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Viet Nam as an emerging market

Yet another rising Asian dragon

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| <p>The purpose of this thesis is to evaluate whether Viet Nam is categorized as an emerging market within the current of non-stop moving world economy. The famous BRICS have impressed the world economy for decades with their competitive growth speed and young potential markets. However, in this dissertation, the attention is drawn to a more South East region, where Viet Nam, located around the most important transportation hubs of the Asia-Pacific area, is bringing its image to another level economically and financially.</p> <p>The first section debates on “emerging market” terminology, with a side input of “frontier market” understanding. From there, the discussion continues with Viet Nam - is this an emerging economy, or rather a frontier market? The first few chapters look into the features and characteristics that brought attention to Viet Nam as a market place with many attractive potentials.</p> <p>Going forward, emerging markets are the ultimate destination for investment. Viet Nam, with growing population, has a relatively large market to tap, however is often locked in rural areas where at least half of the population reside. The chapter looks into the conditions of these areas and from that, concludes with the areas’ investment worth.</p> <p>As it comes to the conclusion, the future outlook for Viet Nam can be assessed from the overall discussion and the current economic status, to which direction that Viet Nam is developing. Besides, what are the risks that the government should look into in order to maintain the attraction. All in all, as in every economy, the government is the most important body that impacts on the development factors. As one of the remained communist countries, it is not less complicated compared to other countries how the regulations are applied based on a mixture of socialistic and capitalistic ideology.</p> | |
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Glossary of Acronyms

AFTA – ASEAN Free Trade Area
BRICS – Brazil, Russia, India, China and South Africa
CEPT – Common Effective Preferential Tariffs
CMEA – Council for Mutual Economic Assistance
CPC – Communist Party of China
DRV - Democratic Republic of Viet Nam
EM – Emerging Market
EMC – Emerging Market Country
FDI – Foreign Direct Investment
FIP - Foreign Invested Project
FMCG – Fast Moving Consuming Goods
FTSE – Financial Times Stock Exchange
GDP – Gross Domestic Product
GDS – Gross Domestic Savings
GEM – Global Emerging Market
GMP – Global Market Place
GNI – Gross National Income
IFC – International Finance Corporation
IMF – International Monetary Fund
MIKT – Mexico, Indonesia, South Korea and Turkey
MSCI – Morgan Stanley Capital International
NCI – New Industrializing Country
PPP – Purchasing Power Parity
PRC – People's Republic of China
SDR - Special Drawing Rights
SOE – State-owned Enterprise
TPP – Trans-Pacific Partnership
USSR – Union of Soviet Socialist Republics
VCP – Vietnamese Communist Party
WB – World Bank
WTO – World Trade Organization

Vietnamese Terms

Viet Kieu – Overseas Vietnamese

1 Introduction

1.1 Topic selection

Emerging market, is a controversial term and concept that can apply when the news mention about Viet Nam, however in numerous times, the country is also referred to as a frontier market. In this section, a short introduction to the origin and terminology of both concepts is brought up. Some features will be highlighted which confirm Viet Nam as a recognized emerging market, especially after the success of Doi Moi economic reform. The infamous BRIC has been the attention hub for entrepreneurs and financial investors worldwide, alongside with the new member, South Africa, the BRICS have initiated their first “New Development Bank” for the purpose of sustainable growth and financing the infrastructure. However, is Viet Nam another potential BRICS member? What does it take to be similar to the BRICS?

This essay examines Vietnam as an emerging market, with a focus on its development strategies and future outlook. From this, the main questions are propounded: What are the challenges for Viet Nam currently as an emerging market, and what can it do to not only maintain its position and growth, but also to gallop itself to the next level? A subsidiary question regarding accepting and learning from the policy mistakes made during the last 39 years of independence, with a bit of cultural touch. Being a latecomer industrializing country, Viet Nam has recently become one of the most mentioned country with respect to global economic integration, despite the trial-and-errors attempts to reform in the 10 years before Doi Moi in 1986.

The title “Viet Nam as an emerging market: Yet another rising Asian dragon” was inspired from the title of a book *The New Asian Dragon: Internationalization of firms in Viet Nam*. The book is an excellent collection of research collaborations by researchers from Vietnamese and Danish universities. It provides a contemporary perspective on international business issues and challenges in Viet Nam, from where the questions are challenged to have answers, or to raise attentive discussions (Pham & Schaumburg-Muller, 2010).

1.2 Methodology

The research is based primarily upon secondary data and daily updates from journals and articles with a qualitative approach.

As the purpose of this research is to ultimately challenge the Viet Nam's economical and political situation, should the country be considered as an emerging market. As the term itself is universally used in journal articles and academic research, however the understanding of the term is vast, when looking into it. Therefore, a few typical examples are mentioned and analyzed in the first part of the essay with a side input from another term – frontier market.

Moving forward, a deep-dive into a redefined Vietnam since independence 1975 will be presented. The contemporary history supports the basic understanding on the recent economic and political changes in the country, where most of the related bibliographies will be utilized. Going further, an analytical approach to Viet Nam's features as an emerging economy will be assessed based on the selected 9 characteristics that are most common between the emerging markets in the past decades. Walking through these features, we will also look at both sides of the coin, pros and cons, of each individual point.

The limitations in writing this thesis are the disadvantages of collecting statistics. As Viet Nam has gone through many years of war time, the making of statistics was very limited and often lost if ever been made. However, the number of rare documentations on the important key performance indicators (KPIs) was sufficient enough to bring comparisons before and after dependence in Viet Nam regarding the economic situations and development.

2 Emerging Market – Terminology and Discussions

This chapter features the controversy in defining ‘emerging market’ terminology. What makes an economy “emerging”? The terminology was coined in 1981, and it caught the investors’ attention only in the last recent years since Jim O’Neill grouped the biggest emerging markets, or the so-called “third-world” countries, including Brazil, Russia, India and China into a straightforward abbreviation “BRIC” in a report in 2001. The beauty of this abbreviation lays in its own simplicity, yet meaningful sense from itself when being mentioned – the most attractive countries with impressive economic performance at the time and its concrete collaboration between the member states. Due to this meaningful simplicity, the acronym was used more often, gaining wider recognition and attention around the world from fast-growing economies to more humble economies looking for role models. This is also emphasizing a start of an innovative and steady facial change to the global economy as a whole, with the emerging markets aside from the BRICS. Ever since, many other economists contributed in building the definition for the term for academic purposes, raising different opinions in what qualifies a country as an emerging market.

The discussion on what makes emerging markets as they are, especially their roles in the global economy and globalization, is diverse and often controversial. Standing on different viewpoints, the term and related discourse have been used in numerous articles as a universal term that defines itself from the combination of the two generic words – “emerging” and “market”. Without looking up in dictionary, one can understand an emerging market is standing between the developing and developed economies with high growth rate.

In order to understand the economic situation in Viet Nam as an emerging market, a background research on the terminology is necessary to establish the foremost understanding ground in of emerging market when the term is mentioned in the dissertation; besides, it is also important to assess why, after the severe wartime ended in 1975, Viet Nam is considered as one emerging market, alongside with the so-called BRICS. However, often the country is regarded even as a frontier market (Wright, 2014), which is universally defined as “less developed than the emerging market countries, [...] don’t have their own stock exchange [...] and are categorically the riskiest markets in the world to invest” (Cussen, 2013). On this matter, there will be a

discussion pointing out 9 distinctive characteristics that define Viet Nam as an emerging market (Banga, 2005) with updated information from several articles to follow after this chapter.

2.1 Introduction to Emerging Market

The term “emerging market” was originally coined in 1981 by an economist - Antoine Van Agtmael of the International Finance Corporation (IFC) of the World Bank, when he and the IFC were attempting to establish a “Third-World Equity Fund” ([The Economist, 2008](#)). At the time, these “third world”, or “undeveloped” countries were not highly valued on the international stock exchange due to their slow development speed as perceived by the “developed countries”, whilst they proved otherwise their high growth potential. Rebranding them as “underdeveloped countries” or less developed meant only that they remained in the “Third world” perception ([Agtmael, 2012](#)). Therefore the “emerging market” term was established to define their positive transition between developing and developed economic status, at the same time facilitating the first mutual fund investments in these countries ([Khanna, 2010](#)).

In 2001 Jim O’Neill of Goldman Sachs created the term “BRIC,” an acronym for the emerging markets of Brazil, Russia, India and China. He reported that these four economies were on a rapid expansion path that would rank themselves among the leading world economic powers. Yet, the “emerging markets” themselves still differ greatly from each other as the studied countries such as Russia and India reveal diverse features that cannot be consistently compared, such as economic structures, property rights regimes or political systems (O’Neill, 2001).

Pilbeam (2005, p.461) described an emerging market as “the market of a country that is experiencing rapid economic growth, but whose income per capita usually makes it a low to middle income country”. China, as an emerging market, has been a typical example for this concept, showing the influence of a developing economy to the global power order in the world, yet the median wage is still far from some of its BRICS fellows. China nowadays, being the world’s second largest economy with average annual GDP growth of 9-10% in the past 30 years, quickly surpasses other giants but USA. Within the next decade, it is predicted that China will become the biggest economy in the world, overtaking the USA (Giles, 2014). Together the BRICs and the MIKT countries (Mexico, Indonesia, South Korea and Turkey) account for 32.3 % of the

world's GDP (World Bank, 2014). Yet China remains a developing country when it comes to Gross National Income (GNI) per capita (World Bank, 2014).

GNI per capita in selected countries from 1960 to 2012
(Source: World Bank Data 2013)

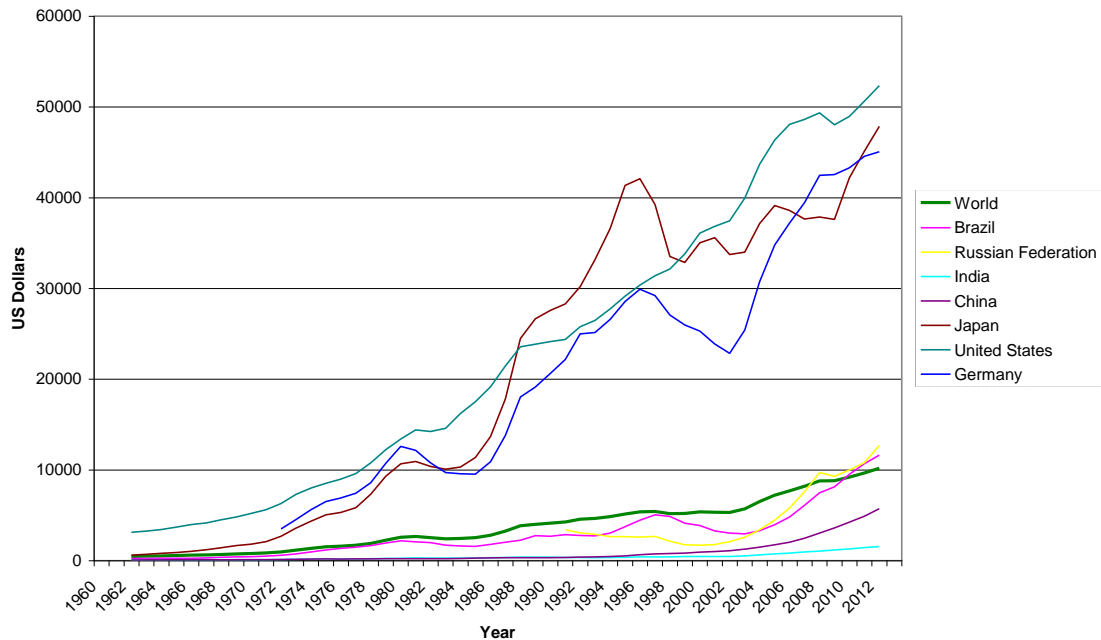


Figure 1: GNI per capita in selected emerging and developed countries 1960 - 2012

According to recent data from The World Bank Group, the world's GNI per capita is about 10180 USD in 2012, whereas within the BRICS countries, this number ranges from 1550 USD (in India) to 12700 USD (in Russia). In the same year, China's GNI was 5720 USD. Compared to developed countries on this regard such as in the USA, Germany and Japan – there is a relatively large gap for the BRIC countries.

Besides, a Russian economist also took part in the discussion over the definition. According to Dr. Vladimir Kvint (2009), “an emerging market country (EMC) is a society transitioning from a dictatorship to a free-market-oriented economy, with increasing economic freedom, gradual integration within the Global Market Place (GMP) and with other members of the Global Emerging Market (GEM), an expanding middle class, improving standards of living, social stability and tolerance, as well as an increase in cooperation with multilateral institutions.” However, this definition is subjectively broad to some extent. From this perspective Kvint has only considered the emergence of Eastern European economies as the “dictatorship” – which does not necessarily imply one country is less developed than open market economies. Some of the BRICS countries do not apply this theory, but they still perform with a steady and high growth

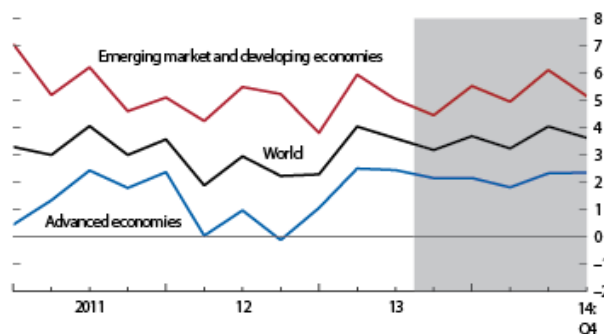
rates throughout history. Russia, for instance as the exception of this definition, has shown their model economic development history is opposite to what Kvint implicated. During [Stalin Era \(1928 - 1953\)](#), although Russia and Ukraine suffered his forced collectivization of agriculture, his rapid industrialization policy successfully strengthened the Soviet productivity and improved the Russian economic growth and but at great cost, including human lives ([BBC History, 2014](#)).

