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The Economy and Business Environment of Vietnam

Edited by
Roderick Macdonald

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Preface

This book was completed in the midst of the 2020 pandemic.

In the current phase, we are spending more time at home with family than ever before, reminding us that wealth and the economy are not the most important things in life. However, when this situation reaches its end game, we will also be reminded that wealth and the economy, although not everything, do help us in the pursuit of happiness. Medicine and health services are founded on science, but also upon prosperity. Feeding, sheltering, and educating our families require the supply chains that bring food and other resources to our homes. The creation of beauty in music, visual arts, and the written word requires leisure, again dependent upon some degree of affluence. Power, whether exercised to subdue others, or channeled to the service of others, ultimately reposes upon wealth.

We will be less rich when the pandemic ends.

So far, the twenty-first century is a rerun of the twentieth century, although we have avoided a world war so far. Punctuated by a financial crisis, the first twenty years have been marked by rapid technological and business changes reaching deep into our daily lives as consumers. With the onset of the pandemic, Western countries appear to have repeated the same errors and blame games as in 1918–1919. In contrast, many East Asian countries, more severely tested by SARS, appear to have been more proficient in dealing with the situation.

Our world's economy may be quite different in the aftermath of the pandemic, or it may remain "the same, only more so." The aftermath of the 1918 pandemic was an economic boom in Europe and North America, followed by a worldwide bust that was reinforced and prolonged by an ideology of protectionism and autarky. Will this repeat? Today, as in 1930, there are leaders who argue that all of our problems are explained by our openness to the rest of humanity. Many people believe them. After the pandemic, as before, the greatest enemy of humanity will be ignorance.

What is certain is that the global linkage of trade will have been interrupted, and that there will be delays and difficulties in priming the pump of our problematic symbiosis with nature. Possibly China will find itself somewhat isolated, although currently it is exerting great efforts to overcome widespread reticence to shared trade and investment ventures. China is not the only game in East Asia. It would be a pity if all East Asia were to find itself isolated from the rest of the world, or if East Asia were to become a single trade bloc economically pitted against the rest of the planet. Hopefully, this book will help to open hearts and minds to the business opportunities of the East.

Ho Chi Minh City, Vietnam Roderick Macdonald
April 2020

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CHAPTER 1

Vietnam, Land of Opportunity

Roderick Macdonald

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

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

1.1 Introduction

Vietnam experienced a very difficult twentieth century. It started the century as a French colony. After the French were repulsed in 1954, Vietnam experienced an internal struggle for power at the same time as

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

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

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

Southeast Asia is a fast-growing region and, of the larger economies in that region, Vietnam and the Philippines are the fastest growing. Cambodia, Laos and Myanmar are also growing as quickly, but have small economies that are far less developed. Of the more advanced economies in the region, only Malaysia exhibits a comparable growth rate. Between Vietnam and the Philippines, who are neck and neck in economic growth, Vietnam is clearly far friendlier towards foreign business investment than the Philippines. Since their devastating experience of free trade with the United States at the time of independence, the Philippine business elite has influenced government policy to limit foreign competition and ownership. The "People Power Revolution" did not change this. Since the early

1990s, Vietnam has gradually done the opposite, both opening up to foreign investment and increasing the portion of the economy that is market oriented. There is increasing opportunity in Vietnam.

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

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

Although the skills base of Vietnam is limited, that is the nature of a less developed nation. Far more relevant is the "can do" attitude of Vietnamese. This can be seen in all walks of life, from restaurants to the university classroom, from large businesses to small sidewalk businesses with no employees. Vietnamese get things done without worrying about shortage of resources or the accepted methodology. Vietnamese in the diaspora are famous for their success in their new home countries. This could perhaps be ascribed to the selection process of escape from Vietnam in the twentieth century. Surprisingly, however, the same drive and initiative can be found today in Ho Chi Minh City. Vietnamese are intelligent, resourceful and diligent. Rural and low-income urban families see study and knowledge as the path out of poverty. The government spends nearly 6% of GDP and 20% of its budget on education, and Vietnam placed 7th in the world (behind Canada and ahead of Hong Kong) in the 2015 PISA ranking.[1] The United States placed 25th. These rankings are of course imperfect—in particular, about half of Vietnam's students leave school by 15, before the PISA tests are applied, thus biasing the result—but do suggest the strength of basic education in Vietnam, basis for any industrial training.[2]

1.2 The Country of Vietnam

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

1.2.1 Geography and Climate

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

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

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

1.2.2 History and Society

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

Vietnam has a venerable history that stretches far back in time. Various precursors of contemporary China occupied Vietnam and were repulsed many[3] times over the last two thousand years. The French colonization of Indochina, including Vietnam, and the subsequent attempt of the United States to counteract the supposed domino effect of communism spreading from China, should be seen against this historic background. While Ho Chi Minh did acquire a communist ideology from French intelligentsia of the early twentieth century, and the current regime is an administration by the Communist Party of Vietnam, this ideology was an instrument of patriotic efforts to oust foreign occupiers from the country. The years immediately following the withdrawal of US forces were difficult. The Maoist Pol Pot regime in Cambodia had exterminated a quarter of that country's population and was seen as a threat to the Vietnamese, whose troops entered Cambodia on Christmas day 1978, and overwhelmed the Pol Pot army in a couple of weeks. Then, China invaded Vietnam on February 17, 1979, withdrawing by March 18 of that same year. About a half million Chinese troops were stationed along the border throughout the 1980s, harassing with minor actions combined with clandestine sabotage activities and a psychological campaign. In addition to these real and costly military security issues, Vietnam had to deal with economic sanctions (by China 1975-1978 and those led by the United States from 1975 to 1994).

1.3 More Recent Economic Policy and Performance

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

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

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

Wealth is imperfectly measured by GDP, which grew at a rate of nearly 10% before slowing to "only" 5% with the Asian financial crisis and has mostly bettered 6% in the current century (see Fig. 1.1). Although agriculture, forestry and fishing continued to grow, their relative importance for the economy has shrunk to around 15% because of the more rapid growth of industry and services typical of development (see Fig. 1.2). However, over 35% of the population still are employed in that sector. The largest categories of goods exported are "machines" (including electronic as well as mechanical machines and parts) at 46%, textiles and clothing including foot and head wear at 24% (AOC 2019). Exports began to surpass GDP in 2016. This is possible because Vietnam imports abundant intermediate goods which it processes, adding some value, and then re-exports (see Fig. 1.3). Samsung alone accounts for over 25% of exports (Nguyen 2019), suggesting there is room for more large foreign

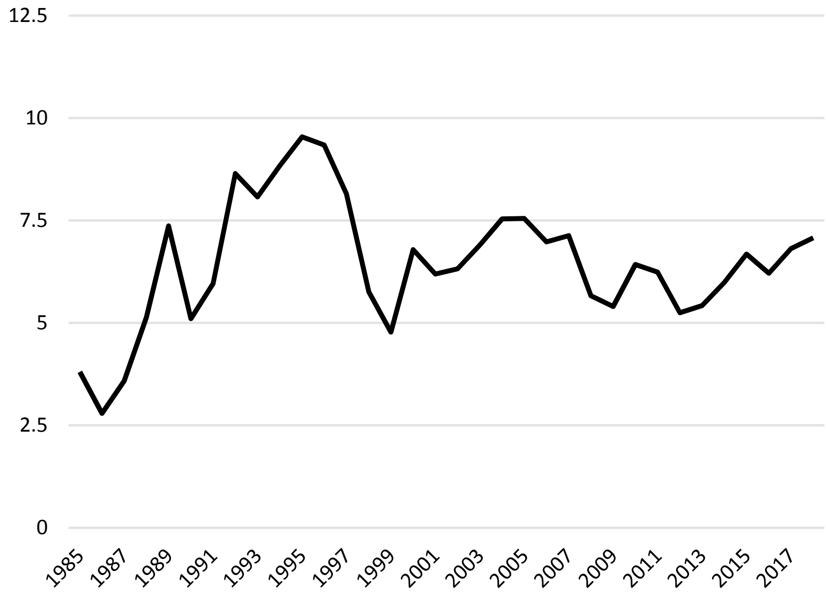

Fig. 1.1 Per cent GDP growth of Vietnam 1985–2018 (*Source* World Bank national accounts data, and OECD National Accounts data files)

investors and certainly a need for Vietnam to diversify its portfolio of foreign investment. Because nearly 46% of exports are "machinery", it might be concluded that the skill level of the country is relatively high, but this would be a misunderstanding of Vietnam's current place in global value chains (see Chapter 4). The domestic value added in information industries has been decreasing in Vietnam while increasing slightly in Singapore and notably in Thailand, as Fig. 1.4 shows. This is a crude indicator[4] of the evolving level of sophistication of Vietnam's economy, and the government is attempting to address this (FDI Vietnam 2020; see also VietnamNet 2018; Vietnam Law and Legal Forum Magazine 2018).

Vietnam is decentralized not only as regards administrative power but also as regards the redistribution of funds without which executive power is mostly theoretical. This helps explain why the Gini coefficient of Vietnam is relatively low. Although there is not the multigenerational accumulation of fortune to be found in Europe, there are rich and extremely rich persons and families. The greater equality in the distribution of wealth is rather at the bottom end. Poor people in a lower-income

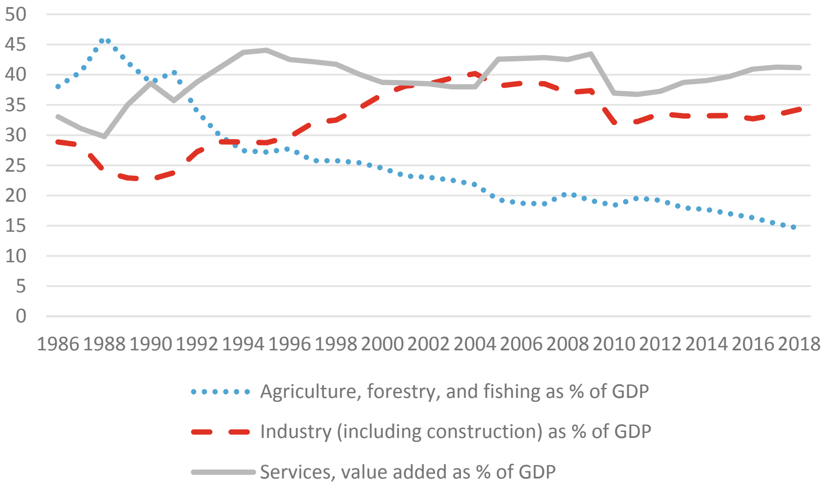

Fig. 1.2 Economic contribution by sector (*Source* World Bank national accounts data, and OECD National Accounts data files)

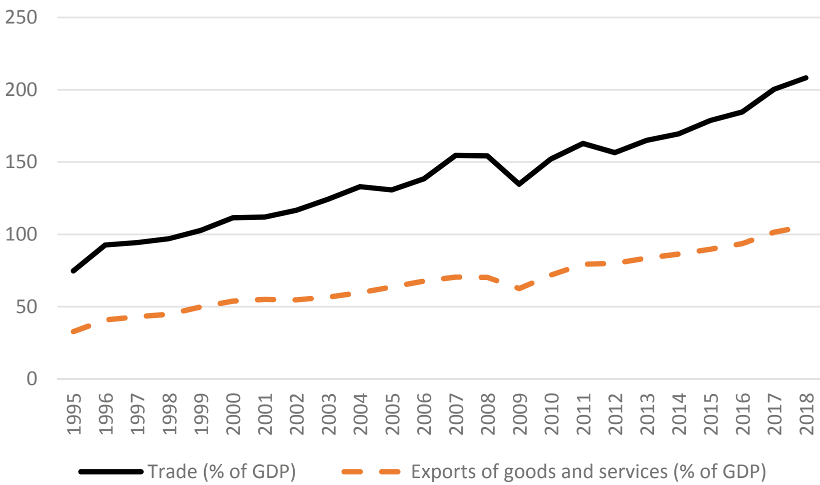

Fig. 1.3 Total trade and total exports as % GDP (*Source* World Bank national accounts data, and OECD National Accounts data files)

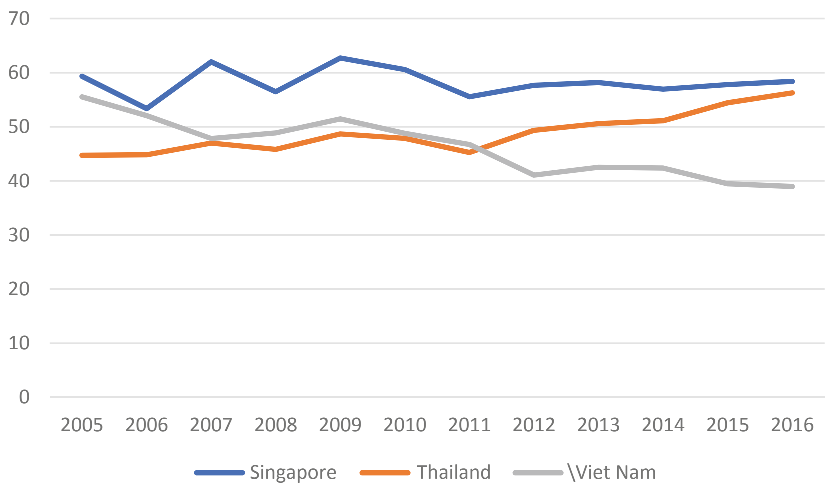

Fig. 1.4 Domestic value added share of gross exports in information industries (*Source* OECD.stat 2020, TIVA principle indicators, https://stats.oecd.org/Index.aspx?DataSetCode=TIVA_2018_C1# [Accessed on February 16, 2020])

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

Table 1.1 Index of income inequality distribution (Gini index) by region and year

	2002	*2004*	*2006*	*2008*	*2010*	*2012*	*2014*	*2016*	*Prel. 2018*
WHOLE COUNTRY	0.42	0.42	0.424	0.434	0.433	0.424	0.43	0.431	0.424
Urban	0.41	0.41	0.393	0.404	0.402	0.385	0.397	0.391	0.372
Rural	0.36	0.37	0.378	0.385	0.395	0.399	0.398	0.408	0.407
Red River Delta				0.411	0.408	0.393	0.407	0.401	0.392
Northern midlands and mountain areas				0.401	0.406	0.411	0.416	0.433	0.443
North Central area and Central coastal area				0.381	0.385	0.384	0.385	0.393	0.383
Central highlands				0.405	0.408	0.397	0.408	0.439	0.44
Southeast				0.41	0.414	0.391	0.397	0.387	0.373
Mekong River Delta				0.395	0.398	0.403	0.395	0.405	0.399

Source GSO

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

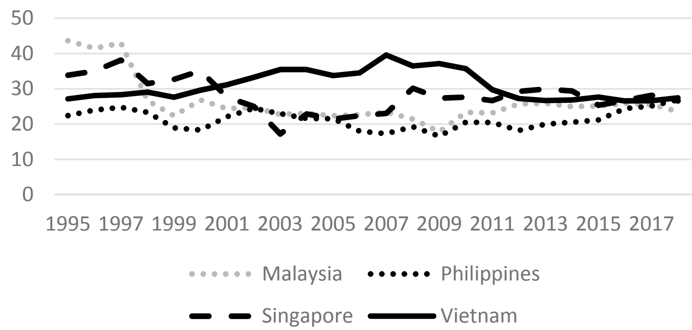

Fig. 1.5 Gross Capital Formation (*Source* World Bank national accounts data, and OECD National Accounts data files)

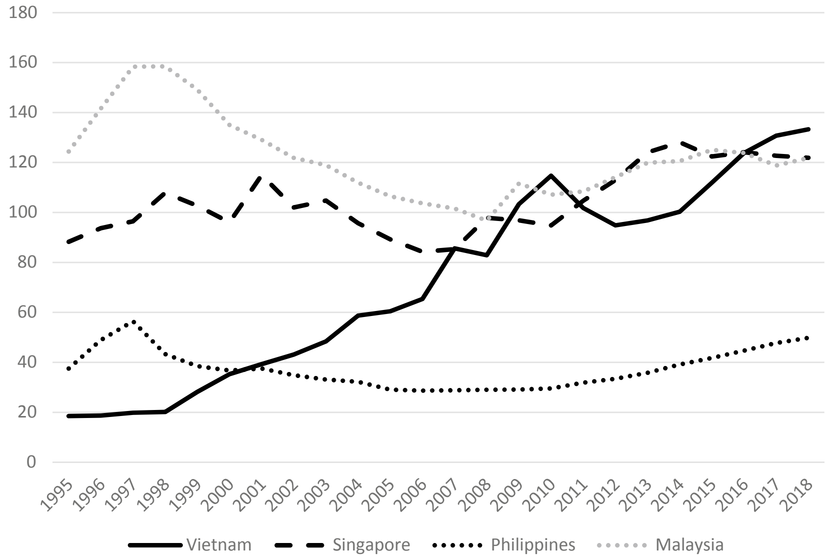

Fig. 1.6 Domestic credit to private sector as per cent of GDP (*Source* International Monetary Fund, International Financial Statistics and data files, and World Bank and OECD GDP estimates)

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

1.4 Doing Business in Vietnam

How easy or difficult is it to run a business in Vietnam? Scoring 69.8 in the 2020 Ease of Doing Business Index, Vietnam trails Singapore, Malaysia and Thailand (ranking 2nd, 14th and 23rd worldwide, respectively) but does better than Indonesia (slightly) and the Philippines. The government is trying to improve the ease with which business is carried out by reducing paperwork, moving procedures online, simplifying taxes and tax procedures, and disseminating decisions of business court cases. There is much room for improvement in protecting minority investors,

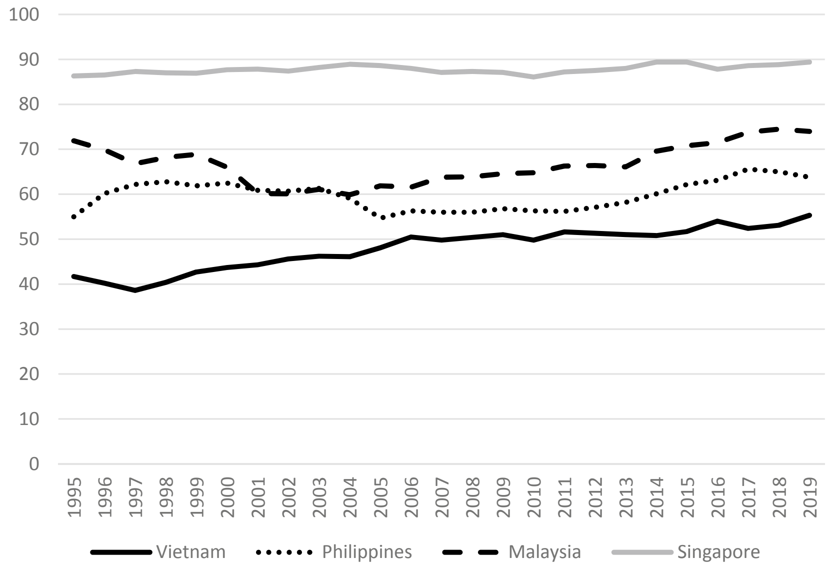

Fig. 1.7 Financial Freedom (*Source* Heritage Foundation and Wall Street Journal 2019)

resolving insolvencies, enforcing contracts and reducing the burden—time and money—of taxes. (See World Bank 2019. The index score for Vietnam is based on Ho Chi Minh City data.)

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

Government spending is a factor in calculating the economic freedom index. The score for it diminishes quadratically as the ratio of government spending to GDP increases. Expenditure by the government of Vietnam reached 38% of GDP in 2009 and 2010, but has decreased since then, with 26% projected for 2020. The score is based on the values for the most recent three years available. Government spending has amounted to 28.3% of the country's output (GDP) over the past three years (in contrast to the Philippines' 20.1%) (Heritage Foundation and Wall Street Journal, 2020).

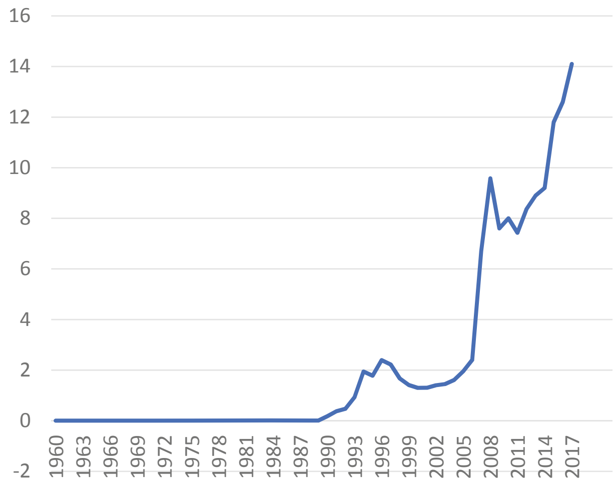

Fig. 1.8 Vietnam FDI 1960–2017 (*Source* International Monetary Fund, Balance of Payments database, supplemented by data from the United Nations Conference on Trade and Development and official national sources)

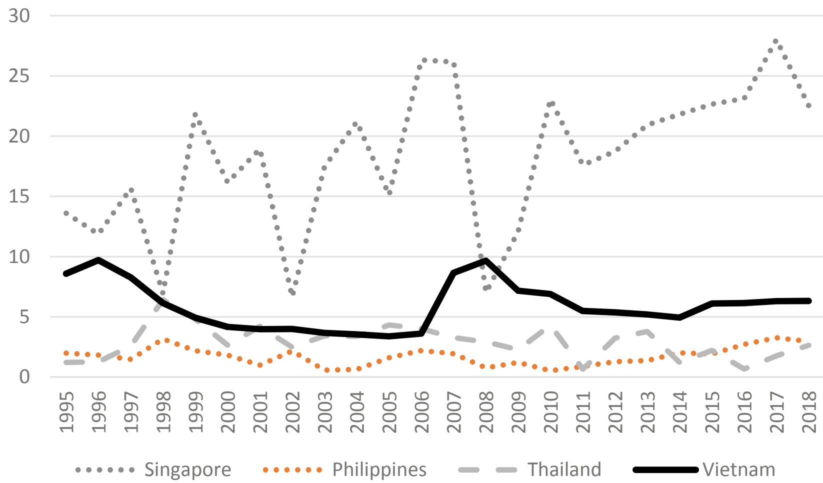

Fig. 1.9 Vietnam FDI/GDP compared (*Source* International Monetary Fund, International Financial Statistics and Balance of Payments databases, World Bank, International Debt Statistics, and World Bank and OECD GDP estimates)

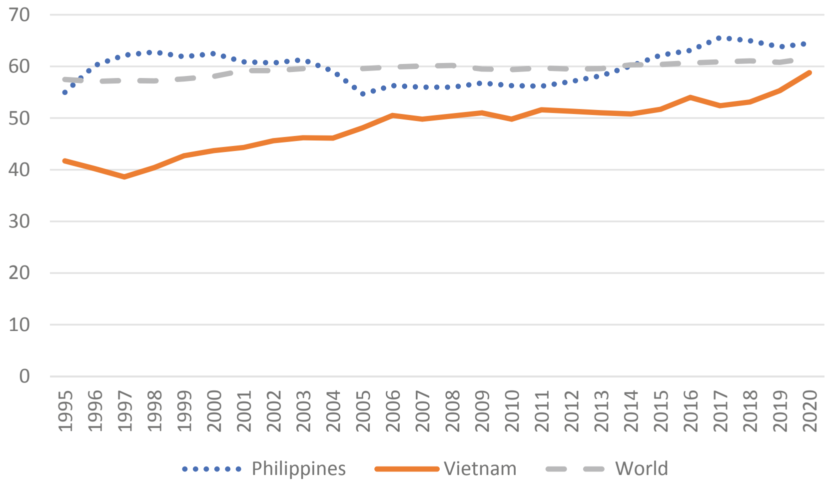

Fig. 1.10 Economic freedom score for Vietnam compared (*Source* Heritage Foundation and Wall Street Journal 2019; see also Gwartney et al. 2019)

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

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

Source Heritage Foundation and Wall Street Journal (2020)

Budget deficits have averaged 4.7% of GDP with public debt at 57.5% of GDP. This contrasts with the case of the Philippines, where budget deficits averaged 0.6% of GDP and public debt reached 39.6% of GDP.

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

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

The latest Enterprise Survey for Vietnam suggests that Vietnam is on par or better than other countries in the region for most questions posed regarding regulations and taxes, crime, formalization of business and even innovation with the exception of product innovation. Finance, as we have seen already, and corruption are weak points (real estate and privatization have particularly been vulnerable to cronyism—see Lê 2008: 175–178). However, these results are from 2015 and the situation is rapidly evolving. Anecdotal evidence indicates that there is still too much corruption in

Vietnam. The 2015 data (measuring the opinions of business executives contacted) indicate that Vietnam performs poorly regarding extortion of funds by public officials "in order to get things done" and in order to secure a government contract (Enterprise Surveys, n.d.). A smaller but more recent study confirms the need for controlling corruption, but notes that mid-sized Vietnamese firms are more frequently victims than smaller or larger Vietnamese firms or foreign firms (Maruichi and Abe 2019).

