International Business
MASTER THESIS

OPPORTUNITIES FOR
SCANDINAVIAN COMPANIES IN
VIETNAM
-
A CASE STUDY OF THE CONSTRUCTION AND CIVIL
ENGINEERING INDUSTRY

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ABSTRACT

The purpose of this thesis is to evaluate if there are opportunities for a Scandinavian company on the Vietnamese market for construction and civil engineering. A qualitative case study has been made in three steps to reach the purpose, namely an environmental analysis of Vietnam, an analysis of the Vietnamese construction and civil engineering industry, and an identification of the relevant strategies towards the Vietnamese government that can provide a company with competitive advantages.

Vietnam is a country that is in a transition from a centrally planned economy to a market economy, and although there have been many radical changes there is a great need for further reforms in order to make the country investor friendly. The largest obstacles are the bureaucracy and corruption, the insufficient banking system and legal framework, and lacking infrastructure that works as a bottleneck for further economic growth. Once the industrial growth accelerates, there will be a significant increase in demand for infrastructure, which provides great opportunities for Scandinavian construction and civil engineering companies.

The industry is highly competitive, and it is difficult for companies to differentiate themselves. In order to obtain competitive advantages, a company has to establish a network of trustful relations with key persons in the government which can lead to a favourable position in the negotiations for large infrastructure projects.

Keywords:
Vietnam, Construction and civil engineering, Environmental analysis, Government networks, Scandinavian companies
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Göteborg, December 10 1999

Nina Henricson Peter Hult
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<tr>
<td>ADB</td>
<td>Asian Development Bank</td>
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<td>AFTA</td>
<td>ASEAN Free Trade Area</td>
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<td>APEC</td>
<td>Asian Pacific Economic Cooperation</td>
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<td>ASEAN</td>
<td>Association of Southeast Asian Nations</td>
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<td>BCC</td>
<td>Business Corporation Contract</td>
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<td>BOT</td>
<td>Build-Operate-Transfer</td>
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<td>CMEA</td>
<td>Council for Mutual Economic Assistance</td>
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<td>EIU</td>
<td>Economist Intelligence Unit</td>
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<td>EPZ</td>
<td>Economic Processing Zones</td>
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<td>FDI</td>
<td>Foreign Direct Investment</td>
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<td>FIL</td>
<td>Foreign Investments Law</td>
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<td>IFC</td>
<td>International Finance Corporation</td>
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<td>IMF</td>
<td>International Monetary Fund</td>
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<td>IZ</td>
<td>Industrial Zones</td>
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<td>ODA</td>
<td>Overseas (Official) Development Aid</td>
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<td>OECF</td>
<td>Japan’s Overseas Economic Cooperation Fund</td>
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<td>MGN</td>
<td>MNC-Government Network</td>
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<td>MNC</td>
<td>Multinational Corporation</td>
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<td>MoC</td>
<td>Ministry of Construction</td>
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<td>MoT</td>
<td>Ministry of Trade</td>
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<tr>
<td>MPI</td>
<td>Ministry of Planning and Investment</td>
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<td>SEZ</td>
<td>Special Economic Zones</td>
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<td>SIDA</td>
<td>Swedish International Development Assistance</td>
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<td>SOE</td>
<td>State Owned Enterprise</td>
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<tr>
<td>UNDP</td>
<td>United Nations Development Program</td>
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<tr>
<td>WB</td>
<td>World Bank</td>
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<td>WTO</td>
<td>World Trade Organisation</td>
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CHAPTER 1
INTRODUCTION AND PROBLEM DISCUSSION

This chapter serves as an introduction to the thesis, providing the reader with a background to our main problem, an explanation of the research questions that will guide the way to solve the main problem, as well as the purpose and delimitation of the thesis. We also attempt to acquaint the reader with the partnership company, NCC, and present the outline of the thesis.

1.1 Problem background

Since the early 1990s, the rapidly developing economies in South East Asia have provided opportunities for trade and investment. The region can be viewed as a miniature of the world itself, characterised by the coexistence of a variety of cultures and religions, by different stages of economic and political development, and by different levels of endowment in natural resources and population. It is while these economies are still development states, and not newly industrialised countries (NIC’s) that they provide the best opportunities for profitable investment (Cragg, 1993), and this is the stage in which Vietnam is to be found today.

Vietnam is a country that triggers thoughts of one of history’s worst and most brutal wars; a communist political system that has kept the borders closed towards the emerging business life in the South East Asian region; an underdeveloped agriculture-based economy; and a traditional Vietnamese way of life without exploitation and western influences. These issues have caused the country to severely lag behind its neighbouring countries in economic development. With the dissolving of the Soviet Union and through that, the loss of the Soviet Bloc aid in 1989, Vietnam began to open up to foreign investors and started to become integrated into the international economy. Today Vietnam is slowly emerging as a participant in the most rapidly growing region in the world economy and is
going through a transition from a centrally planned economy into a market economy. Its geographical location in the centre of South East Asia makes Vietnam attractive as a regional hub, and the country is rich in minerals and other natural resources. Another resource is its population, which has a high educational level. (Griffin, 1998, Fforde & De Vylder, 1996)

This has led to the entrance of many foreign investors into the market, believing it to be similar to their entries in the markets of other countries in the region. However, as it turned out, Vietnam is not an easy country to do business in, and many foreign investors were forced to retreat. Comparing Vietnam’s stage of development with that of its neighbouring economies in South East Asia reveals that Vietnam is considerably behind these countries. It is a country that is trying to combine a market economy with socialist values, and although it has gone through some dramatic changes during the last century, there is still a great need for further reforms in order to make the investment climate attractive for foreign investors. (Harvie & Hoa, 1997)

We got in contact with the Swedish construction and civil engineering company NCC, which is already engaging in business in the South East Asian region. As the conditions for doing business in Vietnam has begun to change, NCC is actively scanning the market for large infrastructure projects. Thus the company has a great interest in investigating the potential and opportunities for engaging in business on the Vietnamese construction and civil engineering market.

1.2 Problem statement

Based on the discussion above, we have come up with a main problem that is solved by first answering three research questions.

As Vietnam has opened the door to foreign investors, a lot of western companies have turned their heads towards the emerging Vietnamese
market to investigate the opportunities for doing business. Our main problem is based on NCC’s interest in the Vietnamese construction and civil engineering industry:

**Main Problem**

“What are the opportunities for a Scandinavian construction and civil engineering company in Vietnam?”

As a first step towards the evaluation of the opportunities on the Vietnamese construction and civil engineering market, we make an analysis of the external environment. This involves a study of the political, economic, socio-cultural and technological environments, in terms of institutions, which affect a foreign construction and civil engineering company that operates in Vietnam. This so called institutional analysis of gives a general picture of the environment – the external institutions that indirectly influence the foreign company. Therefore, research question one is defined as follows:

**Research Question One:**

“What environmental institutions influence the operations of a foreign construction and civil engineering company on the Vietnamese market?”

We then move further to look at the network of environmental institutions that are in direct contact with the foreign company, and we begin by making an analysis of the construction and civil engineering industry in Vietnam, which is crucial in order to get a fair picture of the potential in the industry. It includes a study of the demand and supply, as well as the competitive situation within the industry.
This gives us our second research question:

**Research Question Two:**

“What is the demand/supply and competitive situation in the construction and civil engineering industry in Vietnam?”

The government has a strong role in Vietnam, and particularly concerning large public infrastructure projects where they are the customer and the highest decision making authority. It is crucial to include the company’s contacts and relationships with the government since they decide the ability of the company to achieve competitive advantages on the market, what we call the key strategic factors. Therefore, in order to solve our main problem, the third step is an identification of relevant strategies towards the Vietnamese government:

**Research Question Three:**

“What are the relevant strategies towards the government in order to gain a competitive advantage in the Vietnamese construction and civil engineering industry?”

By answering the three research questions, we cover the most important parts of the environment that decides the opportunities for a Scandinavian construction and civil engineering company on the Vietnamese market.

### 1.3 Purpose

The purpose of this thesis is to evaluate whether there are opportunities for a Scandinavian company on the Vietnamese market for construction and civil engineering. This will be done in three steps: First, our purpose is to identify and describe the institutions in the company’s environment and to a certain extent explain how they influence the company’s actions on the market. By doing this, we will not only get a picture of the present
situations, but we will also be able to make predictions about the future development which further explains how the environmental forces influence each other. Secondly, we describe the construction and civil engineering industry in terms of demand and supply, and the competitive situation. Finally, we identify and describe the relevant strategies towards the Vietnamese government, which further help us determine whether there are opportunities for a foreign construction and civil engineering company in Vietnam as they are indicators of the key strategic factors that can provide the company with competitive advantages. The purpose will be reached by gathering information through secondary sources, and expert interviews.

1.4 Perspective

The perspective in the thesis is of NCC as a Scandinavian construction and civil engineering company, and thus of any similar Scandinavian company in the same situation, planning to engage in large projects on the Vietnamese market. The environmental analysis made to solve the first research question could, regarding many aspects, be seen from the perspective of foreign investors in any industry from any country. However, we try to put emphasis on the construction and civil engineering industry wherever we find it possible, and we also consider the situation facing Scandinavian companies above any foreign company.

1.5 Delimitation

The concept of construction and civil engineering is wide and contains many different areas. Therefore we decided to limit the study to NCC’s operational activities on international markets, namely major infrastructure projects within the areas water resources, energy, and transportation sectors such as roads and railways, airports and harbours. We will also include some industrial engineering sectors, such as oil and gas and the development of industrial parks/zones. The areas of housing and
construction of residential and office buildings have been excluded from this study.

Due to the focus on large infrastructure projects, the government is regarded as the sole customer, and therefore we do not include private investors or enterprises buying construction services.

Regarding the time perspective, we analyse the potential of the Vietnamese construction and civil engineering market from a short term and a long term perspective, by predicting the development from 1999 to 2010.

1.6 Definitions

The concepts that are frequently used and that are of great importance for the reader to get a good understanding of the report are explained below.

Institution is a frequently used concept throughout the thesis, and one definition of the concept reads “institutions concern how society is organised” and their characteristics are “their rule-like and organising nature”, “their ability to facilitate and constrain the relations among individuals and groups” and that “they are signified by predictability”. (Jansson, 1999)

The concept of strategy can be defined as “a unifying theme that gives coherence and direction to the actions and decisions of an individual or organisation” (Grant, 1998 p.3), or “the overall plan for deploying resources to establish a favourable position”. (Grant, 1998 p.14) In our study, strategy is regarded as business strategy, which is concerned with how the firm competes within a particular industry or market. (Grant, 1998 p.19)
Another frequently used concept is the construction and civil engineering industry, where we refer to the planning, building and repair of public works within the infrastructure sector.

The concept of Overseas (Official) Development Assistance, ODA, is used throughout the thesis. When used it is referred to as non-refundable aid or loans from governments or international organisations. (UNDP, 1999)

Technology transfer is defined as the transfer of ownership or the right to use all types of industrial property, inventions, designs and trademarks, and the transfer of technological know-how. (Engholm, 1995)

1.7 NCC – the Partnership Company

NCC is a Swedish company that was formed in 1988 through a merger between Johnson Construction Company (JCC) and Armerad Betong Vägförbättringar AB (ABV). In 1997, NCC merged with the Swedish construction and real estate company SIAB. (NCC, 1999) Today NCC is the largest construction and real estate company in the Nordic region, and the domestic markets include Sweden, Finland, Norway, Denmark, and Poland. The NCC group has operations in five business areas: NCC Civil Engineering, NCC Building, NCC Industry, NCC Real Estate, and NCC Invest. Of NCC’s construction operations, only one business area is currently covered in their international operations, namely that of Civil Engineering.

NCC Civil Engineering engages in all types of construction, repair and maintenance activities, and is currently involved in a number of major projects, e.g. the Öresund Tunnel that, combined with the Öresund bridge, links Sweden to Denmark, and the first privately financed infrastructure project in Sweden, the Arlanda link. Outside of the domestic markets, the business area concentrates on major civil engineering projects in selected markets. (NCC, 1999) The Group concentrates these operations on product
areas where it has advanced technological and financial expertise that serves as a competitive tool on international markets.

International project operations focus primarily on the Baltic countries, Central Europe, Russia, Middle East, and Southeast Asia. NCC’s international project operations are to grow through organic expansion, combined with acquisitions and alliances. In order to add competitive edge to its operations on markets outside Europe, such as in Southeast Asia, NCC has formed the INS alliance together with the Italian construction company Impreglio S.p.A., and the German construction company Strabag International GmbH. In the alliance, each party contributes with expert knowledge in different fields, where NCC contributes with great expertise in underground works. (NCC, 1998)

1.8 The outline of the thesis

The first chapter is an introduction to the thesis with an explanation of the problem area and the research questions. In the second chapter we introduce the theoretical framework used in the thesis, and describe the theoretical tools we apply in the research. Chapter three presents the methodological practices utilised throughout the research process. In chapter four, the environmental and industrial analyses are presented under the headline institutional analysis, as well as an investigation of the relevant strategies towards the government in Vietnam that can enable Scandinavian companies to be competitive. In the fifth chapter we analyse our findings and create possible scenarios for the future development of the Vietnamese market. Finally, in chapter six we state our conclusions concerning the potential and opportunities for a Scandinavian construction and civil engineering company in Vietnam.
INTRODUCTION AND PROBLEM DISCUSSION

Figure 1.1: General Outline
Source: Own Model

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CHAPTER 2
THEORETICAL FRAMEWORK

In this chapter we present the theoretical framework that has been used in our thesis. We introduce the Institutional analysis framework that works as the base for the entire study. Within the framework, we have used different models to analyse different areas that will be presented below.

2.1 Environmental analysis

Most decisions regarding investments on foreign markets are made with great uncertainty, and as an enterprise considers entering a new market, its competitiveness will depend on how well it relates to and learns from the environment in this foreign country. Therefore an analysis of the business environment is of utmost importance as the first step in the assessment of the potential of a market. The business environment of a firm consists of a number of external influences that impact the firm’s decisions and performance. In order to monitor and analyse the environment, a framework for organising the information is needed. One way to do this is to classify the environmental influences by source into economic, technological, demographic, social, and government factors; or by proximity where the micro environment, or industry environment, is divided from the macro environment. (Grant 1998) As will be seen, we use a technique that classifies the environmental influences in both ways.

As a framework for our environmental analysis we have used Jansson’s (1999) institutional analysis. In this model the Multinational company (MNC), in our case NCC, is found in the centre, surrounded by environmental influences that are impacting its strategy and organisation directly (the organisational fields), or indirectly (the societal sectors). This relates to the micro and macro environments mentioned above, although here the environmental influences are classified as institutions.
According to the institutional perspective, the society is built up by institutions, which concern the rules, procedures and conventions typical for a more specific way of organising human behaviour, it is some kind of social grouping, leading to habitual and routinised behaviour or action.

The characteristics of institutions are (1) their rule-like or organising nature, (2) the ability to facilitate and constrain the relations among individuals and organisation, and (3) predictability. Since institutions result in established patterns of behaviour, they are also stable, which makes it an excellent instrument of describing, explaining and predicting actual individual and organisational behaviour.

Figure 2.1: Basic Institutions Model
Source: Jansson (1999)

By using this institutional perspective when analysing the country/market, we see the regular behaviour patterns in the different social groupings or organisations in the society, which influence each other. What goes on
within one institution is affected both by its own rules, values and thought styles as well as those of others, which means that the way one institution is organised affects how others are organised. For example, the MNC strategy and organisation are influenced by the rules and values within the MNC, as well as how the surrounding environment is organised. Thus, the world is organised into institutions, where behaviour is influenced by routines, habits, customs, rules and regulatory mechanisms.

The major difference between this institutional framework and other environmental analysis frameworks is that it takes into account the network aspect between the MNC and the institutions surrounding it. The network approach implies that the MNC has a network of relations with outside parties in the organisational fields, namely other organisations and government agencies with which it directly participates. These relations are determined by how the environment is organised, that is by its surrounding institutions. Thus the networks are influenced by institutional structures, such as the overall culture and legal aspects in the country, which determine what goes on inside the networks.

