990s, Vietnam has gradually done the opposite, both opening up to foreign investment and increasing the portion of the economy that is market oriented. There is increasing opportunity in Vietnam.

Vietnam does indeed have a communist government. However, governments are run in practice and not in theory. The contrast with regimes in other countries is that the politicking is done within the Communist Party. Although the quest for power involves instances of sponsor–patron relationships, it is far less damaging than the feudal-like patronage to be found in countries such as the Philippines. Politics in Vietnam also appears to be less dumbed down than it appears to be in countries like Canada and the United States. Finally, the fading memories of the poverty of the previous century perhaps mean that more politicians are patriotic than in other countries. Whatever the reasons, the track record of Vietnam’s government is one of enlightened economic policies and respect for the property of foreign firms. Government management of the COVID-19 pandemic illustrates its competence and willingness to act as necessary, although no one foresees what the state of the pandemic will be when these words are read. Bereft of the resources that allowed Singapore, Korea and Taiwan to do extensive testing, the government of Vietnam was the first to act outside of mainland China and Taiwan. A few local lockdowns were imposed in early January 2020. There was effectively no classroom instruction after mid-January because the government interdicted it after Tet, the Lunar New Year holiday. Most schools moved quickly online, and the government informed citizens how to slow the transmission of the virus from hand washing to separation and masks, including a catchy video clip that went viral in several countries.

Tourists arriving by air from abroad who apply for visa on arrival are surprised to see uniformed men and women processing their documents. They may think they have landed in a police state. However, the clerks handling the documents are employees of the airport, not police or military. Many occupations in Vietnam have uniforms. There is no police state atmosphere noticeable even during increasingly severe restrictions with the coronavirus epidemic as of early April 2020. Although the state is officially atheist, it does not impose atheism. Some small municipalities interdict places of worship, and there are reports of mistreatment of Hmong Christians, but this is not representative of the experience of most people across the country. Most Vietnamese are Buddhists, and the
world’s major religions (in historical order: Hinduism, Judaism, Catholicism, Islam, Protestantism) and Caodaism have places of worship and individuals enjoy freedom to practise their religion in Vietnam.

Although the skills base of Vietnam is limited, that is the nature of a less developed nation. Far more relevant is the “can do” attitude of Vietnamese. This can be seen in all walks of life, from restaurants to the university classroom, from large businesses to small sidewalk businesses with no employees. Vietnamese get things done without worrying about shortage of resources or the accepted methodology. Vietnamese in the diaspora are famous for their success in their new home countries. This could perhaps be ascribed to the selection process of escape from Vietnam in the twentieth century. Surprisingly, however, the same drive and initiative can be found today in Ho Chi Minh City. Vietnamese are intelligent, resourceful and diligent. Rural and low-income urban families see study and knowledge as the path out of poverty. The government spends nearly 6% of GDP and 20% of its budget on education, and Vietnam placed 7th in the world (behind Canada and ahead of Hong Kong) in the 2015 PISA ranking. The United States placed 25th. These rankings are of course imperfect—in particular, about half of Vietnam’s students leave school by 15, before the PISA tests are applied, thus biasing the result—but do suggest the strength of basic education in Vietnam, basis for any industrial training.

1.2 THE COUNTRY OF VIETNAM

Part of the ASEAN economic community, Vietnam shares a border with China and is a short plane or boat ride away from the East Asia powerhouses of Singapore, Hong Kong, South Korea, Taiwan and Japan.

1.2.1 Geography and Climate

Vietnam is an S-shaped sliver of land stretching south from China along the South China Sea. Laos and Cambodia on its western borders separate Vietnam from Thailand. Much of the western border is mountainous. The country is less than a hundred kilometres wide from Hue to Vinh, but expands in the north and—to a lesser degree—in the south. The largest cities are Ha Noi (the capital city, located in the north) and Ho Chi Minh City (formerly Saigon) in the south, each with about 8 million population. These are the official figures. In the case of Ho Chi Minh City, the real
population may be as high as 12 million. Hai Phong (a seaport at about the same latitude as Ha Noi), Can Tho (in the Mekong Delta), Bien Hoa (about 30 kilometres north-west of downtown Ho Chi Minh City) and Da Nang (roughly halfway up the coast) are the next largest cities, in order from 2 million to one million.