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

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

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

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

1.5 Conclusion: Vietnam and Business Opportunity

Vietnam has a particularly remarkable record for the rate of greenfield investments attracted in this century (Barklie 2015) although this has dropped recently, particularly in the first half of 2019. FDI was flat globally and across most of Asia in 2019 (UNCTAD 2020), although

Singapore saw a 42% increase over 2018. Part of the reason is particular to Vietnam. While the government of Vietnam was happy to attract investment to increase the size of the economy, create jobs and increase tax income, it was particularly keen to harvest the real prizes of FDI: knowledge acquisition and local supply sourcing. This has not happened at the desired pace, with many foreign firms sourcing from suppliers outside Vietnam.

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

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

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

There are five ways a business can enter into Vietnam:

1. Greenfield investment
2. Acquisition
3. Merger
4. Joint venture with a local firm
5. Simple business arrangement with a local firm as a supplier or a customer.

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

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

Notes

1. OECD did not report a 2018 ranking for Vietnam for technical reasons. See OECD (2019).
2. The primary challenge for doing business in Vietnam is language. Some businesses may be cowed because the Vietnamese language is difficult. Perhaps the language of money is universal, but the language of management is not. The use of the Latin alphabet in Vietnamese is misleading. Vietnamese has the same number of tones as Cantonese, tongue-twisting sequences of phonemes and frequent use of imaginative combinations of words. A motorcycle taxi, for example, is a *xe ôm*: vehicle embrace. This gives Google's AI great difficulty translating to and from Vietnamese. And the number of tones is not really the same as Cantonese, because Vietnamese varies from region to region. The number of tones varies both by region and by whom you ask. So does the rest of pronunciation, such as initial consonants. However, if Vietnamese is difficult, it can be learned. Far more important is the desire of virtually all young and middle-aged Vietnamese to learn English if they do not already speak it.
3. Perhaps as many as a dozen times: in 905, 931, 938, 981, 1077, three times of anti-Mongol-Yuan invasion (1258, 1285, 1288, 1427, 1789, 1946, 1979), not including several times during a thousand years of the Chinese occupation between 179 BCE and 905 (personal communication with Phạm Văn Thuỷ). Of course, the identity of the invaders/occupiers and of the "repulsers" varied over time as societies and cultures evolved.

4. DINFO or information industries include international standard industry classification codes D26, D58T60, D61, D62T63 but exclude pharmaceuticals, medical services and financial and business services. Also, non-electronic machinery can also be sophisticated (e.g. tunnel boring machines).
5. What neither the Heritage Index nor the Fraser Institute Index of Economic Freedom reveal, however, is that economic freedom in the Philippines is freedom for the exploitation of businesses controlled by family dynasties (Cruz 2019). Large family interests, not government, are the enemy of economic freedom in that country.

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CHAPTER 2

The Road to Doi Moi in Vietnam

Pham Van Thuy

Abstract While hard work under adverse conditions contributed to the turnaround of Vietnam's economy in the last 30 years, economic policy was crucial in channeling that work. This chapter documents the evolution of that policy in four sections. A first section describes early efforts beginning with the independence of the North from French colonization in 1945 and 1954 to the first decade after the war with the United States of America. The second section details the economic reforms (đổi mới) of the Sixth National Congress in 1986. The third section covers amendments and implementation up until recent years. The final section reports the results of these policies.

Keywords Vietnam economy · Doi Moi · Economic reform · Economic transformation · Economic history · Economic plan

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At its Sixth National Congress taking place in Hanoi between 15th and 18th December 1986, the Communist Party of Vietnam (CPV) initiated a radical reform called Doi Moi. This event signified a milestone in the development of Vietnam, marking a fundamental change in economic ideology and management, a shift from the command economy to the socialist-oriented market one. The immediate cause of Doi Moi was attributed to the failure in economic leadership and management of the CPV and the State inducing critical social and economic crises in the late 1970s and the early 1980s (Ngo Dang Tri 2016; Dean Forbes et al. 1991; Vincent Edwards and Anh Phan 2013). In a broad sense, Doi Moi can also be seen as the ultimate result of a long process of policy experiments and gradual reforms in Vietnam, starting immediately after independence of 1945. Likewise, over the past thirty years, the Doi Moi policy has been regularly amended and supplemented by the CPV and the State of Vietnam in accordance with new circumstances.

This chapter discusses the reform policy in Vietnam during the long transition from the initial reforms carried out by the Vietnam Workers' Party in the early years after independence to the radical and far-reaching reform conducted by the CPV since 1986. Attention is given to the main economic policies of Doi Moi, particularly those related to the markets. The author argues that the CPV's adoption of Doi Moi in 1986 was a result of many experimental policies and reforms conducted by different regimes in Vietnam. The Doi Moi was not a complete disruption of the former economic model; rather it is a hybrid third way between a planning system and capitalism, in which the economy is operated on the market mechanism, under the State governance and the Party's leadership (Dang Cong san Viet Nam 2013). The chapter also analyzes the amendments and supplements of the Doi Moi policy throughout the CPV's Congresses as well as the initial achievements of the Doi Moi over the past three decades.

2.1 Early Attempted Reforms

Vietnam obtained independence in 1945 as a direct result of the August Revolution following the capitulation of Japan at the end of World War II. After the War, the French returned in an attempt to re-establish their former colonial rule which they had surrendered to the Japanese. The nine-year armed resistance of the Vietnamese people culminating in the

Dien Bien Phu Battle eventually forced the French to recognize the independence of Vietnam in 1954. Following the provisions of the Geneva Accord, however, Vietnam was divided into two parts along the 17th parallel: North Vietnam under the Communist-led Democratic Republic of Vietnam (DRV) and South Vietnam under the US-backed Republic of Vietnam. The Vietnamese struggle for national unification and independence, often called the Vietnam War, lasted until 1975 with the collapse of the Saigon regime.

Under such wartime conditions, the successive governments in North and South Vietnam understandably could only carry out sporadic reforms. Although Ho Chi Minh's newly independent government had introduced several new economic policies in the late 1940s (Pham Van Thuy 2019), a far-reaching reform was only implemented in the early 1950s when the Vietnam Workers' Party organized the drastic land reform in the northern provinces. The reform concentrated on the confiscation of the land belonging to French colonialists, Vietnamese landlords and rich peasants and distributed it to poor and landless peasants (Moise 1976: 234–236). This land reform was concluded in 1956, but a process of collectivization began in North Vietnam. Peasants were reorganized into agricultural production cooperatives. French factories, mines, and public utilities which had once operated in the areas north of the 17th parallel were rapidly taken over by the DRV government and subsequently developed into State enterprises. Privately owned Vietnamese firms were reorganized into either industrial cooperatives or joint State-private enterprises. By 1960, the tendency toward socialism in economic transformation had become established in North Vietnam (Dang Phong 2005; Pham Thanh Vinh 1966).

In September 1960, at the third National Congress, the Vietnam Workers' Party passed a Resolution fostering the transition to socialism in Vietnam. The Resolution emphasized the socialist industrialization along with the agricultural development in Vietnam. The socialist industrialization was anticipated to be accomplished through three five-year plans. The first five-year plan (1961–1965) launched at the end of 1960 focused on the development of heavy industries, particularly electricity, chemicals, fertilizers, coal mining, iron, and steel. The investment was mainly allocated to State enterprises, whereas local artisans were reorganized into handcrafts cooperatives (Dang Phong 2005). While the plan was being implemented, in late 1964 the United States bombed North Vietnam

(Moise 1996). North Vietnam shifted to a wartime economy. In addition, the escalated hostilities in the South prompted the government of North Vietnam to send reinforcements for the southern liberation forces. Economic efforts of North Vietnam now had a twofold objective of building socialism in the North and supplying the liberation army in the South for the ultimate goal of national unification.

In South Vietnam, the Republic government of Ngo Dinh Diem also carried out land reforms and deployed various measures to strengthen control of the economy. Diem's government concentrated the limited financial resources accrued from foreign aid and the export of agricultural products on developing State enterprises and the purchase of foreign companies. The major French rice plantations were purchased by Diem's government and resold to Vietnamese peasants, who were encouraged to participate in cooperatives. Diem's efforts to achieve economic nationalism conflicted with the aid policy of the United States, whose goal was to turn South Vietnam into an anti-communist outpost in Southeast Asia (Pham Thi Hong Ha 2017). Diem's economic policy, in addition to the increasing military pressures from North Vietnam which threatened the viability of an anti-communist State in Vietnam, prompted the US government to intervene more directly in South Vietnamese politics. The anticipated consequence was a *coup d'état* led by the army under American auspices in November 1963, which ended the Ngo family's rule of South Vietnam.[1]

After Diem's assassination, the government of South Vietnam changed hands at least five times before General Nguyen Cao Ky took the premiership in June 1965. In 1967, Nguyen Cao Ky was in turn replaced by General Nguyen Van Thieu as the top leader of South Vietnam until the end of the war in 1975. This unstable political environment in addition to the escalation of war since 1965 harmed any economic reform efforts in South Vietnam. Although the economy of South Vietnam continued to grow thanks to massive aid from the United States, the investment was mainly allocated to the service sector, light industry, and agriculture. Consequently, South Vietnam became stagnant when the US aid was slashed drastically following the withdrawal of the US army in the early 1970s. By the end of the war in 1975, South Vietnam had become self-sufficient in rice, and that was one of the major economic achievements of the governments of the Republic of Vietnam (Doulas C. Dacy 1986: 9–18).

Since peace was restored and the nation was reunified, the Vietnam Workers' Party (renamed as the Communist Party of Vietnam in 1976) lost no time in resuming its long-term plan for socialist economic transformation in Vietnam, which was interrupted by the war since 1964. Between 1976 and 1986, two five-year plans—the second five-year plan (1976–1980) and the third five-year plan (1981–1985)—were implemented. Both plans pursued socialist industrialization with major focuses on heavy industry and rapid agricultural growth, although the former placed heavy industry at the forefront and the later gave the first priority to agricultural development. Economic rehabilitation and the socialist transformation of private sectors in South Vietnam were also promoted (Ngo Dang Tri 2016).

Nevertheless, the second and third five-year plans did not produce satisfactory results. Between 1976 and 1980, the economy grew by only 0.5% in comparison with the targeted 13–14%. By 1980, the second five-year plan achieved only 50% of the planned targets (Dang Phong and Tran Dinh Thien 2012). No significant progresses were made in the period of 1981–1985, and planned targets of the third five-year plan were only partially met: 95.8% in food production, 67.1% in cement production, and 94.5% in electricity output. The government budget deficit increased from 18.1% in 1981 to 36.6% in 1985 (Kim Tran Hoang 1996). The most critical problem was inflation soaring from 164.6% in 1984 to 774% in 1986 (Dang Phong 2009: 27–42, 2016: 258). After unification and a decade of multiple efforts, Vietnam was on the verge of economic collapse.

2.2 The Economic Reform Policy of the Sixth Congress of 1986

The second and third five-year plans were carried out in the difficult context of the US embargo and the concurrent wars on the northern and southwestern borders. Nevertheless, the economic failures were primarily attributed to the mistakes and shortcomings in economic leadership and management of the Party and the State. The command economy based on centrally planned, subsidy, and autarkic principles leaving out the incentives of market mechanisms, had been essential during the wartime but proved to be inappropriate in the peaceful development stage (Truong Chinh 1988; Dang Cong san Viet Nam 2002). Realizing these shortcomings, at its Sixth National Congress, which took place in Hanoi from 15th to 18th December 1986, the CPV adopted the Doi Moi, embarking upon a new course of profound transformation in modern Vietnam. It is important to note that with the Doi Moi, the CPV by no means intended to change its ultimate goal of building socialism; rather it provided new and feasible guidelines and policies to achieve this goal.

The Doi Moi is a comprehensive reform program with the primary focus on the economic field. The main economic reforms of the CPV's Sixth National Congress were presented in the following points:

2.2.1 Reorganizing the Structure of Production and Investment

For a long time, Vietnam had mistakenly focused on promoting industrialization while the country did not have necessary conditions. This created a situation that, despite an agrarian country with the peasants accounting for more than 90% of population, Vietnam often suffered food shortages. The Sixth Congress considered this situation as caused by mistakes in leadership and implementation. Following the experimental policies made in the third five-year plan (1981–1985), the Congress determined a reorganization of the structure of the national economy in which *agriculture would take the leading role*. The Congress emphasized the need for mass production in agriculture in order to quickly increase the volume and the value of agricultural commodities. The Congress also stressed the necessary amendment and supplement of land policies to increase the efficient management and use of land. The development of forestry and fishery must be associated with agricultural development, environment preservation, and processing industry in order to meet the domestic demands and increase exports.

Light, small-scale and craft industries should meet the population's demand for basic goods, ensuring the requirements of processing agricultural, forestry, and sea products and quickly increasing the volume of processed goods for exports.

Heavy industry and infrastructure construction must be directed to economic goals and defense in the first stage, and based on practical capability, preparing the basis for economic development in later stages. Priority should be given to the energy industry (coal, oil, and gas); mechanical industry and mining and minerals industry would be reorganized and specialized in support of light industry and agriculture. The products that the country was unable to produce or produced insufficiently should be imported. The development of transportation and communication systems was encouraged to facilitate the production and circulation of goods and travel of the people.

Particularly, the Congress emphasized the importance of expanding and improving the efficiency of foreign economic relations. The country should develop a comprehensive relationship with the Soviet Union, Laos, Cambodia, and other socialist countries, while fostering economic, scientific, and technical cooperation with other countries, international and private foreign organizations on the principle of equality and mutual benefit. Upon the implementation of these guidelines, the Sixth Congress set out three target programs: foodstuff, consumer goods, and exports, considering them as the spearheads of the fourth five-year plan (1986–1990).

2.2.2 Conducting the Socialist Transformation

The Sixth Congress stressed that, in order to be able to reorganize the structure of production and investment, it was important to clearly define the sectoral structure of the economy and provide policies to appropriately utilize and transform the economic sectors. The socialist economy consisted of three main sectors: State, cooperative, and household. Other sectors included small-scale manufacturing sector (craftmen, individual farmers, individual traders, and service providers), private capitalist sector, and State capitalist sector. The Congress laid down that while the State and collective sectors would play the leading role, other sectors should also be utilized in appropriate scale and technical level according to each stage of production and circulation. The State would have the preferential economic policies to support the development of the socialist economy via investment, taxes, credit, and so on. The cooperation between economic sectors was to be conducted under the principle of equality before the law.

2.2.3 Reforming the Economic Management Mechanism

At the Sixth Congress, the CPV was determined to abolish the bureaucratic centralism and State subsidies system in the formation of a synchronic planning mechanism based on the socialist business accounting, which is another name for a market economy. The new economic management mechanism centered on the planning, the relationship between currency and commodity prices, and other economic measures in combination with administrative and educational methods. The management was decentralized on the principle of democratic centralism, in which economic units were assured of the right to mastery of their businesses and finance. The State apparatus only performed administrative functions without intervention in the practical operations of economic units. The centralized management was only applied to the important issues regarding the whole country, while the local authorities had the right of initiative in the social-economic management within their domains.

2.2.4 Solving the Urgent Problems of Distribution and Circulation

Through the freeing of production capacity, the increase in the production of essential goods and goods would create substantial revenues for the budget. The State would strictly manage the supplies and goods produced and imported by the State enterprises and develop appropriate measures to control goods and money. The socialist commerce should be transformed into the business and improve service quality to dominate the market. The State would decide the pricing and management of prices according to the actual situation, ensuring the normal operation of production installations and the active participation of State enterprises in trade. In order to increase the volume of goods in circulation, it was necessary to extend the exchange of goods and abolish the prohibitions and division of markets based on the administrative boundaries. Speculative activities and illegal trade must be promptly detected and strictly penalized. The State must strengthen the control of money circulation and increase the non-cash transactions which would significantly facilitate the production and businesses (Dang Cong san Viet Nam 2006).

2.3 The Amendments and Supplements of the Doi Moi Policy

The Sixth National Congress of 1986 provided the initial orientations and guidelines for the Doi Moi in Vietnam. The details of the Doi Moi policy were amended and supplemented in the CPV's subsequent congresses, focusing on the following changes:

2.3.1 Recognizing the Market Economy

The concept of market economy was first introduced at the Sixth Central Committee Plenum in March 1989. At the meeting, the Party General Secretary Nguyen Van Linh, who is considered as an architect of the Doi Moi in Vietnam, emphasized that "the market mechanism must be consistently applied in planning and economic policies. The market mechanism develops in an environment of free production and circulation of goods according to law. Domestic prices are inseparable from international prices. The State does not use administrative regulations to impose prices but uses economic policies, measures, and reserve forces to affect the supply-demand relations. All economic units must be shifted to a business mechanism" (Dang Cong san Viet Nam 2006). Then, at the Seventh National Congress in June 1991, the Party officially recognized that "The operation of national economy follows the market mechanism under the control of the State by laws, plans, policies and other tools" (Dang Cong san Viet Nam 2007). This economic model was labeled "socialist-oriented market economy" at the Ninth Congress in April 2001 (Dang Cong san Viet Nam 2016), and it has become the general economic model of Vietnam in the Doi Moi era.

The concept of socialist-oriented market economy was clarified at the Twelfth Congress in 2017. The Party laid down that "the socialist-oriented market economy that Vietnam has been building is an economy operating comprehensively and synchronically according to the rules of market, while entrusting its governance to socialism in accordance with each stage of the country's development. It is a modern and international integrated market economy under the governance of the socialist rule of law State led by the Communist Party of Vietnam, struggling for a strong country with prosperous people, democratic, just and civilized society." In the socialist-oriented market economy, the State plays a role in orientating, building, and perfecting the economic regime, creating a fair, transparent, and sound environment of competition, using the measures, policies, and resources of the State to orientate and regulate the economy, promoting production and business and protecting resources and environment. The market plays the chief role in effectively mobilizing and allocating resources, the main driving force to release production capacity. The State resources are allocated according to the strategies, planning, and plans following the market mechanism (Dang Cong san Viet Nam 2017).

2.3.2 Developing a Multi-Sector Economy

The Sixth Congress recognized the existence of several sectors in the Vietnamese economy. The role of each economic sector was further identified and analyzed at the subsequent congresses. Particularly, the Constitution of 1992 officially recognized that "the State develops a multi-sector commodity economy in accordance to the market mechanism under State management and according to a socialist orientation. The multi-sectoral structure of the economy with diversified types of production and business organizations is based on ownership by the entire population along with collective and private ownership, of which the first and the second are the cornerstones" (Quoc hoi Viet Nam 2013).

The Ninth Congress identified six sectors of Vietnamese economy, including the State-owned sector, cooperative sector, State capitalist sector or joint State-private sector, individual and small-owner sector, private capitalist sector, and foreign sector. At the Tenth National Congress in April 2006, the individual and small-owner sector and private capitalist sector were combined into the private sector. Thus, since 2006, the Vietnamese economy officially has five sectors, in which the State-owned sector remains a decisive role (Dang Cong san Viet Nam 2006). According to the Party Resolution made at the Twelfth Congress in 2017, Vietnam only applies one business legal system for all enterprises, regardless of the types of ownership and economic sector. Enterprises in all economic sectors operate according to market mechanism. They are equal and have a fair competition under the law. However, the State should create favorable conditions to promote the development of Vietnamese enterprises and entrepreneurs who would play the key and leading role in the course of industrialization, modernization, and international economic integration and ensure the economic independence and autonomy of Vietnam (Dang Cong san Viet Nam 2017).

2.3.3 Expanding Foreign Trade

After the Sixth Congress, a series of reform policies on the promotion and efficient management of import–export activities were introduced. In 1988, Vietnam passed the first Law on Import Tax and Export Tax which focused on reducing and eliminating import–export tax and quota. Trade barriers were gradually lifted, allowing State- and private-owned firms to sell their goods to any Vietnamese trade companies which had legal export permits. From 1991, private-owned Vietnamese companies could directly participate in foreign trade under certain conditions, such as having foreign trade contracts, delivery permits, and minimum working capital of US$ 200,000.[2] The foreign currency policy was also reformed to facilitate the import–export activities. Companies were granted the right of using foreign currency, which allowed them to retain foreign currency accruing from foreign trade for their reinvestment and local construction. The State regularly adjusted the exchange rate according to the international market. Overseas Vietnamese and foreigners were allowed to transfer and carry foreign currency to Vietnam freely. They could deposit money at the State Bank of Vietnam and withdraw money in Vietnam Dong at the market exchange rate. From 1988, Vietnam policies on money remittance and currency exchange were implemented according to international practices.

2.3.4 Attracting Foreign Investment

In 1987, Vietnam passed the first Law on Foreign Investment which allowed foreign capital to do business in Vietnam and recognized that foreign-invested businesses formed a sector of Vietnam's economy. The Law was subsequently amended in 1990 and 1992, 1996, 2000, 2005, and 2014. The 1990 Foreign Investment Law added 15 articles, creating favorable conditions for foreigners to invest in Vietnam and allowing Vietnamese partners to expand joint ventures with foreign countries. The 1992 Foreign Investment Law opened new forms of investment via Export Processing Zones and Build-Transfer-Operate contracts and decided that Vietnamese firms of all sectors had the right to do businesses with foreign partners. The 1996 Foreign Investment Law was amended in the direction of diminishing incentives for foreign direct investment. It removed import tax exception for some materials, equipment, and transportation vehicles in the process of business establishment. The 2000 Foreign Investment was amended and supplemented in the direction of creating more stability and openness.

In 2005, the Law on Investment and Law on Enterprises were promulgated in the context of Vietnam's acceleration to join the WTO and pursue stronger international economic integration. These laws covered not only foreign investment incentive policies, but also regulations on both direct and indirect investments to create a level playing field for all domestic and foreign investors.

Particularly, in 2014, the National Assembly adopted a new Law on Investment and a new Law on Enterprise, providing detailed policies on business investment activities in Vietnam as well as outward business investments from Vietnam. According to these laws, foreign investors or enterprises undertaking a project in Vietnam must have an Investment Registration Certificate provided by the relevant provincial-level State Investment Registration Authority. Prior to operation, they must also receive an Enterprise Registration Certificate issued by the provincial level State Business Registration Authority. Investors are entitled to make investments in any businesses that are not banned by the State. The list of banned investments is clearly provided in the appendix, mostly related to trade in specific narcotic substances, chemicals, specimens of wild flora and fauna, prostitution, human trafficking, human tissues and body parts, and business pertaining to human cloning. Investors have the rights to decide their business investment on their own in accordance with the law or access and make use of loan capital, assistance funds, land, and other resources as prescribed by law. The ownership of assets, capital, income, and other lawful rights and interests of investors are recognized and protected by the State of Vietnam. All investors are treated equitably and the State of Vietnam shall uphold international agreements on business investment to which it is a signatory.

The 2014 Law on Investment also provided a series of assurances for foreign investment in Vietnam. The assurance of asset ownership stipulated that lawful assets of investors shall not be nationalized or confiscated by administrative measures. In case an asset is bought or commandeered by the State of reasons of national defense and security, national interests, State of emergency, prevention, or recovery of natural disaster, the investor shall be reimbursed or compensated in accordance with relevant laws. The Law also provides investors with assurance of business investment, in which the State would not interfere in the practical operations and businesses of enterprises. An article on the assurance of the transfer of foreign investors' assets to abroad provided that foreign investors are permitted to transfer to abroad their capital and liquidations, income from business investment, money, and other assets under their lawful ownership after fulfilling all financial obligations to Vietnamese government. Upon changes of laws, investors shall enjoy new incentives if the new investment incentives are more favorable or shall keep enjoying the current incentives in case the new investment incentives are less favorable, unless regulations of law are changed for reasons of national defense and security, social order and security, social ethics, public health, or environmental protection. Disputes over business investments in Vietnam shall be settled through negotiation and conciliation or resolved by arbitration or by either Vietnamese or international courts.

Another important reform of the 2014 Law on Investment is the detailed policies on investment incentives and investment supports. Various forms of investment incentives are included, such as a lower rate of corporate income tax, and exception or reduction of import tax, land rents, land levy. The law specifies the list of businesses and administrative divisions for which projects of investments shall benefit from investment incentives. Moreover, beneficiaries of investment incentives also include projects in which the capital investment is at least 6000 billion Vietnam Dong distributed within three years from the day of issuance of the Certificate of Investment Registration, projects in a rural area that employ at least 500 workers, high-tech companies, science and technology companies, and science and technology organizations. In addition, investors also receive investment support from the State, including support for development of technical and social infrastructure, for training and development of human resources, for scientific research, and development, for market development, credit support, and so on. Particularly, the law specified the investment support for industrial parks, export processing zones, hi-tech zones, economic zones, such as developing infrastructure, housing, public facilities, and amenities for workers. In addition, the 2014 Law on Investment provides useful information on the forms of investments, procedures for decision on investment policies, procedures for issuance, adjustment and revocation of certificate of investment registration, guidance for project execution, and instructions for outward investment from Vietnam (Chinh phu 2014). In comparison with the first Law on Investment introduced in 1987, the 2014 Law on Investment is a huge improvement in the foreign investment policy of Vietnam, representing the earnest efforts of the Vietnamese government to attract foreign investment. Still, Vietnam's Law on Foreign Investment still has a number of shortcomings, and foreign investors have suggested that the Vietnamese government continue to amend the law in order to create a fairer and more competitive environment for investment (Nguyen Huong 2017).

