

# CHAPTER 1

# EVALUATING VIETNAM MARKET

## 1. Introduction

Once a company has decided to globalize its business operations and consider opportunities in a foreign country like Vietnam, an emerging market, one of the first important things to do is evaluating the business, legal, political and social conditions in addition to overall assessment of competitive factors in specific industries and business sectors of the country where the company is going to operate.

Each of these major categories can, in turn, be further broken down into distinct subcategories in order to allow international managers to conduct a robust and systematic analysis that includes such things as natural resources, technology, institutions, religion and population growth and migratory habits, and so on.

## 2. Vietnam Economy and Market

According to World Bank: “Vietnam is a developing country, known to have a dynamic and emerging market economy. Vietnam now is one of the most dynamic emerging countries in East Asia region”.

Vietnam economy’s reformation under Doi Moi, launched in 1986, has been remarkable. Economic growth has increased rapidly 12 times over the past 35 years. Vietnam’s shift from a centrally planned to a market economy has transformed the country from one of the poorest in the world into a lower middle-income country.

Vietnam joined the World Trade Organization in January 2007, which has promoted more competitive, export-driven industries since then. Vietnam ratified the Comprehensive and Progressive Agreement for Trans-Pacific Partnership (CPTPP), has increasingly signed a number of bilateral and multilateral free trade agreements. In 2019, Vietnam’s economy continued to show fundamental strength and resilience, supported by robust domestic demand and export-oriented manufacturing. Real GDP grew by an estimated 7% in 2019, similar to 2018, one of the fastest growth rates in the region. In 2020, amid the negative impact of the ongoing COVID-19 crisis, Vietnam’s growth rate remains among the world’s highest growth. Together with other factors such as favorable demographics, political stability, Vietnam has been becoming an attractive destination in South-East Asia for foreign investors.

### 3. Role of Government in the Economy and Market

The economy of Vietnam is a socialist-oriented market economy, which is shaped primarily by the Communist Party of Vietnam. The Government plays a leading role in establishing the foundations and principles of communism, mapping strategies for economic development, setting growth targets, and launching reforms.

By providing investment incentives and encouraging monetization of the economy, the Government has successfully reformed the economy under Doi Moi. In recent years, the private sectors have become far more influential to economic growth. Additionally, the reform of State-Owned Enterprises (SOEs) is a crucial pillar of the Government's structural reform and productivity agenda. The equitization of SOEs in recent years is an example of the Government's efforts to improve the performance of SOEs and drive the economy forward.

With the establishment of the Vietnam Stock Exchange in 2000 and the Government's policy of privatizing SOEs, it has benefited foreign investors investing in the Vietnamese market. To date, the Government has been consistently and gradually improving the country's competitive advantages, so that it can continue to pursue market-friendly policies by enhancing state management, building up regulator workable framework, interacting positively with the private sectors to promote sustained growth.



## 4. Governmental and Regulatory Systems

Vietnam is a single-party state under the leadership of the Vietnam Communist Party. The National Assembly is the highest representative body of the people and the highest body of the country's power, which holds a national congress every five years to outline the country's overall direction and policies for the future. The Government is the administrative state body of the National Assembly, and responsible for executing and managing political, economic, cultural, social, national defense, security, and foreign affairs of the country. The Prime Minister is the leader of the Government, who is responsible for the operations of the Government. The Vietnamese Government currently has 18 ministries and 4 ministerial-level bodies which are responsible for the execution of state power in certain industries or sectors. The People's Committee (province, district, and commune) governs management affairs within its administrative locations. The People's Committee manages, directs, and operates daily activities of local state bodies, and executes policies issued by the relevant People's Council and higher state bodies.

There is a hierarchy of regulations in Vietnam, with laws being passed by the National Assembly, and their implementing decrees and circulars issued by the Government and its Ministries, respectively. A plethora of other legal instruments/guidelines are also issued by other authorities. The list below, from higher to lower legal validity, sets out some commonly encountered legal documents in Vietnam's legal system. 1. Constitution; 2. Code, law and resolution of the National Assembly; 3. Ordinance and resolution of the Standing Committee of the National Assembly; 4. Order and decision of the President; 5. Decree of the Government; 6. Decision of the prime minister; 7. Resolution of the Judge Council of the Supreme Court; 8. Circular of ministers/heads of ministerial agencies; the chief justice of the Supreme Court; the chief procurator of the Supreme Procuracy; 9. Resolution of the People's Councils of provinces; and 10. Decision of People's Committees of provinces.

The Communist Party of Vietnam and state are making great efforts to improve the legal environment, developing the rule of law, especially for business, to turn Vietnam into an attractive investment destination. Continuous legal reform is being made to liberalize the business environment, and equally important is the restructuring of the economy to improve growth, productivity and competitiveness.

## 5. Foreign Direct Investment (FDI)

With the advantages of geography, natural resources, and an affordable labor force, Vietnam attracts a large amount of foreign capital each year. FDI serves as a major driving force and has gradually become a leading source of external financing for the Vietnam economy.

FDI has, in general, been flowing continuously into the Vietnam economy over the past two decades. The total registered (licensed) FDI inflow of Vietnam increased from US\$15.62 billion to over US\$28.5 billion during 2011-2020. The above amount of FDI capital has come from 89 different countries and territories. The structure of Vietnam's FDI is driven mainly by five countries which are Japan, Republic of Korea, Singapore, China, and Hong Kong, which illustrates the close diplomatic and economic Vietnam has established with Asian neighbors.

As a result of Vietnam's attractiveness to international business, FDI continues to grow and diversify. Vietnam's Ministry of Planning and Investment, with the assistance of the World Bank, is currently drafting a new FDI strategy for 2018- 2023 focusing on priority sectors and quality of investments, rather than quantity. The new draft aims to increase foreign investment in high-tech industries, rather than labor- intensive sectors, focusing on manufacturing, services, agriculture and travel.