Meanwhile in China, Mao Zedong contributed to the foundation of the Communist Party of China in 1921, leading to the victory of the Chinese Civil war (1927 – 1936 and 1946 – 1949) ([BBC News, 2014](#)). Founding the People's Republic of China (PRC) in October 1, 1949, Mao proclaimed his era from 1949 to 1976, his land reform policy and three-anti/five-anti campaigns brought the landlords, the wealthy capitalists and political opponents to execution as an act to reassure his power and to rid of corruption. During the five-year plan 1953 – 1958, China succeeded, with USSR's support (Russia nowadays), in building plants, upgrading China from a farming country to an independent and competitive industrial economy. However the second phase, aiming for larger scale of industrialization, or the so called Great Leap Forward, with focus on heavy industry, Mao and the Communist Party of China (CPC) launched the rapid collectivization and price controls, leaving the biggest human disastrous famine as a result ([BBC News, 2014](#)). The following Cultural Revolution dragged another 10 years of darkness, ruining lives and educations of a whole generation ([BBC News, 2014](#)). In spite of severe mistakes that were made in Mao Era, Mao Zedong has proved that he was among the most influential political thinkers in the 20th century. His biggest achievements were founding of CPC, proclaiming independence to PRC and efforts in rapid economic reforms. Stalinism or Maoism, these command economies although have made fatal consequences from their tyrant policies, it is undeniable to look at the other positive side of their controversial leaders. This, again, proved the aspects that Kvint has not mentioned, that dictatorship is not always the backward policy that curbs the development of an economy.

The evolution of the emerging markets is still controversial where the researchers in the emerging markets field often find each other's critics about the mechanics of emerging markets. As the term "emerging market" is loosely defined and lacks of generally agreed criteria, it becomes more debatable to determine a qualifying to be an emerging market as the so-called BRIC or MIKT countries. Nevertheless, nowadays the emerging markets contribute more than half of world GDP ([The Economist, 2013](#)).

as well as their increasing positive growth rate every year as shown in Figures 2 and 3 below. According to Gideon Rachman of the *Financial Times*, despite the recent crisis and the volatility of the emerging markets, these countries still show their rising performance over the years. His argument was: while these countries are no exceptions from the influences of economic and political crisis, no investors can deny the fact that emerging markets have doubled in size in the last decade, and will continue to grow faster than the developed world in at least a few decades more (Rachman, 2014).

Figure 2. Global GDP Growth
(Percent; quarter over quarter, annualized)



Source: IMF staff estimates.

Figure 2: Global GDP Growth (Percent, quarter over quarter, annualized)
(Source: IMF, 2014)



Figure 3: Emerging-market share of world GDP at purchasing-power parity
(Source: The Economist, 2013)

2.2 Frontier market

Following the establishment of the “emerging market” terminology, 10 years later in 1992 the IFC again coined another new term called “frontier market” with the aim to create another categorization of countries that are a subset of the emerging ones. Those frontier markets are characterized by their smaller size and less liquidity than the formed BRICS (or some other similar countries at the time) (McGowan, 2014); and Viet Nam, since then, has been listed as an eligible frontier markets in some indexes:

- [MSCI Frontier Markets Indexes](#): the Index examines each country’s economic development, size, liquidity and market accessibility in order to be classified in a given investment pool.

| Criteria | Frontier | Emerging | Developed |
|--|---|---|--|
| A Economic Development | | | |
| A.1 Sustainability of economic development | No requirement | No requirement | Country GNI per capita 25% above the World Bank high income threshold* for 3 consecutive years |
| B Size and Liquidity Requirements | | | |
| B.1 Number of companies meeting the following Standard Index criteria Company size (full market cap) ** Security size (float market cap) ** Security liquidity | 2 USD 630 mm USD 49 mm 2.5% ATVR | 3 USD 1260 mm USD 630 mm 15% ATVR | 5 USD 2519 mm USD 1260 mm 20% ATVR |
| C Market Accessibility Criteria | | | |
| C.1 Openness to foreign ownership C.2 Ease of capital inflows / outflows C.3 Efficiency of the operational framework C.4 Stability of the institutional framework | At least some At least partial Modest Modest | Significant Significant Good and tested Modest | Very high Very high Very high Very high |

* High income threshold for 2012: GNI per capita of USD 12,615 (World Bank, Atlas method)

** Minimum in use for the May 2014 Semi-Annual Index Review, updated on a semi-annual basis

Table 1: MSCI Market Criteria (Source: MSCI, 2012)

- [FTSE Frontier Index](#) shows and categorizes Viet Nam, on the other hand, according to:
 - A formal presence of an independent stock market authority
 - Easy market access for international investors
 - No significant restrictions on repatriation of capital and income
 - Transparency of market information

The reason to bring up the discussion about frontier market here is to raise some arguments in clarifying Vietnamese economy from investors' point of view. Being listed in these indexes, Viet Nam has some the necessary characteristics to be a frontier market as defined above. However, there are aspects that Viet Nam has not been able to show all the potentials beyond these frontier market concepts. There are numerous features that prove Viet Nam can be more than a frontier market, which is what the upcoming chapter will discuss further.

3 Viet Nam as an emerging market

This chapter explains how Viet Nam has moulded itself into becoming an emerging market, having been one of the poorest and underdeveloped countries in the world since independence 1975. Basic background in terms of economic policy and its implications for Vietnamese political economy will be presented.

3.1 Viet Nam – A contemporary historical background

As often is the case, it is important to study a country's reform process and to have basic understanding of the country's recent history. Located in South East Asia with population of 93 million, which makes up about 1.3% of the world's population (World Population Statistics, 2014), Viet Nam has been well-known for its long history of colonization under Chinese domination, French domination (1887 – 1945), followed by series of Indochinese wars against French power (1946 – 1954), and US intervention (1954 – 1975). During the latter phase, Viet Nam then was divided politically, hence geographically and into two parts by the Ben Hai River at the 17th parallel: Democratic Republic of Viet Nam (DRV) led by the Communist Party in the North and in the South, an authoritarian regime under the Republic of Viet Nam dependent on American support. Since the Socialist Republic of Viet Nam gained its independence in 1975, the two Vietnamese political regions were reunified, and many economic reform policies have taken place as follow-up. All were intended to bring the Vietnamese economy and its citizens to a higher living standard in hasty pace. Viet Nam had skipped capitalism, applied Marxism-Leninism into the management mechanism politically and economically, and it remains as one of the single-party socialist states in the world, emphasizing communism besides China, Cuba, North Korea and Laos. However, since 1986, following the model of the Communist Party of China (CPC), the Vietnamese Communist Party (VCP) has engaged, if not slower, in all-in capitalist restoration. It is this process of transition, or Renovation – Doi Moi in Vietnamese – and its impact that will be at the center of this chapter.

3.1.1 After independence 1975

As the Viet Nam war (or the “American war” referred from the Vietnamese) ended, the country had to go through a process of reunification with complications. The attempt was to create a unified socialist state under the leadership of the Communist Party. However, the familiarity with the American colonial regime was still lingering in the south, deriving the problems and confusion from the way the reunification process was carried out: the south was integrated into the northern institutions, lacking of sufficient comprehension of its social and economic conditions, leading to serious consequences. This inadequate understanding was largely because of the mistrust of the intelligentsia including the Chinese ethnic minority as after independence, the Northern Vietnamese cadres behaved with greater caution to any of the former regime’s connections.

The 5th National Congress decided to immediately implement the first 5-year plan from 1976 – 1980, right after independence was claimed, to build the infrastructure of socialism widely, initiating the new economic mechanism in the whole nation and improving the life standard amongst the working class. This period of time is called “subsidy phase” - the Vietnamese government also started to build socialist ideology nationwide, where the central authorities were in charge of every single economic decision from each household. This doctrine also corresponds as of realism or mercantilism, in which the state acts as the primary central institution. Chris White (2010) describes that in an economy, every activity should be subordinate to the state interests. The politics are given priority over economics, and at all times, the external relations should remain as national security concerns.

This period characterized Viet Nam as a highly concentrated planned economy in which the state played a dominant role. At the time of reunification, the social structures of North and South Viet Nam had previously developed in separate ways due to the long separation since 1954. In the northern part of Viet Nam, many national economic bases were restored and expanded such as corporatized farming while in the South, due to the remaining influence of American policies, prior to the 5-year plan, the economic activities were still under capitalistic mindset. Therefore, socialism as a common philosophy was implemented throughout the country in order to unite the national economy and the congenial state economic model. The “rehab” was aimed at private entrepreneurs and individual businesses especially in the southern cities.

However, the economic management mechanism revealed quickly its shortcomings due to rapid and hasty implementation together with subjective mindset from the higher-up officials and cadres. At early stage, crisis symptoms appeared in every production activity due to the status assessments were missing. This led to the misdirection from initial defined mission and interrupted the basic infrastructure building for socialism restructuring. The reasons for this were mainly the government hastily took bigger bite than they can chew, the important foundation was skipped in rebuilding infrastructure after the war, while larger targets had already been set to catch up with other communist neighboring country such as China. (Nguyen, 2006)

Therefore, the second 5-year plan from 1981 – 1985 was revised to fix the previous plan's. The missions of this period were more detailed and focus on the basic foundation of the fragile status of the economy:

- To supply for more urgent needs, stabilize steadily the economic mechanism, to improve living standards materially while maintaining the cultural values.
- To continue building technical infrastructure in order to push agricultural production, consumer goods and exports, parallel with providing equipment for other economic sectors.
- To complete the socialist rehabilitation in the south of Viet Nam, continuing to fulfil the socialist production in the north and thereby to consolidate the socialist education in the whole nation.
- To maintain the national security and defense industry.

During this time, the economy faced an extreme excess in demand and lack in basic supply due to demanding requirements for building dominant industrial sectors, food and other commodities as the subsidy phase was still maintained. Realizing this, the government attempted to integrate the planned economy with the other markets (especially in the south) to stimulate supply. Hence agricultural products could be purchased from the state agents in every city via bargaining instead of fixed price as it had been in the previous period. As seen in Figure 5 below, such incomplete reform resulted in a 95.4% inflation rate in 1982. Consequently, to decrease inflation, households were instructed to follow money tightening policy which only influenced eventually slightly on inflation rate. In response to the shortage of goods, the government raised supply at the state retailers by 10 to 15 times and wholesaler prices by 7 to 10 times, though it was previously maintained for over 20 years. And the result of this is the inflation peak in 1986, which was 453.5 % (IndexMundi, 2013).

Acemoglu and Robinson (2013: 68) argue that poor countries are not poor because of their geographic location or cultural differences; it is mostly because the policy makers who have power to make decisions that create more poverty instead of prosperity. In this case, despite the government's effort in the implementation of both two 5-year plans, the Vietnamese economy was falling continuously into deep crisis. Consumer products were distributed by the government; goods were not freely transported between cities and sold within the market; and budget cuts were introduced which led to even less free consumption. Moreover, the private sector and FDI were not encouraged due to closing door policy (to develop and protect domestic economy). Foreign relations were mainly with the socialist countries of Eastern Europe, especially the former Soviet Union states, while remaining relatively closed from the rest of the world. Under such system and unfavorable international conditions, the economy suffered several difficulties. As a result of restrictive policies, there was an agricultural production crisis, Gross Domestic Product (GDP) growth was significantly low and agricultural output was insufficient to meet domestic demand, and inflation remained at 3 digits in 1986. By this time after total of 10 years post-war, the economy still did not have any heavy industry, and the bureaucracy blocked all market forces, resulting in the emergence of "black production" (households producing their own excess food in secret despite the given targeted production from the national and local authorities). The government's anti-inflation effort did not achieve its desired result because the immediate causes of inflation were not identified properly. All of this led to the adoption of market-driven economic systems and policies to encourage foreign investment and stimulate the economy, at the Sixth Communist Party Congress in 1986. The Congress was the introduction of a new chapter, which is referred to as the Doi Moi (or Renovation) period (Pham, 2013).

3.1.2 Economic reforms 1986

Disappointed about the failure of initial attempts to reform the old system from within, the Vietnamese authorities in 1986 made a commitment to immediately abandon the old system and made a definite move to a new target – a market economy. Objectively, Viet Nam was undergoing socialist economic development from a small-medium production economy. Still being influenced by a long colonial period and being crestfallen from being independent, making decisions needed more effort and deeper understanding in the country's situation. Facing the galloping inflation rate and huge commodity demand, the 6th Congress introduced Doi Moi economic reforms with these following main aims:

- To introduce “fence-breaking” policy: opening up new foreign relations, along with attracting new source of investment whilst maintaining good relationships with communist countries and normalize political post-war relations with US and France, encouraging foreign trade. The most major reform policy from Doi Moi was the Foreign Investment Law, approved in 1987 and implemented the following year. As a result, Foreign Direct Investment flows into Viet Nam from over 60 countries and territories in the world, including the NICs – Newly Industrializing Countries, developing and developed countries. With the support from the Foreign Investment Law, Viet Nam attracted excessive foreign capital and technology knowledge to support the socio-economic development. The following table shows the top 10 countries classified by FDI commitment from 1988 – 2005:

| Source country | 1988-1995 | | 1996-2000 | | 2001-2005 | |
|----------------|-----------|------|-----------|------|-----------|------|
| | Mill. USD | % | Mill. USD | % | Mill. USD | % |
| Total | 18438 | 100 | 20437.9 | 100 | 14442.6 | 100 |
| Taiwan | 3134.1 | 17.0 | 1744.6 | 8.5 | 2580.4 | 17.9 |
| Japan | 1808.9 | 9.8 | 1550.3 | 7.6 | 1762.9 | 12.2 |
| Korea | 1435.1 | 7.8 | 1790.3 | 8.8 | 1623.7 | 11.2 |
| Hong Kong | 1858.4 | 10.1 | 1776.1 | 8.7 | 1034.9 | 7.2 |
| Singapore | 1558.7 | 8.5 | 4324.7 | 21.2 | 919 | 6.4 |
| United States | 756.1 | 4.1 | 581.2 | 2.8 | 576 | 4.0 |
| Malaysia | 685.3 | 3.7 | 446.1 | 2.2 | 556.8 | 3.9 |
| France | 877.6 | 4.8 | 1197.6 | 5.9 | 464.7 | 3.2 |
| Thailand | 505.8 | 2.7 | 586.3 | 2.9 | 196.4 | 1.4 |
| United Kingdom | 518.4 | 2.8 | 1255.1 | 6.1 | 64 | 0.4 |

Source: Vietnam GSO 1995-2004 and MPI 2005

Table 2: Viet Nam FDI sources from 1988 – 2005 (Source: Viet Nam GSO 1995-2004 and MPI 2005)

- To build basic infrastructure to maintain political, social and economic stability and change structural and institutional bases toward the formation of a free-market economy.
- To dismiss the statutory price-setting policy and to enable private ownership of production enterprises; minimizing the government interventions, instead allowing farmers and entrepreneurs to produce and sell without harsh price control to the market.
- To create a people-centered development process that is implemented by the people and for the people (United Nations 1999, p.1).