2.4 Major Economic Achievements of Doi Moi

Despite the amendments of the Doi Moi policy, the major change it created has been market liberalization. The results of the Doi Moi reform started to manifest themselves at the end of the fourth five-year plan (1986–1990). The main economic objective of the plan was to increase the production of food, consumer goods, and export goods. The most visible achievement of the plan was the booming of agriculture production. Since 1989, agriculture production not only put an end to the country's persistent shortage of food, but also transformed Vietnam from a food importer to major world rice exporter. Inflation rate also fell from 300% in 1987 to 67.1% in 1991 (Giang Dang and Low Sui Pheng 2015), and 3.2% in 1997. It turned into slight deflation with the Asian financial crisis and then reached 3.8% in 2002. Annual economic growth rate in the period 1990–2000 was approximately 7–8% (Niimi et al. 2007). The poverty rate of households declined from approximately 60% in the early 1980s to 28.21% in 1999 (Tong cuc Thong ke 1999). GDP per capita increased between 1986 and 2018 from US$ 231.452 to US$ 2566.597 in current US$ terms (World Bank 2018a). Since 1990, the GDP growth rate of Vietnam remained between 5% and 8%, except 1997, the year of Asian financial crisis. Vietnam's GDP growth rate slowed down again in 2008 as a result of a global crisis, but soon recovered to 6.4% in 2010. From 2013, Vietnam's GDP has shown steady growth (Fig. 2.1).

In addition to economic growth, trade and investment liberalization has been also an important part of economic reforms in Vietnam. The process of trade liberalization contributed to the rapid growth in the exports and imports. Between 1986 and 1999, exports increased at an annual average rate of 14%, while imports increased over 23%. In 1999, the value of total exports from Vietnam totaled US$ 11,622 million, and total imports to the country reached US$ 11,540 million (Fig. 2.2).

Foreign investment started flowing into Vietnam after the implementation of the Law on Foreign Investment in 1988. On average, FDI inflows amounted to more than 5% of GDP in the second half of the 1990s (World Bank 2018b). In the period between 1988 and 1996, Vietnam's FDI increased at a relatively fast rate in term of both number of projects and registered capital, then went into a gradual decline in the late 1990s. In 1996, the sharp increase in the amount of registered FDI was mainly directed to two investment projects in the field of urban development in Hanoi and Ho Chi Minh City, with more than 3 billion USD for

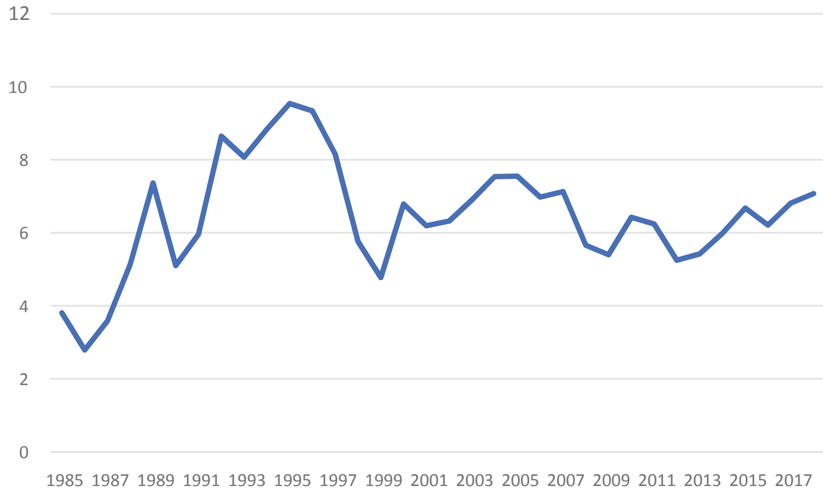

Fig. 2.1 Vietnam's GDP percent growth rate from 1985 to 2018 (*Source* World Bank 2018c)

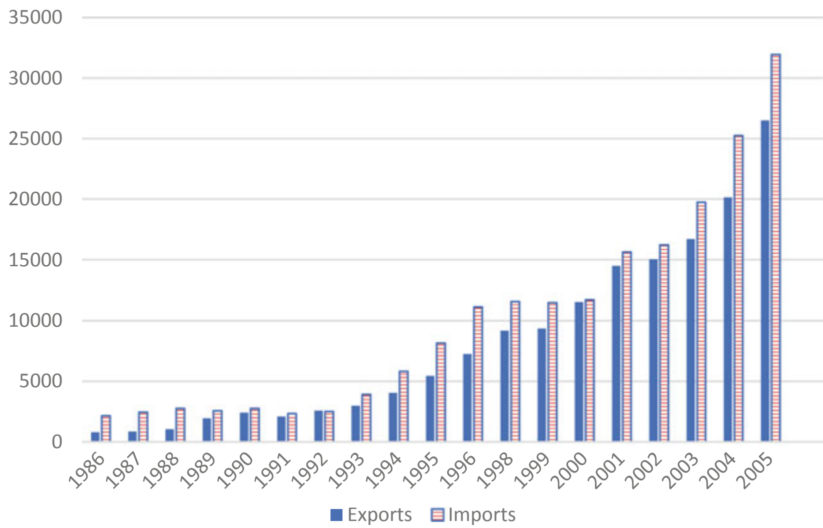

Fig. 2.2 Exports and imports in Vietnam from 1986 to 2005 (Million US$) (*Source* Tong cuc thong ke 2006)

the two projects. The decline of FDI flow into Vietnam in the late 1990s was mostly due to the impact of the Asian financial crisis in 1997–1998. FDI flows into Vietnam began to recover and followed an upward trend after 2000 (Table 2.1).

In the 1990s, more than two-thirds of foreign direct investment were from Asian countries. In particular, Singapore, Taiwan, Hong Kong, Japan, South Korea, and the British Virgin Islands were among the countries with the largest FDI into Vietnam (Tong cuc Thong ke 2000). Looking at the list of partners with the largest investment capital in Vietnam, it could be seen that Vietnam was starting to access economic and technological centers around the world. The increase in FDI during this period showed that Vietnam's business environment became increasingly transparent and attractive to foreign investors. In terms of economic sectors, the changes in FDI structure were in line with the requirements of economic reorganization toward industrialization and modernization in Vietnam. Since the 1990s, there has been a strong shift in the flows of FDI into the industrial, agricultural, and service sectors. FDI inflows into the agricultural sector accounted for a low proportion. In the early period, foreign investment projects mainly focused on hotel and office leasing, but in 1995 and 1996, FDI projects concentrated more on industrial production. Statistics from Foreign Investment Agency under the

Table 2.1 FDI in Vietnam in the period of 1988–1999

Year	*Number of projects*	*Registered capital (million USD)*	*Legal capital (million USD)*
1988	37	371.8	288.4
1989	68	582.5	311.5
1990	108	389	407.5
1991	151	1322.3	663.6
1992	197	2165	1418
1993	269	2900	1468
1994	343	3765.6	1729
1995	370	6530.8	2986
1996	325	8497.3	2940
1997	345	4649.1	2334.4
1998	275	3897	1805.6
1999	312	1568.3	693.3

Source Tong cuc Thong ke 2000

Ministry of Planning and Investment indicated that the proportion of FDI into the agricultural sector tended to decrease over time. In the 1990s, the proportion of FDI in agriculture, forestry, and fisheries accounted for about 5% and FDI into industry and construction accounted for 50% of total FDI, of which FDI into industries accounted for 38% of total FDI into Vietnam (Nguyen Trong Xuan 2002). The large inflows of FDI into industrial sectors were associated with the creation a large number of export processing and industrial zones in Vietnam. The system of industrial zones was established in 1991, starting with the establishment of Tan Thuan Export Processing Zone in 1991 and Linh Trung Export Processing Zone in 1992. The State Committee for Cooperation and Investment created several more industrial parks attracting investment from several countries, such as the Nomura Hai Phong industrial zone in collaboration with Japan, the Amata industrial zone in collaboration with Thailand and Japan, and five Vietnam-Singapore industrial parks in Binh Duong, Bac Ninh, Hai Phong, Quang Ngai, and Nghe An in collaboration with Singapore. The Vietnamese government has offered favorable incentives to investors in the establishment of industrial zones. Expenses incurred in investments for the construction, operation, or rent of apartment buildings and social infrastructure facilities for workers in industrial zones and economic zones would be deductible expenses when calculating taxable income. Investment projects focusing on the infrastructure development of industrial zones in areas with difficult socioeconomic conditions would get capital support from the central budget as well as local budgets. As of May 2018, Vietnam had about 328 industrial and export processing zones and 625 industrial clusters (Saigon dau tu 2018). The strong development of industrial zones has become a driving force in the process of industrialization and modernization in Vietnam.

2.5 Conclusion

The remarkable economic achievements of Vietnam over the last three decades have proved the accuracy of the Doi Moi policy implemented by the Communist Party of Vietnam since 1986. Before the adoption of the Doi Moi policy, Vietnam had lost four decades to warfare. Nonetheless, several attempts to reform the country's economy had been made by governments both in North and South Vietnam. Under the condition of escalated warfare, however, the economic policies targeted the needs of the war effort. The unification of 1975 did not bring an end to the system of command economy in Vietnam. In the difficult circumstance of the US embargo and the wars in northern and southern borders, the government of Vietnam chose to continue and extend the system of centrally planned economy, which they had successfully implemented in North Vietnam in the 1960s and early 1970s. Ten years of economic struggles and trials worsened the economic situation, which was about to collapse in the beginning of the 1980s. A radical reform toward the economic liberalization became indispensable, and thus in December 1986, the Communist Party of Vietnam inaugurated the Doi Moi.

The Doi Moi is a comprehensive reform program encompassing all aspects of life with the primary focus on the economic field. The Doi Moi policy has been regularly amended and supplemented by the CPV and the State of Vietnam in accordance with new circumstances, but its major focuses have remained on the decentralization of State management of the economy, the promotion of external economic relations to expand trade and attract foreign investment, and the recognition of the contribution of private sectors in the economy. The ultimate objective of the Doi Moi program is to accomplish the industrialization and modernization of Vietnam, transforming the country's economy from a centrally planned economy to a socialist-oriented market economy (Ngo Dang Tri 2016; Fford and de Vylder 1996).

Notes

1. Some information about economic transformation in Vietnam prior to the 1960s is taken from the project entitled "The collapse of a colonial economy" (code 601-01-2020-02) funded by the Vietnam National Foundation for Science and Technology Development (Nafosted).
2. In 1989, for instance, the number of goods subject to export tax was reduced from 30 to 12 while the number of goods subject to import tax was 80 compared to 124 in the previous periods. Trade quota were eliminated, except for 14 imported goods and 10 exported goods. (Dinh Cong Khai 2012).

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CHAPTER 3

State-Owned Enterprises in Vietnam: Challenges Hindering the Privatization Process

Trung Q. Nguyen, Burkhard N. Schrage, and Victor L. Kane

Abstract This chapter provides an overview of the performance and progress of privatization of state-owned enterprises (SOEs) in Vietnam. Interviews with selected market participants in the SOE privatization process highlight key issues and obstacles that impede the process and pose clear opportunities for government reform to improve and speed up the process.

Keywords State-owned enterprise · Privatization · Equitization · Corporate governance · IPO

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3.1 Introduction

An "Equitization Program"[1] which sought to fully or partially privatize state-owned enterprises (SOEs) was central to the transition of the *Doi Moi* reform that was first formulated in 1986. The policy measures implemented in 1992 toward a change of ownership of SOEs from the state to private hands were motivated by two key reasons. First, SOEs continued to show overwhelming inefficiencies, both operational and financial. Second, SOEs crowded out private enterprises by accumulating capital and favored treatment from the government. This effect would be verified in Nguyen and Freeman 2009. The restructuring of ownership was believed to be cornerstone in achieving higher degrees of market efficiency and fair competition.

Equitization or privatization can be important for any firm considering entry into Vietnam because it introduces change into the business environment. Firms expecting to deal with state firms as suppliers or clients may find themselves dealing with a private firm. Other businesses may discover their competitive map has changed. Still other foreign companies may be interested in acquiring an SOE as it privatizes. In each case, an understanding of the evolving equitization process is useful.

3.2 SOEs in Vietnam

Vietnam's model of economic development is largely based on state-led industrialization inspired by Japan, South Korea and Taiwan and thus has accorded in the past an important role to SOEs. Current economic policies recognize the importance of the private sector and reinvigorate the push for privatization. Figure 3.1 shows that the number of the over 50% state-owned enterprises decreased from approximately 5700 to 2500 during the period from 2000 to 2017, a reduction by more than a half. SOEs that are minority state-owned increased fourfold in the same period, from 305 to 1167. In the same time period, privately owned enterprises increased 14-fold from 31,000 to 430,000. While state-owned companies make up less than 1% of total number of enterprises in Vietnam, they are large (see Fig. 3.2) and represent a considerable, albeit shrinking, portion of the economy (Fig. 3.3). The pace of the decrease has somewhat decelerated in the last decade and the latest data show the private sector with an approximate share of 66% in 2017. The continued influence of large state-owned enterprises is viewed as a way for the state to retain its authority

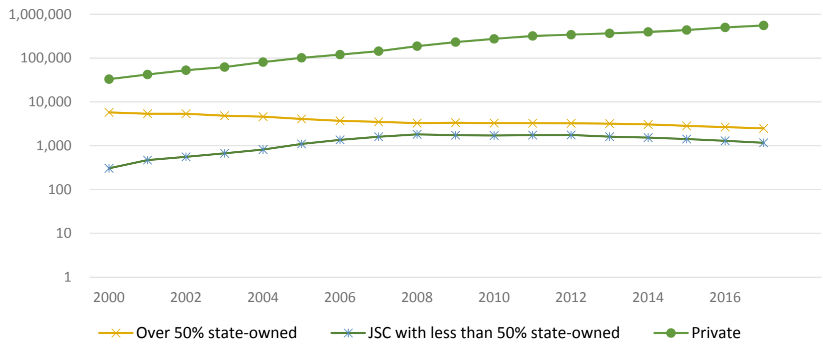

Fig. 3.1 Number of enterprises in Vietnam by ownership type (log-scale) (*Source* GSO Statistical Yearbook, multiple years)

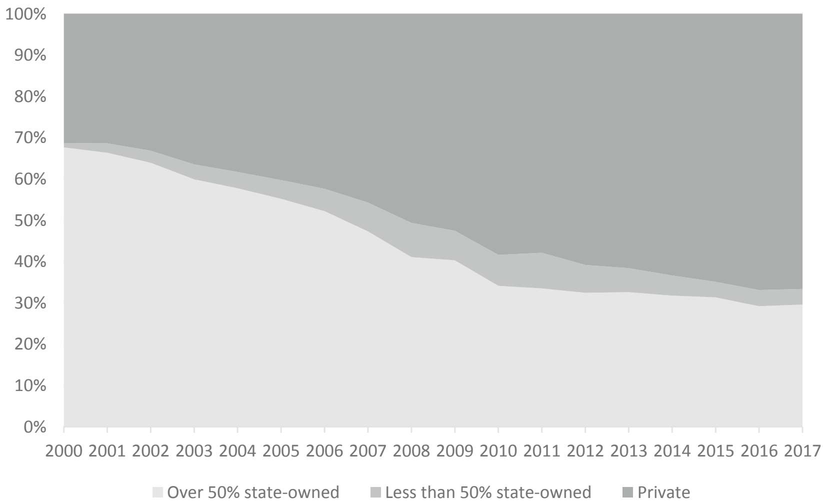

Fig. 3.2 Annual average capital per enterprise in 2017 (*Source* GSO Statistical Yearbook, multiple years)

through oversight and interference, especially in key industries, during the transition to increased market influence (Beeson and Pham 2012).

The Equitization Program consolidated SOEs into strategic State Economic Groups (SEGs) owned by various ministries. These SEGs are

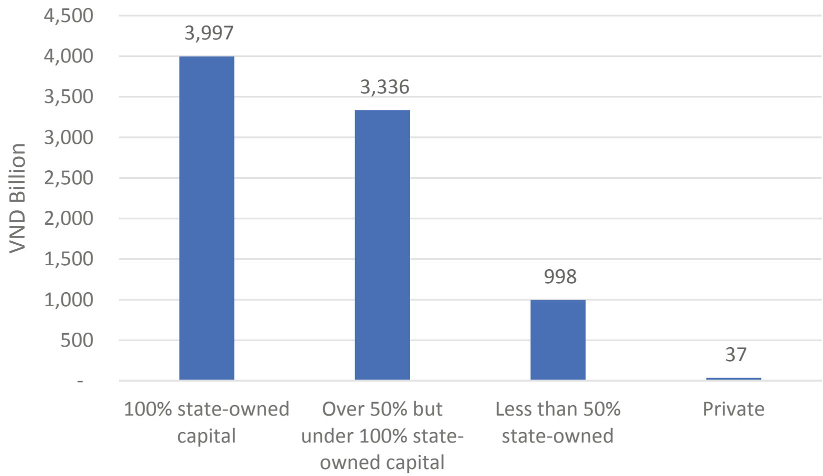

Fig. 3.3 Assets by type of ownership from 2000 to 2017 (*Source* GSO Statistical Yearbook, multiple years)

owned and managed by the Committee for State Capital Management (CSCM). Table 3.1 provides an overview of these 19 SEGs. According to financial statements as of 2017, the total value of equity at these 19 SEGs exceeded US$43 billion and the total value of assets reached more than of US$ 100 billion. In the long run, only three SEGs (PetroVietnam, Electricity of Vietnam and Viettel Military Telecommunications Group) will remain under the control of the government (Ha Thu 2018).

Prior research in various countries has documented that SOEs register lower productivity, lower employment and lower post-privatization financial returns (e.g., Megginson and Netter 2001). While some studies in Vietnam have agreed with this finding (e.g., Truong et al., 2006), data from the General Statistics Office of Vietnam show that a typical Vietnamese SOE generates more profits than the typical private company (GSO 2018) (see Fig. 3.4). Of course, size is the real factor here. SOEs are on average much larger than private firms. Return on Capital Employed (Fig. 3.5) demonstrate that minority state-owned firms perform best, followed by privately owned enterprises. This pattern is consistent with the findings from Vaaler and Schrage (2009) which show that SOEs with less than 25% state ownership register highest returns

Table 3.1 State economic groups under the management of the committee for state capital management

No.	*State economic groups*	*Abbreviation*
1	State Capital Investment Corporation	SCIC
2	Vietnam Oil and Gas Group	PVN
3	Vietnam Electricity	EVN
4	Vietnam National Petroleum Group	Petrolimex
5	Vietnam National Chemical Group	VINACHEM
6	Vietnam Rubber Group	VRG
7	Vietnam National Coal-Mineral Industries Holding Corporation Limited	VINACOMIN
8	Vietnam Post and Telecommunications Group	VNPT
9	Vietnam Mobile Telecom Services One Member Limited Liability	MobiFone
10	Vietnam National Tobacco Corporation	VINATAB
11	Vietnam Airlines	
12	Vietnam National Shipping Lines	VINALINES
13	Vietnam Railways	VNR
14	Vietnam Expressway Corporation	VEC
15	Airports Corporation of Việt Nam	ACV
16	Vietnam National Coffee Corporation	VINACAFE
17	Vietnam Northern Food Corporation	VINAFOOD 1
18	Vietnam Southern Food Corporation	VINAFOOD 2
19	Vietnam Forest Corporation	VINAFOR

Source Adapted from Hai Minh (2018)

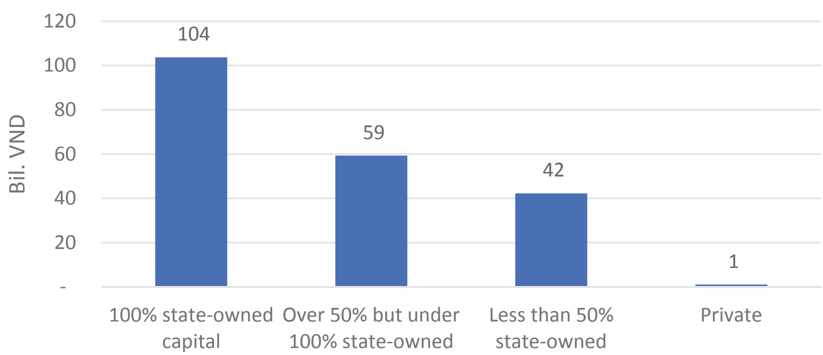

Fig. 3.4 Profit per enterprise in 2017, by type of enterprise (*Source* GSO Statistical Yearbook, multiple years)

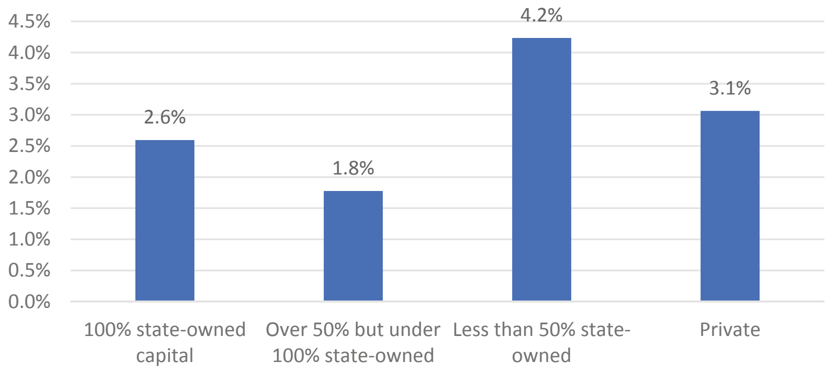

Fig. 3.5 Return on capital employed by ownership type (*Source* GSO Statistical Yearbook, multiple years)

following major investment decisions. As a matter of fact, the return on assets of the minority SOEs is more than double of that of the majority SOEs. The outperformance of the minority SOEs could be explained by two main factors (1) easier access to credit and (2) stronger influence from the private investors.

Despite the consensus on the importance and benefits of SOE privatization, the transfer of ownership of SOEs remains a work in progress. So far, the progress has not been satisfactory, and policy targets of reducing the influence of the state in the Vietnamese economy have rarely been met.

The latest wave of privatization—announced in 2015 with the Decision No.1233/QD-TTg of the Prime Minister—listed 405 SOEs to be equitized in the 2016–2020 period (Prime Minister 2015). In 2016, the new Vietnamese government led by Prime Minister Nguyen Xuan Phuc committed to the acceleration of the SOE reform. However, out of these 405 SOEs slated for privatization by 2020, as of December of 2019 fewer than 170 had completed the process. This low completion rate is grounded in political, procedural and structural challenges.

3.3 Challenges for the Privatization Process in Vietnam

The Vietnamese government, aware of the critical role of SOE equitization to the country's economic development, has provided support for the equitization process in the form of clear targets, measures and legal support (ADB 2015). The most recent direction from the government has reflected a more forward-thinking and stronger commitment from the government (Le 2017). Such efforts from the Vietnamese government have been positively perceived (Kim and Tru 2019). However, several issues in the overall equitization strategy appeared to hinder the pace of equitization itself and prevent the targets to be met on a timely basis (Le Thanh and Nhu Binh 2019).

This section presents several key challenges facing the privatization process, drawn from the findings of an in-depth qualitative study undertaken by the authors. The study consisted of twenty interviews with main stakeholders ("Market Participants") in Vietnam's SOE equitization, including representatives from brokerage firms, investment firms, law firms, auditing firms, government and the SOEs themselves. These interviews provided in-depth and multifaceted viewpoints on the barriers and facilitators of the SOE equitization process. Strategic challenges, resolved in terms of political will as well as motivated by incentives, governance issues and accountability, will be dealt with in turn over the following sub-sections.

3.3.1 Strategy

This sub-section outlines the prominent strategic setbacks from the perspectives of the market participants in our study. From their point of view, the overall strategy has been inadequate to provide sufficient incentives to meet the expectations of four key stakeholders: Central Government, SOEs, Advisors and Investors (Fig. 3.6). The main issues raised by the market participants and experts were: inadequate compensation for the advisors, unclear guidance for valuation method, rushed timeline and unattractive selection of firms on privatization offer.

3.3.1.1 Compensation Paid to Sell-Side Advisors Is Too Low

Professional advisors are believed to play a critical role in the successful equitization of SOEs. Financial consultants such as reputable investment

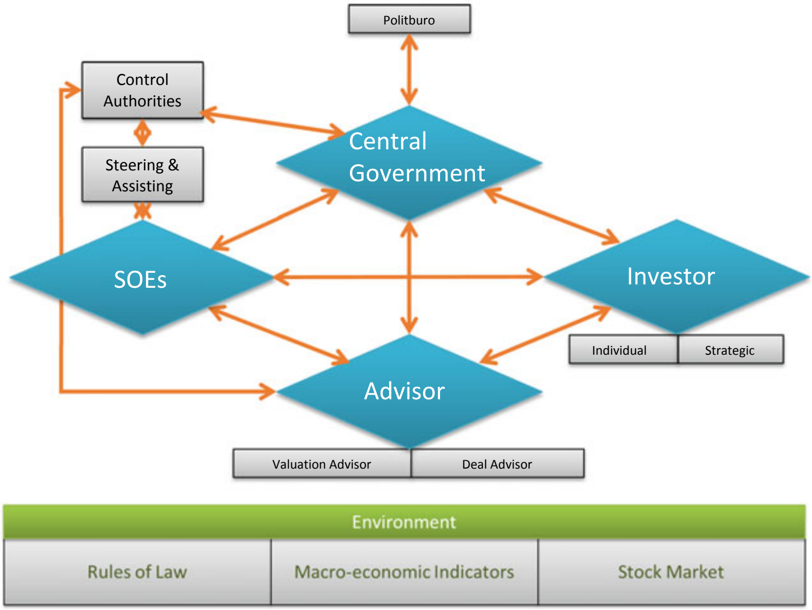

Fig. 3.6 Stakeholders in SOE equitization process (*Source* Authors' design)

banks or securities companies add value through their thorough understanding of the privatization process, especially in large and complex organizations (Gallo 1993). One of the most valuable services provided by these advisors is their objective assessment and valuation of the enterprise (Chen et al. 2014). Another advantage is the simplified procedure for investors to participate (Jagannathan et al. 2011). Overall, sell-side advisors such as investment banks, which have a unique set of skills, political and financial ties with stakeholders, will also boost the reputation of the IPO cases (Cook et al. 2006).