The area south of Ho Chi Minh City is dominated by the Mekong Delta with its economy based on farming and fishing. The population of 21.5 million in this region grows slowly as young people seek their fortune in the big cities. The region also faces a double threat. First, new dams along the Mekong to the north, particularly in Laos, affect water levels (DW.com 2019) and thus fishing and rice production, two great economic dynamos of this region. Second, ground subsidence and the spectre of a rising sea level are threats that could obliterate the entire region (Minderhoud et al. 2019).

The Food and Agriculture Organization of the United Nations divides Vietnam into seven different climate zones (FAO 2011); however, this is commonly simplified. North, Central and South Vietnam each has its own weather patterns, although the entire country is tropical. This is complicated by the threefold topology of mountains, jungle and coast. November to April are dry and cold months in the North. Hanoi and much of the North enjoy four seasons. The coldest months in Hanoi are December, January and February with lows around 15 degrees centigrade and highs around 21. From May through October, the weather becomes hot, wet and humid. The rainy season is longer in Ho Chi Minh City, also starting in May but lasting to November. Typhoons reinforce the end of the rainy season during the months of August, September and October, although they usually only affect the North and Central Vietnam. Climate researchers and local people alike say these patterns have become less regular. It will be interesting to see if the changes in the level of economic activity brought about by the COVID-19 impact these variations, or if they are independent of economic activity.

### 1.2.2 History and Society

Like much of Southeast Asia, Vietnam is characterized by heavily populated plains and coasts and more sparsely populated mountainous regions with distinct ethnic groups. The Kinh represent 85% of the population, while the next most populous ethnic group, the Tay, account for about 2%. The mainstream history of Vietnam revolves around the Kinh, but it
is also true that a sixth of the population have different mother tongues and traditions.

Vietnam has a venerable history that stretches far back in time. Various precursors of contemporary China occupied Vietnam and were repulsed many times over the last two thousand years. The French colonization of Indochina, including Vietnam, and the subsequent attempt of the United States to counteract the supposed domino effect of communism spreading from China, should be seen against this historic background. While Ho Chi Minh did acquire a communist ideology from French intelligentsia of the early twentieth century, and the current regime is an administration by the Communist Party of Vietnam, this ideology was an instrument of patriotic efforts to oust foreign occupiers from the country. The years immediately following the withdrawal of US forces were difficult. The Maoist Pol Pot regime in Cambodia had exterminated a quarter of that country’s population and was seen as a threat to the Vietnamese, whose troops entered Cambodia on Christmas day 1978, and overwhelmed the Pol Pot army in a couple of weeks. Then, China invaded Vietnam on February 17, 1979, withdrawing by March 18 of that same year. About a half million Chinese troops were stationed along the border throughout the 1980s, harassing with minor actions combined with clandestine sabotage activities and a psychological campaign. In addition to these real and costly military security issues, Vietnam had to deal with economic sanctions (by China 1975-1978 and those led by the United States from 1975 to 1994).