This network aspect is crucial since it gives a clear picture of the interrelationships between the external environment, the institutions participating in the MNC’s network of markets and government, and the MNC itself. The government has a special position in the institutions model, since it participates both as a collective network actor in direct contact with the MNC, as well as an institutional structure outside the network.

We have chosen to have an outside-in perspective, where we start by describing the external environment, the societal sectors, in the form of a PEST-analysis, and then move to the institutions that are closer to the MNC.
2.2 Institutional analysis Part I: Societal sectors – a PEST analysis

At this level we identify and describe the institutions that constitute the specific country environment here called external institutional framework, namely the societal sectors. These institutions have their own individual behavioural regularities that organise and structure them individually, and influence the structure of other institutions. The influence is one-way from the societal sectors towards the MNC. This means that the external environment affect the environment in which the MNC directly operates, that is the network of markets and government.

To describe the external institutional framework in which the MNC operates, Jansson (1999) recommends a PEST analysis, which is a structured way of describing the environment in terms of political, economic, socio-cultural and technical aspects. It makes it possible for the reader to get a general picture and an understanding of the environment in the specific country. The PEST analysis also gives us the opportunity to specifically include the economic factors in the societal sectors. As these factors are measurements of market attractiveness we consider them as being important determinants of the strategic choices of an MNC. Under each environment we highlight the factors and areas that are of importance to both give the general picture of the environment, and we try to emphasis the areas of relevance for our study.

2.2.1 The political/legal environment (P)

This segment deals with the political progress in a society, and the regulatory framework that shapes codes of conduct. The political/legal environment is probably the one that concerns a foreign MNC the most. First of all, foreign investors need to find out if there is a sufficient legal framework in the market to be able to operate there. Secondly, foreign investors must also respect national laws and regulations in order to be able
to operate efficiently, or to operate at all on the new market. The political atmosphere indicates the openness to foreign investments, and guides the way for the proceeding of operations of foreign companies. In order to evaluate and predict the political risk, it is of utmost importance that we follow the development of the political situation in the country.

In the political/legal environment, we will look at the overall historical and current political situation, regional/central distribution of power, legal system regarding foreign investment, and international relations with powerful and important nations and international organisations. The latter is important since financial aid from various organisations are given to projects within sectors of relevance for companies in the construction and civil engineering industry, such as large infrastructure projects. Relations with Scandinavian countries in terms of goodwill and political support are also crucial. The operations of Scandinavian companies on the Vietnamese market can be favoured because of their home country’s contributions to the country.

2.2.2 The economic environment (E)

The economic environment includes the general set of economic factors and conditions that confront all industries in a society. The economic development in the country determines the economic situation for the foreign investor. Therefore it is important to evaluate and establish a long- and short term perspective of the economic development in the country. Factors like economic growth, with indicators as inflation, GDP growth, current account balance, exchange rate, foreign debt interest rates, and money supply, are studied. Furthermore, the regional diversification of economic activities, government priorities and reform system, and the economical impact on Vietnam of the current financial crisis are investigated in order to evaluate the investment climate in the country.
2.2.3 The socio-cultural environment (S)

When it comes to the socio-cultural environment, the focus is on demographics, life-styles, and social values. Social factors like income distribution, standard of living, and the rural/urban inhabitant distribution are indicators of future demand and need for infrastructure investments. Unemployment rates and availability of skilled labour force are also important to foreign investors, as well as the education/training system in the country.

The cultural environment involves the effects of history and cultural heritage on the country’s traditions, values and norms. Language, religion and ethnic aspects affect and shape the business culture and it is crucial to establish an understanding of these things when entering a new market.

2.2.4 The technological environment (T)

The technological environment concerns the technological advancements that take place in the country. We choose to look at the general technological level in the country in terms of science and technology research, and industrial technological advancements. Related to this are the country’s attitudes towards western technology, and the encouragement of foreign companies’ technology transfer.

An important indicator of the technological level is the state of the infrastructure. We will look at the telecommunication and information technology availability and capacity, whereas the other infrastructure sectors will be further investigated below when we look at the demand and supply of the construction and civil engineering industry.
2.3 Institutional Analysis Part II: Organisational Fields

As the PEST analysis helped us identify and describe the institutions in the external environment, we will now move to the explanatory stage of the institutional analysis. We look at how explanatory factors and determinants in the external environments influence the MNC and its actions towards the institutions closer to it, the organisational fields. This gives us the opportunity to explain how the MNC is affected by its surroundings, and give a more detailed picture of the situation for a foreign actor on the market.

It also makes it possible to evaluate the attractiveness of the market more easily by giving a clearer picture of the opportunities and threats to a foreign investor.

2.3.1 The network aspect

As we move into this stage of the institutional analysis, we look at the relationships between the foreign company and the institutions in the host country in which the MNC directly participates, i.e. the different markets and the government in the organisational fields. The markets in which the MNC directly participates are the financial markets, labour markets, and the product/service market. The local and central government are other institutions with which a foreign company directly interacts.

This is where the institutional analysis differs from other environmental analysis frameworks, namely by the network aspect. The MNC builds networks with the government and the different markets in the host country with which they have direct contact and interact with. At this level there is an inter-play between the participating organisations, meaning that the influence is two-way.
This is illustrated in The Networks Institutions Model:

![Figure 2.2: The Networks Institutions Model](image)

Source: Jansson (1999)

According to Whitley (1992), the degree to which the networks are institutionalised can be measured by looking at the following dimensions:

(Jansson 1999)

- The extent of long term cooperative relations between firms within and between sectors.
- The degree to which relationships are personal and trustful.
- Types of actors, e.g. are there any intermediaries?
- Characteristics of major actors, e.g. stability, integration, and scope of business groups.

Even if the MNC has direct participation in the financial and labour markets, they are out of the MNC’s control and the organisation has to adapt to them. The two-way influence between markets and organisations...
within the organisational fields described by Jansson (1999) is not as valid in these two markets as in the product/service market, where the actions of the MNC highly affect other participants, or as the continuous dialogue between the MNC and the Government.

Therefore, our main focus is on the product/service market, which we call the industrial analysis, and on the Government. In this case study, these two networks partly overlap each other due to the government’s two different roles, one handling licenses and permits and the other as buyer of large infrastructure projects. Therefore, the industrial analysis made in this chapter will focus on the demand situation and competitive environment, while we further analyse the customer and intermediary network as part of the government chapter.

2.3.2 Financial and Labour markets

An organisation’s possibility to access capital in a market is determined by the development and the nature of the financial market in the country. When analysing the development of the financial markets, different kinds of financial possibilities will be looked upon. We include the banking system and other capital market institutions that are of relevance. Of special interest for us is the financial aid from international organisations, which are funding large infrastructure projects.

When analysing the labour markets, the availability of skilled labour has a prominent role, as has the workers rights and labour unions. The latter is of great importance as labour unions influence the reward system, labour mobility and work organisation.

2.3.3 Product/service market – The industrial analysis

We have chosen to look upon this part of the institutional analysis as an industrial analysis, which, apart from describing the development of the
industry and the government’s attitude towards foreign investment in the industry, will be made in two separate sections:

First we identify and describe the sectors of the industry in Vietnam that are relevant for a foreign construction and civil engineering company in terms of demand and supply. Since this will only be described by current statistics, no theoretical framework is needed. The identification of the demand and supply in the industry includes most areas of the infrastructure: energy, water resources, land transportation, airports and harbours, as well as demand for technical support and education.

Secondly, we will investigate the competitive environment, and due to the high relevance of competitive aspects, we choose to put special emphasis upon this part of the thesis.

2.3.3.1 Five forces of competition

We use Porter’s (1983) five forces of competition framework to investigate the key forces in the competitive environment within the industry. The framework views the profitability of the industry as determined by five sources of competitive pressure. It focuses on the rivalry among existing firms, threat from new entrants and substitutes, and the bargaining power of buyers and suppliers. Analysing these aspects will help us determining the potential within the construction and civil engineering industry in Vietnam.

In our thesis we choose to exclude the competition from substitutes. Substitutes are regarded as comparable alternatives that can perform the same function but at a much more attractive price. (Porter, 1983) Substitutes, in the case of performing construction and civil engineering projects, would be other companies that can do exactly the same thing at a lower price, but these matters are discussed when evaluating the existing competitors and are not regarded as substitutes in our thesis.
Figure 2.3: Five Forces of Competition
Source: Porter (1985)

**Bargaining power of buyers**
The bargaining power of buyers determines the margins of profitability, and it is dependent upon two sets of factors, namely the buyers’ price sensitivity and relative bargaining power. The extent to which buyers are price sensitive depends upon the importance of the product/service as a proportion of total cost, the differentiation level of the product/service, and the competition among buyers. The bargaining power of buyers relative to that of sellers is influenced by the size and concentration of buyer relative to suppliers, buyer’s switching costs, buyers information and the buyers ability to backward integrate.

**Threat of new entrants**
In most industries, new entrants cannot enter on equal terms with those of already established firms due to the barriers to entry. Barriers to entry for project-based establishment differs somewhat from those for production based, e.g. economies of scale and access to distribution channels. As with all new entrants, the capital requirements for competing with established
firms are a barrier to entry. Legislation on foreign investment is a major barrier, which can give local actors a competitive advantage. Another important barrier to entry for foreign firms are local networks which can be very hard to enter or copy. Corruption and bureaucracy are other factors that can act as barriers to entry.

**Bargaining power of suppliers**
The factors that determine the relative power of suppliers as opposed to producers are the same as those determining the relative power of buyers. (See bargaining power of buyers) Regarding the suppliers, we look only at buying locally versus importing, and thus we do not identify any specific suppliers or their size, price sensitivity, or bargaining power since we do not find it relevant for this study.

**Threat of substitutes**
The price a buyer is willing to pay for a product is, to some extent, dependent on the availability of substitute products. If no substitute product exists the customer is comparatively insensitive to price. If there are close substitutes, the customer will switch to those in response to price increases for the product.

**Rivalry among existing firms**
The competitive situation in an industry is greatly determined by the rivalry among existing firms which is evaluated by looking at the concentration and diversity of the competitors. We need to look at both domestic and international competitors on the market, and in order to get a good picture and to evaluate their different competitive strengths, we use Jansson’s Industrial marketing strategies framework. (Jansson 1994) Industrial marketing strategies concern how companies act towards customers and competitors in a market. The marketing strategy consists of two basic sub-strategies: the competitive strategy and the linkage strategy. The linkage strategy concerns how the seller creates linkages with the buyer, whereas the competitive strategy involves the position the seller takes or possesses
in relation to competitors. Handled in the right way, these two strategies can help the MNC gain a *first-mover advantage*, which occurs when competitors are locked out due to the MNC’s favourable competitive position.

Figure 2.4: Industrial Marketing Strategies
Source: Jansson (1994)

**Competitive Strategy**
Looking at the competitive strategy, the company’s competitiveness and differentiation are identified. The competitive strategy involves the offering of a technical solution to the buyer’s problem, contained in a package consisting of various offers including price, quality, service, delivery time and finance. The package should be designed to be favourably different from other companies’ offers. Here the trade-off between price and quality is the most common and important factor. The company’s reputation is also crucial in the evaluation of a company. In industries where the competitive advantage is based upon differentiation and innovation there is a great risk of imitation by rivaling firms, which leaves the firm with only a limited time to exploit its advantages before they are neutralised. Therefore, it is important to develop a strategy where flexibility and responsiveness give the firm an opportunity to continuously develop new advantages. (Grant
For a company to create a sustainable competitive advantage it is important to “tie-up” or establish a relationship with the customer.

**Linkage Strategy**

Business success can depend a great deal on one’s ability to establish good connections and relations with a large network of people. Once established, these relations must be nurtured, both through business meetings and informal gatherings. Through the linkage strategy, relations are established between the buyer and the seller. Because of the high involvement and commitment that derives from the exchange of products, information, know-how, finance and social exchange, specific linkages and mutual interdependence can be established that helps a company gain competitive advantages.

In the evaluation of the rivalry among existing competitors, we will try to identify any advantages possessed by competitors in establishing such linkages. We will then return more specifically to the linkage strategy when we look at the government network strategy for a Scandinavian construction and civil engineering company below. This is because the focus is on large infrastructure project selling where the buyer is almost exclusively the government, and thus the search for competitive advantages lies within the strategies towards the government.

**2.3.4 Government**

As the institutional analysis shows, the interactions with the government are central in the MNC’s operations on a foreign market. Unless the MNC establishes a government network which consists of the ministries and authorities, both central and local, that a foreign company has direct contact with in the host country, it will be unable to operate in the host country. In this part of the thesis, we will identify and describe an MNC’s government network, we will also analyse different MNCs’ strategies towards government. These strategies concern creating linkages and networks with
the government, and are aimed at influencing government procurement decisions and also at adapting to or influencing policy formation and implementation. We put special emphasis on this part due to the specific political situation in the case study country, as well as the complexity of the procurement process regarding large infrastructure projects that leaves the government with an important role in our thesis, being the major customer.

By establishing a good influence position with the authorities, an MNC can gain competitive advantages over competitors in selling to the government and also to gain a faster processing of licences and permits compared to competitors. When looking at how an MNC acts towards the government, the Network strategy framework (Jansson, 1999) is used to analyse how the MNC can gain a competitive advantage over its competitors.

Figure 2.5: The Network Strategy
Source: Jansson (1999)
2.3.4.1 Mapping of government network
The establishment of relations through various types of exchange between the MNC and the government takes place at different organisational levels and units. The mapping of the MNC-government network of linkages illustrates these levels, and which linkages are important in order to establish relationships between the MNC and the government. We will try to identify two different networks, first when the government is acting as a buyer of large infrastructure projects and second, when the government is acting as the provider of licences and approvals.

2.3.4.2 Main objectives
The two main objectives and purposes of the MNC are:

1. To gain business legitimacy from the government. The MNC needs to acquire political acceptance by adhering to national rules, regulations, norms and values, and being a good citizen by contributing to national development and welfare.

2. To increase the efficiency or competitive position in the market. This can be indirectly achieved through the government by the hastening of the processing of licences and to utilise the rules in competition with other firms.

The two objectives are closely related to each other since business legitimacy can be gained by being efficient and competitive regarding production, distribution and marketing. On the other hand, by gaining legitimacy, the MNC is in a better competitive position to create favours, and it can also improve legitimacy by proving that its operations take place in accordance with the national rules and regulations. By its efficient operations, the MNC may even alter the national values and norms.
The business Legitimacy is based on two grounds:

**Technical Legitimacy**, which is market based and focuses on the behaviour of the MNC on the market in terms of output and economic performance.

**Institutional Legitimacy**, which involves the wider effects of the MNC’s market behaviour, i.e. the MNC contribution to the host country’s industrial and technological development. It also includes adherence to and respect for the laws, rules and regulations that are designed to guide, direct and regulate the MNC and its operations.

Thus the MNC is evaluated according to its behaviour on the market, and how efficient it is, i.e. competitive strength. Besides acting politically correct, the MNC should learn the rules and procedures of the bureaucracy and stick to them. Thus, legitimacy is achieved by adapting to both political and administrative interests.

2.3.4.3 Network Strategy

In order to fulfil its main objectives, the MNC needs to find a way to influence the government’s decision-making process through the MNC-government network (MGN), and thus the network strategy concerns how the MNC acts towards the government network. Actions are divided into three main sub strategies:

**The Web Strategy** is based on how to match the government network with the product/service network matching the principles of legitimacy and efficiency. In the case of project procurement, the product/service network overlaps very much with the government network since negotiations on project bidding to a large extent take place with the government, and the web strategy will therefore be excluded from the analysis.
The Linkage Strategy is directly related to the way the MNC acts within the MGN, since it includes combining the main types of linkages that are created through exchange of various kinds, namely:

- **Resource exchange**, which mainly involves information, and makes the authorities tied up to information from the MNC and vice versa.
- **Social exchange**, where there is social commitment involved.
- **Product and Financial exchange**, where the dependency is on the procurer’s products and technology, and ability to finance.