Apart from that, several sector reforms have been conducted throughout the main sectors:

- *In agricultural sector:* Learning from the previous period, the government realized the importance of farming in Viet Nam as it had been (and still is) the main sector that brings most economic growth to the nation. Only farmers have hands-on experience and knowledge on their crops, how to implement their own cultivation methods, which then would produce the highest possible yields accordingly to the seasons. State-owned farming co-operatives in the previous 10 years were immediately replaced by farming households; long-term land use

rights were given back to farmers in order to stabilize and ultimately increase agricultural output.

- *In industrial sector:* More autonomy has been given to the state-owned-enterprises (SOEs) and the system of government subsidies for SOEs was abolished. Despite being state-owned, SOEs have been put on a self-financing basis and assigned with responsibilities for their own production, marketing activities and profit-making strategies. The government also shifted the focus of investment from heavy industry to light and exportable commodities.
- *In the financial sector:* The government has limited its own control on prices to a few strategic commodities, allowing the free market to determine the prices of the majorities of goods. In the trade sector, decentralization and liberalization process has been carried out intensively. The government no longer controls trade by command nor plan, but started using market tools such as taxes, quotas and tariffs.

With the advent of these policies of Renovation, or Doi Moi, the country has quickly achieved creditable results. Viet Nam overcame the crisis with outstanding achievements:

- Economic booms with high GDP growth: In 10 years from 1987 to 1997, the economy achieved high annual growth rates of averagely around 9%, while export and import growth maintained at high levels. Industrial and cultural production also grew rapidly; the biggest breakthrough was Viet Nam, from being a rice importer before 1986 (due to close-door policy), to becoming the world's third largest rice exporter in early 1990s.

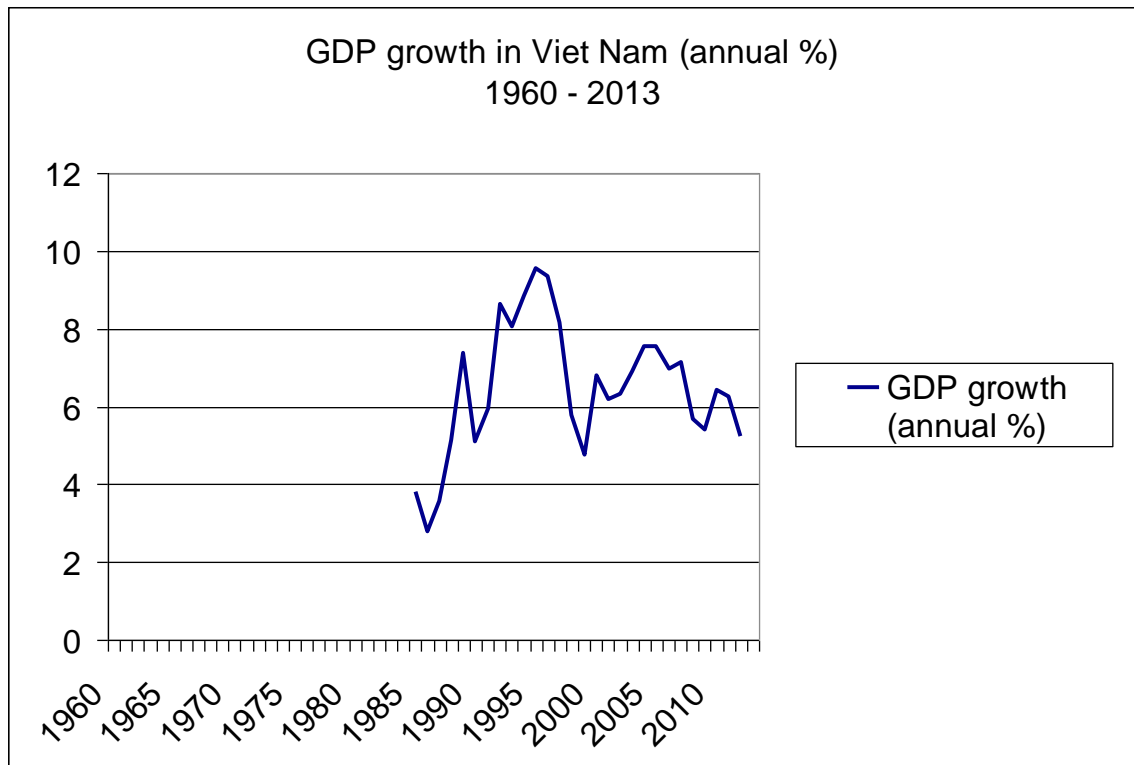


Figure 4: GDP growth rate in Viet Nam per annual 1960 – 2013 (Source: World Bank Data, 2013)

- Recorded from Index Mundi (2013), the inflation rate decreased from nearly 450% in 1986 down to about 8% in 1998 and sustained at 1-digit number ever since, except for 2008 financial crisis when the inflation was 23%, but afterwards the rate stayed below 10%. This is illustrated as well in Figure 5.

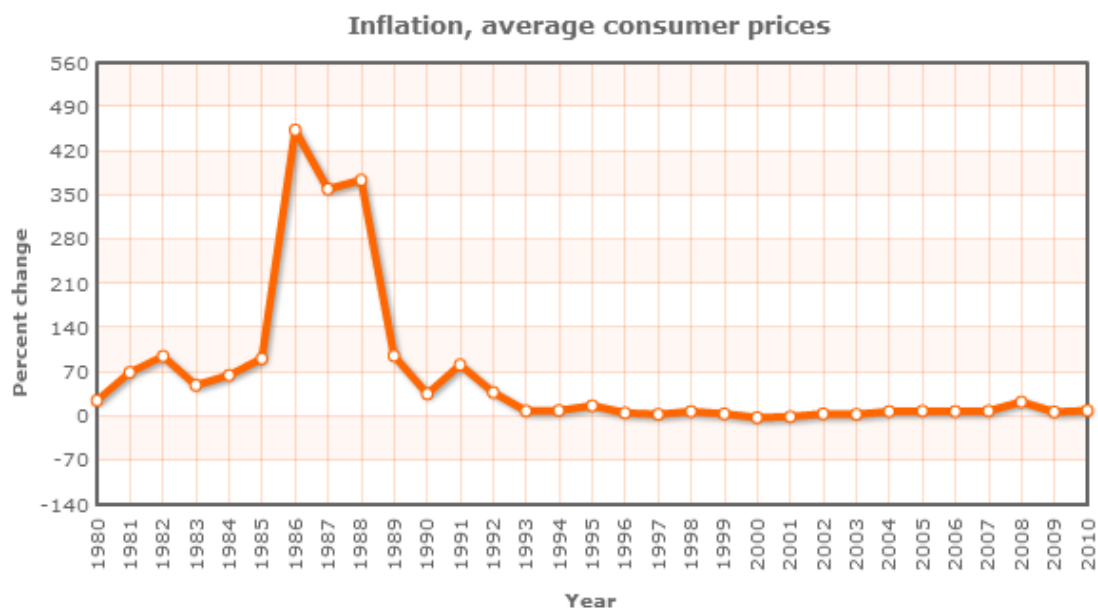


Figure 5: Inflation rate (consumer prices) in Viet Nam from 1980 – 2010 (Source: Index Mundi 2013)

- The literacy rate was also enhanced in terms of the fluent knowledge of national language of Viet Nam, or Vietnamese. This is a complicated statistic to measure as there were portions of population being fluent in different languages at the time, and those who were considered to be illiterate are those who were not fluent in Vietnamese, including those who studied French, English or Mandarin as official languages in years back. Due to different methods from different institutions, some Vietnamese literature indicates that about 90% of the population was illiterate in 1945. From the World Bank Data point of view, the statistics are only collected every 10 years from 1979, but it still gives a broad view about how much Doi Moi has influenced in education, especially with respect to literacy state of *the* national and official language.

| | 1979 | 1989 | 1999 | 2000 | 2011 |
|--|----------|----------|----------|----------|----------|
| Literacy rate, youth total (% of people ages 15-24) | 95,02512 | 93,73425 | 93,88233 | 94,83652 | 97,07264 |
| Literacy rate, adult total (% of people ages 15 and above) | 83,82594 | 87,59645 | 90,2783 | 90,15613 | 93,35947 |

Table 3: Literacy rate in Viet Nam (Source: World Bank Data 2013)

- Poverty rate is also decreased dramatically: as the result of high economic growth, the poverty reduction process has achieved striking results.

| | 1993 | 1998 | 2002 | 2004 | 2006 | 2008 |
|--|-------|------|-------|-------|-------|-------|
| Poverty headcount ratio at \$2 a day (PPP) (% of population) | 85,7 | 78,3 | 68,71 | 56,95 | 48,06 | 43,36 |
| Poverty headcount ratio at \$1.25 a day (PPP) (% of population) | 63,74 | 49,7 | 40,05 | 28,25 | 21,42 | 16,85 |

Table 4: Poverty rate in Viet nam (Source: World Bank Data 2013)

Besides the success of DOI MOI 1986, internal restructuring, transitioning from an agricultural base toward manufacturing and services, there was a demographic dividend powered by a youthful population. Complemented by financial stabilization, the program met with early success. Its continuation, however, was put at risk by the withdrawal of Soviet aid and the collapse of the Council for Mutual Economic Assistance (CMEA). This has decreased the Gross Domestic Savings (GDS) and emphasized more strongly the need for the national fund raisings from foreign

investments, which will be discussed in the next chapter. Despite these constraints, the Vietnamese authorities intensified the adjustment process and hastened the transition to a market economy. In the 1992 Constitution, whole political bodies were replaced and the government structure was also reformed, which opened up a much more progressive concept of Vietnam's relations with the rest of the world and capitalism generally. Vietnam's recent membership of the World Trade Organization (WTO) in 2007 has partly normalized trade relations with the United States thereby ensuring that the economy is consistently ranked as one of the most attractive destination for foreign investment. Successful economic growth in Viet Nam since 1986 has been attributed to the government's socio-economic reform policy. Foreign Direct Investment flows, one of the major elements of these reforms, have been argued to be one of the key factors in Viet Nam's successful economic development. FDI will be the one of the main discussion topics in the next chapter.

3.2 Viet Nam is an emerging market

The 6th Congress 1986 and Doi Moi initiation have been the most important turning point for the Vietnamese economy. It is a milestone for Viet Nam on its way to another development stage, catching up with the rest of the world economy. However, at that point of time, Viet Nam is still a very young market compared to the other developing states such as BRICS and MIKT. Having determined on the Doi Moi's goals, what other factors should it consider to be amongst these well-known emerging countries? The following section will examine some characteristics that have been picked out from the current emerging markets and comparing to Viet Nam, whether it has all that it takes to be an emerging market economy.

3.2.1 What does it take to be an emerging market?

The controversy on the definition of “emerging market” is as lively as the discussion of whether Viet Nam is a frontier or emerging market. The first and foremost feature we can acknowledge Viet Nam as an emerging market, and perhaps the most common ideology in all of the different definitions, is its transitioning position from a subsidy economy to an open market, or from a developing country to be ultimately a developed economy. On this point, two academics – Kamini Banga and Vijay Mahajan – have identified 9 universally acknowledged characteristics of an emerging market, which all converged in Viet Nam nowadays.

Characteristic #1: There is a demand in the market

As basic as in every economy, demand is the one important side which can trigger the other end of the flow – supply. As any country after long war time fighting for independence, Viet Nam after 1975 was facing a severe scarcity of supply versus huge excess in demand while building the basic infrastructure again from scratch. Within the first 10 years post-war, the defined strategy only worsened the situation as in foremention chapter. With Doi Moi, the first half of the 1990s breakthrough only focused on providing basic needs for food, clothing and shelter to the citizens. Getting slowly out of being one of the poorest and lowest income countries in the world in the 1980s (one could argue there was almost no income as every transaction was managed by the government under the subsidy concept), Viet Nam steadily moved on to be an official developing country, categorized in lower middle-income country (GNI per capita from \$1046 - \$4125) till now (World Bank, 2013).