1.3 More Recent Economic Policy and Performance

After reunification in 1975, the government began with the same errors committed by the communist regimes of Russia and China—multi-year plans for a command economy, but by the end of 1978 began to allow some private initiative in farming, with further liberalization through to the mid-1980s. The sixth national congress of Vietnam’s Communist Party explicitly acknowledged the role of a “mixed” economy and is considered pivotal for the renovation (đổi mới) of the economy. Implementation was spotty, however, and the country was soon on the road to severe macroeconomic imbalance. Inflation had varied from 25 to 100% in the first half of the 1980s, but skyrocketed to 453% in 1986 and 375% in 1988. Nonetheless, annual production began to increase for several indicator industries such as steel (8%), cement (11%), electricity (11%) and
zinc (10%), and Vietnam became a major exporter of rice (Nguyen et al. 2016). In 1989, the government began to push true reform, liberalizing prices and exchange rates as well as curbing state subsidies to state-owned enterprises (Tran 2002; Vu 2014). It also improved macroeconomic management, raising interest rates. These reforms and liberalization of the economy were not seen as a contradiction of socialism. The official party position was that greater economic progress was required before socialism would be possible. Chapter 2 examines the evolution of economic policy in greater detail. Personal experience and convictions have evolved since that time, and while a large part of economic activity (as measured by GDP) remains under the control of the state, efforts to change this are ongoing since 1990 (see Chapter 3).

The economy of Vietnam did not achieve stable growth until 1992. It then surged and has continued through to the present. The US-led trade embargo ended on February 3, 1994. Vietnam became a full member of ASEAN in 1995 and joined the World Trade Organization in 2007. As of March 2020, the country has entered into negotiations for 26 free trade agreements (see ARIC 2020 for a list), the latest of which are the Comprehensive and Progressive Agreement for Trans-Pacific Partnership and the agreement with the European Union ratified by the European government on February 12, 2020. Many domestic firms have adjusted to this change, improving their productivity to compete in both foreign and domestic markets.

Vietnam began presiding the United Nations Security Council in January 2020, in its second term as non-permanent member.

Wealth is imperfectly measured by GDP, which grew at a rate of nearly 10% before slowing to “only” 5% with the Asian financial crisis and has mostly bettered 6% in the current century (see Fig. 1.1). Although agriculture, forestry and fishing continued to grow, their relative importance for the economy has shrunk to around 15% because of the more rapid growth of industry and services typical of development (see Fig. 1.2). However, over 35% of the population still are employed in that sector. The largest categories of goods exported are “machines” (including electronic as well as mechanical machines and parts) at 46%, textiles and clothing including foot and head wear at 24% (AOC 2019). Exports began to surpass GDP in 2016. This is possible because Vietnam imports abundant intermediate goods which it processes, adding some value, and then re-exports (see Fig. 1.3). Samsung alone accounts for over 25% of exports (Nguyen 2019), suggesting there is room for more large foreign
investors and certainly a need for Vietnam to diversify its portfolio of foreign investment. Because nearly 46% of exports are “machinery”, it might be concluded that the skill level of the country is relatively high, but this would be a misunderstanding of Vietnam’s current place in global value chains (see Chapter 4). The domestic value added in information industries has been decreasing in Vietnam while increasing slightly in Singapore and notably in Thailand, as Fig. 1.4 shows. This is a crude indicator of the evolving level of sophistication of Vietnam’s economy, and the government is attempting to address this (FDI Vietnam 2020; see also VietnamNet 2018; Vietnam Law and Legal Forum Magazine 2018).

Vietnam is decentralized not only as regards administrative power but also as regards the redistribution of funds without which executive power is mostly theoretical. This helps explain why the Gini coefficient of Vietnam is relatively low. Although there is not the multigenerational accumulation of fortune to be found in Europe, there are rich and extremely rich persons and families. The greater equality in the distribution of wealth is rather at the bottom end. Poor people in a lower-income
Fig. 1.2 Economic contribution by sector (Source: World Bank national accounts data, and OECD National Accounts data files)

Fig. 1.3 Total trade and total exports as % GDP (Source: World Bank national accounts data, and OECD National Accounts data files)
country like Vietnam do have lower living standards than the poor of Europe and North America, where some beggars listen to music on their smartphones. However, there is no squalor in Vietnam. There are poorer areas in cities, but they are not drug and crime-infested areas breeding future generations of poverty. On the contrary, because increases of wealth have been recent and rapid, opulent new developments are incentives for the young to work to better their capacity to earn rather than a reminder that they are doomed to an underclass where the only successful role models are exceptional athletes, entertainers lucky enough to achieve stardom and drug dealers. The trend is towards greater income equality in the city than in the countryside (see Table 1.1). The result is a demographic with disposable income distinct from that of other countries in the region: large numbers with some modest discretionary means, few for the luxury market. Also, the Vietnamese consumer seems relatively sophisticated when it comes to sifting information from hype in advertising. The Vietnamese consumer and other aspects of marketing in Vietnam are described in Chapter 5.