In project selling, there is a high uncertainty experienced by both parties since the fulfilment of a promise can only be checked long after the placement of the order. Therefore the establishment and maintaining of contacts often represents the largest and most important part to reduce uncertainty and increase trust. Thus the linkage strategy concentrates on social linkages that are created and maintained with various key persons.

The Competitive Strategy is related to competition with other companies and it concerns the creation of a competitive offer that gives the MNC a favourable differentiation, e.g. by informing how the MNC can benefit the country. For project sales, strong local organisation, financial strength, and technical ability are crucial competitive factors, as well as having reference projects. A critical issue is how to coordinate various engineering capacities that are needed to offer large technically sophisticated products and projects.

By building and maintaining a network, competitors can be locked out and the MNC then aims at creating and maintaining a first-mover advantage. This can be achieved through the different linkages where the commitment of the MNC and the government becomes mutual, and it is important to find the right linkage strategy for different stages in the building of a relationship. A first-mover advantage can also be achieved through a
competitive offer, if it is effectively communicated through the linkage strategy by the right network capability profiles.

2.3.4.4 Linking Process
The linking process involves bridging the gap between the organisations studied and to establish the MGN. It is the process of establishing contacts and relations in order to negotiate for projects and licences in the host country. The process involves a number of stages that stretches over what is often a very long period of time, from the preparations to the follow up stage.

The process has two main stages and four main sub-stages or phases:

The Establishment Stage is when the MNC begins its establishment of the MGN, and it includes three phases: The Scanning Stage, which involves a study of the feasibility for operating in the host country. It also includes the authority aspect, that is the government opinion, as well as the permits needed. This is an information collection stage. In the Approach Stage, more outwardly directed activities of communication begin. The company knows about different projects and buyers and tries to influence them. It also involves actual contacts with administrative units to find out about license. In the Bidding stage, the bid is prepared to suite the tender, which is finalised by a formalised offer from the seller.
The Habitual Stage occurs when the relationship has been established and routinized, and habits have been developed. The MNC then has to move into three different phases: In the Negotiation Stage, the seller is familiar with the needs, and the buyer is familiar with the offers. Bargaining takes place in order to reach an agreement, and bids are evaluated from technical and economical aspects. Informal and formal meetings to specify the final offer often follow bids. In the Completion Stage the deal is implemented and specific suppliers are chosen. A temporary organisation is created to complete the assignment. The Follow-up Stage involves contacting officials in order to keep the relationship going and getting information about future projects.

The stages in the linking process are crucial when it comes to project procurement, and will therefore be of interest for our study. Each phase in the process involves various transaction costs, which can be reduced by first-mover advantages. They can be attained as the negotiating parties become mutually dependent upon information exchange from each other (information impactedness), or through the development of contact nets (social impactedness).

2.3.4.5 Network Capability Profiles
To be able to decide on and implement a strategy, specific resources are needed, e.g. knowledge about certain authorities. The network capability profiles describe the specific assets of a company for a certain strategy, such as the knowledge, skills or other resources related to the linkages and organisations of the network.

The profile thus illustrates a company’s ability to handle various types of government network linkages for certain types of licences, and for different stages in the project approval process.
The Authority specialist is a profile that is oriented towards direct contacts with authorities. The capability is to get information, licenses or a tender specification directly oriented towards specific needs of the MNC, and it is characterised by long lead terms and high costs in long term relationships. Broad contact net capabilities tend to emerge partly. The capabilities emerge from contacts with authorities and adapting to changing requirements.

The Procedure Specialist is also a profile that is oriented towards direct contacts with authorities, and it can be a company that is demanding licenses that are not adapted to individual specific needs and where licenses are handled more consistently.

The Linking-Pin Specialist is a profile that is specialised at being an intermediary.

The Intermediary Network Specialist is a profile that focuses on indirect contacts with the authorities. The relationships with agents and consultants are more important than linkages with authorities. In our thesis we do not bring up the linking-pin specialist since it is irrelevant to our objective of the thesis and we have not interviewed any company acting like that.
2.4 Assessment of the Future – Scenario Creation

To be able to analyse our findings from previous stages we have chosen to use the theoretical tool of scenario creation. This is a technique that is used to assess the future in a qualitative way, in contrast to making calculative predictions.

Scenario Creation is a tool for helping us getting a long term perspective in a world of great uncertainty, thus it is a technique to assess the future environment in the host country in which the MNC will operate. It is a way to make qualitative judgements of the future based on historical and present institutional developments, and/or on judgements of experts. However, scenarios are not predictions, but present alternative images to the future. (Schwartz, 1996)

In order to cover alternative futures and risks, we make more than one scenario of the possible future of the Vietnamese market. In that way, we are able to reduce the uncertainty factor in terms of evaluating the possible risks involved in the future strategy of MNC’s in Vietnam. The usage of scenario techniques will help us analyse the future potential of the construction and civil engineering industry in Vietnam, which is closely related to the future development of the political, economic, and social factors in the country.

2.5 (SW)OT Analysis

In our final chapter, we make an evaluation of the ability of a Scandinavian construction and civil engineering company to operate on the Vietnamese market in terms of major threats and opportunities that the market poses. We use the SWOT-analysis (Kotler & Armstrong, 1996) for this purpose. The SWOT analysis includes the opportunities and threats in the external environment, as well as the strengths and weaknesses of a firm. However, we only look at the external parts of the SWOT-analysis, i.e. the
opportunities and threats, since the internal environment is beyond the scope of the thesis, and we do not include any company specific analysis or recommendations. The opportunities and threats faced by a company are not absolute or definite, but can be caused by changes in the environment. To evaluate the opportunities and threats, we base our conclusions on the most likely scenario developed in the scenario creation.

Also included in our conclusions, we identify the potential for competitive advantages within the Vietnamese construction and civil engineering industry in terms of the factors that determine a company’s ability to survive and prosper – the industry’s key success factors (Grant, 1998), although we choose to call them key strategic factors. These factors will be based primarily on the government network strategies in chapter six, since we consider a company’s possibility to achieve competitive advantage lies within its ability to establish good relations with the government in order to create a favourable position.
CHAPTER 3
METHODOLOGY

The purpose of this chapter is to explain how we have progressed in our study. We introduce the reader to our way of thinking and choice of research strategy, as well as our research approach and method, and data collection. We then evaluate the quality of the research, and finally we present how we have linked the theoretical framework to our research questions and the methodological structure of the thesis.

3.1 Research strategy

The choice of research strategy depends on what the researcher wants to investigate and what kind of problem is to be solved. The investigator has to match the research strategy with the purpose of the study. According to Yin (1994) there are five choices of research strategy: experiment, survey, archival analysis, history and case study. To choose the appropriate strategy there are three conditions to consider. First, what type of research question is being asked. The investigator has to identify which of the questions, why, where, how, what, that is being asked to fulfil the purpose of the study. Secondly, the extent of control over behaviour events, and thirdly the degree of focus on contemporary or historical events. (Yin, 1994) Yin (1994) argues that a case study research strategy is favourable if the question how or why is being asked about a contemporary set of events over which the investigator has no or little control. Yin argues that one of the strengths of using a case study is the investigator’s ability to deal with documents, interviews and observation.

3.1.1 Choice of research strategy

We have chosen to do a case study since it best suits the purpose of our study. Our main problem, “What are the opportunities for a Scandinavian construction and civil engineering company in Vietnam?” is similar to the
“How” question: “How can a Scandinavian construction and civil engineering company take advantage of the opportunities on the Vietnamese market?” In our study we look at both historical and contemporary events, but with the focus on the latter, to be able to assess the future of the construction and civil engineering market. Another fact that affected our choice of strategy was that we had no control over behaviour events. We also took advantage of the strengths in a case study by using several sources, such as documents, interviews and direct observations. There are several theories surrounding the subject of our thesis, so we had no problem finding relevant theories that covered all the important parts. So the case study becomes deductive due to the use of existing theories to find information. (Yin, 1994)

3.2.2 Case study design

According to Yin, the research design is the logic that links the data to be collected and conclusions to be drawn to the initial question of study. A definition of a research design could be “a plan that guides the investigator in the process of collecting, analysing and interpreting observations”. (Yin, 1994 p.19) Four different types of research designs can be distinguished; single-case holistic design, single-case embedded design, multiple-case holistic designs, and multiple-case embedded design. These can be seen in figure 3.1. (Yin, 1994)

![Figure 3.1: Basic Types of Designs for Case Studies](source: Yin (1994))
The single case design includes just one case study, and it is useful when the case represents the critical case in testing a well-formulated theory or when it represents an extreme or unique case. The multiple case design is used when there is more than one case study. According to Yin, the design can also be either holistic or embedded. The holistic design is appropriate to use if the case study does not involve more than one unit of analysis e.g. when no sub-units can be identified and the case study is holistic in nature. The embedded design is used when the case study involves more than one unit of analysis.

We have used an embedded single-case design, Type 2, in our case study. Since our time was limited and we had a tight deadline, we only had time to study one case, the Vietnamese market for construction and civil engineering. The study involves more than one unit of analysis, such as the competitive situation on the Vietnamese market, the demand and supply in different construction and civil engineering sectors, as well as relevant strategies towards the government.

### 3.1.3 Case study selection

Our acquired knowledge about emerging markets from previous courses, and our interest in Southeast Asia had a great impact on our decision to focus on a market in Southeast Asia in our thesis. Our choice to study the construction and civil engineering industry was due to the opportunity to work with NCC. The choice to study the Vietnamese market came from NCC’s interest in the market, as well as our own curiosity about the country.

After the initial contact with NCC, there was a mutual interest for cooperation in the study, and a pilot study was conducted including interviews with two persons at NCC International in Stockholm. The interviews were of an open nature with people who have a deep insight into the construction industry and NCC’s Southeast Asia operations. The pilot
study was made to make clear the objectives with our cooperation, and to get an understanding of what information the company already had, and by that which information to collect. The areas of discussion in the interviews were NCC’s present Southeast Asia operations, its interest in and plans for the Vietnamese market, and the company’s resources and capabilities.

It also helped us limit our research problem to an area that matched NCC’s preferences. The pilot study resulted in a limitation of our thesis to only investigate the market regarding large projects in the following sectors: water resources, energy and transportation sectors such as transportation sectors, harbours, oil and gas, and water systems. A decision was also made to have a perspective of the market potential for a Scandinavian construction and civil engineering company, wishing to bid for large projects on the Vietnamese market. Secondary material about NCC was also collected at the headquarters. The pilot study was followed up by an e-mail dialogue with the respondents which further helped us make limitations and decide on main features for our thesis.

3.1.4 Research approach

There are three different approaches when conducting a case study: descriptive, explanatory and exploratory. A descriptive approach is used to describe an investigated phenomenon and make predictions. The explanatory approach exemplifies a cause and effect relationship, e.g. what causes produce what effects. The difference between descriptive and explanatory studies can be subtle, and one has to look at the main approach. The exploratory approach is used when there is very little research done in a certain area and is often used in the initial phase, and when conducting pre-studies for further research. The goal is here to develop hypothesis for further investigations. (Yin, 1994, Lekvall & Wahlbin, 1993)

We started our research process by using an exploratory approach in the form of a pilot study to give us more insight in the objectives of the study.
In the following phases of the research process, a descriptive approach was used to describe the different institutions in Vietnam which constitute the external environment, and to make predictions about future developments. However, the institutional analysis framework suggests an explanatory stage where external environmental influences on the company’s networks and relations are explained. We therefore have somewhat of an explanatory approach in parallel with the descriptive approach throughout the thesis.

### 3.1.5 Research method

A research method can be either qualitative or quantitative. In a quantitative method the researcher collects little information about a huge amount of units. In the qualitative method it is the opposite. Qualitative research is often based on “soft data” that can not be quantified e.g. attitudes, values and beliefs. Unlike the quantitative method, the qualitative method is used to understand how different parts co-operate to create a whole. (Holme, 1997)

We have used a qualitative study where we have conducted a number of in-depth interviews about the Vietnamese market and construction industry. We tried to spread the interviews between different persons in different industries and from different countries, to get as many perspectives as possible. This was done in order to understand the whole picture of the Vietnamese market and its construction industry.

### 3.2 Data collection

Data can be classified as either primary or secondary. Using many different sources in the data collection results in higher validity in the data, due to the confirmation of the data from many sources. Unlike experimental, survey, or historical research, any kind of method for data collection or data analysis can be used in a case study. (Merriam, 1998)
3.2.1 **Primary data**

Primary data is the data the researcher collects to solve the problem e.g. observations, interviews or surveys. (Lekvall & Wahlbin, 1993) We have used in-depth interviews with key persons lasting from one to three hours. This made it possible to penetrate the subject and to get detailed information.

3.2.1.1 **Sampling**

We have used a non-probability procedure in our sampling, which means that we did not have to use any defined methods, but chose solely on a basis of knowledge and experience. (Lekvall & Wahlbin, 1993) For our pilot study at NCC, the criteria set up was that the respondents should be on a management level and also involved in the company’s operations in Southeast Asia. For the interviews following the pilot study, we set up criteria for the first Research question that the respondent should have expert knowledge of the institutions in Vietnam. For the second Research question, the criterion was that the respondent should have professional knowledge of and also long experience within the construction and civil engineering industry in Vietnam. We also conducted interviews with Vietnamese officials, where our criteria were that the interview was made with a relevant ministry for the construction industry, and that the respondents should have a managerial position. For our third Research question, the criteria for the respondents were that they should have a long experience in government contacts or project sales to the government in Vietnam. They should also have a great deal of experience from living and working in Vietnam.

3.2.1.2 **Interviews**

Interviews give the opportunity to interact with the respondents directly, and different techniques can be used to question the respondent. We used introduction questions in the beginning of the interviews to let the respondent know how much knowledge we had in the area. We also used
follow-up questions, if the respondent was unclear or if we wanted to penetrate a discussed subject even further. Interviews can be structured, non-structured or semi-structured (Kvale, 1996). In structured interviews, the same questions are asked to all respondents, and quantitative processing of answers can be done. Non-structured interviews are more flexible since no questions are specified and can be formed during the interview. This is useful when the knowledge is too poor to ask relevant questions. Semi-structured interviews are arranged by a number of questions where the formulation is not pre-determined, which gives the researcher the opportunity to adapt to the situation.

We have used both semi-structured and non-structured interviews. In our pilot study, the interviews were of a non-structured character, since we did not know much about the industry and needed to gain knowledge about the subject. The interviews were conducted at NCC International in Stockholm. The in-depth interviews conducted in Vietnam were of a semi-structured character, where we used interview guides with areas of discussion. This gave us the opportunity to focus on certain areas in different interviews according to the knowledge of the respondent. With the semi-structured interviews, it was possible to guide the respondent, and to ask follow-up questions in order to get the information that we wanted. A list over interview guides can be found in Appendix 1. We intended to do an interview with Mr. Wenneberg, General Director at Ericsson in Vietnam, but unfortunately he had to go on a business trip and had to cancel our appointment. While in Vietnam, new contacts were made which gave us the opportunity to perform more interviews than was previously planned.

In order to protect the anonymity of the respondents, we have compiled our findings from the interviews without mentioning any names, which also gave us the opportunity to gather the findings agreed upon by several respondents in one and the same text.
3.2.2 Secondary data

Secondary data is data that has already been collected on another occasion, such as articles, books, journals and statistics. (Lekvall & Wahlbin, 1993)

We have collected data from libraries at Swedish universities, databases, Internet and NCC’s headquarter. During our visit in Vietnam, respondents provided further secondary data to complement the interviews. Key words in our search for information about Vietnam have been establishment strategy, government, infrastructure, construction and civil engineering industry, and Vietnam. Information in general about Vietnam is scarce compared to other countries, and it is not always reliable. We have been very cautious regarding statistical data, since much of the information comes from government sources, and might be distorted in favour for the country profile.