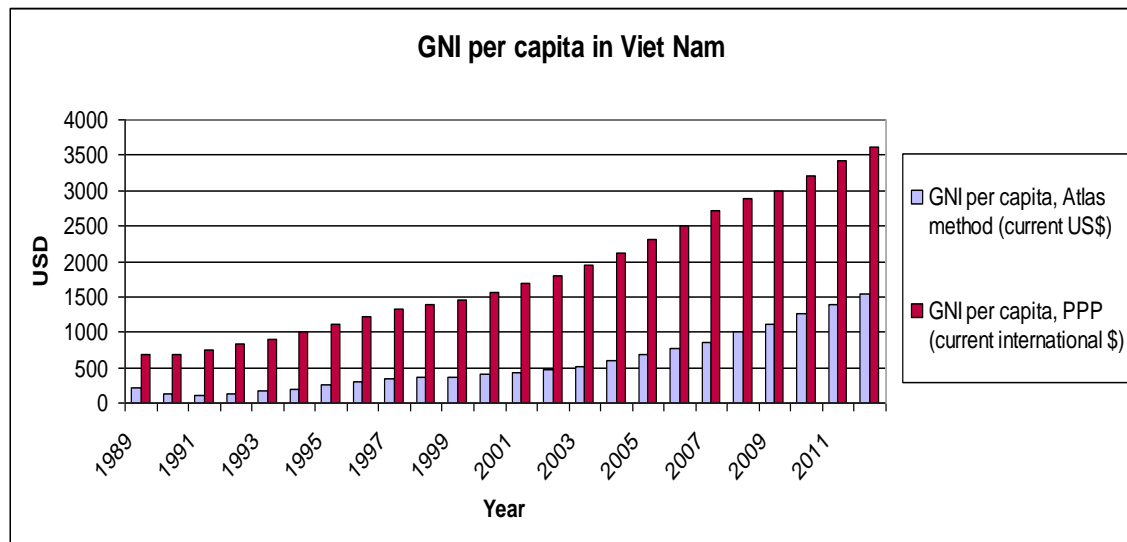


Figure 6: GNI per capita in Viet Nam of period 1989 – 2012 (Source: World Bank Data, 2013)

From figure 6, Viet Nam observed significant growth in national income per capita in the last 25 years. From 1989 to 2012, the GNI has significantly grown 6 times bigger from about 220 USD/year/capita (1989) to 1550 USD/year/capita (2011).

Income Elasticity of Demand in Viet Nam:

According to the classical theory of Income Elasticity of Demand which reflects the responsiveness of demand to a change in consumer incomes, Vietnamese demand indeed has witnessed an impressive increase in domestic and imported goods and services, which can be seen in the same chart from the Purchasing Power Parity perspective: from 690 USD/year/capita to 3620 USD/year/capita in 23 years. This impressive result is as anticipated as upward direction of development in Viet Nam. The higher income, the lower elasticity of demand, especially starting with primary products.

- *In microeconomic point of view:*

This is the elasticity of demand on certain goods or services; this enabled global brands to tap Vietnamese demand. Predictably, the urban areas adapted quickly with the market changes from planned to open-market economy. When firms seek ways to maximize profits, more jobs were created in this opportunity land, workers seek to maximize their wages respectively to the labor cost of working in a specific role or position. As more income, the people as consumers look for the best value for money from their purchases (Sloman and Garratt, 2013: 55).

However nowadays, foreign enterprises find more of their profits are being made in especially suburban life, where about 70% of Vietnamese population resides (GOPFP, 2012). Either along the Mekong Delta, a mountainous province, or just a small dusty village, there is one fact that the companies cannot ignore: that there is a large and extending market, which is clearly appealing to any profit-making companies that have had targeted on Viet Nam in the past decade. As an example, for Unilever, a Dutch multinational consumer goods company in Viet Nam, the rural market accounts for half of the company's annual revenue (Bland, 2011).

Living with a lack of electricity, narrow highways and with tight budgets, customers are very demanding and expecting high value for their scarce income. With the speed of retail sales rising tremendously 15-25% every year, this 69.4% Vietnamese in rural areas now account for just 30% of retail sales. The reason is mostly because of limited income to purchase any imported products and marketing activities are harder to reach. The people here are quite isolated from the modern cities, and therefore, their habits and daily routines are as traditional as their use of nature: using honey locust (or soap pods) for hair washing, rice water for dish washing, millstones for grain grinding and etc... Especially for Fast-Moving Consuming Goods (FMCG), in order to penetrate this market, the marketers need more than just educating these consumers about the convenience of their goods, pricing is also an important factor to attract rural customers. While the urban citizens tend to afford goods that are packaged in proper containers for more frequent usage, rural farmers are more familiar with 500VND (\$0.02) single-use sachets of fabric softener or shampoo. And in order to reach these customers, there should be cooperative relationships with the family-owned kiosks. The opportunities arise for the companies to go along with the challenges. The rural market in Viet Nam is not easy to reach, but as soon as there is innovative designs of products and offers of services, the companies can find their ways to tap into this major source of demand in Viet Nam.

- *In macroeconomic point of view:*

Sloman and Garratt (2013:352) stated that with a significant growth in income, a smaller proportion of incomes is spent on primary products since food is a necessity of life that every country should be able to provide its own population, Vietnamese now in general can afford more luxurious goods and services, therefore the income elasticity of demand for primaries is lower, and only small part of their income is spent on basic foodstuffs.

Trade is considered as an 'engine of growth' in Viet Nam, as the demand for a country's exports is likely to grow overtime when these exports have a high income elasticity of demand (Sloman and Garratt, 2013:337). From the export side, after about 20 years of open door policy, Viet Nam finally became an export-oriented country in 2013 with an impressive 863 million USD of trade surplus ([Duc Duy, 2013](#)). This is a 15,4% increase compared to 2012 and the second consecutive year Viet Nam achieved being a net exporter country since 2007 when it joined the World Trade Organization (WTO). The trade surplus will provide a boost stimulus to growth in the country and consolidate the confidence from foreign investors in exporting manufacturing firms (Zhang, 2014).

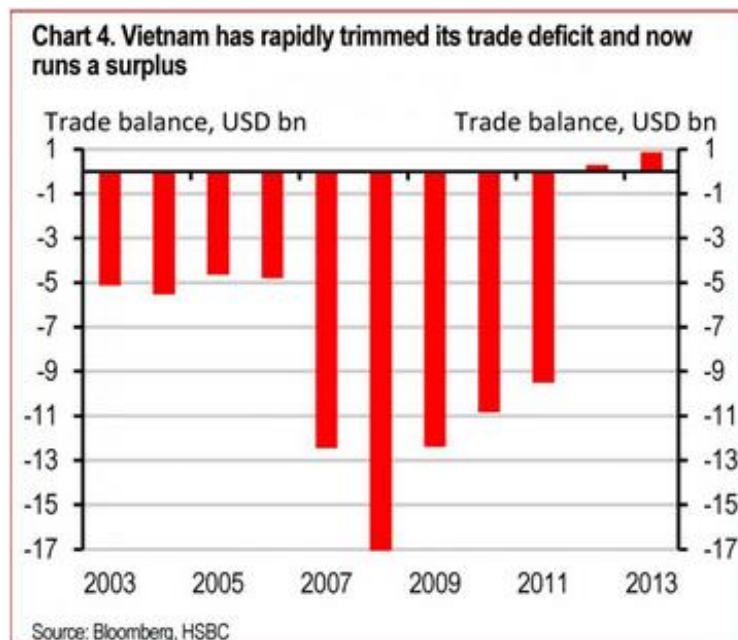


Figure 7: Vietnam's trade balance (Source: [Bloomberg HSBC, 2014](#))

With this growth trend when Viet Nam enjoys the positive trade balance ($X - M$), the domestic aggregate demand will likely to also be extended every year.

Aggregate Demand (AD) is the total spending on goods and services made in the economy. It consists of four elements: Consumer spending (C), Investment (I), Government spending (G, and the expenditure on exports (X), less any expenditure on foreign goods and services (M):

$$AD = C + I + G + (X - M)$$

Viet Nam is seen as an always-moving emerging market with even faster growth rate than any other economy of its kind, including China, especially in import demand (UKTI, 2013). Further ambition in Free Trade Agreement with the EU and ongoing

negotiations with Trans Pacific Partnership, Viet Nam is becoming an attractive investment destination with potential opportunities once the tariffs and trade barriers is removed, there will be more space for Vietnamese and foreign businesses to grow together.

Characteristic #2: High rate in emigration trend

For generations, the other developed countries e.g. USA, France, Germany, etc... have been conceived as the land of opportunities. Vietnamese immigrants crowded into boats, ships or trucks to cross the ocean and into the promising future. To Vietnamese, to live the “American dream” or Europe is one of the only ways to enrich their future lives and escape from the ongoing insecure transformation. As the optimistic development after Doi Moi, together with the country's open-door policy and international integration, Vietnamese nationals found a lot more opportunities abroad, where they could reside to work and study.

Historically, overseas Vietnamese can be categorized in 4 distinct groups:

- The first group is defined as those who lived in countries outside of Viet Nam territory prior to 1975, especially during the French Indochina period (1863 – 1953). During this colonialism, many Vietnamese migrated to France as students or workers.
- The second consists of the Vietnamese refugees who fled Viet Nam after the end of the Viet Nam War, or the so-called Vietnamese “boat people” from 1978 into the 1990s. This group usually resides in industrialized countries such as North America, Germany, France, Hong Kong, Australia and China.
- The third group consists of Vietnamese working and studying in the former Soviet bloc. After the Soviet Union collapsed in 1991, these people chose to stay mainly now in Slovakia, Czech Republic, Poland and Bulgaria and as a result inherently being EU citizens.
- The last group, consisting of migrants who work in regional Asian countries which contributed major FDI to Viet Nam such as Taiwan, South Korea and Japan, as a success resulted from liberalization and open-door policy of Doi Moi. There is an emerging new sub-group in this category consisting of Vietnamese citizens who are sent to high school and universities overseas as international students to study the favorable major that the state is missing, and return to the country to contribute.

Nowadays, there are about 4.5 million overseas Vietnamese (or Việt Kiều) living in 103 countries in the world, this number is actually 23 times bigger than almost 40 years ago. Although different in origins of emigration, almost all the overseas Vietnamese have relatives in Viet Nam, contributing to the significant rise in remittances either to family and relatives or in many forms of investment such as real estate and venture

capitals. This is an important contribution to balance of payments and national economic development.

The worldwide Vietnamese diaspora, 2005

| | |
|----------------------------|------------|
| United States: | 1, 300,000 |
| Russia and Eastern Europe: | 300,000 |
| France: | 250,000 |
| Australia: | 245,000 |
| Canada: | 200,000 |
| Taiwan: | 110,000 |
| Thailand: | 100,000 |
| Germany: | 100,000 |
| United Kingdom: | 40,000 |
| Northern Europe: | 30,000 |
| Netherlands: | 15,000 |
| Belgium: | 12,000 |
| Japan: | 12,000 |

Table 5: Number of diaspora worldwide in 2005 (Source: Sidel, 2007)

Besides financial flow contributions from the developed countries, the overseas Vietnamese are an important source of human capital as a knowledge resource in developing the economy. This is because the demand for skilled labor is increasing in emerging economies like Viet Nam, which does not have the capacity to train its own labor locally to a large extent.

Characteristic #3: Markets are fragmented

The marketplace in developing countries is highly fragmented, consisting of several small or medium sized companies and large enterprises that compete with each other. In Viet Nam, this is the case where there is no single company that can move its industry in a particular direction as in monopoly economy. However, there are few national brands that can have a major representation that can impact all the industries. Global companies that wish to tap the Vietnamese local market will have to acquire partnership with strong local brands, from which they can develop and tailor their branding strategies and portfolio to fit the complicated rising demand.

The fast food chains, for example, have shown some complication on their way in tapping the Vietnamese markets. Starbucks, although a very well-known American brand amongst the Vietnamese people, still met many difficulties and especially doubts from local customers in what is a coffee exporting country. Pricing was the most

difficult: one average latte in a Starbucks store cost \$3, which is about 5 times more expensive than a black ice coffee from any other cafes around Ho Chi Minh City (VOA, 2014). People in Viet Nam are more used to daily consumption of 3 cups of coffee. With such price from Starbucks, it can only target the young and well-to-do customers as the price elasticity of demand on their offers are too high to target all such lower-middle income Vietnamese. More over, the long existence of Trung Nguyen Coffee Producer and the high competition from Highlands Coffee and Coffee Bean & Tea Leaf, Starbucks will need to quickly adjust their products and pricing, along with appropriate marketing strategies to gain a decent reputation and protect their profit maximization. As in the case of McDonald's, Starbucks' competitors range from the everywhere-street-vendors to the long established and well-known KFC, Pizza Hut and Subway. The most famous Vietnamese culinary attractions, to both local and foreign consumers, are street food and the traditional cuisine. Pizzas, burgers and other western food, even from the global megabrands, will have to tailor their portfolio to leverage their brands and capture the local market.

Below are the charts showing top 10 manufacturers in Urban 4 Key Cities and Rural areas in Viet Nam revealed by [Kantar Worldpanel's Brand Footprint 2014](#). This again, shows the huge potential of the rural areas in Viet Nam and the widespread of the global brands to reach customers.

| Rank 2013 | Rank 2012 | Manufacturer | Consumer Reach Points 2013 | Penetration% | Frequency |
|-----------|-----------|-------------------|----------------------------|--------------|-----------|
| 1 | 1 | Vinamilk | 74,588,671 | 97.5 | 32.1 |
| 2 | 2 | Unilever | 57,443,108 | 99.6 | 24.2 |
| 3 | 3 | Masan | 33,263,962 | 95.6 | 14.6 |
| 4 | 4 | Vina Acecook | 24,584,054 | 89.7 | 11.5 |
| 5 | 5 | Friesland Campina | 22,725,385 | 76.9 | 12.4 |
| 6 | 8 | Nestlé | 20,387,689 | 84.7 | 10.1 |
| 7 | 7 | PepsiCo | 20,072,390 | 75.2 | 11.2 |
| 8 | 6 | P&G | 19,647,224 | 91.6 | 9 |
| 9 | 9 | Ajinomoto | 13,354,107 | 84.9 | 6.6 |
| 10 | 11 | Calofic | 12,899,866 | 79.6 | 6.8 |

Table 6: Top 10 manufacturers in Urban 4 Key Cities (Source: Kantar Worldpanel's Brand Footprint 2014)

| Rank 2013 | Rank 2012 | Manufacturer | Consumer Reach Points 2013 | Penetration% | Frequency |
|-----------|-----------|-------------------|----------------------------|--------------|-----------|
| 1 | 1 | Unilever | 407,009,306 | 99.8 | 25.2 |
| 2 | 2 | Masan | 297,556,856 | 97.8 | 18.8 |
| 3 | 3 | Vinamilk | 212,873,299 | 81.7 | 16.1 |
| 4 | 4 | Vina Acecook | 142,707,986 | 80.9 | 10.9 |
| 5 | 6 | Asia Foods | 113,258,816 | 72.9 | 9.6 |
| 6 | 9 | Calofic | 95,686,739 | 79.9 | 7.4 |
| 7 | 7 | Ajinomoto | 95,280,533 | 78.5 | 7.5 |
| 8 | 5 | P&G | 94,751,331 | 86.1 | 6.8 |
| 9 | 8 | Liwayway | 76,933,265 | 41.7 | 11.4 |
| 10 | 10 | Friesland Campina | 76,620,923 | 55.7 | 8.5 |

Table 7: Top 10 manufacturers in Rural Viet Nam (Source: Kantar Worldpanel's Brand Footprint 2014)

Vinamilk and Vina Acecook are the typical examples of the few Vietnamese brands that represent the FMCG industry in Viet Nam that have reached a significant proportion of customers, while Unilever, Procter & Gamble and Nestlé are their global rivals in both urban and rural areas of Viet Nam.