Fig. 1.4  Domestic value added share of gross exports in information industries (Source OECD.stat 2020, TIVA principle indicators, https://stats.oecd.org/Index.aspx?DataSetCode=TIVA_2018_C1# [Accessed on February 16, 2020])
| Region                                      | 2002 | 2004 | 2006 | 2008 | 2010 | 2012 | 2014 | 2016 | Prel. 2018 |
|--------------------------------------------|------|------|------|------|------|------|------|------|------------|
| WHOLE COUNTRY                              | 0.42 | 0.42 | 0.424| 0.434| 0.433| 0.424| 0.43  | 0.431| 0.424      |
| Urban                                      | 0.41 | 0.41 | 0.393| 0.404| 0.402| 0.385| 0.397 | 0.391| 0.372      |
| Rural                                      | 0.36 | 0.37 | 0.378| 0.385| 0.395| 0.399| 0.398 | 0.408| 0.407      |
| Red River Delta                            | 0.411| 0.408| 0.393| 0.407| 0.401| 0.392|      |      |            |
| Northern midlands and mountain areas       | 0.401| 0.406| 0.411| 0.416| 0.433| 0.443|      |      |            |
| North Central area and Central coastal area| 0.381| 0.385| 0.384| 0.385| 0.393| 0.383|      |      |            |
| Central highlands                          | 0.405| 0.408| 0.397| 0.408| 0.439| 0.44  |      |      |            |
| Southeast                                  | 0.41 | 0.414| 0.391| 0.397| 0.387| 0.373|      |      |            |
| Mekong River Delta                         | 0.395| 0.398| 0.403| 0.395| 0.405| 0.399|      |      |            |

*Source:* GSO
Vietnam channelled massive funds into capital investment in the past, nearing 40% before the global financial crisis. Recently, the ratio of capital formation to GDP has approximated that of neighbouring countries (see Fig. 1.5). ICOR, a sometimes misleading measure of return on investment, was quite high (meaning poorer returns), although it has dropped somewhat in recent years to 5.97 in 2018 (GSO 2019). An effort to extend more credit private enterprise as opposed to state-owned enterprises probably has helped. Figure 1.6 shows how domestic credit to the private sector has increased rapidly from 1998 to levels comparable with neighbouring countries (in contrast to the Philippines). However, one legacy of overly generous credit to state-owned enterprise in the past is a high ratio of non-performing loans on the books of Vietnam’s banks (Katagiri 2019). Vietnam lags its neighbours in financial freedom, a measure of government (as opposed to market) influence about upon finance, but its score has increased throughout this century (see Fig. 1.7). Chapter 6 provides an overview of financial services available in Vietnam. Foreign funding began to enter the country in 1988 and has continued to grow quickly, with the two interruptions of the Asian financial crisis in 1997 and the global financial crisis ten years later. Much of the funding that returned to Southeast Asia after 1997 targeted mergers and acquisitions. These were restricted in Vietnam, and as a result, FDI into Vietnam remained flat for nearly a decade after the Asian crisis. It then spiked before the global crisis, faltered and then continued to grow (see

![Fig. 1.5](image)

**Fig. 1.5** Gross Capital Formation (*Source* World Bank national accounts data, and OECD National Accounts data files)
Fig. 1.6  Domestic credit to private sector as per cent of GDP (Source International Monetary Fund, International Financial Statistics and data files, and World Bank and OECD GDP estimates)

Fig. 1.8). Although greenfield investment dropped in 2019, clearly businesses have been bullish about Vietnam’s potential in the recent past compared to most other countries in the region (see Fig. 1.9). This book argues that the proximate future is also bright, and provides some preliminary information for businesses and researchers interested in that economy.