3.3 Evaluation

A quality investigation of the empirical study that provides a detailed description is necessary to have in order to convince readers of the thesis, and to make it possible for them to decide on the conclusions logic. There are two aspects of quality control, validity and reliability. (Merriam, 1998, Yin, 1994)

3.3.1 Validity

There are two forms of validity, namely internal and external validity (Merriam 1998). Internal validity concerns how the research findings match reality, or whether the researcher has measured what was supposed to be measured. One important aspect to consider is that the reality is holistic, multidimensional and ever-changing, which means that what is being observed is people’s construction of reality, i.e. how they understand the world. This means that our interpretations of reality are accessed directly through our observations and interviews. The internal validity of
the results of our study has been enhanced by triangulation. The interviews were conducted and thereby interpreted by both of us. We have also used multiple sources of data, both in terms of several interviews covering the same research areas, as well as secondary data to complement the empirical study. To some extent, we have also had contact with respondents when we came back to Sweden to have information further explained and commented. Added to this we have had the opportunity to receive expert comments on our findings from an external source.

External validity refers to whether a study’s findings are possible to generalise beyond the case study, and one prerequisite for evaluating this is that the information is meaningful; that it has internal validity. When external validity is obtained, the result is applicable to other studies in the area. Since we did not have any specific company perspective in our study, it would be possible for any Scandinavian construction and civil engineering company planning to enter the Vietnamese market to use the research findings. However, the fact that we only conducted one case study does not give enough external validity to be able to generalise the conclusions.

3.3.2 Reliability

The reliability of a study is a measurement of whether another investigator would come up with the same findings and the same conclusions if the same procedures were followed and the same study conducted. (Yin, 1994) It is based on the assumption that there is a single reality and that studying it repeatedly will yield the same results. However, in qualitative research there are no benchmarks by which to make repeated measurements since the researchers seek to describe and explain the world as those in the world experience it, and instead the reliability lies within whether the results are consistent with the data collected. (Merriam, 1998)
To reach a high reliability of the thesis we have been extremely careful in interpreting the data collected in the research process. Secondary data have been based on reliable sources such as the Economist Intelligence Unit, International Monetary Fund, Asian Development Bank and United Nations. The collected data have also been compared with different sources to be able to reach a high degree of reliability. To reach a high reliability of the primary sources, the respondents were selected according to their long presence in the country, and their position in the organisation.

The publicly known issue that The Party is bugging foreign companies’ headquarters in Vietnam may have effected some of the respondents' answers to be more “Vietnam friendly” than they would be under other circumstances. We tried to avoid this by conducting interviews at public places. Furthermore, language problems arose when conducting interviews with Vietnamese officials where they sometimes had problems in understanding the questions and where we had problems in interpreting the answers. However, we were very careful with this and always rephrased the question or asked them to repeat answers when we suspected communication problems. Interviews were taped so as to avoid language problems. In order to avoid any possible inconvenience for the respondent that could lead to a negative effect on the interview, we always made sure that it was all right to use the tape recorder during the meeting. We prepared ourselves very carefully for the interviews especially in terms of how to behave in meetings with the Vietnamese in order to make a serious impression.

3.4 Linking the Theoretical Framework to the Research questions

The institutional analysis framework of Jansson underlies the main portion of our research. (see figure 3.2) Within its scope, we included several tools, most of which are well-known and thoroughly tested, to help us solve research questions one and two. To solve the third research question, we
have used Jansson’s Network Strategy framework, which gave us the opportunity to investigate what strategies towards the government that are relevant in order to establish an efficient network and gain a competitive advantage. As a final step in the institutional analysis, we used a scenario technique to be able to draw conclusions about the future. The scenarios are based on the result of the PEST analysis and the industrial analysis. Finally, the SWOT analysis is appropriate for our conclusions, although we modified it to include only the external factors, the opportunities and the threats, since no company specific approach is taken in the thesis.

Figure 3.2: Outline of the Framework and Tools used to solve the Research Questions
Source: Own Model
What are the opportunities for a Scandinavian construction and civil engineering company in Vietnam?

Problem Analysis

Practical Level
- Analysis of the environment in which the foreign company is to operate.
- Analysis of the demand/supply and the competitive environment in the particular industry.
- Analysis of how a company should act towards the government in order to gain a competitive advantage.

Theoretical Level
- Identify, describe and explain the institutions that indirectly and directly affect the foreign company.
- Describe and explain the demand and supply, and the competitive forces in the industry.
- Identify and describe the relevant strategies towards the government.

Purpose of the Master Thesis
- Provision of valid information regarding the evaluation of the opportunities for a Scandinavian construction and civil engineering company on the Vietnamese market.

Research Question 1
- Practical Level
  - Analysis of the environment in which the foreign company is to operate.
  - Theoretical Level
    - Identify, describe and explain the institutions that indirectly and directly affect the foreign company.

Research Question 2
- Practical Level
  - Analysis of the demand/supply and the competitive environment in the particular industry.
  - Theoretical Level
    - Describe and explain the demand and supply, and the competitive forces in the industry.

Research Question 3
- Practical Level
  - Analysis of how a company should act towards the government in order to gain a competitive advantage.
  - Theoretical Level
    - Identify and describe the relevant strategies towards the government.

Figure 3.3: The Structure of the Master Thesis
Source: Own Model
CHAPTER 4
INSTITUTIONAL ANALYSIS

To be able to assess the future of the construction and civil engineering industry in Vietnam an analysis of environment must be made. This chapter starts with an analysis of the external institutions through a PEST-analysis, followed by an analysis of a company's direct environment through institutions as, financial markets, labour markets, government, and the industry. The chapter is based on secondary sources as well as primary in terms of interviews with several respondents.

4.1 PEST-Analysis

Figure 4.1: Fact Sheet and Map of Vietnam


Facts about Vietnam
Population: 78 million
Size: 329,560 sq km
Bordering Countries: China, Laos, Cambodia
Constitution: Socialist Republic
Head of State: President Tran Duc Luong
Prime Minister: Phan Van Khai
Capital: Hanoi
Main Religion: Buddhism, 80 per cent
Currency: Dong
Main Trade partners: Singapore, Japan, Hong Kong, Taiwan, South Korea
Main Export Goods: Crude oil, Coal, Rice, Coffee
Main Import Goods: Petroleum products, Steel, Fertiliser, Clinker
4.1.1 Political/Legal Environment

4.1.1.1 Political history

Vietnam is a country that has historically been exposed to wars and disputes, and despite their strong defence of national territory, the Vietnamese society has been influenced by other societies throughout the history, like the Chinese, the French and to a lesser extent the Soviet Union. The Chinese ruling of Vietnam that lasted more than 1000 years has had a strong influence on Vietnam and its political system. The Chinese system of Confucianism stressed the importance of autonomous villages with a clearly defined relationship to a political centre, which can also be seen in today’s Vietnam. (U.S Library of Congress, 1999)

In the late 19th century, Vietnam became a French colony. French rule was imposed directly on all levels of administration, leaving the Vietnamese bureaucracy without a trace of real power. During this period of French colonial rule, the government participation, property owning, medical care, and education were minimal for most of the Vietnamese people. Thus, capitalism appeared to the Vietnamese to be a product of foreign rule, something negative, a fact that, together with the lack of any Vietnamese participation in the government, greatly influenced the nature and orientation of national resistance movements during this period. It can also be seen in today’s politics through the caution taken towards capitalism. (Duiker, 1995, Encyclopaedia Britannica, 1999)

When the Second World War ended in 1945, a colonial war for an independent Vietnam continued until 1954, which was fought by the communist group Viet Minh led by Ho Chi Minh who took control of the northern parts. With assistance from the Soviet Union and China, the communist Hanoi government in the north got on with an ambitious program of socialist industrialisation of North Vietnam. In the south, a new government financially backed by the United States began to build a new democratic country built on market economy. The end of the Vietnam War
in 1975 resulted in a reunification of the two parts under a communist regime. Vietnam started to adopt more and more from the Soviet system, which was a result of the disputes with China that emerged in 1979 and Vietnam’s move into Cambodia. In 1980 the Vietnamese Constitution concentrated the power in the newly established Council of State much like the Presidium of the Supreme Soviet, giving it both legislative and executive powers. Vietnam was very much isolated in the world and very dependent on the Soviet Union.

In 1986, the party launched a major program patterned after the Soviet Union’s strategy of perestroika (restructuring) called *Doi Moi*. The new party leaders announced their willingness to abandon doctrinaire Marxist-Leninist ideology in order to achieve rapid economic growth, but the one party system would persist. (Duiker, 1995, U.S. Library of Congress, 1999)

For a historical timeline see appendix 2.

4.1.1.2 The political system

The Socialist Republic of Vietnam (SRV) is a one party state, controlled by the Vietnamese Communist Party. With the 1992 Constitution, the Parliament, or National Assembly, was given a more important role in the legislative function, and acts as a supervisory control over all state activities and is responsible for the country’s development strategies and policies. A new Assembly was elected in July 1997 to a five-year term. The government is the highest body of state administration, currently led by Prime Minister Phan Van Khai. The seat of power within the government is the Cabinet, comprised of twenty ministers with substantial authority, the governor of the central bank, the chairman of the State Committees, various ministers, and the head of a group of general departments. Head of state and armed forces is the President, currently Tran Duc Luong. (WB, 1998, Schot, 1996) (See Appendix 3)

The Party’s Politburo is still the real centre of power in Vietnam and continues to guide state policy. It is charged with moral and political
indoctrination and social education, and its extensive network down to the village level ensures the domination of guidelines from the Politburo throughout the society. However, the politburo is no longer interfering in the day-to-day functioning of the government. Party Congresses are held every five years, the last one in June 1996. (Schot, 1996)

Citizens do not have the right to change their system of government and there are clear restrictions on freedom of speech, associations, the press, religion and organisations. However there is a trend towards reduced government interference in people’s daily lives, and citizens are free to engage in economic activity. (U.S. Department of State, 1999)

**Regional distribution of power**

Vietnam is divided administratively into 57 provinces and 4 municipalities: Hanoi, Hai Phong, and Ho Chi Minh City, former Saigon, and about 600 districts. At the provincial and district levels, the highest government authority is an elected People’s Council, which is the state authority at local level. The executive power is carried out by administrative committees, which are equivalent to the government at central level, elected by the councils. The village administration is represented by village People’s Councils. These local administrative units have a strong connection to the central unit, but considerable power can be identified in the local committees, and in particular with the chairmen of the committees. (Schot, 1996)

The decentralisation is a heritage from the war, when there was a lack of communication infrastructure and Hanoi had to decentralise the power so that decisions could be taken locally. Today, the local and provincial governments, especially in the south, are used to run their own business. This causes large problems in implementing policies and regulations. The South is purposely distancing itself from the North and putting local habits and routines ahead of the laws promulgated from Hanoi.
Political stability
Vietnamese leaders have so far provided the example of effectively reforming a centrally planned economy towards a market economy, while at the same time retaining political authoritarianism. Since the majority of the population is satisfied with materialistic improvements in their living conditions and do not push for greater political freedoms, political stability is likely to continue. (Schot, 1996) However, the political system could be at risk if there is an increased gap between rich and poor, since the legitimacy of the political leadership depends on continuing rapid growth and a reasonably equal distribution of the benefits of growth. The political risk is not likely to come from political violence, since there are for example no student organisations like there are in China and no ethnic conflicts like in Indonesia.

4.1.1.3 Bureaucracy and corruption
The multi-layer hierarchical structure of the Vietnamese government makes the decision process very complicated. While the Ministry of Planning and Investment (MPI) claims to be a one-stop centre for the licensing process of foreign investments and promises to rule on most licences in 30 days, the investor is in reality often stalled with different ministries, departments, and local administrators. In many cases, the provincial authorities can wield more power and exert more pressure on the foreign investor than the central government. As a result, getting license approvals can be very time consuming. In spite of the seemingly open foreign investment policies, the bureaucracy actions make the processes extremely slow. However, the system has become more decentralised in the last couple of years, and some provinces and Export Processing Zones (EPZs) have been given the right to perform licences directly. This does not concern licences and approvals for large infrastructure projects, which always have to go through the central government.

The corruption in the country has a long history, and is widespread and built into the system. Although it is evident in the north, it is even worse in
the south. Vietnam’s bureaucratic system of licensing investments encourages many forms of corruption, such as bribery and kickbacks. One reason is the complicated and unstructured legal system with new and continuously changing laws, which leads to uncertainty about what law is applicable at the moment and makes it easy to exploit the system. Another reason is the amount of licenses and permits in the system, making corruption profitable. In addition, given the low salaries of Government officials, it is no surprise that they take advantage of their position for monetary gain. (SIDA, 1998) Since the late 1980s, the government has tried to eliminate the corruption, and during the 1990s government officials have been convicted of bribery with harsh sentences, with death penalty as the outcome in some cases. In February 1998 an anti corruption law came into force forbidding persons holding state-authorised title and power to participate or join the management and running of private business (U.S. Department of State, 1999). With all the effort, corruption will prove very difficult to eradicate. The biggest challenge facing the government is how to implement reforms effectively to reduce the opportunities for corruption. (Murray, 1997)

4.1.1.4 International political relations
Vietnam’s international political relations have gone from isolation to integration. When Vietnam invaded Cambodia in 1979, only the Soviet Union and its allies in Eastern Europe stood by Vietnam. (U.S. Library of Congress, 1999) Today Vietnam has succeeded in building an “open-door” policy of friendly relations with all nations and integrating itself into regional and global organisations, to be able to attract foreign investments for its economic development. (U.S. Department of State, 1999)

Nations
Looking at Vietnam’s political relations with neighbouring countries, they normalised its relations with China in 1991, but border disputes remain problematic, and can be a possible source of regional instability in the long term. Vietnam and Cambodia also continue to have disputes about their
Vietnam’s relationship with Japan is today normalised. Japan is the largest single aid donor to Vietnam, and it sees Vietnam as its “backyard”, from a historical perspective. The relationship with the United States (U.S.) was normalised in 1995 when the trade embargo was lifted, and today there are ongoing negotiations of a bilateral trade agreement. Vietnam also sees the U.S. as an alternative to Chinese dominance in the region, and wants to establish good relations.

Vietnam’s relationship with the Scandinavian countries, and especially with Sweden and Denmark has become strong since the end of the war in 1975. Sweden was the first Western Country to establish full diplomatic relations with Vietnam 30 years ago, and its general approach of neutrality in international affairs, and its support for Vietnam during the war has led to Swedish assistance in legal reform, even in sensitive areas as human rights. Today Sweden and Vietnam aim to broaden the contacts in the fields of trade, investment, and scientific and cultural co-operation. Denmark has also recently become very active in the field of legal assistance, and is financially supporting administrative reform projects. Norway has so far not been particularly active. (Interview, Oct 14 1999)

International Organisations
In 1995, Vietnam became a member of the Association of Southeast Asian Nations (ASEAN), and thereby the ASEAN Free Trade Area (AFTA). In November 1998 it also became full member of the Asian Pacific Economic Co-operation (APEC). (Embassy of Sweden, 1999) The negotiations for Vietnam’s membership of the World Trade Organisation (WTO) are progressing slowly, where membership demands a reduction of tariffs to a level below 10% within 15-20 years. (U.S. Department of State, 1999) Vietnam is also observing the process of China’s negotiations for membership in WTO. Vietnam is currently negotiating an agreement with
the IMF, who requires that Vietnam implement structural reforms in a
greater pace in order to get loans. (World Bank, 1999)

The Vietnamese government has development plans for the next decade
that require between US$40 and $50 billion of investment, and half of this
figure must come from foreign sources. Of these, two thirds have to come
from foreign direct investments and one third from Overseas Development
Aid (ODA). A large part of Vietnam’s development funding comes from
multilateral development banks like the World Bank (WB) and Asian
Development Bank (ADB). The World Bank has actively discussed a
partnership with the government in the design and implementation of
development assistance that would enhance transparency, improve fiscal
management, and enhance overall aid effectiveness. Vietnam also receives
significant financing from Japan’s Overseas Economic Co-operation Fund
(OECF), the United Nations Development Program (UNDP) and
International Finance Corporation (IFC). (UNDP, 1998) These financial
sources will be further looked upon under the financial markets.