The fragmented emerging markets like Viet Nam are often the opportunities for global companies to develop, or even acquire strong local brands, from which they localize their global image to fit the local markets. Unilever, as a successful story, started its operations in Viet Nam in 1995, until now it has a manufacturing plant in Cu Chi (40km North West from Ho Chi Minh City) with 1500 employees amongst the logistics network of 150 distributors and 200000 retailers, not including the massive customer reaching points that is the major part of the marketing strategies (Unilever Vietnam, 2012).

Customer reach points (or customer touch points) are the brands' points of customer contact from before to during and after the purchase take place. For example:

- *Before purchase: Social media, Ratings and reviews, Testimonials, Word of mouth, Community involvement, Advertising, Marketing/PR.*
- *During purchase: Store or office, Websites, Catalogs, Promotions, Sales team, Phone system, PoS - Point of Sales.*
- *After purchase: Billing, Transactional emails, Marketing emails, Service and support teams, Online help center, Follow ups, Thank you cards.*

Source: SurveyMonkey, 2014.

Moreover, Mergers and Acquisitions in Viet Nam are rising in both volume and value in the past 5 years and expected to continue in the future, mostly in FMCG and food & beverage industries, according to a survey from KPMG in 2013 (KPMG, 2013:18).

How does Vietnam compare to other emerging South East Asian countries in respect of attractiveness for M&A activity?

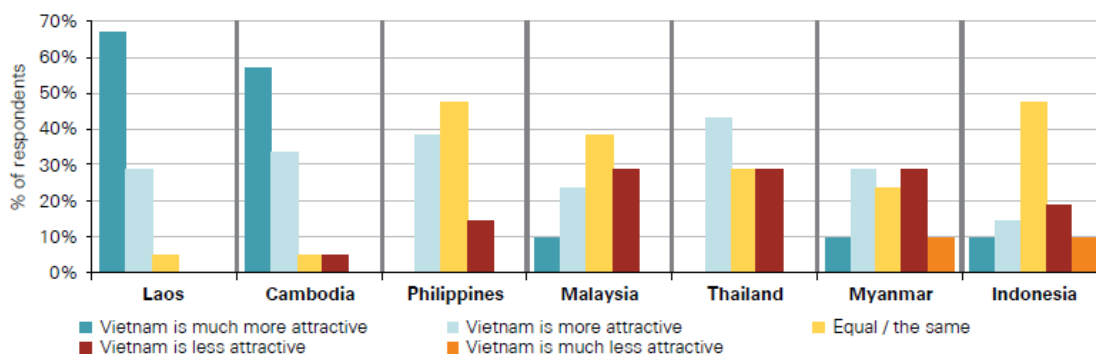


Figure 8: How attractive is Vietnam for M&A activities comparing with other neighbor countries. (Source: KPMG, 2013)

Compared to other countries in Indochina region, recently Viet Nam has been rising and more appealing to outside investors. Comparing to others such as Philippines, Malaysia and Indonesia, Viet Nam remained the equal level of attractiveness in terms of access to the markets and resources available for production. M&A is one of the particular forms to tap into the demand of regional communities, from where the global brands can go local and leverage their image in markets like Viet Nam.

Characteristic #4: Populations are youthful and growing

While the developed countries are worried about their rapidly aging populations in US, Japan and Europe, in emerging markets this problem has not been a concern yet. Even China is worried because of the uneven distribution of population gender wise. The one child policy in China has been implemented while the conception of son preference still prevails. This has led to significant increases in abortion, when Chinese couples want to get rid of unwanted girl babies, causing the result of 30 million more men than women. It is expected that by 2020, that 30 million men reaching adulthood, will not be able to marry ([Brooks, 2013](#)). As the gulf is getting bigger and bigger, an illegal phenomenon formed in China where the smugglers, or they call themselves 'business men', go to neighbour countries like Viet Nam, Thailand, Laos to trick uneducated families to transact their daughters for an amount of money. This one-child policy has another effect on providing enough help for elderly people in the future. As

the mortality rate is getting less thanks to the evolution of health care, the Chinese population is growing old, causing the next problem in uneven proportion of elderly and youngsters. Too many old people need to be taken care while the youngsters now are getting less. For example in a family of 3 generations, a child will have to take care not only his or her parents, but also his or her grandparents. With the busy money-making life, young Chinese have to spend more time working to afford their families. This policy will need to be revised or China will get older before it gets rich.

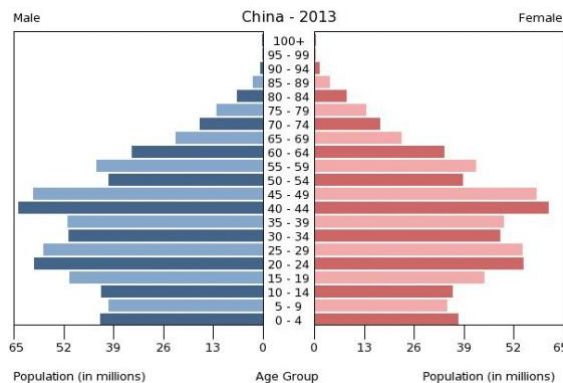


Figure 9: China Age/Population Pyramid (Source: [Index Mundi 2013](#))

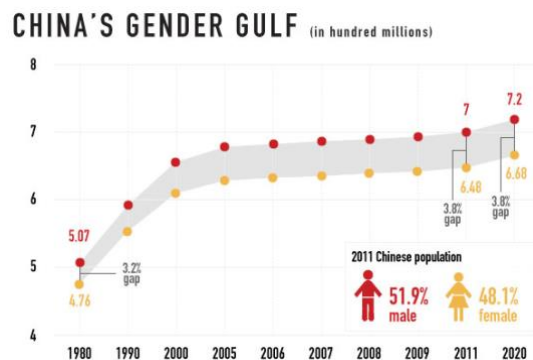


Figure 10: China's Gender Gulf (Source: Brooks, 2013)

Viet Nam, on the other hand, is an attractive emerging market on its growing youthful population, promising to be a great labor resource. With 90 million of Vietnamese, from which 70.5% range from 15 to 64 years old (World Bank Data, 2013), Viet Nam is a promising land, providing not only youthful and dynamic human resource, but also is a great market to penetrate. Samsung is the latest proof of the movement from Chinese to Vietnamese young (and cheap) human resources, whilst protecting the profit margins in the situation of slowing down in the sales growth of high-end handsets (Lee, 2013)

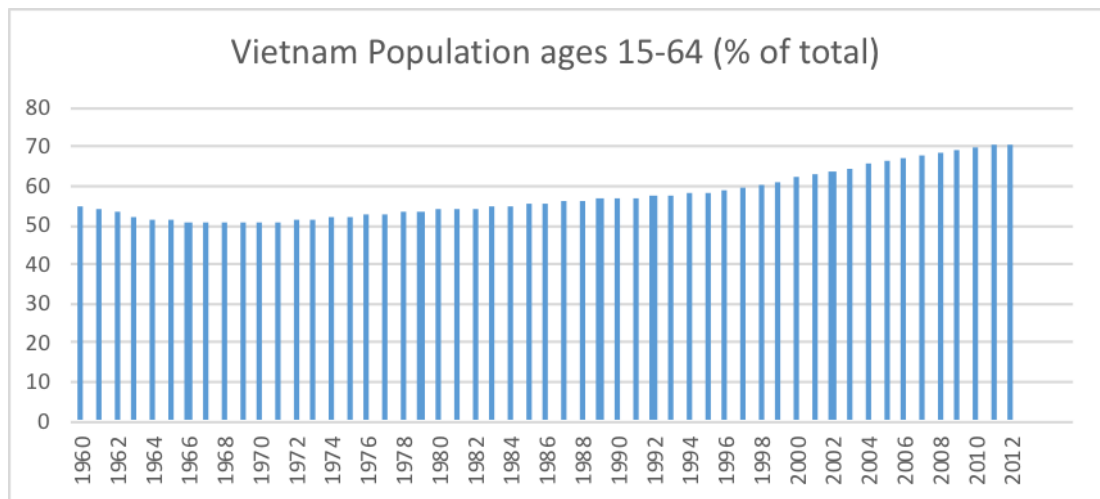


Figure 11: Vietnamese Population in working age from 1960 – 2012 (Source: World Bank Data, 2013)

Characteristic #5: Limited space and low-medium income

Income

Incomes gap is observed globally between the economies and within themselves, creating different trends in shopping habits. A similar phenomenon within one nation as Viet Nam is also happening in urban cities and suburb areas since Doi Moi 1986. Different income levels inherently also caused the different levels of demand. In Viet Nam, cash is often kept liquid as the lingered effect of economic scarcity in the past, therefore the saving rates in Viet Nam are projected to be higher in the next decade years before getting stable after 2020 while in China, the savings rate is expected to remain flat during the next decade ([Horioka, 2011](#)).

At this point, it is worth mentioning again the first characteristic of an emerging market, where there is growing demand in the market, as demand and income are directly related to explain the consumption behavior in a country. Being categorized in the lower to middle-income group, Viet Nam apparently still has a lower purchasing power compared to the BRICS, and other developing economies despite the growing demand. The reason for this is, most of the farming households were doing their economic activities for transactions, at the same time self-supply on basic needs such as rice and cattle. However, retailing activity is not accordingly less busy. In fact, firms find this as a great potential from tapping the demand in rural areas. Pent up demand, limited distribution infrastructure and high expectation of value are keeping the consumers from “family packs” and “economic sizes” products, whose higher cost and

are usually available in urban cities. The suburban markets were more cautious when it comes to exchanging their portion of income for goods. People with scarce cash expect high returns on their purchases, especially on a day-to-day living basis. Unilever and P&G are the typical successful stories in fast-moving-consumer-goods (FMG) industry. Example: By offering a small amount of shampoo or detergent in small-pack sizes and single-dose sachets at affordable prices, the quality brands become more attainable by customers with low or irregular incomes not only in Viet Nam, but also in India and other emerging economies, simultaneously bringing the sachet business to a higher level. Nowadays, the sachets of shampoo or instant noodles packs can be seen mostly in any retail stores owned by local families and accounts for a significant proportion of turnover. If bigger packages are introduced to the rural areas, they often go with discounted pricing: 1 litre of oil sold with a free container or kids' toys, 1 litre bags of conditioner go with shampoo or vice versa.

Limited space

In developed countries, or cities, people pay a premium price for convenience. In Vietnamese suburban areas, often in highlands or deltas, size matters and consumers buy small for various reasons. Firstly, the weather conditions change, causing problems in preservation of opened products. With lack of electricity and refrigerating systems, the products are usually exposed to the heat and the sun, which shortens their lives. Especially if the products are bought in large packages, it will be a big loss of value if the preservation is not considered carefully. Therefore sachets are more convenient for single doses. Secondly, space is another determinant in forming the power and frequency of purchase. According to [Index Mundi \(2012\)](#), Viet Nam is the 43rd most populated country in the world with about 276320 people/km², compared to India as the 31st with 366.590 people/km². Chinese, as the biggest community in the world, is about 3 times less dense than India with 139.970 people/km² at the 76th position. United States however is standing at 174th with 31.940 people/km² and Nordic countries like Finland has only 15.560 people/km² at the 200th position in the list. In emerging countries with high population density, homes are much smaller, especially in rural areas; generations in extended families still tend to live together under one roof, so furnishings and every product need to be scaled accordingly. Just-in-time inventory system is also applied in retail stores in these areas to store the products effectively in the most cost-saving way.

Characteristic #6: Infrastructure building is a challenge

Besides the income gaps between urban cities and remote areas, infrastructure development also has a significantly different layout challenge, hence causing difficulties for any economic activities within and between the areas. As a few other developing countries, the infrastructure in Viet Nam is still very fragile and transportation networks are underdeveloped since independence. In metropolitan areas, the urbanization process is uplifting and attracting the rural-to-urban urban migration and accelerating the population in major cities. However, as the pace of economic development is faster than infrastructure improvement due to careful consideration. The aforementioned point on limited space in Viet Nam also add to the infrastructure rebuilding complication. This has placed tremendous strains on the cities' basic infrastructure. Especially with the movement from remote areas to big cities, the swelling population is placing serious transport bottlenecks in every direction. Small roads are still causing traffic jams by too many motorbikes; inadequate handling of waste causes stuck sewage systems, leading to rising of water in the city during raining season and discomfort to living and the underdeveloped highways could not suffice the transportation of migrants, yet to mention product distributions.

Meanwhile in the remote areas where 70% of the Vietnamese are living, the difficult transportation is limiting access to services and markets. Clean water, sufficient sanitation and electricity are often lacking, causing many difficulties for trading activities. Social infrastructure, including healthcare and education are the most concerning issues. Although the country has transformed over the last two decades, the World Bank still encourages Viet Nam to seek for other private source of funding besides the limited capital and investment inefficiency. The opportunity can arise from the effective use of the available resources; this can strengthen the challenge of improving affordability and efficiency in infrastructure investment ([Ugwimadu, 2014](#)).