In successful cases of SOE equitizations in Vietnam, such as the case of a national air carrier, the role of professional advisors was clearly acknowledged from the SOE representatives. They mentioned reputable firms in the advisory industry such as Citigroup or Morgan Stanley as a critical factor in assuring the success of the IPO. Advisors like the Big Four accountancy firms should also be invited to assist in the large complex cases.

Notably, in most cases, the compensation paid to sell-side advisory services was perceived to be too low to motivate advisors. A broker shared that the advisory fee regulated in the decree was often not enough to cover costs and staff wages, and also not easily modified. Consequently, advisors did not have enough incentives to provide top-notch service to attract demand from the good investors. For the majority of equitized SOEs, the fee was out of their budget, and it was challenging to convince the government to approve success fee payment.

Besides the valuation advisors, the sell-side can also hire deal advisors to find a customized solution and develop sales options in order to increase the success chance of the IPO. This case-by-case strategy has been recommended in the past as a best practice for privatizing complex state enterprises (Welch and Fremond 1998). Rather than this method, the Vietnamese government prefers to stick to a one-size-fits-all approach, despite significant differences in firms operating in different sectors. A viewpoint shared by brokers and investment companies was that the government should hire experts specializing in the industry that the SOEs operate in, because their view is that different industries need different equitization processes.

Implementation details for the book-building method are often brushed aside. To price IPOs, the companies can apply three widely practiced approaches, such as public offerings, auction and book-building (Islam et al. 2006). While public auction can sell stakes at the highest prices to investors and maximize proceeds of SOE equitization for the government, this method focuses on only one criterion—price. In stock markets worldwide, book-building has become the de facto procedure by which businesses price their IPOs (Ganti 2019). It is arguably the superior approach (Kim and Tru 2019; Islam et al. 2006; Sherman and Jagannathan 2011). Valuation is arguably one of the most vital steps in equitization of SOEs in order to arrive at a win-win outcome for the sellers and buyers, in the case of SOEs, to avoid capital loss to the state and also to attract investors (Kim and Tru 2019). An appropriate method, clear procedure and proper implementation are important to speed up the process as well as to improve the transparency and attractiveness of the enterprises. Timing and transparency of the valuation were regarded as critical factors affecting investors' decisions, according to representatives from both SOEs and investment companies.

One of the advantages of book-building over the other IPO pricing mechanisms is enhanced transparency because in book-building an underwriter attempts to determine the IPO price based on the demand for shares from investors (Islam et al. 2006). A lawyer and broker interviewed in the study shared a similar viewpoint on enhanced transparency, since independent entities were allowed to determine the value of SOEs. Strategic investors could also research more about the company prior to the road shows, including company visits and management discussions to obtain information.

Another advantage is the convenience and efficiency for investors over the public auction method (Benveniste and Wilhelm 1997). Meanwhile, the auction method is prone to unexpectedly large fluctuations in the price discovery process and is likely to create more difficulties for investors, especially institutional investors (Sherman and Jagannathan 2011). A representative from an investment company commented that "Book-building should be the way to go for best practice in selling assets. It is one of the factors to facilitate the investors to go to the deal." Similar advantages were perceived by the participants of the SOE equitization in Vietnam, citing cases of Techcombank, Vincom Retail and Vinhomes about book-building application and its ability to provide reasonable price level that boosts investors' confidence.

In Vietnam, the most common method for turning SOEs into joint-stock companies is the auction (Kim and Tru 2019). The book-building method for pricing IPO of SOEs was introduced in decree 126/2017/ND-CP. The method is regarded as a positive change introduced by the government for the process of SOE equitization, but implementation of this method has not met expectations. Previous scholars have suggested that although book-building has its advantages, the key to success lies in using a policy of strategic pricing and allocation to offset the selling party incentive to prevent underpricing and to maximize returns from the IPO (Benveniste and Wilhelm 1997). How to apply it successfully in SOE privatization needs to be discussed in detail. It has been recommended that the central government should appoint credible underwriters for SOEs to choose for pricing their IPOs (Chen et al. 2014). Other suggestions mentioned by interviewed brokers and investors include a clear legal document on book-building to help guide and direct its practical application in the process of SOE equitization, or trials with the most capable SOEs to provide a case study for other firms.

3.3.1.2 Timeline Does Not Meet Investors' Needs

The timeline from the published prospectus to the IPO was perceived to be too tight and rushed. This is a significant hurdle especially for foreign investors who are not familiar with how the Vietnamese market operates and how the equitization works. In the case of big and complex SOEs, the timeline is too rushed compared to the international standard. The latest wave of equitization (2016–2020) included many large state corporations and economic groups, such as VNPT, Agribank, and Vinacomin, where sufficient time for preparation was needed (Le Thanh and Nhu Binh 2019).

According to brokers and investment firm representatives, one month of preparation for investors is clearly not enough, as the investors have to evaluate a substantial amount of evidence and submit many administrative documents. Foreign investors may also need more time to familiarize themselves with the Vietnamese market and the privatization process, as well as to wait for approvals and funds from their headquarters abroad. A broker stressed that the timeline is "not in accordance with international standards" and not sufficient for the investors to do their due diligence of SOEs, especially for state-owned conglomerates with extensive businesses and complicated structures. Time required also depends on how well-prepared and ready the SOEs are for the IPO:

> In other cases, if the documents are well organized and the roadshow is good, then the government can speed up the timeline. However, if the roadshow and documents are not well organized, then investors need more time to acquire and evaluate more information. Hence, the government should regulate the timelines to be more realistic and flexible on a case-by-case basis. (Investment Company)

Tendency of the State to hold onto majority shares of best performing large SOEs. The peak four years between 2003 and 2006 saw the privatization of nearly 60% of all SOEs, although these were mostly small and medium-sized enterprises (Le 2017). Although large SOEs also have been put into the equitization plan in recent years, the shares made available to the public are often very minor, which meant that private investors have often been reluctant to invest (Nguyen and O'Donnell 2017).

However, this strategy does not seem to work and could have slowed down the equitization process in Vietnam (Tran and Holloway 2014).

A significant negative relationship has been found between state ownership and the change in key performance measures of privatized firms (Truong et al. 2006). In other words, the higher the percentage of the state ownership, the less efficient the firms can be.

Holding onto the profitable SOEs might be counterproductive and hinder the potential of these firms. Meanwhile, getting rid of poorly performing SOEs has made privatization less attractive to investors and cannot bring high proceeds to the state budget. As one interviewee from an investment firm put it:

> No investor is going to pay a high price to buy shares of such SOEs, and keeping good SOEs would slow down the process of SOE equitization.

3.3.2 Lack of Incentives and Political Will

All parties need to pursue privatization in order for it to succeed. Resolve is currently weak. The reluctance to privatize SOEs has been found in among various stakeholders, including SOE managers and employees, the local government and the senior politicians in the Politburo. Also, the idea of state ownership has been a strongly endorsed view across Asia (Deutsch 1988). The emergence of SOEs in Vietnam was not only the product of a Communist economic system but also triggered by dominant political values of the wider region as well as by a colonialist history (Sjoholm 2006). At the time of reunification, the nationalization of firms was believed to be vital because private firms were unable to create adequate capital. The failure of the central planning economy during the first decade led to modifications in economic governance, including some degree of privatization. Similar to other transition economies, privatization in Vietnam has become a political arena where a number of actors fought to advance their specific interests (Turner et al. 2017).

3.3.2.1 Lack of Meaningful Incentives for SOE Management and Employees

Since the SOE is one of the key stakeholders in the equitization process, SOE managers' and employees‘ understanding and support of the equalization and divestment are viewed as having a significant impact on the speed and success of the process. Such postponement attitudes were found among SOE management (as summarized in a statement by the then Minister of Transportation, Dinh La Thang) that, although the local authorities accepted the equitization of the firm they are in charge, the executives "were using all means to ask for the state to hold dominant shares in the post-equitization businesses" (Han 2013).

SOE managers and employees have been unwilling to participate in the equitization process, creating a significant obstacle in previous phases of equitization (Vu 2003) (Lam An 2018). One of the reasons for this unwillingness among SOE management boards is the fear of losing their positions and the privileges availed by SOEs. Conventionally, SOEs enjoy preferred treatments in numerous areas such as land access, export quotas and tax, all of which would be abolished after equitization (Nguyen 2017). The SOE executives, staff and other vested parties have therefore been opposing the equitization initiative or trying to postpone it as long as possible.

Some interviewees believe that leaders and employees of some SOEs are reluctant and even prevent their SOEs from being privatized. Some SOE executives, besides the loss of benefits and privileges for the firm, also fear the loss of their positions of power in companies, especially when financial institutions invest and play a more active role in management (Thuy Dung 2018; Le Thanh and Nhu Binh 2019). Such conflict of interest is another reason for the slow pace of equitization of Vietnamese SOEs. The still mixed perception of the state sector's leading role among many executives has somehow been used as an excuse to justify their contention to retain their firms in the hands of the government (Vu 2003).

Throughout the interviews, the Employee Stock Ownership Plan (ESOP) was mentioned as an effective tool to gain support from SOE leaders and employees. Yet others mentioned that ESOPs may not provide sufficient incentives to attract employees to commit to the firms before and after equitization. Even though the government regulations provide for a 40% discount from the share price sold to management and main SOE employees, SOEs' leadership is still reluctant. This is because of the structure of ESOPs, which are equally distributed across all levels of employees, regardless of the position and responsibilities. As one broker commented:

> At SOEs, the government puts everything in the same rank, for example, security guards, administrative officers and the management are the same. They all get 100 shares of stock per year, which is not motivating for the management. In essence, there are no benefits differentiated in SOEs.

To further incentivize SOE employees, it was suggested by some interviewees that the government should give stock to employees based on their length of employment and/or their title or rank in the company. A grant of some monetary incentives to management and employees in the form of share bonuses of 1% or 2% of equity stocks was also raised.

Besides providing financial incentives, training and education targeted at the SOE management board could also foster their support. An investor emphasized that the SOE management should be aware of the importance of privatization for the economy, the community as well as their enterprises, in order to "encourage them to align with the private sector and have a more balanced view and private mindset."

3.3.2.2 Reluctance from the Local Government and Proprietor Ministries

SOEs in Vietnam can be classified into two groups, those owned by the local governments and those under central government's ownership (GSO 2012). Several SOEs at the city level are "cash cows," playing an important role in local government's budget. Consequently, the local representative body does not want to sell such businesses. In Ho Chi Minh City, for example, firms such as SATRA, Saigon Tourist and Ben Thanh Tourist are examples of these "cash cows," according to some of the investment companies in our study. Selling these SOEs to the public would mean that the local authorities would lose this source of income, while receiving little in return. At the central government level, the representative ministries are also hesitant to hand over their SOEs to private ownership, often citing national security or sensitive sectors as the reasons (Ha An 2019). An advisor to the Prime Minister observed:

> Demotivated SOEs and representative authorities normally have several excuses to delay or prevent equitizing their enterprises.

Privatization remains slow in both China and Vietnam, even as it was at the turn of the century (Morris et al. 2002). In particular, Vietnam has been remarkably slow, especially during 2018–2019. Full divestiture of state ownership from enterprises is also rare; instead, the state has favored alternative managerial reforms other than full transfer of ownership (Rama 2014). Interviewees believed the most important reason behind this "formalism" in divestment is the fear of losing the cash cows of the authorities both at provincial and national levels.

Lack of political will from senior politicians who could influence policymakers. Apart from reformists in the government who see the problems caused by the inefficiency of SOEs (Hai and O'Donnell 2017), there are still opponents to SOE reform who earn direct benefits from retaining state ownership and who are very influential and could assert considerable power over the enforcement of SOE equitization. Those of our interviewees who are close to the national government leaders felt that the senior politicians who could influence lawmakers seem to lack the political will to make a meaningful change to policy. From a political point of view, the government of Vietnam was hesitant to let go of state ownership because it was seen as a symbol of communism as well as an instrument of power and resources for making strategic decisions (Rama 2014). A common mindset among senior politicians was the belief that the equitization process could weaken socialism. A deputy Prime Minister was quoted saying: "If not SOEs, who will the government rely on?" (Beeson and Pham 2012, p. 551). This mindset essentially discourages those who could otherwise be active in promoting SOE equitization and making prompt decisions to clear the barriers in the government apparatus at lower levels.

Other market participants in our study indicated that the government should control only those relevant or critical sectors that contribute to public security and leave the other sectors for private ownership.

In addition, the government should have a more balanced view on the process to draw up a win-win scenario with the private sector in increasing enterprises' efficiency rather than maximizing profits of the government. Several of those interviewed noted the need for strategic decisions to clear up obstacles within the government's structure at lower levels. This responsibility should lie with the central government leaders in charge of SOE equitization in order to assert stronger push and monitoring of the representative authorities (ministry and local government who own the enterprises).

3.3.3 Corporate Governance Issues

Corporate governance is one of the key determinants of improvements in performance measures of privatized firms. Experiences of privatization in post-socialist states in Central and Eastern Europe have highlighted that a high standard of corporate governance practices is a necessary prerequisite for financially effective privatization (Mallin 2000). Better governance is also the key to establish shareholder rights in mixed-ownership companies and improved performance after privatization (World Bank 2014). For most Vietnamese SOEs, the weakness of corporate governance and lack of transparency in information disclosure, asset valuation and transaction were acknowledged by interviewees as hurdles for the privatization process.

3.3.3.1 Lack of Corporate Governance

In Vietnam, while the size and complexity of SOEs have been increasing, there is a persistent lack of effective mechanisms to hold the state firms accountable for their operation. This is an endemic problem and has been observed in previous studies. With many different actors participating in the same SOE, the separation of ownership and management responsibilities is very blurry (Sjoholm 2006). Vietnam still has a long way to go to build and enforce good corporate governance standards and board-level ethics and decision-making (Tran and Holloway 2014). While there is a general consensus on the necessity for standardizing corporate governance, the principle seemed to apply only for publicly listed companies and not for those with majority state ownership (Vu 2003). SOEs in Vietnam still lack the elements of sound corporate governance policies, such as a sound legal and regulatory framework, financial and fiscal discipline, a professional board of directors or a sound performance-monitoring system (World Bank 2014).

As many of the interviewees pointed out, the government should focus more on preparation prior to the IPO, including hiring advisors providing international services and applying procedures in accordance with international standards. Prospectuses that are more informative indirectly mean greater premarket due diligence, which reduces the reliance of the firms on book-building price and discourages underpricing (Hanley and Hoberg 2010). In other cases, there should be a restructure of the to-be-equitized SOEs to achieve better operational efficiency before equitizing (Babich and Sobel 2004). As an interviewee from an investment company put it

> To make SOEs more attractive, SOEs should put better governance policies and procedures in place, tidy up non-core & non-essential assets, get their books in order, and make sure that they are trying as much as possible to tidy up any historical non-transparent practices.

The lack of sound corporate governance in Vietnamese SOEs has resulted in poor operational performance metrics, making the SOEs unappealing for prospective investors. Indeed, SOEs have been shown to have much lower capital efficiency compared with firms in the private sectors (Truong and Weisblatt 2017). Poor governance and business decision making has turned some SOEs into multi-business conglomerates with unrelated extensions and bad managerial practices, and they are very frequently rife with corruption (Turner et al. 2017). As suggested by the interviewed market participants, SOEs with cumulative losses should first be merged with better performing ones or "re-engineered to improve operational performance.

3.3.3.2 Poor Information Disclosure by SOEs

A lack of clarity in information disclosure from the SOEs contributes to uncertainty regarding SOE's true performance and fair value (Kim and Tru 2019). While Decree No 81/2015/NĐ-CP mandated approximately 620 SOEs to disclose information, including financial and corporate management data, at least half of these firms failed to comply with information disclosure (Nguyen 2017). This poor disclosure of information has resulted in uncertainties for the strategic investors as well as the public (ADB 2015). For example, information in the prospectus prior to the IPOs was often insufficient to make informed investment decisions. Some interviewees noted that the standard template of the prospectus was too general with a low level of transparency compared to prospectuses in developed countries. Regarding the share price, price movement evaluation was also not transparent, causing doubts about price manipulation among investors. The lack of transparency has undermined the confidence of strategic investors, and in some cases caused them to revert the decision to invest in SOEs (Nguyen 2017). Yet, the hesitation to disclose information may come from the inherent inefficiencies and malpractices in the companies' operation. A lawyer we interviewed said:

> SOEs are not particularly keen to open the books and peel back the veil and let people really see what's inside the company, because maybe they know full well that there are a lot of things that foreigners would not feel comfortable with.

Improved disclosure of information would greatly enhance trust among investors as well as public sentiment (ADB 2015). In order to encourage investors to make investment decisions before the IPO, the equitized

SOEs should consider arranging prospective meetings and company visits for potential investors to provide them with fuller information. A broker recommended setting up an investor relations department to meet potential investors as required or to answer investors' questions and organize quarterly meetings with security and fund management companies. In a successful case of an equitized SOE, convenient information disclosure in the form of a virtual data room was provided by a Hong Kong advisory company specializing in virtual data, making it easy for investors to find any information about the companies. The quality of road shows should also be improved, together with the openness of managers to share information with investors. An interviewee from an investment company observed:

> Some management are very active and eager to meet investors to share information; others are overly conservative, especially when investors ask questions and the companies just answer with basic information.

3.3.3.3 Land Asset Valuation Is Complicated

One of the recognized obstacles to privatization is any technical difficulty such as disagreement over the value of assets, including land (Painter 2003). According to Vietnam Land Law 2013, land is collectively owned by all Vietnamese people, and the State represents the people to manage and grant the rights to use land. Hence, only the right to use the land but not land ownership are taken into the value of the firm due to the collective ownership. Furthermore, land ownership by foreigners is restricted by law, creating significant hurdles for the participation of foreign investors in investment in large SOEs. A broker we interviewed observed that, when public land is privatized, complicated issues arise regarding land ownership:

> When land is taken into company valuation in equitization and then enterprises are equitized, that means asset ownership would be shared to investors including land ownership.

Moreover, land granted to SOEs often makes up a large proportion of asset value. Some SOEs possess highly valuable pieces of real estate in central areas described as "golden land" (Phan 2018). SOEs enjoy favorable access to land, which provides significant advantages not only to carry out their main business operations, but also to access credit with enhanced collateral conditions as well as profitable opportunities for real estate businesses (Fujita 2017). Hence, the valuation of enterprise's assets sometimes is dramatically increased when the land is included in the property of an SOE, as shared by one of our interviewees. The IPO was recognized as a failure because the divestment of government was too large for domestic absorption, yet foreign investors are not interested due to the legal complication. It has been suggested that land should be excluded when evaluating the SOE's value, yet this is not a legally accepted practice. As an advisor to the Prime Minister pointed out in our interview:

> Perhaps, the government should take land from assets of SOEs and lease back to the enterprises after SOEs are transformed to JSCs, although currently, it is not legally supported to split land away from assets of SOEs. This action is necessary not only to solve the issue regarding foreign participation restrictions, but also to avoid unreasonably high valuation and usage of the land for purposes outside the core business of SOEs.

The complication of land asset valuation, together with the investigation of proper land use by some SOEs, appears to slow down the equitization plan even more. Not only is the valuation of SOEs, especially for larger SOEs, time consuming in the eyes of investors, it is also not transparent nor enacted according to international standards. SOEs continue to occupy most of the land reserved for business and exploit a substantial proportion of the new land provided by the government by leasing it clandestinely (Nguyen and Freeman 2009). Moreover, complex legal requirements and investigation of real estate management in SOEs further convolute the issue:

> There is a lot of investigation going on with respect to the sale of property by some SOEs before or after they go public. (Investment Company)

A broker in the study pointed to the simplification of valuation process as a way to speed up SOE equitization. Other advisors and SOE representatives agreed that the current valuation method is problematic. For example, some SOEs re-evaluate their assets to increase the chartered capital, a practice not acceptable for private companies. Asset-based valuation, according to an SOE representative, is disadvantageous because it is dependable on market value, and especially with land, the method gives out an unreasonably high figure. Efficiency-based valuation has also been mentioned as a credible alternative for asset-based method, in accordance with international standards. It is important that the IPO price be reasonably determined, so that the investors could make a profit and be confident with the IPO from state companies. An interview from an investment company argued:

> On the other hand, the starting price of shares also needs to be determined at an appropriate level which is not too high so the investors can make money from their investment, and not too low to avoid government capital loss. It is important for the investors to make money, because the following IPO will induce these investors to participate again.

3.3.3.4 Transactions Are Not Always at Arms-Length

Interviewees pointed out another factor which they believe impedes the SOE equitization process—namely group interests in SOE equitization. This seems to be the norm in Vietnamese SOEs as earlier studies such as Painter (2005) has also highlighted the problem. Cumbersome and fragmented management has created opportunities for problematic performance accountability and corruption (Painter 2008). Surreptitious transactions such as "backyard suppliers" (crony business dealings) are widespread in SOEs, as commented by one of the interviewees, an advisor to the Prime Minister:

> Nepotism and 'backyard' suppliers are common to these enterprises. These groups would lose such benefits after the enterprises are equitized, so they are not motivated toward equitization.

Kim and Tru (2019) also have observed that such groups naturally oppose equitization and attempt to delay the process to avoid losing favored treatment. Furthermore, crony business dealings in many SOEs tend to taint the image and thus the attractiveness of these enterprises for prospective investors (Truong and Rowley 2014). This was reflected in one of the interviews with a lawyer:

> The current manner of doing business at SOEs seems to be normal to SOEs and Vietnam companies and scares away foreigners. Specifically, the current approaches that some SOEs have informal ways of doing business and dealing with contracts to incentivize suppliers and customers. When SOEs stop following those approaches, they are not be able to maintain their business. That gives foreigners not-so-good an image of SOEs.

3.3.4 Supervision and Accountability

The last area for improvement for accelerating reform is the role of the government in supervision and accountability (Moreno De Acevedo Sánchez 2016). One of the imperative toolkits to facilitate privatization is to have in place a legal framework which makes clear the requisite responsibilities of each party to ensure the process is followed by SOEs and local authorities (Gray 1996). With respect to accountability, the state could coordinate with other participants in the system such as consultants, auditors and potential investors to have stricter oversight and discipline to hold SOEs accountable for the process. This could be achieved by designating key personnel responsible for the outcome and creating a clear set of key performance indicators for each party involved in the equitization process (Mallon 1994). Each of these points has been raised in our interviews with participants in Vietnam SOE privatization.

3.3.4.1 Law on Equitization Has Not Been in Place

An important step in the privatization process is to lay down the regulatory framework to standardize the process and hold the firms accountable before and after the privatization (Gilauri 2017). In Vietnam, the equitization program has been ongoing since 1992, and legal reform regarding equitization is also taking place at the same time. The situation was complicated for SOEs, since companies with at least 50% state-owned capital are expected to operate under both SOE and enterprise law (issued in 2005). By July 2010, the law on SOE was no longer effective while there were no details in the 2005 law on enterprises until amended in 2014. Absent a detailed law regulating SOEs, between 2011 and 2013, there were a total of 26 related Decrees and 11 Decisions and Directives issued regarding equitization (Wacker 2016). Despite the number of legal reform documents, their implementation has been stagnating and fragmented.

Recent legal changes in the latest wave of equitization (2016–2020) were perceived as more realistic and open, with practical policies such as allowing independent parties to determine the value of SOEs, and granting strategic shareholders the right to study the firms before the road shows, including company visits and consultation with management to obtain information. However, there is still room for improvement, particularly with regard to the restrictions of foreign participants. Past studies have provided evidence supporting the technical, managerial and financial advantages of foreign ownership for the domestic firms in developing markets (Bailey and Jagtiani 1994; Douma et al. 2006). In Vietnam, foreign ownership in privatized companies is still limited. The percentage of foreign ownership in listed companies was capped at 49% and will only be removed by the end of 2019, with the continued exception of some sectors such as banking, aviation and pharmacy (Nikkei 2018). Such policies were viewed as rigid and unfair. A broker observed in his interview:

> Policies regarding selling stakes to strategic investors are still conservative, lack flexibility and have not been attractive in the eyes of both domestic and international investors.

