"Practicing International Management Case Vietnam’s Emerging Market Potential Around 25 years ago, Vietnam’s government first introduced doi moi. This “renewal” policy initiated free-market reforms while preserving a communist political system. In 1990, Vietnam’s communist government announced that non-Vietnamese manufacturers were welcome to set up shop in the Southeast Asian country. South Korea’s Daewoo (www.dm.co.kr) quickly established itself as the number-one investor in Vietnam. Other well-known companies, including Toshiba (www.toshiba.co.jp), Peugeot (www.peugeot.com), and British Petroleum (www.bp.com) also took Hanoi up on its invitation. The absence of trade and diplomatic relations between the United States and Vietnam, however, meant that U.S. companies had to sit on the sidelines. Nearly four years later, the U.S. government lifted the trade embargo with Vietnam, paving the way for a host of U.S. companies to pursue opportunities there. Vietnam’s location in the heart of Asia and the presence of a literate, low-wage workforce are powerful magnets for international companies. Today, there are many challenges for investors in Vietnam. The population of around 82 million is very poor, with an annual per capita income (at purchasing power parity) of only about $2,900. The infrastructure is undeveloped: Only 25 percent of roads are paved, electricity sources are somewhat unreliable, and the banking system is undeveloped. And although Vietnam holds tremendous long-term potential, it may be two decades before Vietnam reaches the level of economic development found even in Thailand today. In addition, the Communist Party of Vietnam is struggling to adapt to the principles of a market economy, and the layers of bureaucracy built up over decades of communist rule slow the pace of change. Despite the efforts of the State Committee for Cooperation and Investment, the government sometimes still conducts itself in a way that leaves international investors scratching their heads. In one incident, Hanoi embarked on a “social evils crackdown” that included pulling down or painting over any sign or billboard printed in a language other than Vietnamese. And laws concerning taxes and foreign exchange are in constant flux. Yet an emerging entrepreneurial class in Vietnam has developed a taste for expensive products such as Nikon (www.nikon.co.jp) cameras and Ray-Ban (www.ray-ban.com) sunglasses—both of which are available in stores. But if official economic statistics tell us that many Vietnamese are poor, where does the money come from to afford such luxury items? The answer is found in the large unofficial economy. It is typical for a person to live only 5 or 10 days a month on their official salary, with the majority of their purchasing power coming from moonlighting activities and business conducted in the informal economy. In late 2001, Vietnam and the United States signed a trade deal that gave Vietnam normal trade status with the United States. This meant that Vietnam could ship goods to the U.S. market at the lowest possible tariff rates. Meanwhile, U.S. companies are gaining continually greater access to Vietnam. As a result, Vietnam’s export activity (worth around $100 billion in 2014) is booming, due largely to its cheap, efficient workforce and growing foreign investment. Vietnam’s exports to the United States are doubling each year. The diversified nature of the country’s exports—including commodities, agricultural products, and manufactured goods—means it is somewhat immune to large swings in the price of any one export. Vietnam is now the world’s largest exporter of pepper, it may soon overtake Thailand in rice exports, and it even exports tea to India. Vietnam has become one of Asia’s best-performing economies. Over the past decade, Vietnam grew nearly 8 percent a year. In fact, throughout the currency crisis that gripped Southeast Asia in the late 1990s, Vietnam’s economic growth rate never dipped below 4.8 percent. The recent global slowdown, however, did tug down on Vietnam’s upward trajectory. Still, the nation’s trade-driven economy has lifted many Vietnamese out of poverty. Whereas the World Bank labeled as much as 70 percent of the population poor in the 1980s, that number was less than 18 percent in 2014.

Thinking Globally 12-10.

What do you think western countries could do to help improve the business climate in Vietnam? 12-11. What problems might a company encounter while conducting market research in Vietnam? 12-12. Reflecting on your perception of products labeled, “Made in Vietnam,” does the type of product affect your perception? Explain."