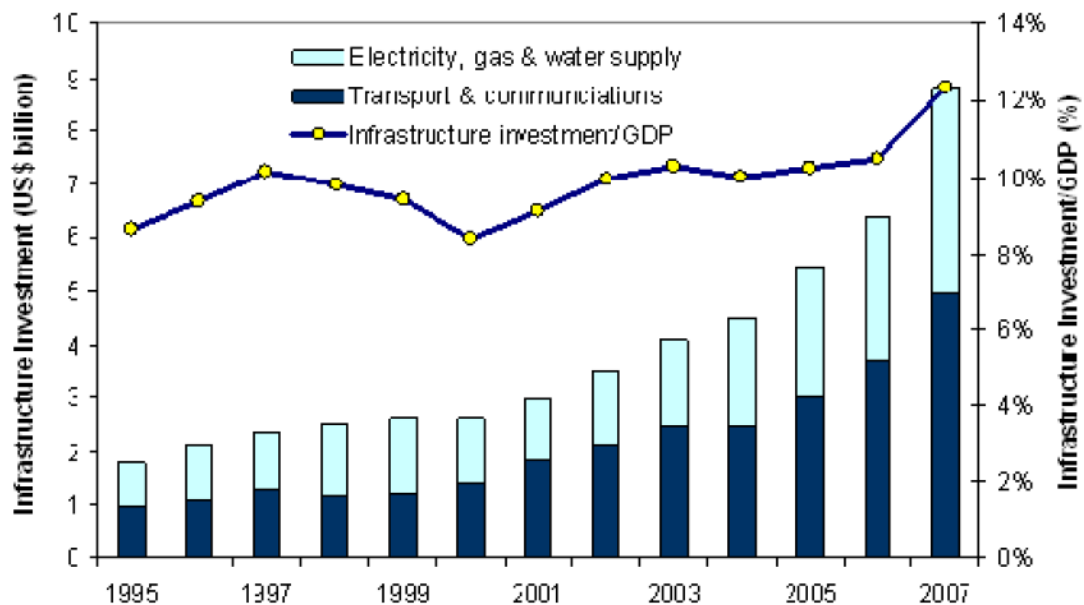


Figure 12: Infrastructure investment in Viet Nam (Source: World Bank, 2010)

Although the infrastructure investment is growing annually, taking about 12% of the national GDP (World Bank, 2014), Viet Nam is still heavily dependent on foreign sponsorships. Within the next 10 years, Viet Nam will need to have about 500 billion USD for the infrastructure development. The Ministry of Planning and Investment could only gather so far 200 billion USD from public financial sources and the remaining 300 billion USD from private investors. Therefore it is essential to have fund raising activities to cover up this significant discrepancy and mobilize capitals for the great demand for infrastructure investment, especially the construction of the southern hub, or the first Metro line in Viet Nam, has taken place in 2014. Capital to consolidate the roads in Ho Chi Minh City centre and conduct the Metro line project properly is crucial ([Tuoi Tre News, 2014](#)).

In addition, the Emerging Asia bloc – including China, India, Indonesia, Malaysia, the Philippines, Thailand and Viet Nam, is expected to give a boost in Emerging Asia's share of global infrastructure from 4 trillion USD in 2012 to 9 trillion USA in 2025, proportionally 47.7% of the global spending and about 80% of Asia-Pacific projected infrastructure spending ([Kynge, 2014](#)).

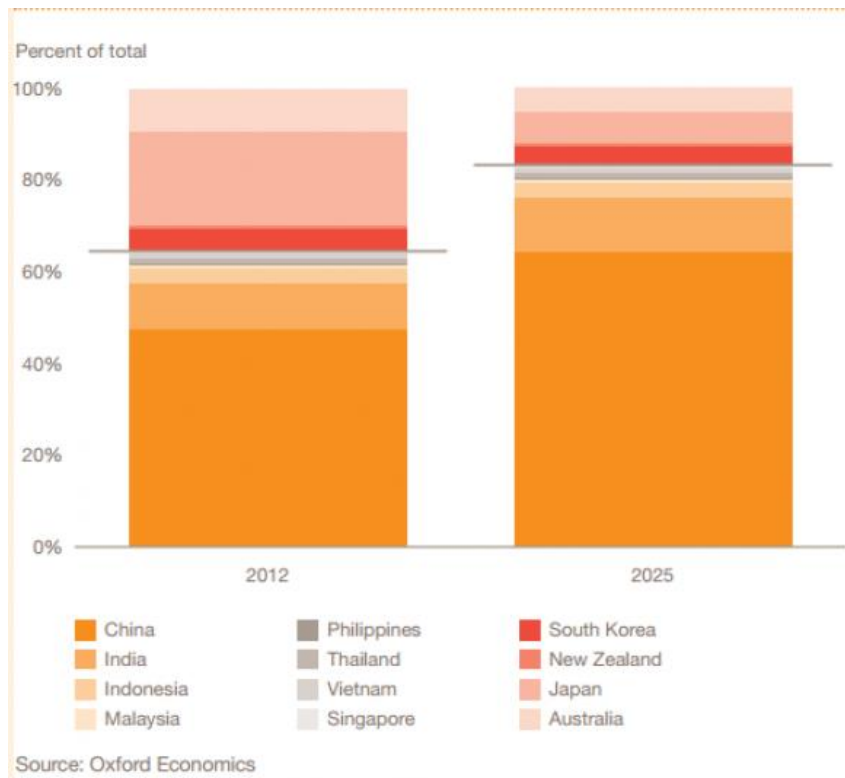


Figure 13: Infrastructure spending trend in Asia (Source: [Kynge, 2014](#))

Characteristic #7: Technology is steadily going upward

Having suffered from the long war, Viet Nam has been disadvantaged in having missed the same technological head-start with other developed nations. Many decades in telephone revolution and computing industries have been, slowly and steadily, updated in Viet Nam within the last very short and rapid 20 years. With the open-door policy, it comes as no surprise that FDI is plentiful and focusing mainly in the Informatics and Technology sector. As India and China are growing wealthier and as a matter of fact – more expensive workforce, global companies have started looking for low-cost outsourcing technology opportunities in other emerging countries such as Cambodia, Bangladesh, etc...; Viet Nam ranks in the top chart of the top 50 Global Emerging Outsourcing Countries, conducted by [Global Services – Tholons Study](#), with Ha Noi in the 11th place and Ho Chi Minh City at 4th place in 2008. These cities have become the economic hubs for any economic activities between the technology parks in the suburban zones around them.

Having been a latecomer, lack of experience and technology infrastructure especially in pharmaceuticals and computer science, Viet Nam does not show that it is left behind in the global innovation movement. The competitive advantage lays in the young and creative population and competitive salary costs compared to the BRICS. Since accession to the WTO, Viet Nam also actively and efficiently participated in regional and international networks, bringing the advanced technology accompanied by foreign sponsors, strengthening the fierce competition. Side by side with technological development strategy, creating green platform for energy growth and efficient use of natural resources are also crucial in ensuring the environmental protection and sustainable economic development. Examples can be taken from the global giants, such as Samsung, is moving its manufacturing plant from China, to Thai Nguyen with an investment of 3.2 billion USD, building the biggest factory of its kind in South East Asia, about 10km from Ha Noi, the capital of Viet Nam. Additionally, the South Korean giant is expanding to Bac Ninh with more facilities for a total investment of 2.5 million USD. Intel entered Viet Nam in 2010, opened the largest and most advanced assembly facility and chip testing worth 1 billion USD ([Intel, 2010](#)); LG Electronics, invested 1.5 billion USD into a production plant in Hai Phong City; Nokia, having now sold its mobile phone unit to Microsoft, still has a manufacturing base in Bac Ninh worth 300 million USD; Hitachi, Fujitsu, Accenture, Sony and Oracle are some other examples that have high representation in Vietnamese markets ([Vietnam Briefing, 2014](#)).

Characteristic #8: Distribution channels are insecure

As a consequence to the weak infrastructure, distribution channels are therefore unready. In the main cities, the distribution is still often through the traditional open-air markets, where the sales are taken place between the long-known-to-each-other buyers and sellers. Bargaining is still a common form of communication and bills or receipts rarely appear in these market places. Shopping malls are rising with fast pace, but still cannot give enough supply to the rising urban demand even though most of the retailers and supermarkets are open even 7 days a week. In some occasions the supermarkets lengthen the opening hours, such as Tet, or the Vietnamese Lunar New Year, seasonal labour is recruited but the demand still often exceeds supply. The main chain of supermarkets in Viet Nam are Co.op Mart, under the Saigon Co.op store system, and Big C, managed under the umbrella of Casino group – a French mass retailer. Department stores usually sell luxurious items such as brand-name clothing and high class electronic devices. Parkson and Diamond Plaza are the most popular of this form in Ho Chi Minh City, whereas in Ha Noi there are Vincom and Trang Tien Plaza. Some convenience stores that are placed from small streets to highway that are roadside-friendly for the motobikers to the truck drivers. Usually under 150m², the retails units of Shop&Go are known as the Vietnamese SevenEleven.

Side by side with the rapid development in the mentioned economic hubs above, the suburban zones are however still unmoved in many logistics aspects. The lack of media, roadways and social infrastructure are placing impenetrable barriers for the domestic and international retailers. 70% of Vietnamese are locked in the villages and remote cities, the people are now used to the self-supply model of distribution. In the Mekong Delta, the sales activities are still in the form of floating markets, where the goods are freshly caught and sold within a day. The ethnic minorities living in the highlands grow their own crops and breed their own cattle as sources of their own food and make their own clothes from self-grown cotton. People have to dig wells to find sources of water and stilt houses made of wood and leaves are still present in the mountainous areas. Occasionally, market fairs occur, taking the market to the people and tapping the otherwise diffused and fragmented sources of demand. However, to facilitate a new distribution system, the infrastructure has to be strengthened and upgraded to ease the transportation channels: firstly to unlock the remote customers and reach the urban centres easily, followed by enterprises bringing supplies to this locked demand.

Characteristic #9: Markets are changing rapidly

Viet Nam, as any other emerging markets, by definition is a developing country. Although the industrialization process may take the country decades more to become 'developed', it is safe to say that Viet Nam will continue to change rapidly as it did in the last 4 decades, possibly in a matter of months. Following other emerging Asian countries such as South Korea, China and India over the past few years, Viet Nam has scored a high ranking position in the investors' attention with several economic highlights. Especially in 2013, [Tuoi Tre News](#) has pointed out the events that have marked another significance in this new export country:

Inflation under control

2013 is the year that Viet Nam has the record lowest inflation rate when looking 10 years back, lower than the 8% target, with only 6.04% ([FocusEconomics](#)).

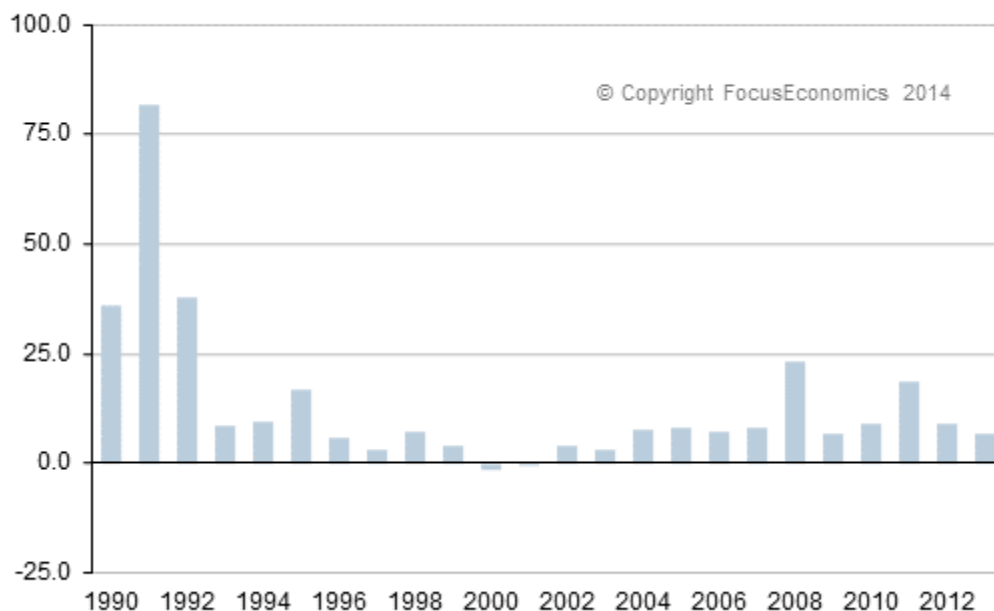


Figure 14: Inflation in Viet Nam 1990 – 2012 (FocusEconomics 2014)

Stock market makes strong recovery

Although the stock market is quite volatile in Viet Nam since it is newly introduced and right away influenced by the financial crisis, 2013 is the year when the stock market increased compared with earlier. VN-Index of Ho Chi Minh City Stock Exchange (HOSE) and HNX-Index in Hanoi Stock Exchange gained 21.97% and 18.83% respectively. These gains interested a number of foreign investors up to 437

individuals, making Viet Nam as one of the best-performing markets in the world and the fastest-growing market in Southeast Asia region. ([Tran, 2013](#))

Privatization of SOEs

This trend is contributing significantly to Viet Nam's GDP in the last decade. In 2013, about 432 SOEs were privatized, accounting for 35% of GDP. They were pressured to be rid of the corruption and inefficiency of the state-owned sector. The biggest four SOEs that are expected to begin selling their shares to private investors within the next 2 years are Vietnam Mobile Telecom Service (MobiFone), Vietnam National Textile and Garment Group (Vinatex), Vietnam Airlines and Vietnam National Shipping Lines (Vinalines) ([Song, 2014](#)).

3.2.2 Role and potential of private sector

As the country leaders took a bold step forward to open wide the door to welcome foreign investors, the centralized plan economy has become a more international and market-oriented country. Private sector have been blooming with waves of investments from fellow countries. Local people also take part in opening small and medium businesses, creating jobs alongside with the new foreign-invested companies. Since the beginning of Renovation Reform, the private sector has proved its importance in economic development. Especially in the services, there is still plenty of room for improvement in Viet Nam, and not limited to the following examples of banking and insurance.