4.1.1.5 The Legal System
Vietnam’s Confucian society never had a system of law, because this was a
system of power. Confucius never built on law, he built on loyalty. Today
the Vietnamese legal system is based on communist legal theory, and to
some extent the French civil law system developed during the colonial
period. (CIA Factbook, 1999) The country is continuously developing the
framework necessary to sustain a market economy by picking and choosing
individual laws rather than adopting an existing body of laws from another
country. Vietnam is developing its own legal system by learning, not
copying. However, the legal structure that has been established so far is not
perfect. The laws are undergoing significant frequent changes, they are
unclear and contradictory, and they are sometimes declared retroactively
effective. There are also problems in implementing regulations, which
results in different interpretation by local and central government, thus
making laws without any practical effect. The Government has recognised
that improvements are a precondition for further inflow of foreign capital.
(Schet, 1996, EAA, 1996)

The National Assembly is the highest legislative authority in Vietnam. It is responsible for enacting, making and amending the Constitution. The Government is responsible for drafting proposals for laws and is also in charge of implementing the regulations. The Government issues its legislation in the forms of decrees and directives, circulars and guidelines, which are then passed by the National Assembly in order to become law, and implemented by ministries, state committees, and departments.
(Engholm, 1995)

Law on Foreign Investment
The Vietnamese Law on Foreign Investment (FIL) was promulgated in 1988, and has been amended several times since then, the latest in 1996. (MPI, 1998) There are five primary means through which a foreign company can participate on the Vietnamese market:

1. **Joint venture** - A Joint Venture agreement in Vietnam is a foreign company and a local company sharing capital and profit in what usually is a 70-30 per cent split. The local partner is typically a state owned enterprise that contributes with the land use rights, and to some extent with buildings, equipment and cash. An advantage of having local partners is that they have knowledge of government relations, business and cultural customs, natural resources and employment. This gives the foreign company a smoother introduction to the Vietnamese market, since it makes it possible to start projects more quickly. Disadvantages with joint ventures are that the Vietnamese partner’s land contribution is frequently overvalued, and there is also a risk in the large financial involvement by the foreign partner in the project. Another disadvantage is the fact that unanimous decision-making on important matters is required. There is also a lack of Vietnamese understanding of international business practices and long term thinking in management.
and marketing, as well as disagreements on costs and expenses. Conversely, foreign partners tend to lack the understanding of Vietnamese business practices and culture. The Vietnamese party also often looks for quick money. Many joint ventures face serious problems related to misunderstandings and cultural differences, and once a joint venture is established one has to stay with the local partner, leading to lower flexibility. (MPI, 1998, Schot, 1996)

2. Business Cooperation Contract (BCC) – The BCC allows a foreign firm to pursue business interests in Vietnam in cooperation with a Vietnamese firm without creating a separate legal entity. With this form, the investment is usually lower and it is easier to leave the relationship if it does not work. This is the most flexible arrangement since there are fewer restrictions on how the operation is managed and run. BCC is mandatory in the telecom and the petroleum sectors, which involves very large investments, and where the government wants limited foreign involvement in ownership. However the disadvantages are unlimited liability for any losses, less control over hiring/firing of Vietnamese employees since it is the responsibility of the Vietnamese partner. Other disadvantages include the impression of short term commitment given to government, and also less tax advantages compared to other forms. (MPI, 1998; Schot 1996)

3. 100 per cent foreign-owned - This form has become more popular recently as foreign investors have learned to navigate the local systems and as problems with joint venture partners have become more apparent. 100 per cent foreign owned ventures represents 20 per cent of all foreign investments in Vietnam, and is increasing. A disadvantage is that it is more problematic to access land. (U.S. Department of State, 1999) This is not a relevant form for this thesis, since the government strongly recommends that foreign companies active in the construction industry have a local partner in one form or another. This is also more profitable.
4. **Build-Operate-Transfer (BOT)** - BOT investment agreements are authorised under the foreign investment law, but the underlying legal and financial framework is still incomplete. With a BOT-project the investor builds an infrastructure project, operates it for a time to recoup the investment and make a profit and finally hand it back to the government. (MPI, 1998) There are a number of benefits and privileges for BOT investors, such as priority in land use rights, exemption from land lease costs, preferential profit and withholding taxes, lowest rate of turnover tax, and duty-free imports of all related materials and equipment. The most serious issues surrounding BOTs are legal, financial and government guarantees, where the security is insufficient. The FIL also recognize Build-Transfer-Operate (BTO) and Build-Transfer (BT) as forms of investment, each with the same incentives as the BOTs.

5. **Representative office** - Establishing a representative office is the easiest and least expensive way for a foreign investor to enter Vietnam. It is a passive form of establishment which enables a company to research the market, facilitate economic and commercial business relationships and to promote products. The advantages with a representative office is that no capital investments are required, except from the licence required there is low government supervision, and it allows for follow-ups on the implementation of contracts. The disadvantages are that they are limited in the purpose and scope of their business. They are not permitted to conduct profit-generating activities, and in many cases there are not enough activities to justify the expense of maintaining a representative office. (Genovese, 1995, Schot, 1996)

There are two basic forms under which a foreign construction company may operate in Vietnam: (MPI, 1998)

- as a foreign investor by establishing a presence in a JV, BCC, BOT or representative office under the Foreign Investment Law listed above, or
• as a foreign construction contractor or consultant through a contractual relationship with a foreign investor or a Vietnamese enterprise or project owner, falling outside the scope of the FIL.

In 1993 the Ministry of Construction issued regulations for all foreign contractors wishing to tender for construction projects or wishing to be awarded construction work to obtain a construction licence valid for three to five years. However, the regulations on foreign contractor licences do not apply to infrastructure projects, which are treated on a case-by-case basis. (Lecat, 1995) To provide more structure and transparency to the bidding process for infrastructure projects, the government issued a decree in 1996, covering three general areas: (1) consultant selection; (2) equipment supply and construction and; (3) project promotion. Under the new regulations, infrastructure projects are required to be tendered by international open bid. (U.S. Department of State, 1999)

Trade Regulations
High trade barriers have been maintained since the introduction of market-oriented reforms, to protect certain sectors. According to one estimate the average is between 15 and 20 per cent, while two-fifth of the imports pay tariffs that are 40 per cent or higher. Import quotas exist for some products and on some construction material like cement and construction glass. These import quotas change frequently, and sometimes the government decides to suspend the import of some commodity for some time. (U.S. Department of State, 1999) However, Vietnam is committed to reducing or eliminating tariffs and quotas until 2006, since it’s a requirement of its membership in AFTA and if it is to become a member of WTO. According to the Hanoi Plan of Action, which is the first in a series of plans of action building up to the realisation of the goals of long term visions of the ASEAN, trade liberalisation is an important step towards greater economic integration. (ASEAN, 1999)
Government Incentives

The FIL empowers the government to encourage investments in different sectors and geographical areas, such as large industrial and infrastructure projects. Construction and operation of infrastructure projects have a preferential profit tax rate that falls into the 15 per cent category, and the rate is valid for a period of 12 years from when the project commences business operations. If the construction project is in regions with difficult natural, economic and social conditions, mountainous regions or remote regions, the profit tax rate is 10 per cent for a period of 15 years. Infrastructure construction projects in IZs and EPZs are entitled to 10-12 per cent profits tax rate for the duration of the investment. This rate is also valid for BOT projects, which are subject to the number of preferential treatments mentioned above. In 1998, the government approved a new decree on foreign investments, providing additional incentives to foreign investors and issued implementing regulations for each sector. (World Bank, 1998) With the new enterprise law from May 1999, the government wants to remove licensing and capital requirements in more sectors and create a more even playing field between private and public enterprises, e.g. elimination of dual price system, salary denomination in local currency and reduction of fees and charges. (ADB, 1999)

Protection of Property Rights

All land in Vietnam belongs to the Vietnamese people, administered or managed by the state. In 1988, land use rights were established, which is a state-granted right to use land for a specific purpose as long as the holder pays rent. All land is to be allocated by 2003. The holders have the right to mortgage their land use rights, and there has been a lack of interest for this due to the high costs involved for land registering. (Interview Oct 18 1999)

Environmental protection

Environmental protection has only recently received extensive governmental attention in Vietnam, and in 1993 the first Law on Environmental Protection was introduced. In terms of foreign investment
projects, the Vietnamese government requires environmental impact assessments as part of the feasibility study that is submitted in application for a foreign investment licence. (MPI, 1998)

**Labour Law**
The minimum monthly wage in Hanoi and Ho Chi Minh City is set at US$ 45 and at US$ 35 (Ha Thu, 1998) elsewhere and are expected to remain that way, mainly because it cannot be higher than neighbouring countries. Since the end of September 1999 the Vietnamese work five days a week, and Saturdays and Sundays are now the weekend. A work permit law now regulates the hiring of foreign employees, apparently limiting them to a term of three years. (MPI, 1998)

### 4.1.2 Economic Environment

#### 4.1.2.1 Economic Reform - *Doi Moi*

Since 1979, the Vietnamese government has been experimenting with economic reforms, but it was not until 1986 that the government decided to embrace market reforms, the “*doi moi*”, or “renovation”. In 1991, after the collapse of the Soviet Union, there were dramatic changes in the economy, and in the 1992 constitution the government adopted market principles. This included stabilisation policies, price deregulation, foreign exchange rates brought in line with black market rates, and the elimination of government subsidies to state owned companies which resulted in a decreased budget deficit. There has been a change from import substitution to an export-oriented strategy of accelerated industrialisation and modernisation of the country. (Engholm, 1995, Long, 1997)

Regarding its economic policies, Vietnam seems to borrow pieces of modernisation policies from throughout the region. It is imitating China in allowing swift economic changes, but remaining intolerant of critics of one-party rule by the communist party. The EPZs and industrial parks are set up similar to those of Taiwan in order to attract foreign investors to
establish export-oriented manufacturing factories. The guiding of selected industries, such as automobiles and consumer electronics, and the protection of key companies from foreign competition is borrowed from South Korea. Like Singapore, Vietnam has enacted a body of liberal foreign investment law, and from Japan it has borrowed the idea of an industrial master plan. (Engholm, 1995)

Economic growth is the top priority in Vietnam, but nevertheless the Communist Party members rejected speedier reforms in the 1996 Congress for the sake of stability and continuity. (Prystay, 1996) Although Vietnam is today on its way towards a free market economy, it is still in its infancy, and Vietnam lags decades behind today’s industrialised nations. In order to increase the inflow of FDI and to promote exports, there is a need for structural reforms today. Without reforms in the banking system and state sector, and a more effective legislation and regulatory framework regarding trade and investments, there will not be an increase in FDI. (Interviews, Oct 26 and 27 1999)

State Sector reform
The State Owned Enterprises (SOEs) is a problem area for Vietnam since they absorb a large share of the state budget while generating little employment and poverty reduction. These companies are threatening Vietnam’s macroeconomic stability and long term growth, since many of them are losing money. The government has therefore decided on a reform program of privatisation or liquidation of some SOEs together with better governance over those SOEs that remain state-owned. This reform process is set to be finished in 2000, but the pace has been slow and it will not be finished on time. The process has also been concentrated to small sized enterprises. (IMF, 1999, World Bank 1999) There are also strong interest groups that are opposing these reforms, such as "armed forces" leaders that run these companies.
Banking reform
Another urgent problem area in Vietnam is the inefficient banking system. The banks are suffering from bad loans connected to the loss making SOEs. Since a banking system also is a necessity for mobilising domestic savings to the most productive uses, the banks need better governance, they need to get rid of bad loans, and they need to get higher public credibility in order to increase saving rates. A restructuring plan has been prepared, and this will be implemented during 2000. The four state-owned central banks will be restructured and the joint stock banks with bad loans will be merged or closed. Moreover, the regulatory framework will be strengthened. This is a very difficult process for Vietnam and the restructuring will probably not be as extensive as initially planned. However, Vietnam can benefit a lot from experiences made in neighbouring countries which have gone through the same process. (IMF 1999; World Bank 1999)

4.1.2.2 Macroeconomic Indicators
A sound economic management, as reflected in a manageable current account and fiscal deficits, leads to stronger investors’ confidence, economic stability and a strong currency.

Growth
Vietnam had a steadily GDP growth, between 8-10 per cent from 1992 to 1997, placing it among the fastest growing countries in the world. Today the GDP has reached about 25 billion US$. The growth was driven by the reforms initiated in the late 1980s, along with large inflows of FDI from, and exports to the Asian region. In 1998, the growth rate was 5.8 per cent, and for 1999 there is an estimated growth at 4.6 per cent. (EIU, 1999)
However, the performance of the Vietnamese economy has deteriorated sharply since 1997, reflecting the domestic structural weakness compounded by the impact of the regional crisis. (IMF, 1999) Both export growth and FDI disbursements have fallen off sharply. (ADB, 1998) Vietnam’s dependence on FDI inflow in order to reach a high level of growth is illustrated below.

**Inflation**

After experiencing double and triple digit inflation in the 80s, the development has been favourable during the 1990s. Coming down from 38 per cent inflation in 1992, it has since held at more reasonable levels and it is expected to stay between five and ten per cent in the near future. (EIU, 1999) In an effort to control inflation the Vietnamese government has kept official interest rates unreasonably high during the 90s (Long, 1997) The question is whether the government can develop the necessary monetary policy instruments that will permit effective control of inflationary forces in the future, when foreign assistance disbursement and FDI inflow put pressures on demand. (Tongzon, 1998)
A weak fiscal policy with a large budget deficit financed through the banking system was one of the main sources of Vietnam’s inflation through the 80s. In the late 80s it peaked to a dangerously high level of 8 per cent of GDP. (Andersen 1994) Since 1994 it has been kept under control and has not reached over 3.5 per cent.

In 1998 the government adopted expansionary monetary and fiscal policies to reduce the effects of the economic slowdown, bringing the budget deficit up to 3.5 per cent of GDP. The government has initiated investment programs in rural areas, particularly on road and irrigation infrastructure, in an effort to support internal demand, and the deficit is likely to expand during the second half of 1999. However it is important that expenditure on infrastructure and social development for example are balanced, in order to keep the budget under control. The deficit is now financed through the sale of bonds to the public or foreign borrowing. (ADB, 1999)
Balance of payments

In 1995 the current account deficit dropped to US$2.5 billion or 13.9 per cent of the GDP, due to an increasing trade deficit. However, the overall balance of payments was stable due to the increase in capital account and FDI inflow. Today the current account deficit is held back by the effects of the Asian crisis, to a level of US$1 billion or 4.2 per cent of the GDP. (IMF, 1999)

Looking at the balance of payments situation today it has strengthened as a result of a stronger than expected export performance. In the first half of 1999, exports grew by 12.2 per cent largely due to increased oil extraction and improvement in international oil prices. At the same time imports declined by 8.3 per cent, due to low FDI inflow and low domestic growth. (ADB, 1999)
Current Account Balance
millions of US$

Figure 4.5: Current account balance in millions of US$, 1993-1998
Source: IMF, 1999

External Debt
The foreign debt has steadily increased during the 90s, reaching US$11 billion in 1999, but relative to the GDP it has been kept stable between 38 - 43 per cent. (EIU, 1999) If there is an agreement with the IMF, Vietnam will be regarded as credit-worthy and new loans will be accepted from the international community. With the current low growth rate and new upcoming loans in the future, the foreign debt as a percentage of GDP is likely to rise.