3.3.4.2 Delay in Or Absence of Stock Market Listing

In the past, since equitized SOEs were not obliged to become publicly listed companies, most SOEs postponed trading on the stock exchanges to avoid having to disclose information (Truong and Weisblatt 2017). An investment company representative in the study remarked that SOEs want to avoid listing since they do not want to prepare financial reports and be forced to be transparent and under the spotlight of the public. Many SOEs are believed to be overstaffed, inefficient and frequently abuse their privileges and monopolistic advantages "that may well evaporate after being equitized," according to an interviewed investor. The fear of losing these privileges disincentivizes the management of SOEs and makes them reluctant to communicate and engage in equitization.

To solve this issue, the government released Decision 126/2017/ND-CP, which mandated the equitized enterprises to complete all procedures to be listed on the Unlisted Public Company Market (UPCoM) within 90 days after IPOs finish. Compared to previous regulations, the Decree sets strict requirements on the public listing of equitized SOEs, which have been perceived as a positive improvement that draws attention of more investors. Following this, Vietnam raised US$2.6 billion from just five IPOs in 2018 and became Southeast Asia's top market for IPOs in 2018, partly because of the push from the government to privatize large SOEs such as PetroVietnam Power, Viet Nam Rubber Group and Viet Nam Southern Food Corp (Mehta 2019).

Nevertheless, the key informants in the reform remained less enthusiastic about the enforceability of the mandatory listing requirement. Given the SOEs' close ties with the government, it is possible for them to request a special mechanism to extend the process or not to be included in the bourses. As a result, some large equitized SOEs took several years after the auctions just to be listed on UPCOM Stock Exchange, a mezzanine market that has very little oversight, compared to other two—the Ho Chi Minh Stock Exchange (HoSE) and the Hanoi Stock Exchange (HNX). The government should put in place policies to advance the equitized companies to two main stock exchange markets, especially HoSE which is more attractive to foreign investors due to greater liquidity and better oversight. This mechanism can be achieved with stricter requirements and enforcement of listing criteria (Li 2015), as in the following suggestion from one investment company interviewee:

> Listing criteria should be advanced, especially for big SOEs, if they go to UPCOM that looks like two big fish in a small pool, they should come to HoSE instead.

3.3.4.3 Lack of Centralized Decision-Making Body in Central Government

It is common in Vietnam that SOEs are representatively owned by local or central authorities, besides the management body, creating a complex structure with no clear directive for decision-making (Painter 2003). This complex structure gives rise to several coordinating challenges during the equitization process since there is no main decision-maker in this process (Truong and Rowley 2014). In many cases, the SOEs also set up a steering committee in charge of equitization, which is comprised of members from the SOE and representative authorities, yet oftentimes this committee lacks the expertise and motivation to make the final decisions. Instead, they delay the process and play the "blame-game." One lawyer interviewed illustrates this with an example:

> A completed proposal from cities such as Ho Chi Minh City was sent to a representative ministry in Hanoi and was stuck there for months. In addition, several decisions on promoting and connecting with the investors depends on the steering committee, which is comprised of members from SOE and representative authorities. In many cases this steering committee does not have the expertise, capability and the power to make the final decision and delays are the result. In this context the blame-game usually occurs.

In an attempt to centralize the reform, the government has set up the State Capital Management Committee (SCMC) to oversee the equitization process. While replacing the current representative committees with a single centralized SCMC is a positive move, the centralized committee's capability to accelerate privatization depends on having skilled leaders and experts with relevant experience from both the public and private sectors. Charged with a critical responsibility, the management team of this committee would decide the future of this nationally high prioritized process. The SCMC should be directed by the government to formulate a detailed plan and proactively push for results, with identified personnel to be in charge of the outcome.

Divestment from the already equitized SOEs has not been paid much attention by government, since most of the effort has been concentrated on the IPO. The lack of government supervision has resulted in slow divestiture, often lagging behind schedule (Gainsborough 2009). A mix of reward and penalties should be applied to accelerate divestment from non-core industries that do not require state involvement. For the remaining SOEs, the government should consider a comprehensive reform of management teams and business operations.

3.4 Conclusion

Privatizing SOEs will remain a challenging task for the government of Vietnam. Given the large share of SOEs in the country's GDP as well as the increasingly important role of private enterprises in Vietnamese economy, it is high time to re-evaluate the equitization processes, from start to finish. It requires leadership and collaboration from both the state and the SOEs to enhance every step of the equitization, from improving corporate governance, market valuation, prospectus development and road show preparation, to IPO completion and initial issuance of share on the stock markets. Equally important is understanding the challenges confronting market participants in their interactions with government and SOEs, and coming up with substantive reforms to make the process more efficient, transparent and accountable.

Foreign businesses contemplating entering the Asian market by acquisition of minority or controlling ownership of a former SOE in Vietnam should monitor opportunities and attempt to address the various challenges, for example, by providing incentives for current SOE employees.

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Note

1. In this chapter, we use the terms and concepts "privatization" and "equitization" interchangeably.

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CHAPTER 4

Participating and Upgrading in Global Value Chains: The Case of Small and Medium Enterprises in Vietnam

Trung Q. Nguyen, Hiep Cong Pham, and Robert McClelland

Abstract This chapter defines small and medium-sized enterprises and global value chains in a Vietnamese context. It provides some historical perspectives and outlines its position and performance in this area relative to other Southeast Asian countries. The critical factors for participating and upgrading of small and medium-sized enterprises in global value chains are addressed, outlining the role of lead firms, small and medium-sized enterprises competitive advantages and institutional factors. There is a discussion on challenges for Vietnamese participation and upgrading in global value chains and also this includes an account of a medium size group missing in small and medium enterprises, corporate governance, innovation capability, the macroeconomic environment, access to formal credit, and logistics infrastructure. The chapter concludes with outlining some of the obstacles faced and recommendations for government in

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developing absorptive capacity, assimilating and exploiting the knowledge and information from lead firms, comments on national logistics capacities, and future sustainable development.

Keywords Small and medium-sized enterprise · Global value chains · Vietnam · FDI · Lead firm · Institutional factor

4.1 Introduction

A value chain is defined as "the full range of activities which are required to bring a product or service from conception, through the intermediary phases of production, delivery to final consumers, and final disposal after use" (Kaplinsky and Morris 2000: 4). However, one must also consider Research and Development as well as conception. A value chain may be contained within one firm and one country, or it may extend across several firms and several countries (Lim and Kimura 2009). Large firms participate in value chains, as do small and medium-sized enterprises (SMEs). Participation in global value chains (GVCs) has benefited SMEs globally. Beyond the immediate benefits of business opportunities and financial flows into the host country, GVC participation, mainly through the channel of foreign direct investment (FDI) for developing countries, can enable local SME suppliers to enhance managerial skills, improve product quality, innovate production and business processes, renovate working conditions and shift to more sustainable business practices. These benefits have been confirmed as spillover effects on productivity and technology by studies on FDI impacts (OECD-UNIDO 2019).

There have been significant economic changes in Vietnam since the war in Vietnam ended in 1975, particularly since the early 1990s. The nation would surprise visitors by seemingly transforming every time they return. The most common and general factor cited for the country's transformation is the shift in its economic model, gradually transitioning from a command economy to a more market-based economy, known as *Doi Moi* since 1986. For many, Vietnam is seen as a success story of poverty eradication and economic integration. Data from the World Bank (2019) shows the average economic growth rate for the period from 1990 to 2018 of Vietnam was 6.78%, making it among the fastest-growing economies in the world. Its active international economic integration and the development of domestic private sector play a critical role in this process. A challenge facing the country is how to better link the domestic private sector with the value chains of foreign-invested enterprises.

4.2 Economic Integration and Domestic Private Sector Development

The relationship with the United States normalized in 1995 and by the end of 2019 twelve bilateral and multilateral free trade agreements were signed. The free trade deal most expected, between Vietnam and the European Union (EU), was recently ratified by the European Parliament in early 2020 (European Parliament News 2020). It is expected to be effective in July 2020, making Vietnam the only developing country in Asia that has secured an ambitious trade agreement with the EU. For many years, Vietnam has been an attractive destination for international investors. By the end of 2018, there were 16,178 foreign-invested enterprises operating in Vietnam, accounting for about 3% of the enterprise population (Ministry of Planning and Investment 2019). The foreign-invested enterprises have been successful in boosting international trading activities in Vietnam. In 2019, out of US$ 263.5 billion of Vietnam's total exports, 69% is from the FDI sector (Phuong 2019). As a matter of fact, Vietnam is one of the most open economies in the world, and several local enterprises have joined in the global value chains of several lead firms. The problem remains, however, that Vietnamese firms contribute only a small proportion in export value of the foreign-invested firms. In other words, the linkages between the FDI sector and local firms are weak, and the FDI firms have been mainly exploiting low labor cost and other preferential policies, such as on tax and land. In 2019, import volumes from the FDI account for 58% of total imports of Vietnam (see Fig. 4.1) (Phuong 2019), which demonstrates that the suppliers for these firms remain largely outside the country. When foreign-invested enterprises consider only to utilize low-cost labor or natural resources and acquire other key materials from overseas suppliers, they are not deeply rooted in the host country.

After 1975, private enterprises in Vietnam were banned until *Doi Moi*. Since the early 1990s they have started to develop in tandem with the privatization of the state-owned enterprises (see Chapter 3). This sector has increasingly proven to be the backbone of the economy. According to the White Book on enterprises of Vietnam, by 2019 approximately

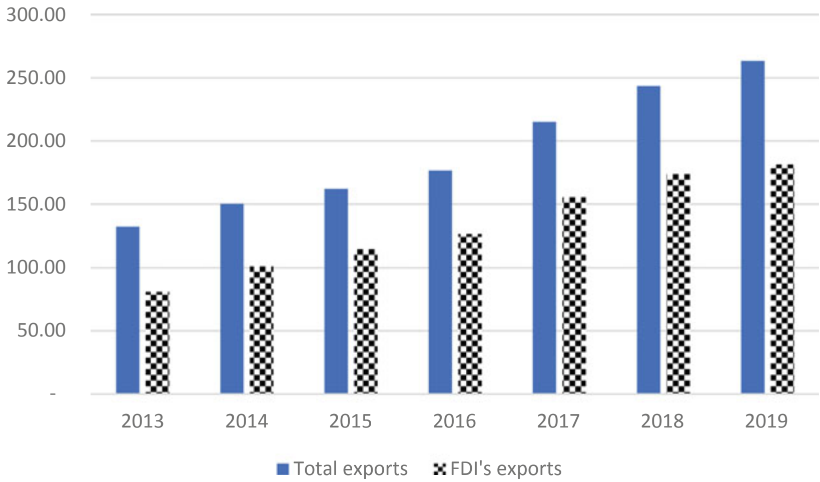

Fig. 4.1 Exports from FDI in total exports of Vietnam ($US billion) (*Source* GSO multiple years)

96.5% of 715 thousand operating enterprises in Vietnam were domestic private enterprises (Ministry of Planning and Investment 2019). Similar to other Asian countries, SMEs in Vietnam took a large share of total number of domestic private enterprises (98%), contributing about 45% of the GDP (Phung 2019). However, these firms can only join in low-value-added links in value chains, such as assembling. Although there have been improvements, lead firms in Vietnam such as Samsung Electronics once struggled to find capable local suppliers for simple electronic parts in their production line (Dinh and Ngoc 2015). In 2017, only 21% of Vietnamese SMEs were linked with global supply chains, much lower than 30% in Thailand and 46% in Malaysia. Similarly, the localization rate of Japanese enterprises in Vietnam only reached 34%, while that figure was 68% in China and 57% in Thailand (ADB 2017). A recent survey shows better signs of local sourcing for intermediates from foreign manufacturers; however, Vietnam remains low in comparison with other peer countries in the region (see Fig. 4.2).

While Vietnam has achieved initial successes with its economic integration and private sector development, it is facing challenges to sustain these successes with the low-value-added exports and the disconnection

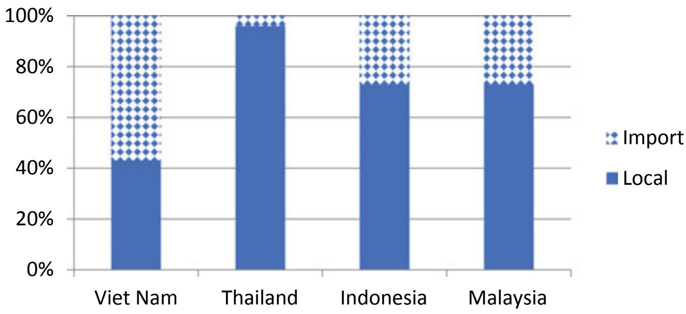

Fig. 4.2 Intermediates sourced locally by foreign manufacturers (*Source* OECD-UNIDO 2019)

of the local SMEs and the FDI. Recent studies, however, show that small firms can have more active roles to play in GVCs, given the rise of the digital economy (World Bank and World Trade Organization 2019). This chapter provides an overall picture of GVC and the SMEs integration in the context of Vietnam. It first specifies critical factors for the participating and upgrading of SMEs in GVCs. The subsequent sections proceed to provide a better understanding of challenges facing SMEs when integrating and upgrading in GVCs. The analysis in this chapter enhances the understanding of the lead firms, the local SMEs, and the policymakers about their roles in a GVC.

4.3 Critical Factors for Participating and Upgrading of SMEs in a GVC

In developing countries, integration into the GVC is necessary and important to convert unproductive labor in agricultural activities to better-pay jobs in the manufacturing sector. However, SMEs joining the GVCs should target upgrading as the ultimate goal. The notion of upgrading emphasizes the ability to deliver products or services with greater value-added, or to move into more skilled activities (Pietrobelli and Rabellotti 2006). In other words, the challenges for SMEs in developing countries should not only be about participating but also moving up in the GVCs tiered structure as this can afford more sustained growth (Ponte and Ewert 2009). This includes both more often assembly as well as moving into product design and final marketing.

4.3.1 *Lead Firms*

A GVC is usually controlled by a lead firm. This lead firm's main services or production inputs are often supplied by contracting firms, which are in turn supplied by other firms, forming a tiered structure (Abonyi 2005). The higher a firm is in the tiered structure, the closer it connects to the lead firm, the more sophisticated tasks the contracting firms have to carry out, resulting in higher added value. Firms in the lower tiers tend only to perform simple functions that add little value to the final product/service and therefore can be more easily replaced (Abe 2009). Notably, the highest value creating activities take place in the two extremes of the chain, namely research, design, and development at the beginning, and marketing, branding, and after sales service at the end. It is no surprise that these tasks are often performed by the lead firms themselves. Production, manufacturing, and assembly form the lowest value-added activities in the value chain, but require a high employment rate (Humphrey and Schmitz 2000). These stages are often outsourced to firms in developing countries, which lack technical capability but provide a plentiful supply of low-cost labor (Kano 2018).

The role of lead firms in promoting GVC integration for local SMEs is executed through their decisions in chain governance type and production strategy, as well as decisions contributing to FDI spillover effects. Productivity gain resulting from the diffusion of knowledge and technology from foreign investors to local firms and workers often involves a range of endowments, from technology transfer to tacit knowledge, such as managerial expertise, know-how, and working practices (Alfaro and Johnson 2012).

4.3.2 *SMEs Competitive Advantages*

Advances in technology and efforts from governments in developing countries to reduce barriers for international trade have generated market chances for firms of all sizes in these countries. Similarly, participating and upgrading in GVC of lead firms opens up opportunities for SMEs, but at the same time it means these firms must enhance their competitiveness if they are to survive and grow in a competitive marketplace (OECD and ERIA 2018). Researchers from World Bank (2017) contend that in order to upgrade their participation in GVCs, local firms, especially the SMEs, must increase their productivity and access the necessary knowledge and technology. Similarly, a joint study by OECD and World Bank (2015) makes it clear that an absence of competitive edge is one of the biggest hindrances for GVC upgrading. Unfortunately, SMEs internal capabilities are often weak, making it difficult to build the necessary competitive edge. Thus, for example, the size of firms can limit cost advantages in many industries since SMEs can hardly take advantage of economies of scale. Similarly, resource constraints make it hard for these firms to reap the productivity benefits of labor division. In addition, other problems including lack of skills and expertise in organization, difficulty in access to finance, and weak innovation culture are found to be the challenges for SMEs to expand their participation in GVC (ADB 2016).

A downside of lacking local competent suppliers is that lead firms would turn elsewhere to find suppliers for reliable and suitable inputs to their production. This can significantly limit local SMEs' chances to engage and ultimately upgrade within a GVC. SMEs are, therefore, advised to develop capacities such as entrepreneur competencies, good corporate governance, absorptive capability, application of government rules on FDI, and innovative culture which enable them to be more competitive, innovative, and resilient (Abor and Adjasi 2007; Junge et al. 2016; Kadarusman and Nadvi 2013; Pfeifer 2014).

4.3.3 Institutional Factors

Conducive business environments are influenced by institutional factors, mainly through policies and laws. Countries that possess a favorable and fair business environment are often able to attract FDI and support SMEs to participate and upgrade in GVCs. Where "shocks" exist in the market, under the forms of quality standards, environmental laws, macroeconomic shifts and social movements, GVC upgrading is more likely to happen (Pipkin and Fuentes 2017). In the absence of institutional factors, governments are unable to introduce and enforce regulations, especially in those areas related to local SMEs and the lead firms operating in the country. For example, inward FDI is widely believed to drive the GVC participation (Abe and Proksch 2017; Ahmed and Kumar 2018). But in order to attract FDI, countries need to consider gradually improving environmental factors such as growth potential, labor market flexibility, infrastructure facilities, innovation capability, and clearly defined property rights (Rana and Chia 2017). Countries that present a favorable business environment to foreign investors often have a better chance for their

SMEs to participate and upgrade in GVC trade. This may not however be fully sufficient. Institutional factors can therefore either encourage or discourage firms to innovate (Schneider 2013) which in turn influences their ability to participate in GVCs.

4.4 Challenges for Vietnamese SMEs Participating and Upgrading in GVCs

Most activities of Vietnamese firms in a GVC have mainly focused on the assembly of final products from imported materials (OECD-UNIDO 2019). As a result, there is plenty of room for development for participating in other high value-added activities of the supply chain. Key initiatives can be taken through investments in upstream processing of the goods, for which Vietnamese firms possess a certain level of comparative advantages such as agribusiness, garments, and wood production. Nevertheless, unlike downstream activities that firms in Vietnam have been performing, upstream activities require intensive capital, technical knowledge, and skilled labor (Ignatenko et al. 2019). This challenge can be addressed through the linkage with global lead firms. As an attractive destination of FDI inflow, there are great opportunities for local firms to take the spillover effect in terms of knowledge and skills from global lead firms, which benefit the upstream in GVCs. Nevertheless, there remains much to be done with both local SMEs and the relevant institutional factors before the potentials can be realized. The subsequent sections will discuss firm size distribution, corporate governance, and the innovation capability of SMEs, as well as macroeconomic environment, access to credit, logistics infrastructure in the context of Vietnam.

4.4.1 The Medium Size Is Missing

Despite the fast growth of domestic private enterprises, there are concerns in the firm size distribution of this sector. Accordingly, the medium size seems missing as firms of this size account for a tiny part of the total SME population.

The majority of these SMEs are very small (micro) or small. Figure 4.3 shows that micro and small enterprises account for 75 and 23% of the total SMEs in 2017, respectively. In other words, there is a missing middle classification in the size structure of SMEs in Vietnam as only 2% of SMEs have a medium size. For the further details of the definition of SMEs, Table 4.1 summarizes the government resolution 39/2018/NĐ-CP in 2018.

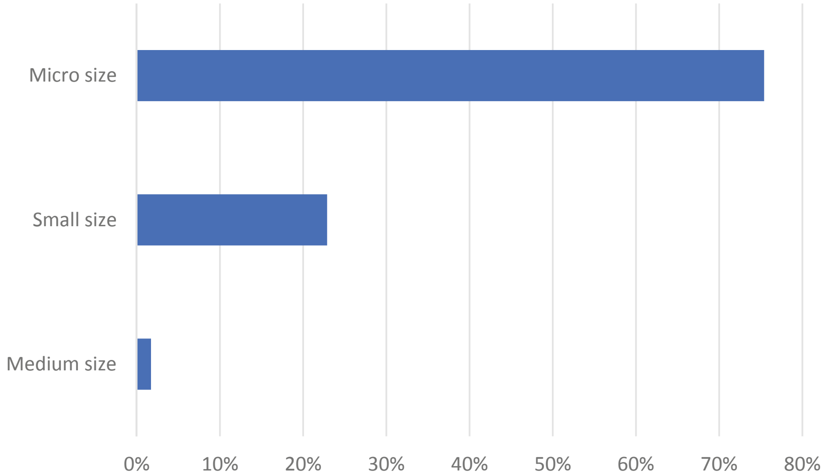

Fig. 4.3 Firm size distribution of SMEs in Vietnam (*Source* General Statistics Office of Vietnam 2018)

Table 4.1 Definition of SMEs in Vietnam

Size	*Indicator*	*Sector*	
		Agriculture, forestry and fishing, industry and construction	*Trade and services*
Micro-size	Number of employees	≤10	≤10
Small size	Number of employees	11–100	11–50
Medium size	Number of employees	101–200	51–100

Source Government of Vietnam (2018)

4.4.2 Corporate Governance

More stringent standards have been put into assessing criteria of supplier selection by lead firms in GVCs (World Bank 2017). As a result, it is urgent for Vietnamese firms, especially SMEs, to reform their corporate governance practices if they want to integrate more deeply into GVCs under emerging FTAs with the EU and other countries, which generates pressure and motivation for constructing higher standard of business practices (Vietnam News 2019).

In Vietnam, corporate governance practice is still limited and not well-embraced (Connelly et al. 2017). The Vietnam Corporate Governance report (VCCI 2016) indicates that the quality of governance decreases as firms move from foreign-invested enterprises, through joint-stock firms, to limited liability firms and finally private enterprises. Notably, the independent audit is implemented very strictly and seriously in 100% of FDI enterprises, while only 25% of private enterprises do this.

4.4.3 Innovation Capability

Data from World Bank (2017) shows that Vietnamese businesses are trying to improve their products and production processes to equal or surpass their peers in the region. However, the data also reveals that there are still certain limitations regarding firms' ability to innovate in product and in processes as well as better facilitate research and development (R&D) activities.

First, the analysis of product innovation rates for different types of businesses in Vietnam shows that medium and large enterprises innovate more than small businesses and joint ventures with foreign partners tend to be more creative, as is also seen in other Southeast Asian countries (OECD and World Bank 2015). From the resource-based view, this scenario is clear for understanding as SMEs tend to possess less capacity to offer gradual renovation in their products compared to large enterprises and firms with great support from foreign collaboration. The World Bank report (2017) reveals that about 23% of Vietnamese enterprises claimed to have introduced a new or improved product over the past three years. This is much lower rate compared with peer countries. For example, Cambodia and the Philippines claim over 30%, while Thailand, Laos and Malaysia are significantly higher. One important question arises at this point concerning the main motivation for the product innovation of Vietnamese enterprises. It is found that product innovation in Vietnam is mostly to cut costs, rather than to introduce entirely new features (World Bank 2017).

Second, similar to product innovation, process innovation of Vietnamese enterprises is still facing limitations. Surveys on improvements in their production processes, delivery, maintenance, procurement, and accounting suggest that SMEs in Vietnam need to pay extensive attention to the automation of current manual work and the adoption of new technologies or production methods similar to other countries (Pham and Matsunaga 2019).

Third, the level of expenditure on R&D of Vietnamese enterprises is relatively low (1.6% of annual revenue), lower than those of Laos (14.5%), Philippines (3.6%), Malaysia (2.6%) and Cambodia (1.9%). Moreover, there are only 26% of medium and large firms declaring expenditures on R&D, while only 9% of small businesses on R&D. On the other hand, 20% of Vietnamese businesses declare training for their employees to develop new products or processes, which is higher than Laos, Malaysia, and Thailand although lower than the Philippines and Cambodia (World Bank 2017).

4.4.4 Macroeconomic Environment

The improvements in several macroeconomic factors have fostered the business environment for attracting FDI into Vietnam (OECD-UNIDO 2019). Firstly, the rapid economic growth has helped expanding the size of Vietnam's domestic market. This creates incentives for foreign firms, who are seeking for market expansion opportunities in developing economies. Secondly, the active economic integration in regional and global markets has enabled more support from partner countries and attracted more international investors. The exporting market opportunities for Vietnamese firms have been widened by key free trade agreements (FTAs) such as the Comprehensive and Progressive Trans-Pacific Partnership (CPTPP) and the European Union Vietnam Free Trade Agreement (EVFTA). To illustrate, CPTPP has opened the gateway for Vietnam enterprises to several international markets such as Australia, Brunei, Canada, Chile, Japan, Mexico, New Zealand, and Peru (Viet 2016). Similarly, Vietnamese products will soon benefit from easier entry to 27 countries in the EU thanks to the EVFTA. However, the success of global integration depends largely on firm capacity and other institutional factors to take advantage of those opportunities (Lema et al. 2018).

4.4.5 Access to Formal Credit

The participation of SMEs in GVCs also faces the challenge of difficulty in financial access to facilitate their production cycle as most lead firms delay payment 30 to 90 days for payment (Lunati 2008). The limitation of financial resources also inhibits SMEs' ability to grow fast and adopt new advanced production technologies. In this section, we observe how Vietnamese SMEs have struggled with accessing formal credit sources to sustain their businesses.