[Darin Williams](#), the Managing Director of Nielsen Viet Nam (an international statistics and information collecting company) provided that, with the speed of development in Viet Nam, the number of banking customers are, however, lower than other neighbouring countries. Amongst 92 million Vietnamese, only half of this population is aware of banking transactions and other services provided by banking cards of all kinds. People here know about bank accounts as a secure place to deposit their money and income besides the locked safes at home. This has proved the ample potential for the bankers to tap the market here. Rural areas, for example, could have the same speed of development, if not faster, as the urban centres. Although the income level is well below those living in the cities, keeping their income secured somewhere is a necessity.

As part of open-door policy, liberalising the insurance market is one of the most important step in encouraging the private sector. For over 20 years now, many private investors, including international and local insurers, offering their services, have helped the insurance market in the country thrive. As of 2014, a total of 57 players are present in the market ([Lam, 2014](#)) offering a variety of products in life insurance, non-life insurance and health insurance. From the figure 15, about half of this sum is already the non-life insurers – there are about 27 companies on this regard (both foreign and domestic), which is about 70% increase compared to 10 years back.

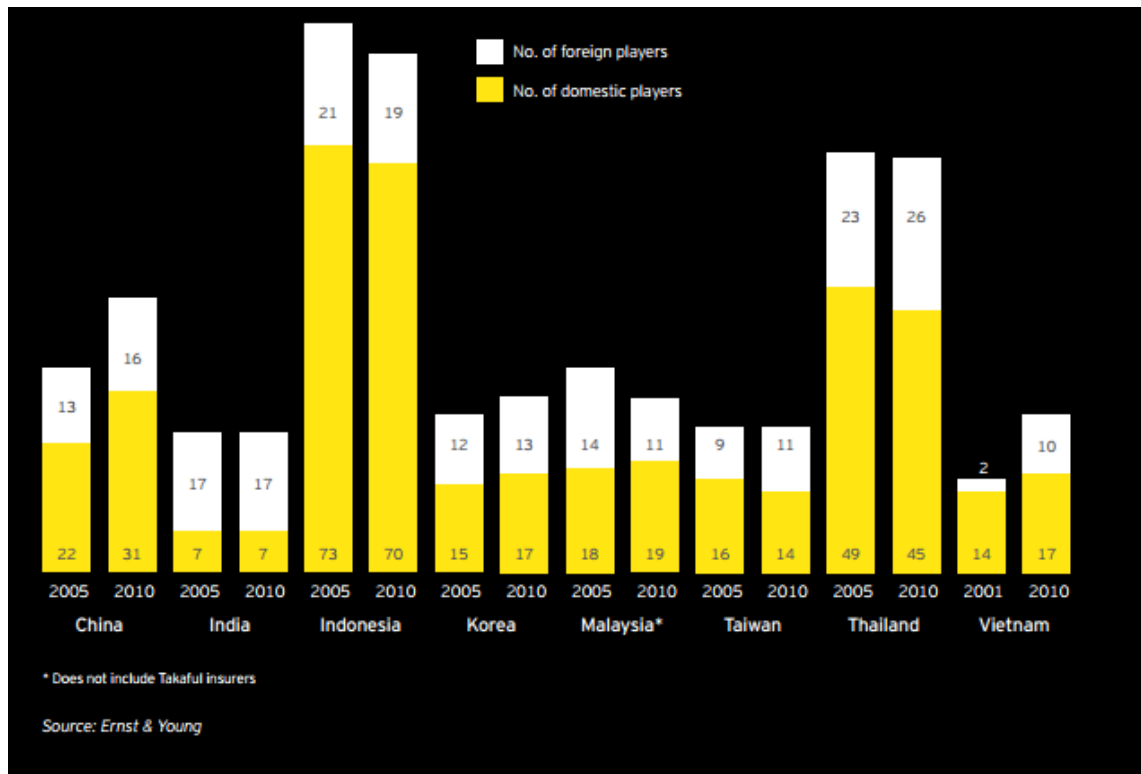


Figure 15: Number of non-life insurers in 2005 and 2010 in several countries (Source: [E&Y, 2010](#))

Having said that the private sector is playing an important role in the growth of the economy, Viet Nam's GDP growth rate is currently at average 5-6% annually since the financial crisis 2008. Compared to the early 90s, when the growth rate was buoyantly almost around 9-10% per annual. [Jim Yong Kim](#), the World Bank Group President, stated that from his opinion, to improve the situation for a more efficient economic success, the private sector needs to be more encouraged. Under the parallel competition with the state-owned enterprises, the private companies do not have the privileges to access certain resources or reserved capital. The opportunities have to be levelled out evenly for a healthier competition and promote the private investors, both locally and internationally.

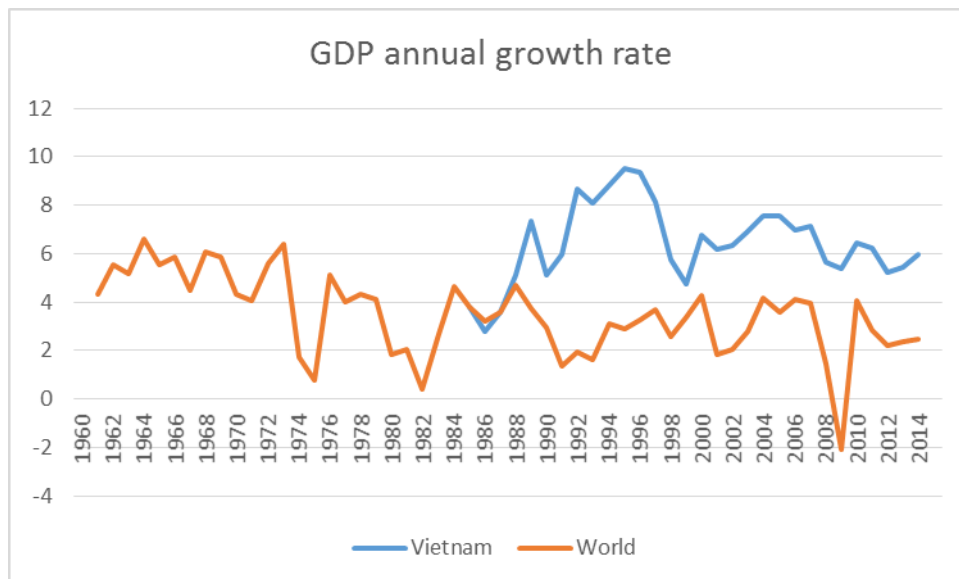


Figure 16: GDP annual growth rate (%) from 1960 – 2015 (Source: World Bank, 2015)

The private sector has proven its role since the Doi Moi, and it will keep playing this position in the future. But an economy cannot robust its full potential if the access to the resources are not distributed. Should the country remained closed, not only the private sector would not have had enough space to grow, but the economy itself would have missed on average every year: 2500 USD Millions of FDI ([Trading Economics](#)), 5.8% in growth rate as we have observed when looking 10 years back and the country could not have been where it is right now.

4 How “emerged” is Viet Nam?

The country has considered itself a very competitive economy amongst the other emerging markets. But how justified are these claims of success? This chapter will examine various economic indicators in order to determine whether or not Viet Nam has indeed developed sufficiently to be ranked as an emerging market. The impact of FDI on Viet Nam's domestic savings and investment, foreign direct earnings, balance of payments and government revenue is further examined. Following the direct contribution of FDI flows to GDP growth is an assessment of the importance of foreign investment projects (FIPs) as a whole and individually. The decisive role of government policies in making use of FDI flows is discussed as well. Finally, the chapter concludes by giving background information on the inflows of Foreign Direct Investment (FDI) and economic development in Vietnam.

4.1 Inward FDI

As an emerging market economy, Viet Nam is undergoing tremendous change in terms of industrialisation, modernisation and urbanisation. Much of this growth is being assisted by receipt of Foreign Direct Investment (FDI) from the mature industrial countries.

Viet Nam's domestic savings were relatively low and hardly recorded in any documents before Doi Moi. After Independence, Viet Nam was highly supported financially by the former socialist countries, especially the Soviet Union. The low domestic savings and the breakdown of the CMEA in have contributed to the lack of quick response by government, and forced the economy to reform under such circumstances. These changes had motivated the VCP to arrange a clear shift in its strategy. On one hand, to stabilize the financial imbalances and economic shortages produced by the command economy; while on the other hand, to be completely dependent on the Soviet Union during this crisis period, attract more economic aid, enhance the export market and step out of political isolation.

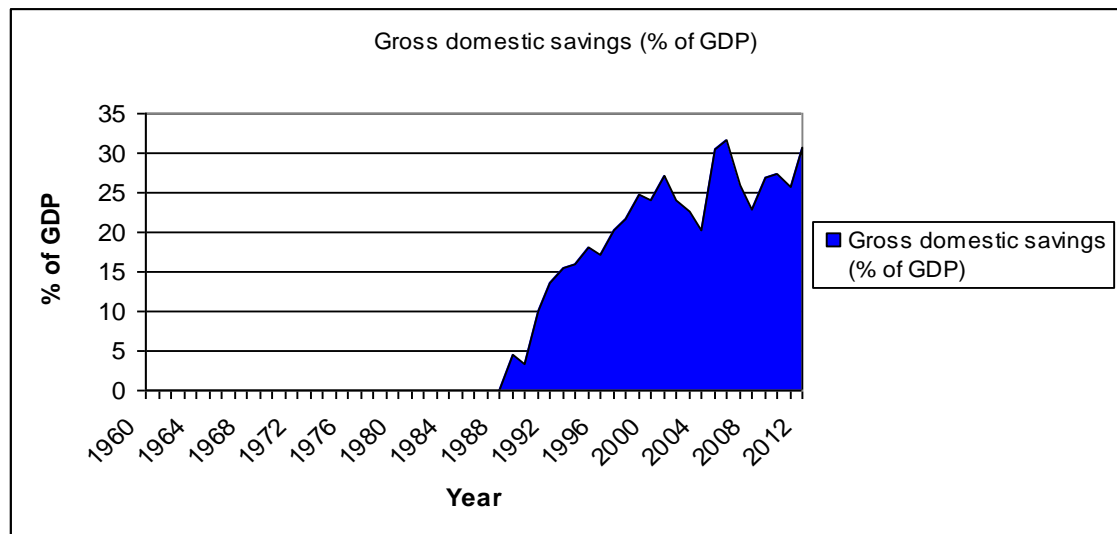


Figure 17: Gross Domestic Savings (% of GDP) from 1960 – 2012 (Source: World Bank Data, 2013)

As the open-door policy was implemented after the Sixth Congress took place, FDI flowed to Viet Nam firstly as an important supplement to domestic savings and had immediate direct contribution to national investment. The reforms encouraged the government to give complete autonomy to the state-owned enterprises (SOEs), allowed small-scaled privatization and eliminated the state control on trading, or trade liberalization. And as a result, the increase in national savings was utilized in upgrading the country's poor infrastructure, including machinery and equipment imports, adopting modern technology and know-how, hence bridging the foreign exchange gap.

According to Figure 7, the FDI inflows increased strongly until the Asian regional financial crisis in 1997, where the total registered capital was cut almost in half, from 9635,3 million USD (1996) to 5955,6 million USD. In the 5 following years, the number worsened and was only 2993,4 million USD in 2002. However, thanks to the 9th Congress, where the VCP approved a 5-year plan for Socio-Economic Development 2001-2005 and a 10-year Strategy for Socio-Economic Development, Viet Nam revived as a destination and roared back to achieve 1544 registered foreign invested projects (FIPs) in 2007 and collected 71726,8 million USD as the registered capital. The recent financial crisis had a global affect and hence heavily impacted the injections to Viet Nam. Inflation then went up to 23% ([Indexmundi, 2013](#)) but quickly recovered to single digits the following year. The stable GDS protected the domestic economy and contributed to the continuation of national investments.

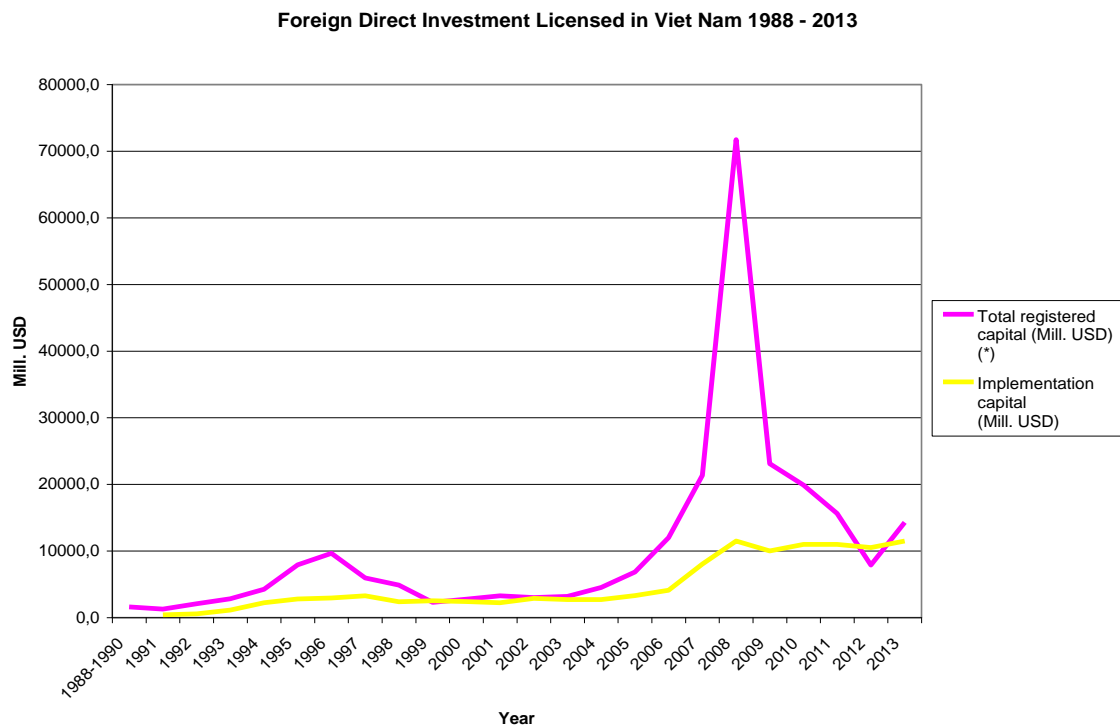


Figure 18: Foreign Direct Investment Licensed in Viet Nam 1988 – 2013 (Source: GSO, 2014)

In the short term, Viet Nam must face a state of high risk because of macroeconomic pressures, including the inflation that has built up as a by-product of government's efforts to maintain robust growth despite the global economic crisis in early 2009. In addition, the slow recovery of United States and Europe has reduced Foreign Direct Investment to Viet Nam. The recent regional feud with China over the misplaced oil rig in the disputed waters of the South China Sea raised huge controversies in and outside Viet Nam. The reactionary parties against VCP also took advantage and initiated violent demonstrations which led the uneducated patriots to attack not only Chinese owned, but also Taiwanese, Korean and Japanese factories and plants due to the workers' inability to distinguish Mandarin and other Asian characters. ([Hodai, 2014](#)) The factories have been closed since the anti-China protests, thousands of Vietnamese workers, despite regrets, are now unemployed and Viet Nam could lose foreign investment if the situation continues.