Figure 4.6: Total foreign debt 1992-1999
Source: EIU, 3rd quarter 1999
Exchange Rate
The decline in exports has put pressure on the Vietnamese dong, which has been devalued by 30 per cent towards the U.S. dollar since 1996. The decline in FDI has also lessened the source of foreign currency, which has further devalued the Vietnamese currency, the dong. The dong is nonconvertible, and is thereby protected from immediate devaluation. (Neilson, 1998) With a continuing low rate of FDI s in the up-coming years, and a low export growth, there is likely to be some small, gradual devaluations of the dong. However, a significant devaluation in China may force the dong to larger devaluations. (EIU, 1999)

![Exchange rate US$1](image)

**Figure 4.7: Vietnamese Dong per US$ 1992-1999**
Source: EIU 3rd quarter 1999

4.1.2.3 The Regional Economic Development
The reforms have brought economic growth, but this has also widened the wealth gap between rural and urban areas. As the GDP growth is focused on state and foreign investments, there are serious sectoral and regional inequities that could cause problems for sustainable economic development in the long run. It is in the growth triangles, Hanoi/Hai Phong, Da Nang and Ho Chi Minh City with surroundings, where until now much of the investments have been focused. After the growth triangles, there are some emerging sites for foreign investments, mainly some of the provinces in the
South. The GDP/capita in rural areas, where 80 per cent of the population lives and works, only increases by one third of the growth in urban areas. (Long, 1997)

There are also large differences in economic development between urban areas. The South has attracted about two-thirds of foreign investment into Vietnam since the opening of the market in 1989, and has therefore also grown much faster than other parts of the country. Special Economic Zones (SEZs), which include IZs and EPZs, have been developed, mainly by foreign developers, in various provinces. These zones offer various incentives for companies that establish manufacturing facilities there. However, the investor interest has been low due to the lack of infrastructure. (U.S. Department of State, 1999)

4.1.2.4 Investment and Trade Relations

Vietnam is highly dependent upon its neighbouring countries for trade and investments. Regional markets account for two thirds of Vietnam’s total exports, and two thirds of the foreign investment flow. (World Bank, 1998)

The Country has benefited from large inflows of FDI’s in recent years, averaging over 9 per cent of GDP per year between 1993 and 1997. The inflows were attracted by several factors, notably relatively rich natural resources (including oil and gas, and coal), large agricultural potential, the geographic location, and the relatively large domestic market.

The Asian crisis, however, severely affected the flow of FDI into Vietnam since the bulk of FDI originated in the Asian countries hit by the crisis. Vietnam is very dependent on its neighbouring countries, which represents 70 per cent of the inflow of FDI into Vietnam, and 60 per cent of Vietnam’s exports go to these countries. (ADB, 1998)

The main investing nations can be seen in figure 4.7, and the total investment commitment in Vietnam is shown in figure 4.8 below:
Prior to the economic reforms only a tiny fraction of Vietnam’s external trade was directed towards economies outside the CMEA (Council for Mutual Economic Assistance) area, but from 1991 virtually all the trading...
partners are to be found in the Asian region, with Japan and Singapore as the major trading partners. The main export goods are crude oil, coal and rice.

The export sector made a large negative contribution to growth during the high-growth period of 1992-96. This suggests that the mid 1990s was a period of domestic demand-led growth, notwithstanding the strong expansion in Vietnam’s foreign trade, which lead to large imports of goods and services. There was a boom in domestic consumption and domestic investments that could ultimately not be sustained by Vietnam’s exports and productivity growth, and an adjustment began in 1997. In 1998, there was a very low increase in exports as a result of the Asian crisis. The largest export market for Vietnam during the 1990s has been Japan. Today, however, it has declined by half the figure due to the crisis’ effect on the Japanese economy.

Imports are almost exclusively from other Asian countries, as can be seen in table 4.10 This is due to the low prices involved when buying from

![Vietnam's Major Export Nations](image.png)

Figure 4.10: Vietnam’s major Export nations
Source: IMF, 1999
neighbouring countries. The large amount imported from Singapore could be explained by the fact that many foreign companies have Singapore as their regional base and coordinate their exports from there.

![Vietnam's Major Import Nations (as percentage of total exports)](image)

**Figure 4.11: Vietnam’s Major Import Nations**

Source: IMF, 1999

4.1.2.5 Effects of the Financial Crisis

Compared to most of its neighbouring countries, the Asian crisis was felt less keenly in Vietnam. Although the high growth has disappeared, and the Vietnamese dong was devalued several times during 1997. The fact that Vietnam was relatively mildly affected by the crisis has more to do with controls and regulations than with sound economic fundamentals. It was the absence of a stock market and the fact that the convertibility of the currency was regulated, that made them less sensitive to the crisis. The crisis has exposed the underlying structural weaknesses, especially in the SOEs and the banking sector. (IMF, 1999)

The most significant effect was the reduction of FDIs from neighbouring countries and the increase of unemployment. The high reliance on its Asian neighbours for trade and investment has in fact put the country in the worst
economic crisis since the abrupt end of Russian support in the late 1980s. (Stier, 1998)

4.1.3 Socio-cultural Environment

4.1.3.1 Demographic development
Vietnam is the twelfth most densely populated country in the world, and the second most populous in South East Asia with an estimated population of approximately 78 million. (IMF, 1999) The estimated growth rate is 1.9 per cent, which has made family planning a government priority so as to avoid increased unemployment and environmental degradation. Vietnam is still one of the poorest countries in the world; 30-35 per cent of the population is classified as poor, and most of them are farmers in rural areas. (World Bank, 1999) More than one-third of Vietnam’s population is under the age of 15, and according to projected growth rates the number of people entering the work force will continue to rise until the year 2020. This means that the absorption of the labour force into industry may take much longer than needed to reach a level of economic development close to that of neighbours that followed similar expansion strategies. (Engholm, 1995) Official data suggests that the overall unemployment rate in Vietnam is only about 6 per cent (10-11 per cent in the cities), but the real figures are probably far higher. (Kokko, 1998)

4.1.3.2 Population Distribution
Another way to deal with the problems of rising unemployment and environmental degradation is redistribution of the population. New economic zones are established for the resettlement of people living in crowded cities or river delta areas. Today about 80 per cent of the population resides in rural areas while the remaining residents live in the urban areas. (Encyclopaedia Britannica, 1999) The largest city is Ho Chi Minh City with 4 million inhabitants, followed by Hanoi with 3.3 million, and Hai Phong with 1.5 million. (Embassy of Vietnam, 1999)
4.1.3.3 Education
With their Confucian traditions and values, the Vietnamese have always placed great importance on education. The literacy in Vietnam is high among the general population, 94 per cent (World Bank, 1998), and most Vietnamese have at least a primary school education. Emphasis is put on training in science and technology, although a lack of equipment hinders the program. The overall higher education opportunities are limited. The government’s efforts to upgrade school facilities and improve the educational infrastructure have been restricted by the high birth rate and continuing economic problems. During the 1980s more than 200,000 Vietnamese were sent to the Soviet Union and the East European countries in a labour and training program, and since 1986 the presence of Vietnamese workers have increased also in the Middle East and North Africa. Today there is a growing number of Vietnamese students that are studying in Europe, Australia and the U.S. (U.S. Department of State, 1999) Education is looked upon eagerly by the Vietnamese. They want to learn and they clearly understand the benefits of education.

4.1.3.4 Differences between the population in the North and South
The people in northern Vietnam have always had to work harder to cultivate food and support their families than the people in the South. This is due to the much harsher weather than in the South, where the climate is favourable for high agricultural yields. By far the largest share of foreign investments is made in the South. The people in the South are also generally more open to new ideas and foreign practices, which can be traced to the capitalist roots and strong American influence prior to 1975. The North is more governmental whereas the south is entrepreneurial. Corruption is more widespread in the South due to its distance from central oversight and the relative autonomy of officials. (Engholm, 1995)

4.1.3.5 Cultural Heritage
Culturally, the influence of China has strongly shaped social and political values. Confucian thought has long been a predominant feature of the
Vietnamese society and continues to manifest itself today in human relations and politics. Confucianism stresses respect for family values, commitment and patience, collective achievements, formalities and face, hierarchy and authoritarian rule, where the government assumes the role of the father in a family. (Duiker, 1995)

The most salient feature of the Vietnamese society is the strong family and village ties, and family values take precedence over all other priorities. (Engholm, 1995) The Vietnamese consider themselves part of a larger collective, generally centered on the family or clan. Individual needs are subordinated those of their family or organisation. Vietnam is considered to be a high-context society, meaning that the situation, place, attitude, the non-verbal behaviour and gestures are more important than the words spoken. Propriety and courtesy play a major role in personal relationships, and their formality decreases the uncertainty in interpersonal contacts. The Vietnamese society is comprised of an interconnected network of personal relationships, all of which carry obligations on both sides, and where harmony is the ultimate goal. The concept of losing face is important; any overt public criticism or disparaging remarks can result in a loss of face and cause extreme embarrassment. This is more common in the northern parts than in the south. Like most Asians, the Vietnamese have a more extended concept of time than most westerners, and they focus on seasons rather than days or weeks. This tradition is reinforced by the Confucian tradition of respect for earlier generations, and patience is the ultimate Confucian virtue in personal life as well as in business. (Smith & Pham, 1996)

As a consequence of the socialism, Vietnam did not experience the economic growth of the neighbouring countries. However, the socialism emphasised social equality. Although Vietnam is divided by several cleavages, the country has managed to maintain a common purpose and sense of unity that has helped it to withstand foreign intruders, retain the independence, and achieve internal cohesiveness. Vietnamese nationalism is very evident, and the Vietnamese people are characterised by the ability
to prevail; they refuse to give up even if all odds are against them. They are always conscious of advancing forward, and they never content themselves with being inferior to others. (Engholm, 1995, Kim, 1996) The Vietnamese, mainly in the South, have endorsed the free market system and proved to be entrepreneurial and innovative. The Vietnamese are also characterised by a high degree of pragmatism. The Vietnamese society is outwardly egalitarian in accordance with Marxist ideology, but continues to exhibit paternalistic, male-dominant attitudes in business and most official activities. (Smith & Pham, 1996)

There are fifty-six different ethnic groups in Vietnam, the largest being the ethnic Vietnamese, Kinh, comprising roughly 87 per cent of the total population. There are five minority groups that dominate the minority population in Vietnam: Tay, Thai, Hoa (or ethnic Chinese), Khmer, Muong and Nung. Given the remote location of most minority groups and their level of development, they will play little or no role in foreign investment projects. Foreign business people will almost exclusively deal with ethnic Vietnamese or Chinese who have had a strong position in the urban private commerce. (Engholm, 1995)

4.1.3.6 Overseas Vietnamese
Some two million ethnic Vietnamese live outside of Vietnam, mainly in North America, Europe, and Australia. They are called Viet Kieu, which refers to Vietnamese living overseas. Most of these people left Vietnam either as evacuees before the fall of Saigon or as political exiles and refugees afterward. The government wishes for the Viet Kieu to return with their funds and skills that they have developed in the modernised countries, and has now introduced preferential treatment such as tax breaks and the right to set up joint ventures for those who decide to return. Foreign companies hiring Viet Kieu take advantage of the fact that they speak the language and fit in culturally, but in many cases the Viet Kieu cause problems, as they are considered by many to be traitors who left the country. (Engholm, 1995; Murray, 1997)
4.1.3.7 Religion
Unlike several neighbouring countries, the Vietnamese did not adopt Indian religions like Islam and Hinduism. Buddhism, however, has a large following; 80 per cent of the Vietnamese consider themselves Buddhists, followed by Taoists (12 per cent), and Roman Catholics (7 per cent). The Catholicism got a substantial following during the French colonial rule. Every family also venerates their ancestors. Prior to the expansion of Buddhism, Vietnam was fundamentally a Confucian society, but traditional practices combined folklore, Confucianism, Taoism and animism in ceremonies. Religion is not, however, as pervasive as in other South East Asian countries. Vietnam seems to operate more on Confucianistic ideals, putting the emphasis on the individual character. Religion is somewhat of a controversial issue for Vietnam and has been closely linked with human rights issues. No religious group may undermine the socialist goals of the state. (Engholm, 1995)

4.1.3.8 Vietnam’s Business Culture
The Vietnamese people’s proud attitude that derives from the strong nationalistic sense is also evident in business negotiations, and is not to be interpreted as false because of the poor surface of the country. Mutual respect is extremely important when doing business with the Vietnamese, and foreigners are expected to behave in an appropriate manner. This respect is connected to the idea of losing face described above in the cultural heritage section. The Vietnamese are strong, determined, and smart negotiators. They place a lot of emphasis on Confucian ethics, discipline, and harmony, and they try to avoid confrontation if possible. Consequently, politeness is of utmost importance, but should not be taken at face value: sometimes a ‘yes’ can mean ‘probably not’. A direct refusal or negative answer is considered impolite and crude. (Smith & Pham, 1996)

As in most of Asia, business transactions in Vietnam are based on personal relationships. Business relationships are often based on family relations, a shared past, as well as friendship built over a long time. Since family
values are the most important to the Vietnamese, talking about family matters is part of business negotiations. A business relationship with Vietnamese must be based on trust, mutuality, and respect, and will take a long time to build. When looking historically, it is not surprising that the Vietnamese may have developed a lack of trust and suspiciousness against foreigners, but the mistrust lies mainly within the Vietnamese lack of commercial knowledge, and they do not want to be taken advantage of by the foreigners. (Engholm, 1995) Social visits, sending cards and gifts are important business activities in Vietnam. The Vietnamese do not have knowledge of international business practices, and can simultaneously be negotiating with competing companies. This refers to the fact that they are pragmatic by nature and thus have a lack of loyalty.

When it comes to contracts, the Vietnamese are not as eager as Westerners in detailing every aspect in a written agreement, they may be reluctant to sign because they feel they might lose control. Vietnamese parties are more likely to regard contracts as preliminary plans rather than as binding commitments. (Schot, 1996) It is therefore important that there are no uncertainties in the agreements; it must adequately and clearly cover all aspects of the business relationship including the obligations of both actors and as far as possible any unforeseen event that can occur. Oral agreements have no value and are unenforceable. (Genovese, 1996)

4.1.4 Technical Environment

4.1.4.1 General level of technological development
The Vietnamese culture is agricultural where imitation of another’s innovation used to be the highest compliment, while the selling of proprietary know-how was unknown. Vietnam adopted the soviet model for science and technology organisation and research and development (R&D) institutions building. R&D institutions and colleges were put under centralised administrative control by the government and placed under a fixed budget to conduct theoretical research rather than technological
innovation, and a linkage to the enterprises producing goods was never established. Like the Soviet Union, the Vietnamese science and technology sector has gone through massive changes since the early 1980s. R&D institutions have become more independent and may pursue the research that they wish, and since 1986 the funding is not solely from the state, but from service contracts signed with ministries, enterprises, and educational institutes. (Engholm, 1995) The government has introduced a policy for improving its science and technology sector and pragmatically finding applications for the existing information technologies.

Still, the situation in the existing and former state-owned companies is that the procedures, production and equipment lags behind up to 70 years compared to the western companies, which can be a serious and costly problem for the foreign partner in a joint venture or BCC.

The Government is drafting legislation to set technical standards, but there are many issues that have to be addressed first, mainly which standards to adopt. Vietnam is currently adopting several international standards with assistance from Europe and Japan. (U.S. Department of State, 1999)

4.1.4.2 Vietnam’s attitude towards western technology
Vietnam desperately wants to catch up with the rest of Asia, which means requiring the latest foreign technology and receiving intensive training. The government is trying to provide incentives for technology transfer and training, which is considered to be one of the most important contributions by foreigners to Vietnamese companies. However, the technology transfer regulations restrict its overall value in an investment contract. The Vietnamese want the higher technology, but they have a limited ability to come up with the cash for it.

