



THE NEW ASIAN DRAGON

INTERNATIONALIZATION
OF FIRMS IN VIETNAM

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& PHAM HONG CHUONG
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The New Asian Dragon

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PREFACE

Vietnam appears well-positioned to become a new East Asian dragon.
—George Irwin, *Vietnam: Assessing the Achievements of Doi Moi*¹

By 1995, nearly a decade after the introduction of Vietnam's economic *Doi Moi* reform policies, the country had already made significant progress in following the footsteps of other economies in the region by becoming successfully integrated into the global economy. The economy had been liberalized and was becoming increasingly market driven. Even factoring in the Asian financial crisis that hit the region in 1997, the Vietnamese economy was able to recover quickly, achieving double-digit growth rates in income and exports after 2000 and continuously reducing poverty rates. Much is known about the policies that were applied to help this transformation and build the institutions in which markets and companies could operate. There have been however, far fewer studies that tell us how the firms formed their internationalization strategies and gained international competitiveness. In Vietnam, the discipline of international business has not been a main component in the business and management curricula at universities and business schools, yet managers in domestic and foreign firms have been competing and collaborating, based on their more or less deliberately formulated business models and internationalization strategies.

In this sense, Vietnam has truly been an emerging market economy, and a rather successful one. However, success also transforms the business community, as well as the national economy. This transformation has occurred during a time when the regional and global economies have also been changing. Consequently, Vietnamese firms are now facing a new global environment of economic recession and financial turmoil. This book is a contribution to understanding the internationalization processes and strategies of firms in Vietnam. By assessing the legacy and path during the reform era, important questions are addressed: How robust is the business sector? How will it face these new global challenges? The aim is to stimulate managerial debate and research regarding how Vietnamese companies have become change agents in a region that has seen waves of late-comer firms transform economies into small *dragons* (Vogel 1991), if not into *dragon multinationals* (Mathews 2002) driving former agrarian economies into

1 George Irwin (1995). "Vietnam: Assessing the Achievements of Doi Moi", *The Journal of Development Studies*, 31:5, pp. 725-750.

newly industrialized market economies. The dragon is in the region the symbol of power.

These changes might have been part of regional processes, described by Akamatsu Kanabe as a Japanese-led “flying geese formation,” or driven by internationalizing processes stemming from the enormous buying power of the global and in particular the American markets. Although Vietnam’s path to economic development may resemble the rise of other East Asian economies it is nevertheless framed by both its specific sequences and different opportunities provided by the global economy, and the particular institutional context of its national economy. Moreover, the emergence and evolution of a private sector (thousands of private firms, joint ventures, and foreign corporations) in addition to the traditional state-owned enterprises have taken place in a dynamic way and under conditions that have only sporadically been researched and described, and are still poorly understood. Given this context, the contributors to this volume address a range of questions: Has Vietnam become a new Asian *dragon*? In what ways did firms play a role in the process? Have firms in Vietnam followed the same path as their counterparts elsewhere in Asia, or did they innovate new business models and organizations of competition and collaboration? How did they compete on the domestic market and overcome obstacles to export and access to foreign markets?

The chapters of this book are the result of a collaborative research effort by researchers from Vietnamese and Danish universities coming together for the study of international business in Vietnam. The researchers are from four cooperating universities: the National Economics University and the Foreign Trade University in Hanoi in Vietnam, and Aalborg University and Copenhagen Business School in Denmark. The aim has been to use contemporary international business theories to study strategic business issues and challenges in Vietnam, and to critically discuss their applicability and explanatory power.

The ten chapters of this book cover essential aspects of the internationalization processes of firms in Vietnam. The key findings are that private firms in a few industries have been particularly successful and been able to expand their exports; however, their success has largely been due to expansion in volume while embedded in global value chains where the possibilities for upgrading have been limited. At the same time, the importance of foreign companies in the Vietnamese economy has grown significantly. While the studies of national and organizational cultures in the foreign affiliates and joint ventures show that differences exist and have been overcome, there has been a clear tendency for foreign direct investors to move away from the joint-venture mode to wholly-owned subsidiaries. A significant part of the export industry and many large import substitution companies are now wholly-owned foreign companies.

An important strength of the domestic private sector firms, as shown in this

book, is the entrepreneurial drive that allows managers to overcome the challenges they face in developing flexible strategies and dynamic capabilities based more on softer aspects of technology than on hardcore technical innovations. Chapter one contextualizes the main drivers of the processes by which Vietnamese firms are internationalizing. Chapters two and three present two detailed studies of how Vietnamese firms have entered and developed their export internationalization strategies. Chapter four analyzes the important shift that has taken place in the entry mode and conversion of foreign direct investment projects in recent years. The following three chapters are studies of management issues related to the cultural and human resource management traditions of Vietnamese and foreign managers when operating and interacting in companies in Vietnam. The last three chapters study how Vietnamese firms are integrating into global value chains. Using this framework as an analytical tool, these chapters analyze the upgrading and development challenges and options for the Vietnamese firms participating in the chains. Specifically, chapter eight is a study of how changes in the international garment trade affected how local garment suppliers who were integrated into global garment value chains. Chapter nine presents a longitudinal case study of the strategic development of a single firm in the garment industry. Chapter ten analyzes the tea industry focusing on its industrial organization and the strategic options for the Vietnamese tea processors in the global value chain.

The research cooperation between the four universities, which took place over a five-year period ending in 2009, was supported by a grant from the development research funds of the Danish Ministry of Foreign Affairs. The publication of the book was kindly supported by a grant from the EAC Foundation (ØK's Almennyttige Fond) in Copenhagen.

Copenhagen, October 2009
Henrik Schaumburg-Müller

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CHAPTER 1

The Dynamics of Firm Internationalization in Vietnam

Henrik Schaumburg-Müller

Introduction

Vietnam has, in recent years, been one of the most successful countries at integrating into the global economy. Since the country effectively opened its economy in the early 1990s, it has experienced continued high economic growth and significantly reduced poverty. Except for China, it is hard to think of another country that has been similarly successful in economic development and integration in the global economy.

There have been other examples of successful outward industrialization, particularly in East and Southeast Asia, with China being a more recent example. The question remains whether there is still space for more emerging economies to become successful global competitors. Have the competitive entry barriers become so high that it would be hard for another latecomer to compete in the global economy? One possible answer is, of course, that if firms from the early industrializing developing countries—including China—are able to produce more cheaply and with higher quality than other firms around the world, the theory of comparative advantage still holds, making room for new players. China will indeed rely on comparative advantages and demand import of goods and services even if it can produce them cheaper and better than others.

However, while one perspective is to consider comparative advantages, another aspect of this discussion is how to improve national policies and firms' strategies in order to internationalize and compete successfully. Many other countries have opened their economies, and firms strive to compete internationally without much success in the long run. Have Vietnam and its firms just copied policies and strategies from other successful open economies? This leads to the following questions: What are the factors that have led Vietnam to successfully integrate into the global economy? What kind of internationalization strategies have the firms pursued, and are their strategies sustainable?