Lack of access to finance is the top obstacle according to 21.8% of Vietnamese firms responding to a World Bank survey (2018a). More firms in Vietnam complained about access to finance than is the case in peer countries (ibid.). Furthermore, the Enhancing Enterprise Competitiveness and SME Linkage report indicated that, regarding the rate of firms with access to formal credit and overdraft facilities, Thailand and Malaysia both outperformed Vietnam (Akhlaque et al. 2018). Also, in this report, it is well noted that foreign-invested enterprises are generally more productive than domestic firms in Vietnam, which can be explained by easier access to finance and technology with support from their parent firms. This may lead to an unequal distribution of financial resources, undermining the competitiveness of Vietnamese firms (World Bank 2018a). Dang and Chuc (2019) stated that SMEs have a much lower chance to acquire bank loans than large enterprises. Only 200,000 out of 507,000 SMEs in Vietnam have bank loans. The total outstanding loans for SMEs in Vietnam account for only 22% of the credit provided for the whole country's economy, compared to 35% in Thailand and 25% in Bangladesh (World Bank 2018a).

For a deeper understanding of difficulties in accessing finance, faced by Vietnamese SMEs, it is essential to look at historical SOE blocking and underlying root causes. Going back to the survey of CIEM, ILSSA & UNU-WIDER (2016), there are major concerns that prevent banks from lending to SMEs including insufficient collateral provided by SMEs, poor business plans, unaudited book-keeping systems. First, nearly 80% of banks in Vietnam insist that secured assets are a prerequisite for credit assessment (Le and Nguyen 2019). This is considered a luxury that most SMEs in Vietnam cannot afford. Second, a large number of Vietnamese SMEs do not show clear business plans. Their plans are mostly spontaneous, seasonal, and exposed to many risks, which makes them fail to gain the trust of banks. Third, other strict requirements to get credit such as business operating minimum years required and financial reporting as tools for banks to control the credit risk are also crucial barriers for SMEs (Dang and Chuc 2019).

In summary, access to finance has been the most pressing issue for SMEs as they are trying to invest in developing capacity, skills, and technology needed to upgrade production, increase competitiveness at home and abroad markets. SMEs should be more proactive in reforming their business practices to be trusted by the banks and should aim to get credit granted rather than waiting for supporting policies from the government.

Chapter 6 discusses SME access to credit under the heading "Credit Availability for Domestic Firms and Joint Ventures."

4.4.6 Logistics Infrastructure

Finally, high logistics cost is a hindering factor of Vietnam's economic growth. According to VNA (2018), logistics costs amount to 20.9% of Vietnam's GDP. This is higher than other countries in the world such as Germany (8.5%), Singapore (9.5%), India (13%), and Brazil (12%) (World Bank 2018b). Of the total logistics cost, transport costs make up to 59% and unofficial costs account for 5 to 10% (Lam et al. 2019).

Logistics services in Vietnam have made remarkable improvements as testified by a 25-fold level increase in the National Logistics Competency Index (LPI), from 64th in 2016 to 39th in 2018 (World Bank 2018b). However, Vietnam still needs to continue to take more efforts at the national level to strengthen the logistics industry as well as minimize costs in this field. Reducing logistics costs will improve the cost of operating businesses in Vietnam and thereby contribute to economic growth (Lam et al. 2019).

In Vietnam, road freight plays a key role in freight transport, with the market share (in tons) having grown rapidly in recent years, from 66% in 2006 to 77% per year in 2016. In terms of transport distance, road freight increased from 20.5 trillion ton-km in 2006 to 56.6 trillion ton-km in 2016, equivalent to nearly 11% compound annual growth rate (highest among all transport types) (GSO 2018). The problem is that the cost of this current major transport mode is relatively high. According to calculations by the Ho Chi Minh City Transport Association, in addition to fixed fees, road tolls are even higher than fuel costs for the same transport distance because of frequent toll stations (Mai and Phuong 2019). A government official commented: "Around the gateways of Ho Chi Minh City, from NH1 to Binh Duong, Dong Nai, Tay Ninh or to Western provinces, there are so many toll stations, mostly located on the exclusive roads, costing a lot for businesses. Currently, a truck has to pay more than 17 million dong /year (US$735 / year) for road maintenance fees" (Mai and Phuong 2019).

The high cost of freight transport within the borders of Vietnam raises another issue that prevents lead firms from buying from local suppliers. They will opt for supplies from other countries with cheaper ocean freight even for a much greater distance.

4.5 Conclusion

This chapter has examined major determinants of SMEs' participation in GVCs as a base for discussing the potentials and challenges for Vietnamese SMEs to further upgrade and integrate in GVCs. Lead firm provides motivation for SMEs internal competitiveness and therefore institutional factors are crucial for nudging host country's SMEs toward higher value-added activities in GVCs. It is essential to develop an effective collaboration between lead firms, local SMEs and the government to constitute a better business environment that fosters innovation, technology transfer, and mutual benefits of all parties involved in the GVC activities. Vietnam clearly has the potential to be a new global value hub, with an adequate pool of natural resources and a young labor force.

Though with high potential, Vietnamese SMEs and the institutional agencies still face significant obstacles to deeper integration into GVCs. There are inhibiting factors within SMEs, such as low corporate governance standards, low innovation capability, and insufficient access to formal credit. The government needs to develop effective policies while creating a clear, transparent, and favorable environment for global lead firms to invest in high-value industries within Vietnam. The government can still create affordable conditions for SMEs to develop absorptive capacity through acquiring, assimilating, and exploiting the knowledge and information from lead firms. It is this knowledge-intensive linkage with lead firms that will help Vietnamese SMEs to participate in higher value-added business activities. Last but not least, the government needs to increase national logistics capacities in order to cope with the ever-increasing transport needs, at competitive rates, for future sustainable development.

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CHAPTER 5

Marketing in Vietnam

Nghĩa Huỳnh Phước

Abstract This chapter describes Vietnamese consumers, the retail system in Vietnam, and advertising trends. It relates the rise of digital commerce in Vietnam as well as the growing importance of CSR for company image, particularly as regards sustainability.

Keywords Retail · Consumer · Gen Z · Advertising · E-commerce · Sustainability

5.1 Introduction

This chapter provides a first introduction to marketing in Vietnam, with an emphasis on retailing and consumer behavior. After a brief history of marketing conditions in Vietnam, this chapter describes Vietnamese consumers, both as regards demographics and as regards the main categories of consumers. A description of the retail system in Vietnam follows, covering both the ever-important traditional markets and the recent

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consolidation of brick and mortar outlets. The latter are coming under pressure, as digital commerce is growing in Vietnam more quickly than in most Western nations. The final section provides an overview of how many large businesses are actively pursuing sustainability.

5.2 Genesis of the Marketplace in Vietnam

In the late 1980s and early 1990s, 80% of Vietnam's population lived in rural areas and 90% of the population worked at small-scale agricultural production. Industrial production provided job opportunities for only about 5% of the working-age population. Further, this industrial production came mostly from state-owned enterprises, with almost no international trade and virtually the entire economy controlled by state-owned enterprises. Misconceived monetary policy brought inflation above 300%, peaking at 700% in 1986. As a result, people's spending, saving and consumption were paralyzed. The consumer economy was almost non-existent. There was little place for creative marketing as the needs of consumers were limited to essential goods. Most consumers had almost no disposable income, and even for those few that could spend more, there remained the shortage of products and services.

The eventual implementation of Đổi Mới (particularly the Foreign Investment Law in 1987 and the Private Enterprise Law in 1990) and the cessation of the embargo on Vietnam in 1993 opened a new dawn of business oriented to customer value, with a business competitive environment and free enterprise-oriented search for innovative market solutions. Private business, both foreign and domestic, gradually occupied the decisive role in the economy, both satisfying consumption needs and triggering new desires, with local businesses competing with each other and some even building international brands. Currently, private firms are the most dynamic force in marketing solutions in Vietnam. Although they still only contribute 40% of GDP, they account for 80% of transactions, and attract 51% of the labor force. Foreign enterprises (both 100% foreign-owned and joint ventures) have been bringing a new marketing breath into Vietnam's economy over the past 30 years, with global experience, superior marketing capacity, innovative media platforms and long-term brand strategy. Many have quickly become market leaders and "giants" in key industries.[1]

5.3 Consumers in Vietnam

The population has grown 12% in the past 10 years. Today, Vietnamese consumers are deeply segmented and highlighted by a new middle class emerging since 2010. Generation Z is leading the trend and has great influence. In addition, the cohort above 50 years old is growing and will account for nearly 20% of the population in the next two decades. The number of people over 65 years old is 8% and will increase to 9% in the next 10 years. Nearly 40% of the Vietnamese population of 96 million people is living in urban areas (GSO 2019). Women account for 51% of the population and households number 30 million with an average of 3.5 persons per household. Currently, nearly 70% of the population earns an income. The largest agglomerations of households are in Southeast Vietnam, the Red River Delta (where Ha Noi, Hai Duong, Hai Phong and other larger cities are located) and the Mekong Delta regions.

There are over 22 million Vietnamese from 0 to 14 years old (2019), a new generation of consumers. See Fig. 5.1 for population cohorts. This population structure makes Vietnam an attractive market for the coming decades.

The characteristics of Vietnamese consumers are clearly revealed in their consumption behavior. In 2019, Vietnam sales of fast-moving consumer goods (FMCG) have grown 11.5% compared to the previous

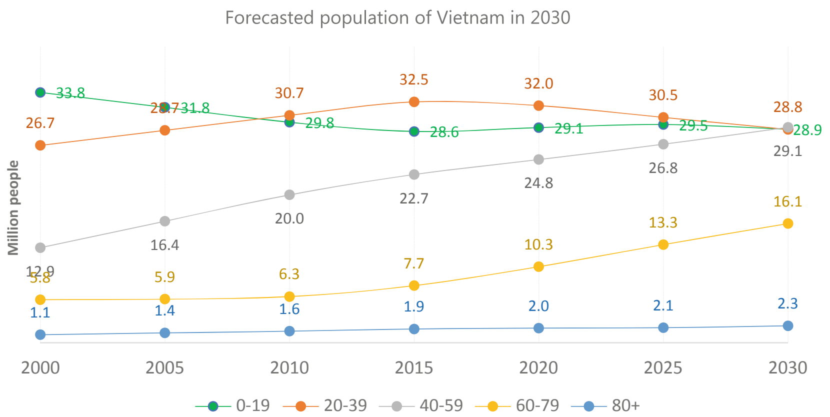

Fig. 5.1 Vietnam's population growth and forecasting to 2030 (*Source* Euromonitor International, and data from GSO national statistics 2019)

year. Although witnessing a slight decline in major cities, the FMCG sector has enjoyed an increase of 6–7% in annual spending, especially in confectionery, soft drinks and home care. In the first quarter of 2019, the FMCG market in rural regions achieved double the growth over the same period last year. The demand for consumer products is changing toward high-quality goods imported directly from the USA, Japan and the EU. Many imported products with high quality, creativity and unique features have captured the middle-class Vietnamese and are gradually gaining attention (FMCG Monitor 2019 from Kantar Worldpanel).

There has also been a shift from traditional channels to online channels since 2015. The size of online shopping on e-commerce (for both B2B and B2C) is $7 billion in 2019 and it is forecasted that the number will increase to $13 billion by 2025 (growing over 30% annually) (Google Temasek Bain 2019). Vietnamese people spend an average of 450 USD/year for online shopping and 66% of population use mobile phones (Digital Marketing 2019 Report). Before 2015, Vietnamese people only used the Internet to search for information about products and services. By 2020, they were also making online decisions for buying electronics, sporting goods, cosmetics, tools and equipment, offices, household goods and fashion products; even sanitary equipment and machinery were being bought online. The key to this shift is the role of payment solutions. From 2017 to 2019, the size of Vietnam's consumer credit market has increased by 67% per year. Consumer credit will play a decisive role in the attractiveness of consumption in Vietnam in the next 5 years as predicted by the largest representative of this segment in Vietnam—Home Credit.

Hallyu, the Korean wave, has had a strong influence in Vietnam. Researchers and the media stated that the three-phase coverage strategy of the Korean wave was successful The first stage is the coverage of dramas, the second phase is connecting music (K-pop) with the actors and the final stage is bringing products from Korea to conquer Vietnamese consumers. The Vietnamese Z generation warmly welcomes Korean values. Attracted by the Korean way of life, they formed the need to learn Korean, travel to and even study in Korea.

The growth of a middle class and their strong domestic demand and consumption are new development steps in Vietnam market (World Bank 2019). The middle class accounts for 20% of the population and is forecast to be 30% of the population by 2030. Most of this class earns from non-farm sectors and the private economy. They earn over 2000 USD/month

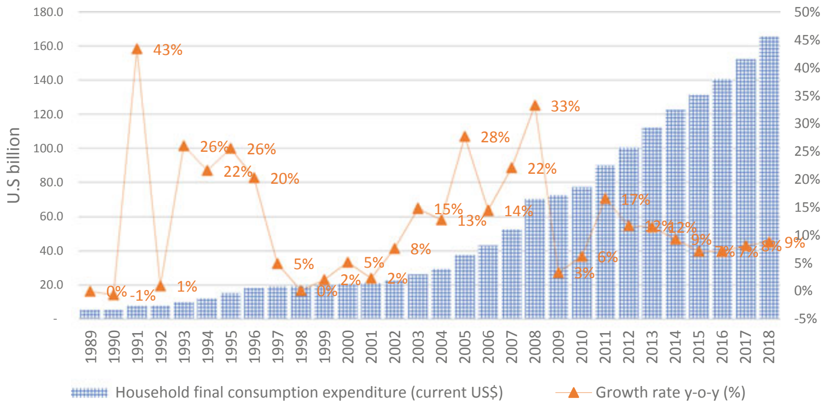

Fig. 5.2 Vietnam: Household final consumption expenditure 1988–2018 (*Source* World Bank national accounts data, and OECD National Accounts data files)

and spend over 15 USD/day. Many high-end fashion brands are present in Vietnam to serve this emerging "rich" group, and services arise for high-income groups such as study or travel abroad by children (see also Retailing in Vietnam 2017 for a projection over the next 10 years). Many businesses are exploiting this trend, investing in the business of importing high-class products from Europe, the USA and Japan—categories that domestic producers do not provide. In addition, businesses also invest in unique high quality and strong reputation products such as cigars, traditional coffee machines from Italy and premium cheeses from France. See Figs. 5.2 and 5.3.

5.4 The Transformation of Retail Systems in Vietnam

The traditional retail system is still a mainstay in the distribution system in Vietnam. For a long time, consumer behavior has been formed by the practice of exchanging agricultural goods at the market (wet markets selling fresh meat, fish, and seafood, dry markets selling vegetables as well as garments and other dry goods). This was the first place that people traded retail and negotiated deals for every need. The markets are held in a specific time frame and are not only an important retail

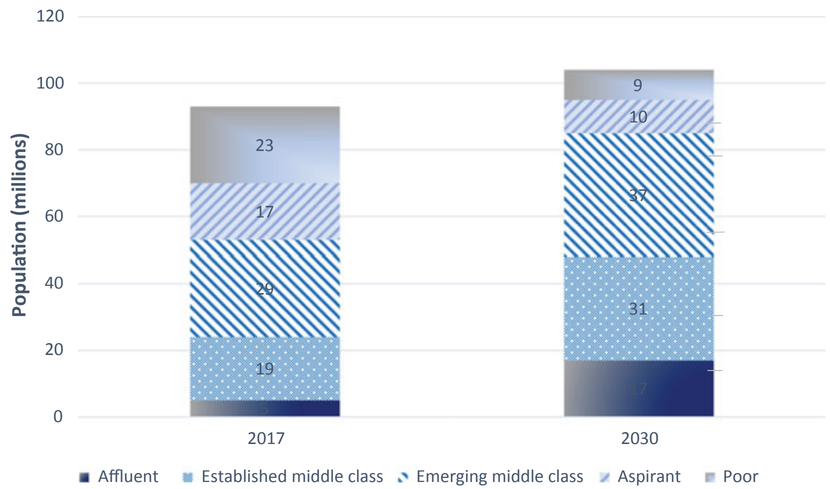

Fig. 5.3 Changes in population grouped by disposable income (*Source* Consultancy Asia 2018)

place but also a cultural feature of the Vietnamese people. They function as both retail markets and simultaneously a wholesale market for street vendors and others who distribute and supply throughout the country. According to statistics, in Vietnam there are currently 9000 official markets and these constitute 60% of retail sales of Vietnamese consumer goods. These markets are found throughout the country, even in large urban centers such Ho Chi Minh City and Hanoi. Currently, the role of traditional markets is being fiercely contested by new retail models and the emergence of e-commerce. However, in the future these markets will continue to affect the Vietnamese people because of their unique purchasing habits. Although in some ways they are less convenient than online shopping, they are superior sources of fresh food for morning breakfast, for example. In this sense, they may survive online rivalry better than Western-style brick-and-mortar retail outlets. FMCG enterprises cannot ignore the traditional market network if they want to penetrate deeply into the Vietnamese market.

Still, the traditional market is not the only retail channel in Vietnam. There are also many diverse retail formats such as grocery retail, restaurants and specialized stores. There are around 300,000 grocery stores, 200,000 restaurants and 150,000 cafes (GSO 2019). Sectors such as bakery, beverage, alcoholic beverages and packaged foods have used these channels as pillars of their distribution strategy. However, traditional retail still plays the leading role in Vietnam. This stems are from multiple factors, such as war history, geographical conditions, the subsidy period from 1975 to 1986. The obvious strength of this channel is pervasive distribution throughout Vietnam, with convenient access from every alley, meeting the needs of low-income people. There are even many markets that form a "sell on credit" culture for regular buyers. Critically, however, the disadvantage of the traditional market is its difficulty in applying modern technology in the distribution system.

Private and foreign enterprises providing retail services in Vietnam have had a great impact. In 1997, the government allowed Cora supermarket (France) to operate in Vietnam. And in 2001, they gave the wholesale model of Metro (Germany) permission to operate in Vietnam. As a member of WTO, foreign companies could open retail outlets in any industry by 2017. Vietnam fully opened to retail services by 2017, including retail banking. The retail industry in Vietnam reached 142 billion dollars in 2018 and is expected to reach 180 billion dollars by 2020, with a series of global retail groups entering the market. These non-traditional forms of retail such as supermarkets and convenience stores have grown 50% in 10 years. The more than 1000 supermarkets, 150 shopping centers, 6000 convenience stores account for 30% of the retail industry. In big cities and provincial cities, consumers have been moving to shopping malls, supermarkets, convenience stores and specialized stores instead of buying groceries in the traditional markets (Deloitte 2019).

Logistics costs account for 15% of the selling price. Warehouse conditions and logistics services for the distribution system are affecting distribution costs in terms of market connectivity. Another equally complex aspect is the retail space. The cost of premises accounts for 3–5% of the cost, with the rental prices increasing rapidly in big cities. Even the rental cost in shopping malls or supermarkets has increased rapidly, making urban retailing more and more expensive. In contrast, the traditional retail model in the provinces has more advantages in terms of rent (FiinGroup 2019).

The supply chain is also a difficult matter for traditional channels to deal with. Currently, retailing in Vietnam needs to go through a large intermediary role such as an exclusive distributor so traditional retail models have to buy through intermediaries with poor discounts.

In contrast, supermarkets do not need to go through intermediaries, so they have the advantage of price and promotions. Understanding these problems, many international retailers enter the market and bring their international supplier partners into Vietnam, but in reply Vietnamese suppliers will offer a high discount for these supermarkets to access to retail industry.

Another issue related to retail in Vietnam is the cash paying habit of Vietnamese people: 80% of consumers prefer to spend cash. Although over the past 5 years, 30% of consumer transactions used credit cards and e-wallets, these behaviors only occurred in big cities. (Q&Me 2018) The development of delivery service by motorbike encourages consumers to use credit payment. In addition, the development of technology allows for delivery services such as Giaohangnhanh or Ahamove. Many logistics service companies also offer direct delivery solutions across the country. This makes the model of sales and products distribution no longer too dependent on traditional retail points.

In the last decade, a harsh competition between international retail groups and domestic retail businesses has emerged, with a series of notable mergers and acquisitions taking place. M&As in Vietnam's retail are estimated to total US$8 billion from 2013 to 2019. Even large foreign-owned vendors such as Metro and Auchan that had entered Vietnam earlier, and then had to sell themselves to new systems, also foreign-owned, such as Aeon, Mega Mart, Lotte Mart. In addition, convenience store systems have increased rapidly in numbers over the past 10 years. As of early 2020, there are nearly 5000 stores grouped in 4 large systems: Vinmart+, Green Department Store, Saigon Coop and Circle K. All this has quickly changed consumption habits as well as the marketing solutions. The most obvious manifestations of this are the introduction of seasonal sales promotions, loyalty card programs, consumer brand activation activities, discount days (such as Black Friday) or products specifically designed for supermarket/convenience store sales channels.

The future of retail in Vietnam will surely change in the direction of more technology and added services (Vietnam retail store statistic 2019). That is the reason why marketers need to build online experience and combine customer interaction solutions on the multichannel platform. Brands need to consider online platforms more. In addition, brick-and-mortar stores lacking convenient services will be replaced by online sales solutions, delivery services or modern shopping centers with a variety of entertainment facilities. Marketers employing smart interactive tools at the point of sale are also trends to "optimize the data" of customers.

5.5 Communication and Media to Moving Digital

The total advertising expenditure in Vietnam (including Internet) is 2.6 billion USD. However, there are still unspecified advertising budget expenditures that account for more than another 2.5 billion USD. Since 2004, budget spending on all advertising channels in Vietnam has increased nearly 5 times (Kantar Worldpanel, 2019). Vietnam has 859 newspapers in print media, 135 electronic newspapers and more than 258 information pages (which are similar to online newspapers), 268 radio channels and 67 television channels (VTV is the national channel and the rest are local channels), with 18,000 professional journalists and nearly 1000 press agencies.

TV channels still account for 50% of the budget for advertising. Many brands tend to switch to the Internet, but FMCG brands still spend a lot of their budget on TV channels because they focus on the rural market, where consumers are still spending most of the time on watching TV. The Internet accounts for 43% of budget spending and is the main communication channel for urban markets while the budget for online channels in rural markets is just over 25% of the budget. In addition to TV and Internet as the main channels, out of home (OOH) advertising accounts for only 5% of the budget, print accounts for 7% and radio has remained at almost the same level for nearly 10 years.

The highlight of media in Vietnam in the last 5 years is the increase in the budget of brands for digital and mobile channels. Compared to other Asian countries, this budget is still very small. But this is a remarkable move compared to the past in Vietnam. Instead of relying mainly on TV and print media, now media budget in Vietnam has dramatically shifted to digital and mobile and accounted for more than 40% of the total budget, becoming the current main channel of brands and marketing campaigns. According to eMarketer, the total of all Vietnamese firms' budgets for digital advertising is 500 million USD and including 311 million USD for digital advertising (Vietnam digital advertising 2018). In particular, social media advertising, search advertising and banner advertising account for 70% of digital advertising activities. For the interface, mobile has accounted for 39% of the advertising budget and will increase to 48% by 2023 (ibid.). Nearly 70% of this budget is spent by firms in three main industries services and retail (Table 5.1).

Table 5.1 Advertising spending in Vietnam from 2004 to 2018 by channels (million US)

Channels/years	*2004*	*2010*	*2015*	*2018*
TV	166.4	436	969	1295
Newspapers	51	60.5	52	52
OOH/Outdoor	18	20	31	38.5
Internet	0.3	3	20	35
Magazines	26.5	37	32	32
Cinema	1	0.3	1.7	2.6
Radio	0.6	1.4	1.9	2.4

Source Statista Research Department 2020

Vietnamese behavior in viewing media has changed rapidly. In 2019, Kantar Worldpanel Vietnam reported that 98% of Vietnamese households watch 2.5 hours of television every day while OOH reaches 98% of viewers and often affects 9 minutes a day. Print newspapers have a lower access level. Only 33% of households read newspapers and it only takes 12 minutes a day. In contrast, online behavior has increased significantly, taking up nearly 6 hours per day. In addition, 46% of Vietnamese people are using smart mobile devices to participate in social networking, view services and read news. Typical pages are kenh14.vn, ngoisao.net, phimmoi.net, etc.; social networking sites including Facebook, Linkedin, Pinterest and online shopping sites like Tiki, Lazada, Sendo and Shopee.

Many marketers and entrepreneurs suppose that over the past 5 years, the media industry in Vietnam has undergone a dramatic transition and transformed strongly. In Vietnam, media channels are under control of the authority of the Party and the government. Setting up media channels is very difficult. Although public and private organizations can set up a newspaper, a television channel, or a web page, their operation is then under the central management of the state agency.

The world's top 20 advertising companies are present in Vietnam and control almost 70% of the advertising market (adbrand.net 2019). Advertising in Vietnam has many creative approaches and many campaigns to revive many local and global brands. And perspectives on persistent creative messaging strategy are influencing brand communication solutions. The global campaigns of Coke, Nivea, Vim, Omo or Samsung are all innovative global solutions. In addition, local brands such as Bitis

Hunter, Dienmayxanh, Vinamilk or Tiki campaigns also bring new wind in the way of conveying creative messages.