4.1.4.3 Industrial Infrastructure
As will be seen below in the industrial analysis, Vietnam’s industrial infrastructure is inadequate. Improving the physical infrastructure is a
prerequisite for both international competitiveness and the industrial growth in the country in its transition to a market economy. Huge investments are needed, but the regulatory framework needs to be improved to encourage private sector participation in the provision of infrastructure. (World Bank, 1999)

**Telecommunication and Information Technology**

With three telephones per 1000 inhabitants, and extremely high costs, the telecommunication system in Vietnam is an obstacle to growth. However, it is important to remember that only ten years ago it was almost impossible to make a phone call from Vietnam, which means that comparatively there are large possibilities for communication today. The Government has a monopoly on Internet access, which means numerous firewalls set up by the authorities to make much of the Internet inaccessible. This prevents companies from conducting business with contractors overseas. These factors are huge obstacles for further technological development. (Keenan, 1999)

### 4.2 Organisational Fields

#### 4.2.1 Financial Market

Financing for infrastructure projects in Vietnam in the future will according to the government's program mainly come from four main sources, the government's own budget, ODA and official finance, foreign direct investments and self-financing from SOEs involved in infrastructure. An acceleration of ODA-financed investments is required, as well as a substantial increase in the last two sources. (World Bank, 1998)

#### 4.2.1.1 Banking sector

The banking sector is controlled by the State Bank of Vietnam, which supervises four state-owned banks, 52 joint-stock banks and 58
representative offices and 24 branches of foreign banks. (U.S. Department of State, 1999)

The Vietnamese banking system is not yet efficient enough to allocate financial resources, but they are making progress with the basic infrastructure to support a modern banking system and financial markets in the future. However the main problems with the banking system are the consumer confidence in the system and local currency, the inexperience in capital markets and the slow pace of institutional reform, which makes it hard for the government to raise domestic capital. The low public confidence in the system has resulted in a very low saving rate, which is below 20 per cent compared to 30-40 per cent in other countries in Asia, leading to a very low degree of available domestic capital. (An, 1999)

The Vietnamese government has recognised the positive role of a stock market, but are approaching this subject with care with advice from international experts. This since there is lack of legal framework in this area and also that the SOEs have to be privatised. Experts believe that Vietnam cannot open a fully functioning stock market before the year 2002. Vietnam also has the possibility to raise money on the international capital markets through for example a Eurobond, but this is viewed with caution from Vietnam. A foreign company in Vietnam generally has to satisfy its credit needs offshore or with foreign bank branches.

The State Bank of Vietnam limits the convertibility of the Vietnamese dong and frequently does not give permission to convert currency to foreign-invested companies due to the recent trade balance. However, there are exceptions; Infrastructure projects are in principle permitted to buy foreign exchange, though no formal list categorising projects that would qualify has yet been published. BOT-projects are governed by a separate BOT law, which permits certain foreign currency conversion privileges. In general foreign invested companies does not have right to convert Vietnamese dong to foreign exchange unless this right is expressed in the investment
license. Even though the “right” to convert exists, there is no assurance of availability. (U.S. Department of State, 1999)

4.2.1.2 Official Development Assistance (ODA)
About fifty per cent of the financing of development projects is supposed to come from Official Development Assistance. ODA can be aid, bilateral, multilateral or tied assistance. For ODA to qualify as aid it must come from governments, be intended for development purposes, and be in the form of grants rather than commercial loans. In bilateral assistance, grants are negotiated directly between one national government and another. With multilateral assistance grants are provided by international organizations such as the UN agencies and the World Bank. In tied assistance, grants are given on the condition that they are spent on the purchase of goods from the donor. (UNDP, 1999)

ODA commitments for Vietnam are among the highest in the region reaching 2.4 billion in 1998 in actual cash disbursement, but three or four times more in capital commitments. (U.S. Department of State, 1999) Vietnam is currently negotiating a loan agreement with the IMF, which demands a higher pace of reforms. An agreement would then automatically result in better credit ratings on world markets and also large disbursements from Japan, ADB, and World Bank. (World Bank, 1999) The guarantees made by the aid community to Vietnam have gradually increased during the 90s. In 1997 the Consultative group, a group consisting of the major donor countries and multilateral donors, guaranteed another US$2.4 billion bringing the total amount to about US$10 billion. There has been a slow rate of usage of the aid, and many times a lot of the money get lost in the administration. Lenders are concerned about the country’s ability to absorb additional external financial assistance, and they hold back on a lot of aid disbursements. About US$7 billion of the ODA commitments have not yet been delivered due to this. In 1995 the disbursement was US$430 million, in 1996 it increased to US$700 million and in 1997 it reached US$1 billion.
The government has recognised the need to speed up disbursements and is taking steps to improving project implementation.

Japan is today Vietnam’s principle source of external assistance, with loans at US$650 million. More than half of the Japanese disbursement has so far been aimed at the energy and transport sectors. After Japan it is the World Bank and the ADB that are the largest sources. The World Bank is expected to lend US$450-500 million per year during the next years with a focus on structural reform banking modernisation, rural development, health, education, transport and energy. More and more of the aid from the organisations are co-ordinated between them and also co-financing is becoming more common. ADB is expected to lend US$300-400 million per year during the next years, with 30 per cent of it focused on physical infrastructure. IMF has historically had lending amounts like the ADB, but the lending in 1998 was down at US$85 million due to the ongoing arguments concerning the agreement with the Vietnamese government.

Other major donors include France, Sweden, Australia, Germany, Denmark and the Netherlands. France disbursed US$60 million in 1997, mainly into education and water supply. Sweden was focusing US$55 million mainly on institutional building, while most of Australia’s US$29 million went to infrastructure development. Germany focused US$26 million in to human resources development and Denmark disbursed US$21 million into water supply and sanitation improvements projects. Finally, the Netherlands were mainly focusing on agriculture and health areas. (UNDP 1998) Sweden and Australia are the two countries that have the same view on aid, and do not use it as a direct trade argument as the other countries do. Figure 4.12 shows the annual average disbursement 1992-1997 from different external assistance, whereas figure 4.13 shows the total ODA pledges and disbursements.
Figure 4.12: Overall External Assistance 1992-1997
Source: ADB, 1998

Figure 4.13: ODA Pledges and Disbursements
Source: UNDP (1998)
Scandinavian Development Assistance

The Swedish International Development Assistance (SIDA) has a policy to never finance anything that changes the competition on the market, which means that for example Swedish companies cannot directly apply for financial support from SIDA for a project. Every project has to be discussed between the embassy and the Vietnamese government and the initiative must come from the Vietnamese party. A Swedish company interested in SIDA financing must then find a Vietnamese part that can back-up them up, and that can lobby at MPI, who later can contact SIDA for financing. However, if SIDA decides to finance a project, the money will not be marked for Swedish companies, this compared to other countries bilateral aid, such as the Danish assistance organisation (DANIDA) and the Norwegian (NORAD), where the money is marked for companies from those nations.

4.2.2 Labour Market

4.2.2.1 The Vietnamese workforce

Vietnam has a workforce of 47 per cent of the total population, 37 million people. Only nine per cent of the workforce is employed in the state sector, including party workers. Ninety-one per cent work in the non-state-owned sector, including agriculture collectives, private enterprises, and foreign ventures. The private sector is made up mainly of small and localised household enterprises, which account for 84 per cent of employment in Vietnam. (World Bank, 1999) Relations between foreign owners and Vietnamese employees are not always smooth. Foreign investors want to establish a clear management-worker relationship, when Vietnamese employees are used to loose labour discipline. (Schot 1996) Most young people seek employment in foreign-invested enterprises and private companies. The Vietnamese have a very strong work ethic, they are highly educated, qualified, and hard working people that are very skilled and fast learners. However, they lack the technical skills and the training for
working with international standards and managing foreign enterprises, which means that they have to be trained from scratch.

Protecting the rights of the workers, and ensuring that employees are not exploited by foreigners, remain the objectives of the Vietnamese government. The labour law is discussed above in chapter 4.1.1.5 (Schot 1996)

4.2.2.2 Worker’s unions
The Vietnamese labour force has historically prided itself on its solidarity and revolutionary strength. A certain degree of unrest is permitted, but large-scale strikes in state-owned companies or foreign companies are rare. Institutionalised worker unions are not disruptive; they are more of a social group than a collective bargaining entity. However, the workers themselves can be very demanding regarding their rights, wage issues, working hours, disability compensation, and control over the enterprise. (Engholm 1995)

4.2.3 Product/Service Market – The Construction and Civil Engineering Industry in Vietnam

4.2.3.1 Recent Industry Development
The construction market in Vietnam is segmented into five different sub-markets: residential buildings, commercial buildings, building conservation, civil engineering works, and industrial engineering. The civil engineering segment of the construction industry is characterised by various infrastructure development projects, and includes construction and engineering in the areas of transportation, communications, energy and water supply, which is also our main focus. (Tung Hoa, 1998) In its transition from a centrally planned economy to a market economy, the country is in great need of extensive rehabilitation and upgrading of its transportation, communications and utility systems.
The construction and civil engineering industry in Vietnam was booming during the period from 1990 to 1996. As a result of the recent Asian financial crisis, the large amounts of foreign investments from neighbouring countries started to decrease sufficiently, and the industrial boom in Vietnam slowed down, which brought the entire commercial construction industry to slow down in 1998.

The current slowdown in Vietnam has important implications for Vietnam’s investment program in infrastructure, although a lot of infrastructure development projects are still funded by ODA money. (World Bank, 1998) Looking at the different sectors, it is the energy sector that attracts the most ODAs in Vietnam, where disbursements are expected to rise in the coming years with further implementation of large energy related projects. The transport sector also attracts large amounts of ODA, and expenditures on road rehabilitation are expected to rise in the coming years, as more projects are being implemented. (UNDP, 1998)

The trend in the beginning of the 1990s was for foreign construction and civil engineering companies to form joint ventures with local, state-owned, companies. As the market started to decline, these joint ventures experienced a lot of cooperation problems as a common phenomenon has been that the Vietnamese partner has not been capable to cope with such losses. More recently, the trend has shifted and many foreign companies choose to have a joint cooperation contract with local construction companies on a project basis. The third possibility is to work with subcontractors. (Tung Hoo, 1998)

A fairly new market has developed as a result of Vietnam’s eagerness to keep pace with the outside world and maintain high educational standards, namely education and training in project management and in developing the capacity to absorb and use technology. (U.S. Department of State, 1999)
4.2.3.2 Industry Overview
The effects of the Asian crisis can be seen also in the Construction sector, where the growth in 1997 was about 11 per cent a year, down from 15-16 per cent in the previous years. (U.S. Department of State, 1999) The total market size of the construction industry for 1997 was US$1.1 billion. According to last years estimates this is expected to grow at a rate of 12.5 per cent until the year 2000. (Tung Hoa, 1998) There has been some evidence of increased growth in the sector; during the third quarter of 1999 there have been an increased number of construction projects, which is a considerable improvement from the last two years. The MPI has forecasted the share of construction to increase most rapidly in the south, followed by the north and the centre.

Vietnam’s current construction revenue, as a percentage of GDP, is between 10 and 15 per cent. The investment funds (state, foreign and ODA) contributed to this sector accounts for 5 per cent of the total GDP, or US$550 million. About 40 per cent of total construction works in Vietnam are related to foreign investment projects. Of the local investments, only a minimal share is from private investors, while the rest are related to state-owned companies. (Tung Hoa, 1998)

4.2.3.3 Attitude towards Foreign Investments in the Sector
The Government is very positive to the inflow of foreign investments in this sector as in any. Construction projects may be carried out through the legal forms provided in the Foreign Investment Law. It is possible, but difficult, for foreign contractors to operate independently in Vietnam. The Government especially encourages Joint Ventures and other forms of partnerships that will lead to job creation and transfer of technology and skills. Foreign companies that engage in these forms get guarantees and favourable treatment such as minimum requirement of investment capital, and the minimum level for the introduction of new equipment. (Lecat, 1995) As mentioned above, they also enjoy reduced rates of profit tax, and the government also especially encourages contractors in BOT projects.
The development projects in the infrastructure sector that generate growth in the domestic production of materials and other resources are highly appreciated by the Vietnamese government. There are no certain requirements of using local resources, subcontractors, and suppliers, but foreign companies that do may be prioritised in negotiations for projects.

As in all sectors, the foreign investors experience the lacking implementation of government policy in the bureaucratic midlevels, and this attitude causes delays and annoying side payments. Much needs to be done regarding the complicated time-consuming bidding procedures, and regulation concerning BOT projects. The government has plans to further open the trade regime, which could both increase foreign exchange earnings and improve efficiency. (World Bank, 1998)

4.2.3.4 Demand/Supply

The actual demand on the Vietnamese market is very small, since it is a very small market. But if we look at the need, there is a great need for basically everything. The infrastructure development is crucial in order to increase the foreign investments and Vietnam’s foreign trade. Unless there is a sufficient infrastructure network that makes it possible to transport goods, and that increases the availability of plants and natural resources in remote areas, it will be unable to support the demands created by a rapidly growing economy, and the foreign investments will continue to decline.

Recent analyses suggest that an investment program in infrastructure of about US$3 billion per year is appropriate. (World Bank, 1998). The Vietnamese government has an Industrial and Infrastructure Development Master Plan for 1996-2010, but a priority program for transport for 1999-2010 has yet to be developed. The Ministry of Transport has prepared a list of transport investment projects for 1996-2010, whose costs total an estimated US$18.2 billion. (World Bank, 1999) According to plans, it is the road sector that is most prioritised, followed by urban transport and ports.
Figure 4.14 shows the proposed investments by transport sector for the period 1996-2010. For detailed figures see appendix 7.

![Bar Chart: Investments in the Transport Sector 1996-2010 (in percent of total investments)]

- Roads: 39.2%
- Urban Transport: 25.4%
- Ports: 15.2%
- Airports: 8.2%
- Railways: 6.2%
- Shipping Industry: 3.8%
- Rural Transport: 1.5%
- Inland Waterways: 1.4%

Figure 4.14: Proposed Investments by Transport Sector 1996-2010

Source: Ministry of Transport (World Bank 1999)

The list of investments is tentative, and the whole Master Plan lack details regarding budget constraints and the transport sector’s primary function of supporting growth by facilitating access to local, national, and international markets in a way that is cost-effective.

Vietnam has an insufficient institutional capacity for absorbing such a large program. The estimates are based on optimistic assumptions about Vietnam’s future economic growth and international trade and have yet to incorporate the long term implications of the Asian crisis. Aside from the Master Plan, more detailed plans have been prepared by government entities for specific regions. The plans fail, however, to consider resource constraints and are inconsistent regarding objectives and standards. They stress capital investments rather than optimising efficiency, and vary in quality and scope. The latest transport plan for Hanoi and Ho Chi Minh City estimated that US$5 to US$7 billion in investments is needed in each
The government realises the need to develop a comprehensive master plan that is based on expected socio-economic development during the next decade, and in order to get an increased inflow of ODA a participation of the donor community in review of the plan and its preparation would be desirable.

*Roads, Tunnels and Bridges*

Although Vietnam has 105,500 km of roads, only about 15 per cent of them are paved, and about half have been rated as poor by the United Nations. Most roads and bridges have suffered from war damage and neglect. The major roads are often narrow and partly unpaved, and there are a number of weight restricted bridges or temporary structures. Resurfacing, repair, and ditch cleaning are insufficient to keep up with demand, which leads to a rapid deterioration of roads. (Vietnamese Embassy, U.S., 1999) The major roads are shared by trucks, buses, motorcycles, bicycles, passing livestock, and peasants engaged in rice-drying activities. It can take up to eight days to reach Hanoi from Ho Chi Minh City on Highway 1, a 2,300 km two-way lane in desperate need of upgrading. (Murray, 1997) However, the efforts to broaden the roads have resulted in an increased number of accidents, since more people attend the roads, and the speed limit is most often exceeded.

In interurban and interregional transport, the Ministry of Transport has plans for a new investment program that is aimed at linking rural areas with 6,490 km of road and over 2,700 bridges within three major regions, including eleven provinces in the north, the Mekong Delta, and four central highland provinces. (Tung Hoa, 1998) This would provide Vietnam with an adequate network of roads across the country, and also connecting it to its neighbours. Vietnam has agreed to cooperate with five neighbouring countries namely Myanmar, China, Thailand, Cambodia, and Laos, in
building a Trans-Asia road system. The ADB is coordinating the plan and will provide the initial funding, and besides funding from the six governments, private investors are expected to participate.