4.2 Important International Relations

4.2.1 International Monetary Fund - IMF

South Viet Nam (officially the Republic of Viet Nam) joined the IMF on September 21, 1956. Following reunification in 1975, the Socialist Republic of Viet Nam replaced the now defunct South as a member. Since then, Viet Nam has been offered the use of the IMF's resources on several occasions:

- October 6, 1993: A stand-by arrangement for Special Drawing Rights (SDR) 145 million USD was approved, following the clearance of arrears to the Fund dating back to the early 1980s. This stand-by arrangement was enhanced through purchases of SDR 29 million USD under the Systemic Transformation Facility for countries in transition.
- November 11, 1994: a total of SDR 535 million USD was approved in connection with a 3-year enhanced structural adjustment program. As the loans were made available in semi-annual instalments, 79 million dollars will be funded in the first 6 months of implementation immediately. During this year, the World Bank also approved about 325 million USD in credits and Asia Development Bank has approved at the same amount, if not less.
- April 13, 2001: A Poverty Reduction and Growth Facility arrangement for SDR 290 million (88% of quota) was approved. The program aims at raising rates of economic growth and poverty reduction through boosting private investment and overall competitiveness.

Having undergone a significant transformation since Doi Moi 1986, the Fund has already expected Viet Nam to be the next Asian tiger. As the loans were provided with supervision, Viet Nam lifted completely the price control policy and adopted a unified exchange rate mechanism, from which this is the milestone marking the remarkable economic growth rate.

The IMF has provided Viet Nam technical assistance in the areas of tax policy and administration, public expenditure management and fiscal transparency, monetary and foreign exchange operations, central banking, bank restructuring and supervision, economic statistics/General Data Dissemination System (GDDS) and others.

The IMF Institute, the Joint Vienna Institute and the IMF-Singapore Regional Training Institute have provided training to Vietnamese officials in financial analysis, programming and policy, public finance, government finance statistics, balance of payments methodology, and in other areas. In addition, Vietnamese officials have attended IMF seminars in areas such as centrally planned economies in transition, aspects of tax policy and tax administration, current legal issues affecting central banks, and foreign exchange policies and operations. Vietnamese officials have also attended long-term training courses (for a Post-Graduate Diploma or Master Degree) funded by the IMF-Japan Scholarship Program for Asia and the Australia-IMF scholarship Program for Asia.

4.2.2 World Trade Organization - WTO

Viet Nam became the official 150th member of the World Trade Organization (WTO) in January 2007. This is an important milestone that benefited those Vietnamese the most who were trading with other countries as WTO is the only global multi-national organization dealing with trading regulations between 160 countries at the present time. The country's accession process was a long and difficult journey that started since Doi Moi in 1986, with several attempts to improve Viet Nam's development level, upgrading Viet Nam's global image and leading increased cooperative trading with economic powers like the US and China.

In the framework of the WTO, access to other global markets is improved in terms of global integration as Viet Nam can be now connected to a much wider network. Before joining the WTO, Viet Nam often met difficulties in trading with other countries due to complications arising from restrictions on imports of Vietnamese produced goods and services, especially garments and footwear. Importation of raw materials and semi-processed inputs were usually costly for heavy industries, causing a hesitant attitude in production, which limited growth and innovation. Since joining the WTO in 2007, as other member states removed restrictions, easing regulations for imports of Vietnamese produced textiles, production in this field has become more buoyant than ever with record growth in 2011 of 15.8 billion USD, which doubled in size compared to 7.8 billion USD in 2007 and up 24.4% compared to 2010 ([Textile World, 2012](#)). Besides, lower rates of tariffs make exports easier, which is the leading engine of GDP growth and the flagship of development strategy.

Moreover, other sectors also enjoy declining import barriers as a result of WTO membership. As shown in table 8, although tariffs on heavy industries (such as steel, petroleum) have to increase to protect local production, other sectors have significantly reduced theirs in order to attract buyers and other importers globally, especially in textiles (falling from 36.6 to 13.6), and footwear (falling from 45 to 35.8) immediately upon accession, with the average tariff falling from 18.5 to 13.6 by 2019.

| | 2005 tariff rates ¹ | WTO initial bound rate | WTO final bound rate | WTO implementation |
|---|--------------------------------------|---------------------------------|-------------------------------|-----------------------|
| Simple average | 18.5 | 17.4 | 13.6 | up to 12 years |
| Agricultural products | 29.4 | 27.3 | 21.7 | up to -5 years |
| Nonagricultural products | 17.0 | 16.0 | 12.5 | up to 12 years |
| Steel | 9.7 | 17.7 | 13.0 | up to 2 years |
| Petroleum | 14.6 | 27.2 | 27.1 | up to 2 years |
| Manufactures | | | | |
| Textiles and clothing | 36.6 | 13.6 | 13.5 | upon accession |
| Footwear | 45.0 | 35.8 | 27.2 | upon accession |
| Cars | 63.6 | 84.8 | 58.7 | up to 12 years |
| Motorbikes | 100.0 | 100.0 | 74.3 | up to 12 years |
| Electronic machinery | 13.3 | 13.9 | 9.5 | 5 years |
| Minimum tariff | 0 | 0 | 0 | |
| Maximum tariff | 150 | 150 | 85 | |
| Number of lines | 10,689 | 10,444 | 10,444 | |
| Sources: WTO, Vietnamese authorities; and IMF staff calculations. ¹ Rates applicable to most imports from countries outside Southeast Asia. | | | | |

Table 8: Viet Nam's falling tariffs will be phased over several years. (Source: [IMF, 2005](#))

4.2.3 The Association of South East Asian Nations - ASEAN

Initiated in 1967 with 5 origin members, the Association of South East Asian Nations has now extended to 10 member states: Brunei, Cambodia, Indonesia, Laos, Malaysia, Myanmar, Philippines, Singapore, Thailand and Viet Nam, making a complete regional corporation of the Southeast Asian entity as a geo-political and economic organization. In fact, Viet Nam's accession was an important initiation in bringing the communist Indochina bloc (including Laos, Cambodia and Viet Nam) to other Southeast Asian countries after the long divisive Cold War. ASEAN's purpose is crucial economic development, social-cultural integration and political security.

Economic implications

The first and foremost target that brings the countries together is to deploy a basic infrastructure to accelerate the economic growth, social progress and cultural development in the region through joint endeavours in the spirit of equality and partnership in order to strengthen the foundation for a prosperous and peaceful community of Southeast Asian nations.

Becoming a full member of ASEAN in July 1995, Viet Nam has now full access to the markets of 10 neighbouring countries with a total market of about 600 million people and an average GDP worth of 2.31 trillion USD (statistics from 2012). ([ASEAN Secretariat News, 2013](#)) ASEAN is perhaps the multilateral corporation to which Viet Nam is most committed. Within ASEAN, Viet Nam also signed the CEPT scheme – The Common Effective Preferential Tariffs for AFTA (ASEAN Free Trade Area), which contributed to the elimination of tariffs and trading barriers, enabling Viet Nam and other member states to enjoy reduced intra-regional trading rates and boost the regional robust growth.

Political security

Besides economic purposes and promoting regional peace, ASEAN also acts as a political forum to promote regional peace and stability through abiding respect for justice and the rule of law in the relationship among countries in the region and adherence to the principles of the United Nations Charter.

ASEAN is where the member states are gathered as a united regional bloc, firstly to stay less dependent on the Chinese supplies and secondly, to protect the common South China Sea. As many incidents have occurred in this water area in the recent few

years, causing tense relationships between China and the ASEAN member states, especially Viet Nam and Philippines.

4.2.4 Trans-Pacific Partnership - TPP

Trans-Pacific Partnership, or the TPP, is a regional free-trade agreement negotiated between 12 Pacific Rim countries as of 2015. After 7 years of negotiations, the agreement was finally reached as of 5th October 2015, makes it one of the most ambitious free trade agreements, accounting for two-fifths of the global trade. The members taking part in the negotiation rounds are Australia, New Zealand, Malaysia, . Joining the negotiation in 2008, Viet Nam has been working on common free trade proposal, which benefits most on the relationship between the country and the US, not only in terms of trading.

TPP is not only the economic forum for trading, but also a political cooperation. The USA, being known as the world's biggest trading economy, will need to consider the policies to sustain its competitive position. On the East side, China is striving for the leading place by implementing several extensive economic reforms and growing at the same speed with the USA, if not faster. TPP is the next forum where the West power can seek for potential growth. To Viet Nam, the political reason for its accession in TPP is no difference. In the past few years, the Viet Nam – China relationship has been sensitive and yet, Vietnamese consumption is heavily dependent on the Chinese exports, including machinery, chemicals and equipment. As the disputes in the water of South China Sea has become tenser in the past few years, the military preparation in both countries have been intensified, as well as their political relationship. Concerning the China's size and the geographic proximity with Viet Nam may harm the Vietnamese economic development; Viet Nam is clearly seeking for other external sources and are optimistic since the TPP agreement is finalized. With the similar purpose of surpassing the dependency on China's economic power, the USA – Viet Nam relationship is also tighter in this trans-continental partnership.

With the TPP agreement being in effect, Viet Nam will be the clear 'winner' with most of the benefits. The free trade agreement will remove most tariffs on goods traded between the 12 member states, allowing Viet Nam to trade with US and other member countries at the rate of nearly 0%, which will make Viet Nam's exports more competitive. Besides, Viet Nam enjoys low labor cost and a young working population,

which will be the sustainable competitive advantage for the country to attract other economies' investment ([Vu Truong, 2014](#)).

5 Future outlook

From a subsidy country, Viet Nam has slowly and steadily transformed itself from a socialist, small-scale production to the fastest-growing economy in South East Asia. The contemporary history covered in this thesis can only give a fraction of the significant changes in country's situation between the times before and post-war. As an emerging market, Viet Nam do qualify for Banga and Mahajan's 9 characteristics as well as other aforementioned academic theories, from which a few points also indirectly state the challenges, as a matter of fact besides the positives. Most importantly, the current impressive status has already proven that Viet Nam has taken every possible opportunity in the past decades.

Also looking from the present angle, the future is more foreseeable, especially with the increasing foreign relations that signed with Viet Nam. Being in the heart of South East Asia, Viet Nam has a young and creative workforce, which enticed a number of global manufacturers from Korean technology giant Samsung to fashion brands such as Nike and Adidas. Viet Nam is already competing with China as the world's main manufacturing hub for textile and electronics. With the newly struck Trans-Pacific Partnership, Viet Nam can have easier access to the US market, indirectly opens more trade opportunities and collateral agreements with its non-TPP emerging neighbor – China. As China is not yet a part of TPP, opening Chinese- or Taiwanese- owned industrial plants in Viet Nam is necessary should China require its relationship with other TPP members and at the same time, to benefit the free-trade indirectly. From this point, Viet Nam is now playing an even more important political and economic partner, not only to China, but also to the rest of the world economy who are outside of the TPP. Within the last short period from 2010 – 2015, Viet Nam's share has the highest growing speed in the manufacturing export compared to other emerging neighbors.

On the other hand, there are still challenges ongoing that need to be tackled. As nothing can come that easy - being qualified to trade with the other TPP members also means Viet Nam needs to work harder on its reformation, which can be difficult as the upcoming transition period of the five-yearly Communist party congress is drawing nearer next year. Nevertheless, at the same time, this could be positively as a chance to alter its currently inefficient and corrupted economy.

Additionally, Viet Nam is standing at one of the most advantageous geographic position in terms of potential market to access with more than half of the population in the rural areas. However, unlocking these areas require some more years in terms of upgrading the infrastructure and education. With that, the production flow will be able to reach the remained half of the population in smaller towns. Potentially, at the same time, new cities will be formed from North through South and ultimately, attract new investment from both outside and now within the country.

In conclusion, Viet Nam has proved itself that its economy is nothing short of positive changes, and its strong will in taking initiatives post-war. Since independence, the country has gone through difficult stages of reforms. However, there were sufficient vicissitudes to prove that it cannot simply give up on external contexts. Being one of the remaining communist countries, Viet Nam still needs to face many discrepancies within its own capitalistic economy. The government in general and the Vietnamese Communist party in particular, playing the central roles, need to always carefully consider the big picture and assess all the possibilities before implementing any policies and strategies. One lesson we learn not only from Viet Nam, but also other emerging markets mentioned in this dissertation: Changes are necessary, despite the expensive costs over the course of time. There will always be risks and challenges, which will test an economy's ability to overcome and to become a 'dragon economy'.

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