The enormous power of the Z generation, along with the rise of mobile devices and digital media, has forced marketers to find ways to create messages adapted to Vietnamese gen Z. Major brands must design solutions to bring increasingly interesting and unique experiences. And using influencers or key opinion leaders is an effective solution because they are successful, well-known with representative images that can influence customers. Currently, favorite Vietnamese influencers are Son Tung M-TP (Oppo, Bitis, Goviet …), Chipu (Tiki, nova, Huawei, Dove …), football player Xuan Truong (Pepsi, Revive) or beauty blogger Kaity Nguyen (Vivo, Sunplay, Rejoice, Tiktok …). The celebrities have started to “catch” the needs of the marketer so they have been increasing their influence and using their image associated with the brand on Facebook. Many players, actors, singers and artists, as well as other individuals, have also started building content production solutions on articles, images and videos to attract the attention of viewers. Currently, influencers are divided into different types of services or groups of people related to specific brands or categories. For instance, there are influencers in kitchen group, hot mom group, English group, beauty group and other retail services. Most of them have their own social channels and use creative solutions to attract the attention of regular viewers as well as to attach to the appearance of a certain brand.

Brands require creativity and endless evolution in communication as well as reinforcement of the message. In Vietnam, that evolution may not come to all brands. Although some brands have a budget for long-term projects, the majority of them focus their budget on seasonal campaigns. Tet holiday (lunar new year) is the most remarkable example. Brands in Vietnam spend 30% of their annual budget on media activities for this period. Marketers in Vietnam need to adapt quickly to provide media activities both in the state dominated media and in new digital solutions.

5.6 The Growth of E-Commerce in Vietnam

In 2001, the term “e-commerce” appeared in Vietnam and brought new solutions to the sales model. Initially, this concept was known primarily through the application of information technology advances to commercial and business transaction solutions such as email and Web sites.

Information technology was initially considered as useful only for advertising. In the last 5 years, however, all aspects of marketing have become digitized, and online transactions have grown 20–30% in recent years (Ministry of Industry and Trade Vietnam 2018).

In 2005, 95% of enterprises were using e-commerce transactions, more than 40% of enterprises were using Web sites including an estimated more than 100,000 Web sites with commercial transactions (Vecom 2019). This was the time when many e-commerce exchange vendors (Lazada, Zalora, Vatgia, NhomMua or Hotdeal,…) were considering the integration of mobile features, having anticipated the era of shopping with mobile devices. Accompanied by the strong development of both fiber optic and 4G infrastructure, social networks have increased the feasibility and ease of online transactions. Many sales utilities offered by Facebook, Zalo (a service of VNG corporation of Vietnam similar to WeChat and WhatsApp) and YouTube (for reviewing products) make it more and more convenient to search information, exchange information, and conduct transactions quickly. As of 2015, 51% of shoppers researched online before purchasing products or services (Google 2015). Although there remain many risks compared to traditional purchases, it is obvious that social networks have been contributing significantly to the success of e-commerce in Vietnam.

However, e-commerce in Vietnam only developed strongly in the B2C segment while B2B transactions have just begun to grow (Vecom 2019). What makes B2C e-commerce grow more significantly is the fact that consumers can easily use Internet to search for information or access e-commerce platforms. It can be seen that e-commerce becomes a new distribution incentive that integrates benefits for customers. In addition, e-commerce changes shopping habits, shifts the shopping process to a more technological basis.

A number of domestic and foreign businesses have begun to develop cross-border e-commerce models. E-commercial sites such as Shopee (Singapore), Lazada (launched in Singapore with German and Swedish funds, now property of Alibaba), Tiki (Vietnam, and has acquired Lazada operations in Vietnam) and Cho Tot (Vietnam) are widely trusted by many consumers. Online sales continue to account for 30% of sales of many businesses and are a key sales channel in the field of distribution and retail of consumer goods. Internet usage rate is high. Up to 85% of the Vietnamese population spends an average of nearly 7 hours a day online (Nielsen 2018). There are more than 90% of smartphone users in urban areas and 50% in rural areas. Besides, more than 55% of Vietnamese consumers admit they are willing to use network connection for a faster and easier shopping experience. 35.8 million people use social networks with an average of 24.7 hours per week for reading news, buying and selling goods. The number of shoppers in Vietnam on e-commerce platforms is 49.8 million and will increase to 51.1 million in 2019 for a total market size expected to reach up to 10 billion USD (Statista 2020).

Information and communications technology (ICT) also brings online payment solutions for e-commerce, offering consumers a variety of payment options: payment via bank, by e-wallet, advance payment or cash on delivery (COD) payment or. Vietnam has issued over 106 million debit and credit cards (an increase of 3.4 times compared to the end of 2010) (State Bank report 2018). About e-wallet services, there are six organizations: MService, Banknetvn, VNPay, BankPay, Vietnam Online, VietUnion. In addition, Vietnam bank system has launched more convenient services such as Internet banking, mobile banking, cross-border card payment, online payment. Brands visible in e-commerce transactions include Visa, Master, American Express, JCB (can pay more than 60 Web sites connected to OnePay payment gateway), pay via Samsung, Apple, Adayroi. Payments are also made COD. The trend of multi-channel sales emerged strongly in 2018. Nearly 97% of stores were selling on two or more channels by 2018, and 54% of stores sell at least on five different channels, especially on the main channels such as Facebook, brick and mortar stores, Web sites, e-commerce platforms, agents or collaborators (Sapo 2018).

Logistics is a challenge for e-commerce in Vietnam. Costs estimates vary widely from 15% to nearly 25% of GDP (Blancas et al. 2014; see VietnamNet 2017 for a recent estimate of 16–17%). The capacity of Vietnamese carriers is low and connectivity between regions is still weak. The lack of connection between e-commerce enterprises and logistics enterprises is a further weakness. Some enterprises may create the initial connection but remain ineffective due to a lack of professionalism, and failing to fully appreciate the role of technology. These enterprises need to proactively cooperate with each other. There is also a vacuum that needs to be filled by associations related to e-commerce, logistics as well as state management agencies on trade and logistics in the locality.

5.7 Sustainability

Corporate social and environmental responsibilities impact the image customers have of the firm. In addition, they are the subject of international development recommendations of ILO, OECD and other organizations, and of various national action programs in Vietnam. Serious issues include deforestation (considered a red alert), water pollution (due to deforestation, hydroelectric projects and pollution), air pollution in urban areas, and mangroves in the Mekong Delta.

In 2008, the Taiwanese corporation Vedan admitted discharging waste polluting the Thi Vai River. This became a hot topic. After 10 years of litigation, Vedan was fined and had lost its place as the dominant monosodium glutamate brand in Vietnam—most supermarkets refused to sell its products. Recently, when another Taiwanese firm, Formosa Plastics, polluted the marine environment and had to pay US$500 million in compensation, environmental issues and sustainable development in businesses became one the most noticeable topics of marketers and administrators, especially the awareness of corporate social responsibility (CSR). Currently, many companies have a CSR strategy evolving around sustainable development with 3 representative values including employee sustainability/talent development; products for human health and environmental friendliness. On the basis of this strategy, many businesses in Vietnam, especially foreign businesses, are aiming for sustainability, and their marketers implement many solutions to increase community value and make business strategy more effective. Aside from ethical motives, the impact of social media on a firm's reputation requires top management to adopt a solid CSR stance.[2]

A serious environmental problem affecting Vietnam today is plastic waste, which is an even greater problem in Vietnam than in most other countries. The central government has taken action and asked all organizations to work on solutions and initiatives to address reduction and pursue total recycling. Recognizing the urgent problem, a PRO Vietnam packaging recycling alliance was established including: Coca-Cola, FrieslandCampina, Lavie Vietnam, Nestle Vietnam, NutiFood, Suntory Pepsico, Tetra Pak, TH Group, URC Vietnam, Annam group and Saigon Coop. They will focus on recycling plastic packaging to meet the goal of fully recycling all plastic materials produced by these 12 companies by 2030. Other firms that have taken visible measures include Prudential Vietnam, Aviva, Mondelez Kinh Do and Vietnam Airlines.

5.8 Conclusion

This chapter has provided an introduction to marketing in Vietnam. A basic description of the Vietnamese consumer preceded a discussion of the retail channel. This led to a discussion of advertising as well as electronic commerce. Digital and electronic commerce is less developed but growing more quickly in Vietnam than the other large ASEAN countries, although 70% of transactions occur in Ho Chi Minh City and Hanoi (Dang 2020). This must be an important component of any firm's marketing plan in Vietnam. Corporate social responsibility and in particular sustainability is a sensitive issue in Vietnam given the track record of some foreign firms and the impact of social media in propagating concern.

Notes

1. After the near 20-year embargo that the USA had imposed after the cessation of its war in Vietnam, international integration began when Vietnam joined ASEAN in 1995. See Chapters 1 and 2 as well as Ministry of Industry and Trade of the Socialist Republic of Vietnam 2020 for current announcements and Deprez (2018) and Herr et al. (2016) for retrospectives.
2. Many foreign businesses in VN have implemented practical activities as part of their CSR strategies. HSBC has set aside 9 billion VND to encourage employees to participate in the Future First project to provide environmental guidance to children. Honda has instructed 70,000 children on traffic safety. Intel provided US$9.5 million USD to the Higher Engineering Education Alliance Program (HEEAP) and Cargill helped transfer breeding techniques to 1.5 million farmers. In addition, Samsung invested in the Digital Hope project and renovated libraries for 50 schools and national libraries. Suntory PepsiCo Vietnam launched the Mizuiku project focusing on educating children about the protection of clean water sources under the connection with the original project in Japan (so far, the Vietnam project has organized 400 classes for 5000 students, 16 festivals and 15 tours and developed 8 reverse osmosis water filtration systems. Moreover, Suntory Pepsico Vietnam has pledged to reduce water usage by 70%, reduce electricity consumption by 42% and save 8000 tons of plastic in 10 years. Coca-Cola in Vietnam implemented the Ekocenter project to build solar water kiosks to provide clean water to the community (as of December 2019, providing 1 million liters of clean water and training more than 3000 women). Nescafe Plan is a project to help improve sustainable farming capacity of 28 million coffee trees for 200,000 farmers. The project achieved a 30% increase in farmers' income and a sustainable ecosystem and environment.

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CHAPTER 6

Financial Services in Vietnam

Van-Hong Vu

Abstract This chapter offers an overview of the financial services in Vietnam. As such, it is an introduction useful both for financial firms seeking to gain a foothold in the Asian market and for any firm planning a presence in Vietnam that would require it to avail of local financial services. This chapter covers the four main topics. The first part introduces the inventory of the financial services in Vietnam and how banking works in Vietnam. The second part presents the Vietnam Securities market. Fintech and Payment in Vietnam will be covered in the third part of this chapter. Finally, the insurance market in Vietnam will be presented to close this chapter.

Keywords Bank · Credit · Payment · Securities · Fintech

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6.1 Introduction

Modern financial services did not exist in Vietnam before the mid-1980s. Liberalisation and deregulation of the sector started in the early 1990s. Nonetheless, financial services are large for a low-middle-income country, with assets of more than 200% of Vietnam's GDP[1] in 2018.

6.2 Relevant Legislation and Inventory of Financial Services in Vietnam

Under the Ministry of Finance of Vietnam (henceforth MFV), three central government agencies manage and oversee financial services. First, the State Bank of Vietnam (SBV) organises and supervises the credit institutions (bank and non-banking institutions), Fintech businesses and payment systems. Second, the State Securities Commission (SSC) controls the operations of securities market. Finally, the Insurance Supervisory and Authority (ISA) directly supervises insurance activities (Fig. 6.1).

On March 1988, the Decree No. 53/HDBT issued by the Council of Government laid the foundation for a new banking system in Vietnam, transforming it from state-controlled to market-oriented operations. In May 1990, the MFV issued the ordinance on the SBV and ordinance on

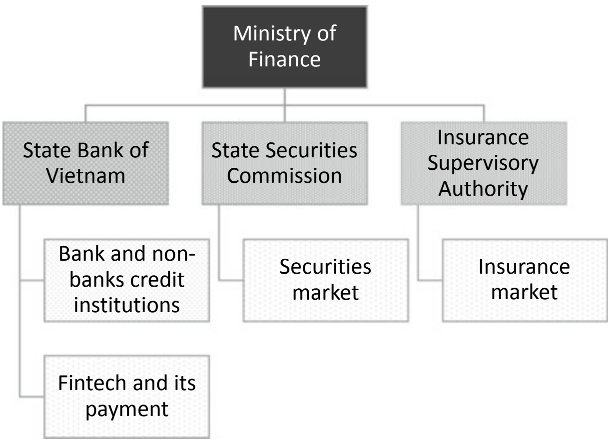


Fig. 6.1 Financial services and their supervision in Vietnam 2019 (*Source* Author's consolidation across the data files of MFV, SBV, ISA and SSC)

banking, credit co-operatives and finance companies, officially changing the banking system of Vietnam to a two-tier system:

- The SBV implements the governmental management of currency trading and banking.
- Commercial banks and non-banking institutions perform currency trading, payment, foreign exchange and banking services.

From 1990 to present, the National Assembly has issued a series of legislations for financial institutions: the Law on Credit institutions of 2/12/1997 and its revision in 2003, the Law on the State Bank of Vietnam (2010), the Law on Credit Institutions (2010) and various supplementing decrees.

SBV operates the electronic/paper clearance and interbank electronic payment systems. In addition, there is a bank card switching and clearing system, a securities clearing and settlement system and internal and bilateral payment systems operated by credit institutions. The Vietnam Securities Depository (VSD) conducts the securities settlement payment exclusively, in which all the transaction must be conducted via banks. There are about 19,100 Automatic Teller Machine (ATM) and 278,400 electronic payment systems involving electronic funds transfers using the payment card and payment terminal of point of sale (POS/EFTPOS/EDC) nationwide. The value of transactions via ATM and other devices is USD113 billion via ATM and USD24.44 billion via other devices such as POS/EFTPOS/EDC (Table 6.1).

6.3 The Operation of Credit Institutions in Vietnam

6.3.1 The Structure of the Credit Institution System

The credit institution system has been restructured recently, especially for the state-owned commercial banks (SOCBs). The CI system comprises 07 SOCBs, 28 joint stocks commercial banks (JSCBs), nine 100% foreign-owned commercial banks (FOCBs) and 2 joint venture commercial banks (JVCBs). Also, there are two policy banks (banks that help implement government policies such as the Viet Nam Bank for Social Policies) and one co-operative bank. The policy banks are subsidised and guaranteed by the State budget; therefore, they are exempt from taxes and

Table 6.1 Payment transactions via ATM and POS/EFTPOS/EDC, value: USD billion, 2013–2019

Year	*ATM*		*POS/EFTPOS/EDC*	
	Number of equipment ('000)	*Transaction value*	*Number of equipment ('000)*	*Transaction value*
2019	19.1	113	278.4	24.4
2018	18.3	99.5	273.6	19.3
2017	17.6	85.9	268.8	14.1
2016	17.5	72.4	263.4	10
2015	16.9	62.6	223.4	7.7
2014	16.1	49.6	172	6.4
2013	15.3	39.8	129.7	5.1

Source Author's consolidation across data files from the department of payment and settlement of SBV

other state budget remittances. The Co-operative Bank of Vietnam aims to support the operation of the people's credit funds system, playing a role in regulating capital. Concerning the non-banking institutions: there are 16 financial companies, ten leasing companies and 51 fund management companies. There are also four microfinance institutions and 1166 people's credit funds among the CIs (Fig. 6.2).

The commercial bank sector dominates the financial systems, with its assets reaching USD 482.9 billion, equivalent to 200% of GDP and 95.3% of financial institutions assets in 2019 (GSO 2019). The "Big Four" SOCBs in term of total assets, the outstanding loans and the deposits from clients are: Vietnam bank for agriculture and rural development (Agribank), Joint Stock Commercial Bank for Investment and Development of Vietnam (BIDV), Vietnam joint-stock commercial bank for industry and trade (Viettin) and Joint-stock commercial bank for foreign trade of Vietnam (Vietcombank). The non-state banking segment has proliferated and accounts for 41% of the total banking assets. Most foreign banks began operating in the 1990s with a licence to open branches; these international operations primarily serve companies from their homelands and take place in the major cities (Table 6.2).

Vietnam has been quite late in implementing the Accord by the Basel Committee on Banking Supervision (Basel II) standards. Fourteen years after the initial publication of Basel II, in 2016 the SBV set a deadline of 31 January 2021 for 17 commercial banks to meet Basel II norms under a national banking development strategy.

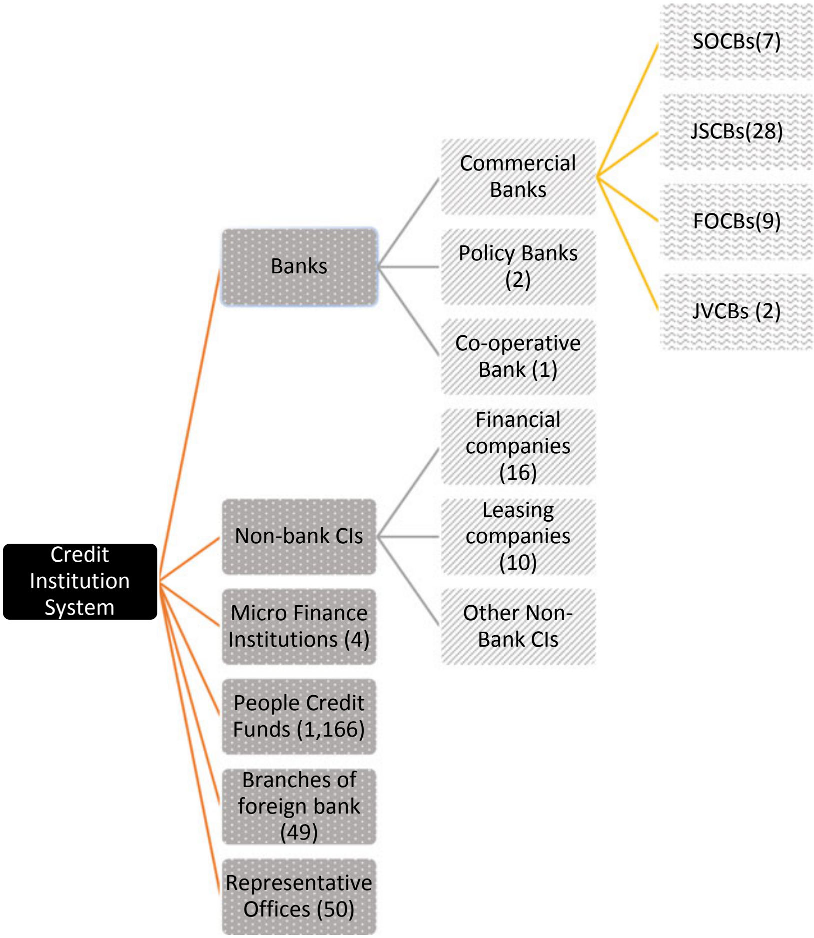


Fig. 6.2 System of formal credit institutions by June 30, 2019 (*Source* Author's consolidation across the data files of MFV, SBC and SSC)

6.3.2 Basic Account Services and Loans Payment

The performance outlook of Vietnam's banking system in terms of loans to customers seems positive over the last decade. For the period from 2013 to 2018, the compound annual growth rate (CAGR) of the loans to customers (based on the principal amounts outstanding at the end of

Table 6.2 Total assets and employed capital of credit institutions in Vietnam as of November 30, 2019, value: USD billion

Categories of CIs	*Total assets*		*Capital adequacy ratio, %*	*Ratio of short-term funds using for mid- and long-term loans, %*
	Value	*Growth rate, % for the same period in 2018*		
SOCBs	206.5	6.1	10.6	29.69
JSCBs	201.4	10.6	10.6	30.99
JVCBs, FOCBs, foreign banks' branches	52.2	14.9	24.5	–
Finance and leasing companies	0.8	16	19	35.72
Policies and Co-operative banks, People's Credit Funds	15.0	–	–	–
Whole system	482.9	9.1	12.2	27.15

Note Excluding microfinance institutions. Total assets are calculated on the basis of the Circular 49/2014/TT-NHNN
Source Data source are from the credit institutions‘ chart of accounts in December 2019 of SBV

each fiscal year) of the banking systems is 14.2%, with a total amount of USD296 billion in 2018, equivalent to 133% of the GDP. Deposits from customers in the banking system also achieved a similar growth rate. The CAGR of the outstanding deposits from customers is 13.9% over the same period with the deposit value of USD 321.8 billion, equivalent to 145% of GDP in 2018 (Figs. 6.3 and 6.4).

The commercial banks developed payment services on multiple traditional distribution channels and on new channels such as online banking, mobile and SMS banking and card payment services. Statistics from 35 commercial domestic banks in 2018 show that the commercial banks prefer to lend in the short term rather than the medium and long term (Fig. 6.5).

The ratio of Vietnam non-performing loan (NPL) per total outstanding loans by quarter reported by credit institutions stood at 1.9% in June 2019, compared with the ratio of 2.2% in the first quarter of 2019. The monthly average of NPLs reached 4.2% from 2012 to 2015 with an all-time a peak of 4.93% in September 2012[2] (Figure 6.6).

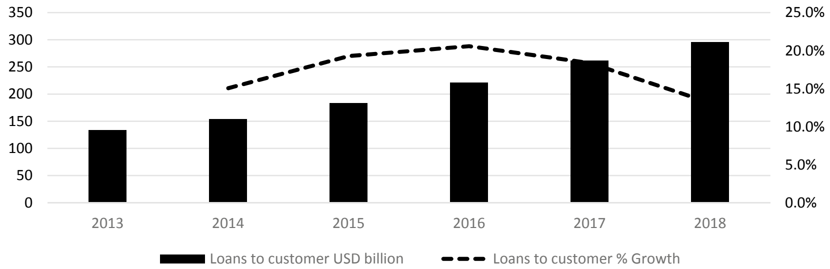


Fig. 6.3 Bank loans to customer in value, USD billion 2013–2018 (*Source* Author's consolidation across the data files of Bureau Dijk)

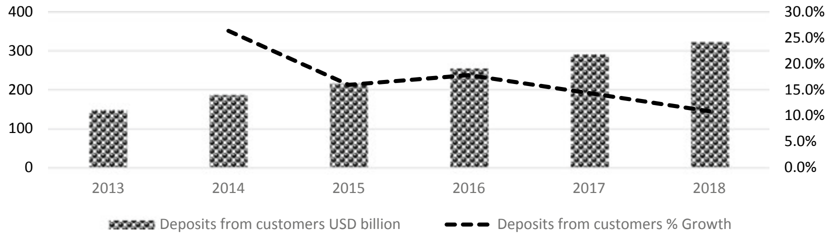
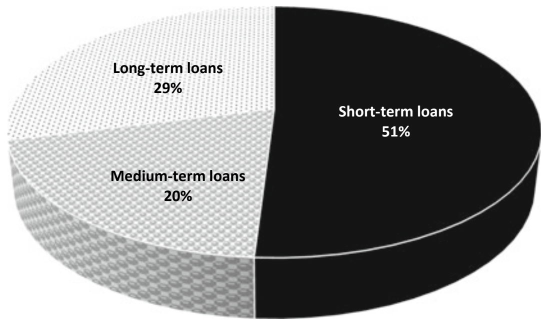


Fig. 6.4 Bank deposits from customer value: USD billion 2013–2018 (*Source* Author's consolidation across the data files of Bureau Van Dijk)

Fig. 6.5 Vietnam 35 domestic commercial banks–Loan portfolio in term of payment, % share, 2018 (*Source* Author's consolidation across data files of Bureau Van Dijk and banks' financial statements)



The commercial banks implement three interest rate tariffs: for business loans in Vietnam dong, for business loans in foreign currencies and for consumer loans in Vietnam dong.

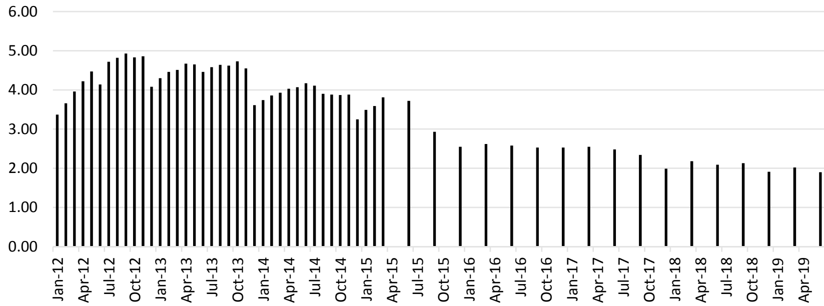


Fig. 6.6 Ratio of Vietnam NPLs over total outstanding lending by Cis by quarter, in %, 2012–2019 (*Source* Author's consolidation across data files of SBV)

6.3.3 Credit Availability for Domestic Firms and Joint Ventures

Since the government's approval of the Law on Credit Institutions in 2010, the SBV supervised all the formal credit institutions in Vietnam except for policies banks. Vietnam has average rates of access to credit among East Asian countries.