1.4 Doing Business in Vietnam

How easy or difficult is it to run a business in Vietnam? Scoring 69.8 in the 2020 Ease of Doing Business Index, Vietnam trails Singapore, Malaysia and Thailand (ranking 2nd, 14th and 23rd worldwide, respectively) but does better than Indonesia (slightly) and the Philippines. The government is trying to improve the ease with which business is carried out by reducing paperwork, moving procedures online, simplifying taxes and tax procedures, and disseminating decisions of business court cases. There is much room for improvement in protecting minority investors,
resolving insolvencies, enforcing contracts and reducing the burden—time and money—of taxes. (See World Bank 2019. The index score for Vietnam is based on Ho Chi Minh City data.)

Vietnam has improving scores for economic freedom over the past 25 years, although the country marginally lags the Philippines and the World average (Fig. 1.10).\(^5\) Table 1.2 shows that the weaknesses of Vietnam with respect to the Philippines lie in government spending and fiscal health, on the one hand, and financial and investment freedom, on the other.

Government spending is a factor in calculating the economic freedom index. The score for it diminishes quadratically as the ratio of government spending to GDP increases. Expenditure by the government of Vietnam reached 38% of GDP in 2009 and 2010, but has decreased since then, with 26% projected for 2020. The score is based on the values for the most recent three years available. Government spending has amounted to 28.3% of the country’s output (GDP) over the past three years (in contrast to the Philippines’ 20.1%) (Heritage Foundation and Wall Street Journal, 2020).
Fig. 1.8 Vietnam FDI 1960–2017 (Source International Monetary Fund, Balance of Payments database, supplemented by data from the United Nations Conference on Trade and Development and official national sources)

Fig. 1.9 Vietnam FDI/GDP compared (Source International Monetary Fund, International Financial Statistics and Balance of Payments databases, World Bank, International Debt Statistics, and World Bank and OECD GDP estimates)
Fig. 1.10  Economic freedom score for Vietnam compared (Source Heritage Foundation and Wall Street Journal 2019; see also Gwartney et al. 2019)

Table 1.2  Elements of economic freedom compared across Vietnam and the Philippines

| Country Name               | Philippines | Vietnam |
|----------------------------|-------------|---------|
| 2020 score                 | 64.5        | 58.8    |
| Property rights            | 54.6        | 52.6    |
| Judicial effectiveness     | 34.2        | 40.1    |
| Government integrity       | 38.7        | 33.8    |
| Tax burden                 | 76.7        | 79.5    |
| Government spending        | 87.9        | 75.9    |
| Fiscal health              | 96.3        | 58.0    |
| Business freedom           | 59.5        | 65.6    |
| Labour freedom             | 57.4        | 62.5    |
| Monetary freedom           | 66.9        | 68.2    |
| Trade freedom              | 81.6        | 79.6    |
| Investment freedom         | 60          | 40      |
| Financial freedom          | 60          | 50      |

Source Heritage Foundation and Wall Street Journal (2020)
Budget deficits have averaged 4.7% of GDP with public debt at 57.5% of GDP. This contrasts with the case of the Philippines, where budget deficits averaged 0.6% of GDP and public debt reached 39.6% of GDP.

Although Vietnam clearly has “inferior” numbers for the scoring of government spending and fiscal health, it would be difficult to say the government has been less responsible than that of the Philippines. Much of the difference in deficits can be explained by education and health expenditures by the respective governments: 9.9% of GDP for Vietnam and 7.1% for the Philippines according to the latest data available from the World Health Organization Global Health Expenditure database and the UNESCO Institute for Statistics. Infrastructure has also been targeted in expenditures by the government of Vietnam. It is difficult to see how this decreases rather than increasing economic freedom. Government debt ratios for both countries are moderate compared to those of most wealthy nations, particularly as their rapid GDP growth would quickly bring down the ratios with a few years of balanced budgets. A recent report from the IMF lauds Vietnam’s expenditures on health, education and infrastructure (Baum 2020).