Trading and industrial firms seem to have better access to credit than businesses in other economic sectors. By the end of October 2019, the total credit was USD 71.9 billion for trading firms and USD 61.1 billion for industrial firms. However, the CAGR of the credit for trading firms was at 73%, nine times higher than the CARG of credit for industrial firms from 2013 to 2018. Although 90% of the population of Vietnam live in the countryside and work in agriculture, credit for the sector of the agriculture, forestry and fishery remain low at USD 28.2 billion, accounting about 8.8% of the loans for all economic sectors in 2019 (Table 6.3).

The SOCBs group provided USD20.9 billion to state-owned enterprises (SOEs) in 2018, accounting for 25% of its outstanding loans in 2018. The JSBCs are more likely to lend more to the non-SOEs with the total loan of USD 54.9 billion in 2018 (Fig. 6.7).

The loans for small and medium-sized firms (SMEs), partnership or private corporate entities amounted to only USD 1.6 billion and accounted for only 1.3% of the total outstanding loans of the 25 commercial banks in 2018. SMEs access to external finance is generally difficult, especially bank financing (Le and Wang 2005). The loans that SMEs do access are always short-term loans, with interest rates higher than most

Table 6.3 Credit by economic sectors in value, USD billion, 2013–2019

Economic sector	*2013*	*2014*	*2015*	*2016*	*2017*	*2018*	*2019*	*CAGR, % 2013–2019*
Agriculture, forestry and fishery	14.6	15.6	18.6	22.2	25.5	26.7	28.2	12.0
Industry	38.8	40.9	43.4	47.5	56.6	57.3	61.1	8.0
Construction	13.8	15.2	18.1	20.2	25.8	28.0	30.5	14.0
Trade	2.7	29.8	33.1	40.1	52.2	62.7	71.9	73.0
Transportation and telecommunications	5.1	5.4	6.1	7.9	9.7	8.6	8.9	10.0
Other activities	4.0	51.9	66.9	82.3	90.7	105.1	119.5	76.0
Total	139.1	158.8	186.2	220.2	260.5	288.4	320.2	13.0

Source Author's consolidation across data files from SBV

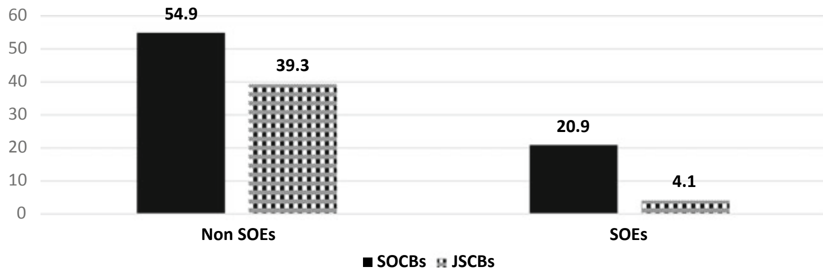


Fig. 6.7 Loan portfolio by type of borrowers of 25 commercial banks, in USD billion, 2018 (*Source* Author's consolidation across data files from banks' financial statements)

comparators (VCCI 2014). World Bank-IFC's Enterprise Survey data shows that SMEs' characteristics and collateral requirements are a major constraint in SME lending, with a 218% collateral-to-loan ratio (World Bank 2014). As mentioned in Chapter 4, part of the problem resides in many SMEs being unable to comply with basic documentation. SMEs generally encounter corrupt practices, in particular having to pay "tips" to extortionary bank officials (PCI 2015). Lending to SMEs thus tends to depend on inter-organizational and interpersonal banking relationships (Le 2013)

6.3.4 Credit Availability for Foreign-Invested Enterprises (FIEs)

FDI plays an essential role in the Vietnam economy, contributing 20.28% to GDP and providing 8.4% of the annually employed population (15+ years) in 2018 (GSO 2018). By the end of 2018, the accumulation of total implemented capital for effected projects is USD 195.9 billion, accounting for 57% of the total registered capital of registered projects.

As its original FDI concept, Vietnam focuses on attracting FDI rather than developing the credit market for FIEs. FIEs usually receive loan support from their parent companies or through the foreign banks located in Vietnam. However, many FDI enterprises, especially SMEs, now try to obtain credit from local Vietnamese banks to fund operations.

Foreign banks lead the FDI loans sector with USD 8.6 billion, or 60.8% of the sector's value in 2018, among them Korean and Japanese banks are very active in lending activities to their compatriots.

The overall credit balance structure for FIEs among the 35 domestic commercial banks in Vietnam is usually less than 1% due to their constraints on the resources. However, the "Big Four" have a credit balance between 1 and 5% of the outstanding balance (the credit balance for FIEs of Viettin and Vietcombank accounts for 5.5% and 6.3%, respectively). A large portion of FIEs has better access to credit in comparison with the same size of Vietnamese enterprises because they have excellent financial results and clear investment plans (Fig. 6.8).

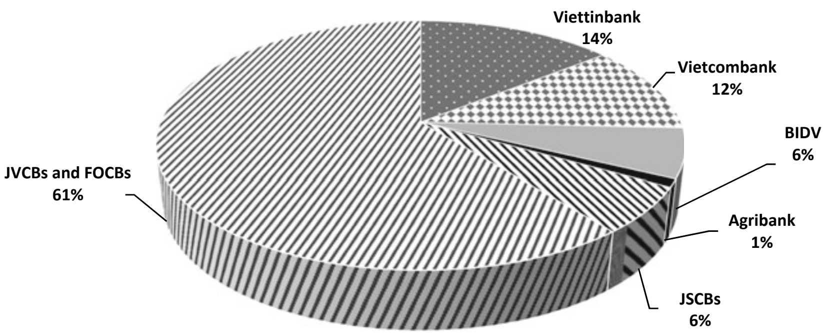


Fig. 6.8 Outstanding bank loans balances segmentation by value, % share, 2018 (*Source* Author's consolidation across data files from banks' financial statements)

The Law of Securities approved by the National Assembly in January of 2020 has lifted the general cap limitation on the ownership by foreign investors in the public offering of securities and creates equal rights in access to the securities market between Vietnamese businesses and FIEs. Fourteen years after, the first foreign business was listed in Vietnam; the number of listed FIEs still stands below ten. Some FIEs delisted due to their undesired performance or problems with tax evasion.

Investing in the form of share purchase increased sharply in recent years and constitutes a more significant proportion of total foreign investment. In the first 11 months of 2019, the total newly registered, adjusted and contributed capital of foreign investors was nearly 31.8 billion USD, up 3.1% as compared to the same period in 2018. The implemented capital of the FDI projects is estimated at USD 17.6 billion, up 6.8% over the same period in 2018 (VAFIE 2019).

As for foreign capital flows in through mergers and acquisitions, Asian investors are mainly interested in Vietnamese enterprises operating in the field of finance and technology, logistics, real estate and retail. Recently, the wave of FDI transfers from China to Vietnam escalated to evade tax punishment over the US-China trade war, creating a great demand for industrial park infrastructure.

6.4 Securities, Insurance and Fintech

The second part of this chapter covers the securities market, Fintech and payment and the insurance market in Vietnam.

6.4.1 Securities Market

History and Development

In July 2000, the Ho Chi Minh City Stock Exchange (HOSE) launched its first operation in Ho Chi Minh City with two listed enterprises and two trading sessions per week. The Hanoi Stock Exchange (HNX) started after five years in March 2005, and the operations of VSD centre officially operated from May 2006. The Securities Law takes effect from January 1, 2021, replacing the Securities Law No. 70/2006/QH11 and Law No. 62/2010/QH12, which states the SSC's authority in managing and supervising the securities market comprehensively.

Vietnam's securities experienced the highest growth among the securities markets in the South-East Asian Region in 2019 with a market capitalisation of nearly USD 241.4 billion, equivalent to 101% of country GDP.

Operations and Structure

Markets

Vietnam's **stock markets** have experienced at least five development stages with different ups and downs. During the first stage from 2000 to 2005, the market index leapt from 100 up to 570 points after one and half years but dropped quickly to 200 index points in early 2002 and further went down to 130 index points in April 2003. The market continued with this "frozen stage" until 2005. From 2005 to 2007, it grew rapidly, peaking at 1170.1 points in March 2007. The bubble burst from 2007 to 2009, with the lowest index point of 236 in February 2009. The market was unstable from 2009 to 2015. Since 2017 till now, the market seems to have developed sustainably (Fig. 6.9).

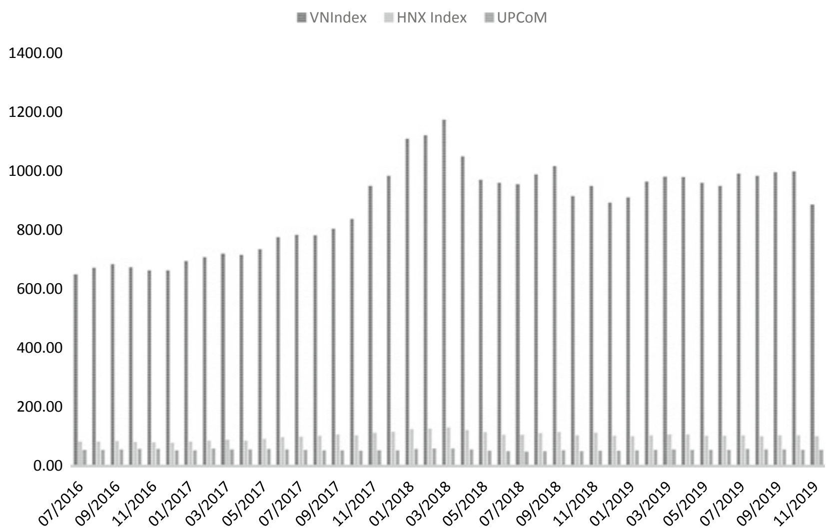


Fig. 6.9 Vietnam securities index, by index, 2016–2019 (*Source* Author's consolidation across data files of State Securities Commission)

The market capitalisation value of the stock market for listed companies is USD 161 billion, the equivalent of 61% of the country's GDP in 2019. Presently, there are 748 listed stocks and listed investments funds on the HOSE and the HNX. By November 30, 2019, HOSE held 59% of the market capitalisation value. Also, 862 stocks are registered and traded on the UPCoM exchanges, with the total listing and trading of 97.3 billion securities, an increase of 14% in compared with the end of 2018.

The **bond market** mainly comprises government bonds (accounting for 84–85% of market share), while corporate bonds are still very uncommon. Government bond futures derivative products started operating in July 2019 adding to investors a hedging tool. There are 515 bonds listed with a total market value of USD 151 billion by the end of 2019. There are still some challenges for the corporate bond market in Vietnam such as the small market size, the legal framework, the diversification of the products and the dominance of the commercial banks.

The **derivatives market** started operation in August 2017, with the first product of the VN-30 Index futures, but it has shown impressive development in both the number and value of contracts. Presently, there are around 15,000 trading accounts, double the number of the initial month of operation. However, most accounts belonged to individual investors, while accounts of the domestic institutional investors were at a very modest level, mainly focused on dealing activities.

The **covered warranty** only started operation in the second half of 2019. By the end of November 2019, according to the SCC, there are 0.122 billion registered covered warranties at the HOSE with 39 registered securities companies.

Exchanges

The two trading centres HNX and HOSE for listed companies are not entirely self-regulated, and still under the management of the MFV and SCC. Cross-listing is not allowed between these two exchanges. Margin trading is permitted, but short-selling is not allowed. The HOSE is a trading platform for relatively large corporation's securities, and the HNX is mainly for the smaller and medium corporate size.

The establishment of UPCoM in 2009 aimed to gradually narrow the grey market of unlisted public companies and to improve the transactions and liquidity of equitized but not yet listed stocks of SOEs and public companies. At the end of 2019, there are 862 companies registered in UPCoM with a total capitalisation of more than USD39.8 billion.

Investor accounts
The average growth rate of the number of investor accounts is 4–6% over the last two years. By the end of August 2019, there are 2,321,049 investor accounts. Of these, 98.66% are private investor accounts, most of which are retail. Only 0.57% are organizational investor accounts, both domestic and foreign.

Securities companies and investment fund management companies
By the end of 2019, there were 89 securities firms, most of them members of the stock exchanges. These securities firms, according to their registered licences, can provide the services related to securities trading, financial advisory, brokerage, underwriting—the legal capital for each of the business activities is stipulated by the law, including the registered capital. There are 48 investment fund management companies operating (SSC 2019). There were three registered **closed-end funds** and two **exchange-traded funds** in the securities market of Vietnam by the end of 2019. The reduced number of closed-end funds resulted from previous constituents reaching the end of their lives, transforming to open-ended funds or restructuring in some other way.

6.4.2 The Insurance Market

Introduction

Many large insurers consider Vietnam as a strategic expansion of their regional and global footmarks. In 2018, the growth rate for the insurance sector reached 25%, with total posted premiums of USD 7 billion—about 3% of GDP.

Before 1992, the Vietnamese government didn't consider the insurance industry as a business activity; therefore, insurance was treated as a method to share the risks between the SOEs and to comply with international transaction's obligations. The Degree No 100/CP, dated December 18, 1993, allowed the formation of insurance businesses other than SOEs. After nearly 20 years of operations, the Law of Insurance Business has been amended and supplemented by different laws and decrees, developing a comprehensive legal context for the insurance in Vietnam (Fig. 6.10).

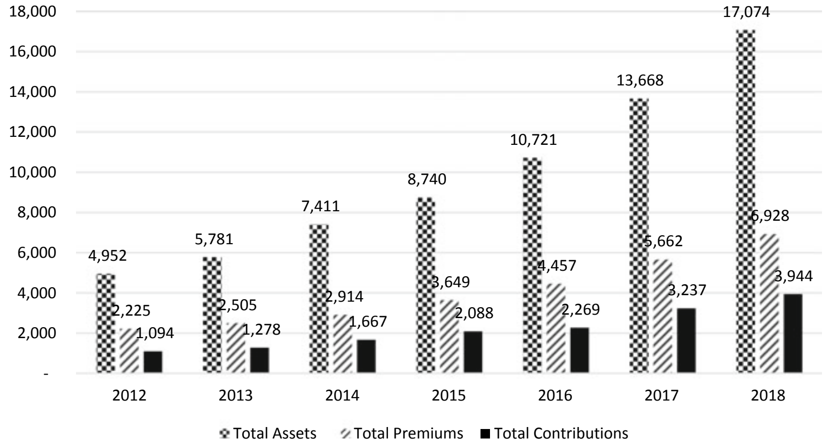


Fig. 6.10 Vietnam insurance market performance in value: USD Million, 2012–2018 (*Source* Author's consolidation across data files of ISA)

Operations and Structure

Market participants

Vietnamese and foreign organisations that contribute capital to form an insurance enterprise must meet strictly specific financial and non-financial terms and conditions indicated by line of business and other related laws and degrees. By the end of 2018, the market was covered by 64 players, including non-life insurers (property and casualty), life insurers, reinsurers and insurance brokers.

Market size

The **non-life insurance** market was still highly concentrated within the "Big Five" domestic insurers with total gross premiums of nearly 52% of total insurance market in 2019. The other 25 insurers and branch of the foreign insurers had a contribution to premium income of 42%. Credit and Financial risks, Fire and Explosion Insurance, Liability Insurance achieved high growth rates in recent years. The claims payment ratio (the gross claims payment divided by total premiums for the year) ranges from 30 to 40% during the last five years, with a peak of 42% in 2018.

The **life insurance** market: The average growth rate of the new life insurance policies written is 15% during 2013–2018. In 2018, the number of individual insurance policies reached 2,247,830; the number of group insurance policies was 331. The top five market leaders are Bao Viet life (17.8%), followed by Dai-ichi (17.4%), Prudential (16.68%), AIA 9.32%) and Chubb (3.56%). The premium of investment-liked products policies counted the highest premium proportion which was 62.55% of the total market premium in term of new business

The areas of operation from the **reinsurance** activities focus mainly on non-life business with the proportion of 90.73% total premiums reinsured for the industry in 2018.

The insurance premium of the brokerage activities mainly comes from the non-life insurance sector (82.6%), followed by the health insurance sector of 17%. The **insurance brokerage** market is concentrated, with the four foreign brokers Marsh, AON, Grass Savoy Willis and Jardine Lloyd Thompson accounting for more than 95% of brokerage fees.

By the end of 2018, the number of **insurance agents** reached 899,071, an increase of 21% compared to the previous year, of which 760,723 were life insurance agents (an increase of 21.5%) and 138,348 were non-life insurance agents (an increase of 18.5%).

Bancassurance (insurance sold by banks) in Vietnam has high growth potential backed by an increase of the middle- and high-income earners, as well as the better local awareness of insurance. About 51 banks in the market who cooperate with the underwriters of both in life and non-life insurance make up 15–17% of life insurance's revenue in Vietnam annually.

6.4.3 *Fintech and Digital Innovations in Vietnam*

Introduction

Vietnam currently ranks second among Association of South-East Asian Nations (ASEAN) member states in terms of Fintech development, behind Singapore. The total Fintech transaction market value was approximate of USD 7.7 billion in 2019, with a CARG of 12.2% for transaction value from 2019 to 2023. This part highlights recent trends for digital payment, lending, financing, banking, blockchain application, and other Fintech services (Fig. 6.11).

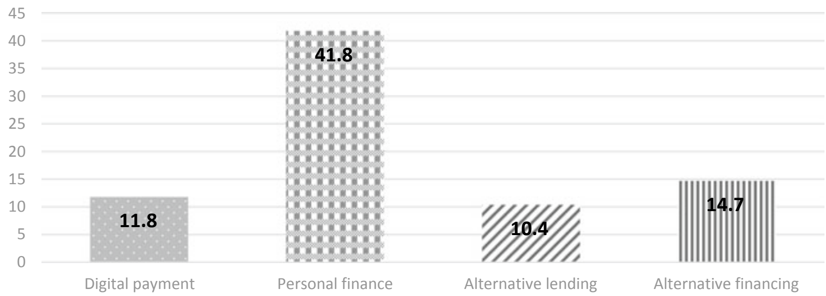


Fig. 6.11 CARG of Fintech transaction value segmentation, in %, 2019–2023 (*Source* Data files from Statista Digital Market Outlook 2018)

Payments

Mobile payments are the most popular Fintech segment, in which the wide range of payments services are offered to its users. Two notable brands in providing the financial services through mobile phone technology are M-Service and Vietnamese start-up Moca. M-Service is the developer of mobile payments application MoMo with nearly 10 million downloads by October of 2018. By December 31, 2019, there were 31 non-financial intermediate payment companies licensed by the SBV to provide financial and payment services. The key digital payment players include independent start-ups as well as subsidiaries of extensive media and communication conglomerates such as VNPT, FPT and Viettel (Fig. 6.12).

Decree number 101/2012/ND-CP dated November 22, 2012, and the amended decree 80/2016/ND-CP, dated July 1, 2016, apply to non-cash payment service providers, payment intermediary services providers and users. Complexities in legacy payment services in Vietnam have propelled the demand for consulting services, which, in turn, is likely to accelerate the growth of the services segment of the digital payment market.

POS Management and Facilitators

Hottab is a new start-up in Hanoi that provides a cashier/POS solution provider and a comprehensive F&B management system with supplier

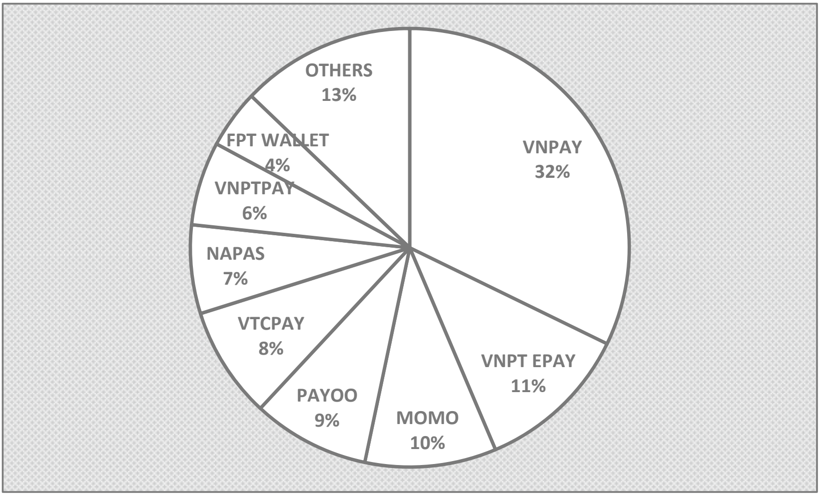


Fig. 6.12 Top 8 Fintech payment companies and its market share in term of service revenue, % share, 2018 (*Source* Author's consolidation across data files of Bureau Van Dijk and companies' financial statements)

integration, the marketplace and loyalty management. Two other POS management platforms are Softpay and Ibox.

Digital Lending

Peer-to-peer lending (P2P) experienced a period of fast growth, starting in 2005 being run by most P2P lending companies in Vietnam with two categories: personal credit and SME lending. The P2P credit is restricted to connecting lenders and borrowers (investors). The P2P lending service providers act as intermediaries to connect lenders and borrowers and are not allowed to mobilise capital. Financial institutions will not be allowed to take part in this segment.

The P2P lending remains a new way of accessing finance in Viet Nam while the specific laws regulating the activity is on a preliminary stage. Some companies falsely advertise profits or provide inaccurate information related to risks when participating in the service or even apply the law of the jungle to NPL borrowers. There is no regulation in regard to the responsibilities of the P2P lending platform in case of NPLs.

Personal digital lending has faced challenges of its own over the last few years due to the fierce competition with personal borrowing from the CIs. Observations from the market show that digital lenders are taking advantage of opportunities to diversify their scope of activities, both in terms of the process of loan application and approval and in terms of new products.

Timo Bank is the first *and only 100%* digital bank in Vietnam, which is operated by the Vietnam Prosperous Commercial Bank. Timo Bank provides all traditional banking services through mobile banking applications on smartphones or at the website, all *at no cost.*

Crowdfunding

Crowdfunding is a relatively new concept that reached the Vietnamese recently. The four types of crowdfunding in Vietnam include the equity-based crowdfunding, reward-based crowdfunding, lending-based crowdfunding and donation-based crowdfunding. Personal business relationships play an essential role in Vietnamese culture, which makes it difficult for people to invest in a "stranger" over the Internet. Another obstacle is the Vietnamese legal system, which has not defined specific laws about crowdfunding yet.

Blockchain and Its Application

In general, there are two main branches of blockchain in Vietnam. Firstly, Vietnamese start-ups and subsidiaries of foreign blockchain firms are outsourcing the production solutions in these technologies to international customers from overseas. Secondly, one part of the companies is researching its application for use in agriculture, travel, supply chain, transport and e-government. Despite the booming number of companies and recent successes, the investment in blockchain start-ups is still at an early stage.

The Vietnamese government is very prudent on the issue of cryptocurrencies. The government entirely bans official transactions using digital or virtual currency following an alleged fraud of USD 658 million related to cryptocurrency that scammed 32,000 investors in Vietnam (Decree no 10/CT-TTG dated 11/4/2018).

6.4.4 *Other Services*

Financial leasing services started taking root in Vietnam's soil since the mid-1990s. However, Vietnam's financial leasing industry remains in the stage of experimentation, facing problems like imperfect regulations, regional development imbalance and limited financing channels. As at December 2018, there were ten registered leasing enterprises with the total assets which are approximate to USD 1.2 billion.

The **consumer finance** market had total balances of outstanding loans of USD 111.7 billion in 2018, in which retail banks and consumer finance companies account for 93% and 7% of the market share, respectively. With extensive retail networks, banks target customers with a good credit history, while target clients of credit consumer companies are new and unbanked customers.

Investment banking is at its initial stages in Viet Nam and focuses on domestic deals with medium-sized transaction value.

There has been **venture capital** in Vietnam since at least 1995, but the stock of capital available began to increase significantly in the first decade of this century with the arrival of foreign actors. As of January 2020, there are more than 70 venture capital companies, most foreign (Project 844, 2016).

Data management, web comparison and credit scoring platforms are among the other areas that both Vietnamese and foreign-owned companies focus on.

6.5 Conclusion

This chapter has provided an overview of financial services in Vietnam, as well as of their legal governance and recent trends occasioned by technological developments.

Notes

1. Estimation of the total assets of the financial services is carried out by the author by using the different descriptions and statistics of the General Statistics Office of Vietnam (GSO) and the government agencies (MFV, SBV, SSC and ISA).
2. As defined in circular 02/2013/TT-NHNN dated 21/01/2013 and circular 09/2014/TT-NHNN dated 18/03/2014, since 01/01/2015 non-banking credit institutions (CI) have to reconcile reference of the

debt classification results for each customer from the CIC to redistribute the customer's debt group to the highest debt group if the customer is borrowing at multiple CI. Therefore, from May 3/2015, bad debt figures reflect more accurately on the credit quality of the CI, and there is no longer a lot difference between the reported CI figures and the monitoring figures of the SBV. For the above reason, the percentage of bad debt as reported by the CI in May 01/2015, 02/2015, 03/2015 has increased in turn to 3.49%; 3.59%; 3.81% and the highest increase at the end of the first quarter of 2015 (3.81%), since most of the CI had executed the debt reference under CIC, but in essence, bad debt is trending off when compared to the rate of bad debt under the supervision of the SBV (according to the results of the debt classification left from CIC's information) with the percentage of bad debt in turn 4.83% in 2/2014; 4.55% in 01/2015; 4.75% in 02/2015 and 3.81% in 3/2015.

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