Investment and financial freedom provide another story, particularly since Vietnam scores more poorly even than the Philippines, where foreign investors rarely can obtain controlling shares in a business no matter how much cash they invest. The score for financial freedom is partly a measure of the efficiency of the banking system—and Vietnam has only recently begun to develop credit access for private enterprise—and the degree of government control of financial markets, with much of the banking system in Vietnam remaining under government ownership (see Chapter 6). The movement of capital is restricted somewhat by the government, although these restrictions are gradually diminishing. The State Bank of Vietnam publishes sporadic circulars (e.g. SBV 2019) providing updated information and the large accounting firms regularly comment these (e.g. KPMG 2019; PwC 2019).

The latest Enterprise Survey for Vietnam suggests that Vietnam is on par or better than other countries in the region for most questions posed regarding regulations and taxes, crime, formalization of business and even innovation with the exception of product innovation. Finance, as we have seen already, and corruption are weak points (real estate and privatization have particularly been vulnerable to cronyism—see Lê 2008: 175–178). However, these results are from 2015 and the situation is rapidly evolving. Anecdotal evidence indicates that there is still too much corruption in
Vietnam. The 2015 data (measuring the opinions of business executives contacted) indicate that Vietnam performs poorly regarding extortion of funds by public officials “in order to get things done” and in order to secure a government contract (Enterprise Surveys, n.d.). A smaller but more recent study confirms the need for controlling corruption, but notes that mid-sized Vietnamese firms are more frequently victims than smaller or larger Vietnamese firms or foreign firms (Maruichi and Abe 2019).

Vietnam earned the greatest improvement in global competitiveness score worldwide in 2019 (Schwab 2019). This was in part possible because there was much to improve, and this remains the case. Vietnam does best for market size (thanks to the population of 100 million that, while poor, still has discretionary spending power), adoption of ICT (information, computer and telecommunication technologies) and macroeconomic stability.

The weaker global competitiveness scores of Vietnam are for infrastructure, skill, labour market, business dynamism and innovativeness—although Vietnam does perform above expectations for this last dimension as compared to other lower-middle-income countries (Dutta et al. 2019). Innovativeness of Vietnam’s small to mid-sized firms is examined in Chapter 4 under the heading “Innovation Capability”.

The road system of Vietnam is poor, so the trucking industry is less efficient. Intercity roads are dangerous. The country scores well for airport connectivity and sea liner capacity, but there is a bottleneck in both air transport and seaport services. As for utility infrastructure, water supply is a weak area.

Vietnam’s efforts to improve from its limited skills base are reflected in rising scores for nearly all measures contributing to the skills “pillar” of the global competitiveness score. However, there remains much ground to be covered as Vietnam ranks 93rd out of 141 countries. Businesses entering Vietnam hopefully will collaborate with government’s industrial plan to upgrade the skills base.

1.5  **Conclusion: Vietnam and Business Opportunity**

Vietnam has a particularly remarkable record for the rate of greenfield investments attracted in this century (Barklie 2015) although this has dropped recently, particularly in the first half of 2019. FDI was flat globally and across most of Asia in 2019 (UNCTAD 2020), although
Singapore saw a 42% increase over 2018. Part of the reason is particular to Vietnam. While the government of Vietnam was happy to attract investment to increase the size of the economy, create jobs and increase tax income, it was particularly keen to harvest the real prizes of FDI: knowledge acquisition and local supply sourcing. This has not happened at the desired pace, with many foreign firms sourcing from suppliers outside Vietnam.

Singapore in fact saw a huge upsurge in FDI from the United States after the global financial crisis (SingStat 2020). Singapore seems the simplest choice for entry into Asia, with a sophisticated workforce, business-friendly bureaucracy and world-class environment.

Doing business in Vietnam is not the same as doing business in the rich democratic countries of Europe, North America and Oceania. Logistics and paperwork are more challenging, and the skill base is less extensive. However, there is a reason that Vietnam has already attracted a third of a trillion dollars of foreign investment. Vietnam’s citizens and central and local governments are eager for the growth afforded by foreign business investment and offer good and fair deals to make that investment profitable. Although Vietnam is open to initiatives from Asian neighbours, it is also true that the Vietnamese have a great admiration for Western people and things.

For some time, businesses have been considering a “China plus one strategy” as a manner to deal with rising wages in China operations and China-based suppliers. The trend became accentuated with the pre-COVID-19 trade war between the Trump administration in the United States and Xi Jinping’s China. This in turn led to a jump in new factories being built in Vietnam and appearance of logistic bottlenecks. Hopefully, the aftermath of the current pandemic will lead to a more gradual but steady increase of FDI inflows.

There are five ways a business can enter into Vietnam:

1. Greenfield investment
2. Acquisition
3. Merger
4. Joint venture with a local firm
5. Simple business arrangement with a local firm as a supplier or a customer.
All modes of entry, but particularly mode 5, may bring the Vietnamese firm into a value chain, hence the relevance of Chapter 4—Participating and upgrading in Global Value Chains: SMEs in Vietnam. Modes of entry 2, 3 and 4 may involve either local private firms, or firms that are state-owned enterprises either recently privatized or in the process of “equitization” (the Vietnamese equivalent of privatization). This is one of the motivations for including Chapter 3—State-Owned Enterprises in Vietnam: Challenges Facing the Privatization Process.

Given the current and probable future rate of growth once the COVID-19 crisis is overcome, Vietnam represents an opportunity for many businesses. More information is required. Much of that information is industry specific and region specific. This current book cannot provide such specific information, but does provide the reader with starting point for further research by both businesses and academics.

Notes

1. OECD did not report a 2018 ranking for Vietnam for technical reasons. See OECD (2019).

2. The primary challenge for doing business in Vietnam is language. Some businesses may be cowed because the Vietnamese language is difficult. Perhaps the language of money is universal, but the language of management is not. The use of the Latin alphabet in Vietnamese is misleading. Vietnamese has the same number of tones as Cantonese, tongue-twisting sequences of phonemes and frequent use of imaginative combinations of words. A motorcycle taxi, for example, is a xe ôm: vehicle embrace. This gives Google’s AI great difficulty translating to and from Vietnamese. And the number of tones is not really the same as Cantonese, because Vietnamese varies from region to region. The number of tones varies both by region and by whom you ask. So does the rest of pronunciation, such as initial consonants. However, if Vietnamese is difficult, it can be learned. Far more important is the desire of virtually all young and middle-aged Vietnamese to learn English if they do not already speak it.

3. Perhaps as many as a dozen times: in 905, 931, 938, 981, 1077, three times of anti-Mongol-Yuan invasion (1258, 1285, 1288, 1427, 1789, 1946, 1979), not including several times during a thousand years of the Chinese occupation between 179 BCE and 905 (personal communication with Phạm Văn Thụy). Of course, the identity of the invaders/occupiers and of the “repulsers” varied over time as societies and cultures evolved.
4. DINFO or information industries include international standard industry classification codes D26, D58T60, D61, D62T63 but exclude pharmaceuticals, medical services and financial and business services. Also, non-electronic machinery can also be sophisticated (e.g. tunnel boring machines).

5. What neither the Heritage Index nor the Fraser Institute Index of Economic Freedom reveal, however, is that economic freedom in the Philippines is freedom for the exploitation of businesses controlled by family dynasties (Cruz 2019). Large family interests, not government, are the enemy of economic freedom in that country.

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