Rural transport programs should be redefined to consider the alleviation of poverty and enhance agricultural productivity and encourage rural industries. Despite efforts to restore rural roads, most of them are still very poor and flood seasonally. The problems are related to poor planning, inadequate funding, and weak road administration, and unless reliable planning mechanisms are introduced, donor and government funding will not be sustainable. (World Bank, 1999)

The transport demand is expected to double in the high growth areas of Hanoi, Hai Phong and Ho Chi Minh City by 2010. A lot of efforts are made in urban development, where there is an urgent need for road maintenance and rehabilitation in order to provide a sufficient road network for the growing industrial activity as the main cities expand into areas that have little or no infrastructure. Investments in roads and bridges will be essential for the access and efficient freight transportation to and from the ports, industries and commercial activities. (World Bank, 1999)

There is very little foreign investment in the rehabilitation of the road network, it is mainly the primary stretches of the roads that are attracting foreign construction firms, and are being repaired and expanded by international assistance. A lot of road construction is performed by domestic companies. Road BOTs are unlikely to succeed considering the thin traffic volumes that are unlikely to generate sufficient revenue for a decent profit after covering construction costs. Few Vietnamese can afford to have commercial vehicles, much less individual cars. Vietnam is a two-wheeler country; there are over three million motorcycles, and heavy use of bicycles and three-wheeled bicycle taxis, cyclos. (Murray, 1997)
Railways

The rail network in Vietnam consists of about 2,800 km of single-track line covering seven routes, extending from the Chinese border to Ho Chi Minh City in the south. The rail bridges were severely damaged in the war, and the track beds are in poor state. There are also a number of disused rail lines that were destroyed during the war that would improve the movement around the country if they were reopened, but this is not yet a priority.

The rail transport has been declining by 10 per cent since 1988, which is partly because of the time aspect when transporting by rail. The freight trains averages 30 kilometres per hour, which means that it takes at least two days to transport goods from Ho Chi Minh City in the south the 1,730 km run to Hanoi in the north. For passengers there is an express train, which makes the journey in approximately 36 hours. The reason is the poor condition of the track, lack of modern signalling equipment and the state of the locomotives and carriages. The traffic density at the midpoint of the line from Hanoi to Ho Chi Minh City is extremely low, which makes it seem like there are two railways, one in the north and one in the south with very little traffic between them. Thus there is an urgent need to rehabilitate the lines connecting the two cities. (World Bank, 1999, Engholm, 1995)

Many foreign firms are interested in getting involved if the official commitment and funding is there, but the Vietnamese government needs to give clearer signals that rail is a priority. What needs to be done is to restructure the state-owned Vietnam Railway to become market oriented in order to raise capital, which would enable funding of large-scale rehabilitation. With a developed rail system there would be long term possibilities to link both passenger and freight transports across the borders. One example would be a line connecting Thailand via the central highlands in Laos, with a link in one of the large ports in Vietnam, providing great opportunities to increased trade for the land-locked Laos. The reopening of a rail link with China opened up the possibilities for travel all the way from...
Ho Chi Minh City to Europe via Russia, and has to be connected to the rest of the railway network.

The Master Plan includes an elevated railway extending some 200 km to be installed in Hanoi and Ho Chi Minh City, that would be capable to handle of carrying 100,000 people a day. The system would combine an elevated monorail with underground and surface lines, connecting branches to the airports outside the cities. A number of companies from various countries have indicated their interesting building the system. (Murray, 1997)

**Airports**

Of the country’s sixteen airports, only three are international: Noi Bai at Hanoi, Tan Son Nhat at Ho Chi Minh City, and Da Nang. The two major airports in Hanoi and Ho Chi Minh City are in bad shape and they have begun to be upgraded to be able to receive 6 and 8 million passengers per year respectively.

Due to heavy bombing during the war, the airport in Hanoi, Noi Bai, was severely damaged, and consists of a number of temporarily constructed buildings. Its capacity is not more than 1.2 million passengers annually, and it is sufficient only for small cargo loads brought in by passenger jets. The passenger traffic is estimated to rise significantly during the years to come, and the need for an airport of international scale is very urgent. The government has decided to build an entirely new airport with a huge terminal building, but without the involvement of any foreign investors. The most likely reason for this decision is security, since the site is situated next to a military base area. (Murray, 1997)

Ho Chi Minh’s airport, Tan Son Nhat, lacks the equipment to handle the huge payloads of commercial air-freighters, and the warehousing facilities are limited to open-ended sheds where there is large risk for damages during the rain season. A total of US$560 million has been invested so far in the upgrading of the main runway and the terminal. In the next phase,
2000-2010, a new air terminal complex is planned to be built, with a rail subway connecting it with the current buildings. This phase will help Tan Son Nhat to handle the 40 million passengers and one million tonnes of freight annually that is estimated. (Murray, 1997)

The airport at Da Nang on the central coast, which also was an important American air base, is also being modernised to cope with one million passengers a year, and the same treatment is given to another airport in the area, namely Chu Lai.

Ports
Another sector of importance for increased trade is the insufficient ports. Vietnam has a coastline of 3,260 km in length with some major seaports. Since the bulk of the population lives along the coastline, water transportation has been a priority. The major ports, Hai Phong and Saigon, both lie upriver from the sea and are shallow. Thus most shipments headed for Vietnam must go through Singapore, Hong Kong, or Taiwan where they can be offloaded to smaller ships that manage the rivers. Not only is this more expensive, it also takes much longer time. Also, the handling capacity of Vietnam’s ports is limited, which further indicates the need to extend and upgrade the ports. The government has the aim to increase the capacity of the country’s ports by 20 per cent per year, from the present 25 to 28 million tons to 240 million tons by 2010. (World Bank, 1999) As everywhere, the financing is the major problem. The expansion plan has divided the ports into three regions: north, central, and southern regions. However, it does not include ports that handle specialised cargo such as coal, oil and cement. (Murray, 1997)

The port in Hai Phong in the north was severely damaged during the Vietnamese war, and there is also concern about the thick sand deposits in the water. The port has a prime location which makes it vital to keep the traffic floating. In Cai Lan, the second largest port in the northern region, the main work will be on expanding berths and adjacent roads and bridges.
to upgrade the handling capacity. The port is expected to be able to handle up to 18 million tonnes by 2010, compared to about 2.5 million tonnes today.

Ports in the central region of the country serve as a transit area for large volumes of commodities that are shipped into Laos, Cambodia, and Thailand. There are nine ports in the region, including those that exclusively cater to the needs of the ore and oil industries. The largest is Da Nang, which is supposed to be upgraded to handle a capacity of 10.5 million tonnes by 2010 at a cost of US$17 million. The state will provide about US$11.5 million, whereas foreign partners will source the rest. The southern region includes the Ho Chi Minh and Thi Vai-Vung Tau ports, and a group of seven river ports in the Mekong River delta. The Sai Gon port is the country’s largest, and is planned to upgrade its facilities with the installation of new piers, container parking bays, and cranes.

One of the largest single infrastructure projects is the US$637 million Vung Tau container terminal, involving a consortium of investors from Japan, Malaysia, Singapore and Vietnam, Tredia Vung Tau Port Development. The intention is to transform the oil and gas development hub into a major container port serving the needs of the Indochina region, which will have a total handling capacity for cargo of about 60 million tonnes per year. The approval on the project was based on the belief that the Sai Gon port will be heavily over-used, and that Vung Tau will serve Ho Chi Minh City, and also that is linked to a network of inland waterways.

Transport specialists at the ADB suggest that river ports in the Mekong River delta have huge development potential to handle commodities and farm produce. The total shipment volume in the southern region has doubled in the last couple of years.
Water supply/ Sewage system

The water sector in Vietnam is in great need of upgrading and rehabilitation. The water supply and sanitation has been neglected, especially in rural Vietnam. In urban areas some investments have been made, but less than half of the urban residents have access to piped water and most systems are in urgent need of repair and renovation. (U.S. Department of State, 1999) The quality has deteriorated, while low pressure and intermittent supply are common. Treatment plants, if any at all, are often ineffective and suffering from construction failures. Overall, it is estimated that about 80 per cent of the water supply does not meet drinking water standards. (World Bank, 1999) The Ministry of Construction expresses the situation as very urgent, as improvements will lead to poverty elimination and health improvements. Waste water treatment is desperately needed, but water supply is the first priority.

Energy

The development of the energy sector in Vietnam is critical to the future growth of the country. The demand for power, which is both industrial and consumer based, is increasing rapidly and is expected to continue at a high growth rate for the next twenty years. An estimated 300,000 new families enter the network each year, competing for the limited amount of power. There is an imbalance in power production and consumption in the different areas of the country. The south and central regions are experiencing power shortages due to the rapid industrial development that is creating a heavy demand. In the north, the power supply is more stable since the provinces have produced a surplus from thermal power stations taking advantage of cheap, locally available coal. (Murray, 1997, Lemaire, 1995)

To meet the economic growth targets, electricity supplies will need to grow at about 70 per cent faster than economic growth rates. (World Bank, 1999) The key concerns in the sector are inadequate levels of investments in power transmission and distribution, low tariffs resulting in uneconomic
use of resources, structural and institutional reforms necessary to make the sector operations efficient, introduction of private sector participation, and the need for a clearly defined regulatory structure for the energy industry. The ADB provides assistance for above mentioned areas, as well as investments in rehabilitation and upgrading of transmission and distribution systems in the southern parts, whereas the World Bank provides the same assistance for the northern part. (ADB, 1998)

Experts believe that Vietnam will need to achieve an annual increase of at least 17.5 per cent to meet demand, and Vietnam intends to double its capacity to generate power by the year 2010. A number of projects with a combined capacity of 5,700 Mw are planned, but domestic financial sources can only cover 30 to 40 per cent. Vietnam has signed up for a US$165 million loan from the World Bank and the ADB to finance the rehabilitation of transmission and distribution systems in Ho Chi Minh City, Hanoi, Hai Phong, Nha Trang and Hue. Soft loans and aid from foreign governments are also being spent to improve the system. However, more foreign investments, including BOT projects, as well as additional loans and aid packages are vitally needed. (Vietnam Embassy, U.S., 1999)

Foreign investors have a low interest in BOT projects due to the lack of state guarantees, and they are demanding higher electricity prices that are hard to implement at least for domestic consumers.

Vietnam has unexploited resources in terms of water, coal, gas and oil, and the coal- and gas-fired technology will still play a large role in the short term while hydroelectric technology is preferred in a long term perspective. (SIDA, 1998, U.S. Department of State, 1999)

Other Sectors of Relevance
The Vietnamese government has stated that it is the intention for Vietnam to have a highly educated and skilled workforce, and there is a large demand for educational and training services. There is a particular need for training in project management and in developing the capacity to absorb
and use technology, or technology transfer. Foreign provision of education and training has largely been funded by donor agencies, such as the World Bank and ADB. Through this capacity building the need for foreign experts in projects will decrease, and this brings down the costs in the long run. (U.S. Department of State, 1999)

In addition to the civil engineering market, the industrial engineering market provides opportunities for construction companies. SEZs have been developed, mainly by foreign developers, in various provinces, and within the near future, more foreign companies are expected to open up manufacturing facilities within these zones. (U.S. Department of State, 1999)

Natural gas discoveries offshore Vietnam provides opportunities for implementing projects. (World Bank, 1998) Exploration of oil and gas, manufacturing of oil-based products, and the building of at least two oil refineries are three major objectives in the long term development programs of the Vietnamese government to at least the year 2020. (Tran, 1997)

4.2.3.5 Competitive Environment

Rivalry among existing firms on the Vietnamese market

Identification of Domestic and Foreign Actors

There are numerous domestic competitors, most of them state owned, that have been undertaking designated work in specific areas at the order of their own governing ministries. The state-owned companies are now somewhat released from ministerial control, thus bearing responsibility for their own financing, operating somewhat on a commercial basis. However, state-owned companies are limited in the scope of work, nature and location of construction projects. Their main advantages are their scale, experience, and access to bank finance. Their disadvantages are the poor
management and marketing activities, bureaucratic practices and procedures, underused labour force, outdated equipment, limited know-how of construction technology, a low level of business skill, limited understanding of commercial and market procedures, and lack of experience in contract tendering. Many state-owned construction companies have diversified into building material production and other activities, such as in-house design expertise. Today there are over 1,000 private Vietnamese building contractors, most of which are very small scale. Funding for these companies are mainly coming from local or overseas family sources, since bank financing is not significant for private construction companies. (Tung Hoa, 1998)

Rivals from other countries like Japan, South Korea, Australia and France have solid positions in the Vietnamese market with respective market shares as can be seen in the table below. A list of foreign competitors can be found in appendix 4.

![Market Shares by foreign-owned establishments](image)

*Figure 4.15: Market Shares by Foreign-owned establishments*

*Source: Tung Hoa, (1998)*
The large market shares can be explained by their early arrival in the market, their technical and managerial excellence, and more importantly their home countries’ significant contribution to the inflows of ODA and FDI into the country. However, the financial crisis has slowed down the efforts of the Asian firms. Taiwan, Singapore, Thailand and Malaysia used to be large direct investors, but the decline in these markets result in more competitive pressure from U.S. and European/Australian construction and civil engineering companies. (Tung Hoa, 1998)

**Competitive Strategy**

In the competition for contracts in infrastructure project, the competing companies hand in a tender declaring their ability to perform the project. All bids contain two parts, one technical and one financial. The weighing of technical and financial strength in the evaluation varies, but is most often 70-30 or 80-20 per cent. The tender procedures are very transparent, and all contestants know each other’s bids and most often also the price. Moreover, negotiations with several bidders often take place at the same time, permitting the Vietnamese side to play the bidders against each other.

Tender selection for government-owned projects is carried out by specially designated tender evaluation committees. Five criteria are used in the bid evaluation: (1) reputation of the bidder, (2) professional and technical capability, (3) price and payment condition, (4) progressive implementation schedule, and (5) technology transfer and provision of local labour and materials. In ODA funded projects, the aid donors especially emphasise environmental concern and safety, as well as technology transfer. However, it is hard to differentiate the competitive package, since there are no standards; all bids are the same on the outside.

The Vietnamese are highly familiar with the concept of quality, but due to the lack of capital, price is usually the main determinant in the end. In this sensitive sector, however, high quality construction services are crucial, especially when projects are ODA financed and the sponsor is partly responsible for decisions about the choice of contractor. However, most of
the times, the aid provider hand over the money for a project to the Vietnamese Government and then it is up to the MPI to distribute the contracts. Most often a lot of this money disappears in the administration, which means that in the end, price becomes the determinant.

Vietnamese companies under price their services with a hope of surviving and providing jobs for their large labour force. Competitors from other Asian countries tend to provide low price services as well, while other competitors are providers of high quality services and are associated with higher prices. (Tung Hoa, 1998)

After-sales services include provision of appropriate documentation, design and implementation of modifications, and suggestions for further improvement or expansion. These vital services are likely to be provided by foreign companies only, since the Vietnamese competitors do not possess this expertise. The government knows the importance of service, and that it costs to get it, but due to the lack of capital this is not a priority today.

Financing conditions is an important consideration in tender evaluations, and payment methods are therefore reviewed very carefully. (Tung Hoa, 1998) On the Vietnamese market a company must first of all have the financial strength to be there long term, perhaps without doing any business for a long time, because it is costly to be there and everything takes time. Secondly, the company needs to have the ability to arrange financial packages and to come up with financing for a project, since projects are large and domestic borrowing possibilities are almost zero. When working with ODA funded projects, it is important to establish an administrative organisation that can handle the bonds and documentation towards the donor organisation. Some companies gain from their country’s providing of ODA money to Vietnam. France is one of the countries that are providing a lot of government money, as is Japan. Japan also has a clear
advantage in that their department for foreign affairs goes hand in hand and is almost synonymous with Japanese industry.

In Vietnam, there is a great need for technology transfer, and offering this to the local partner companies and subcontractors is an appreciated contribution by foreign investors. A common request from the government is education and training. This favours foreign companies that can provide these matters to the country, and most foreign companies do.

A company’s reputation is a very important determinant in the evaluation of the competitive offer. Having reference projects are therefore important and especially from the Vietnamese market. Another factor related to reputation is nationality, but this does not play as large a role as it did a few years ago. Today all nationalities compete on equal terms. Considering Sweden’s long term cooperation and assistance in Vietnam’s reform development, Swedish industry should have been able to benefit from the enormous goodwill that this created. However, the goodwill that Sweden once had has eroded and one should not count on any specific advantages.

The construction services provided by Japanese companies are considered to be of a higher quality than other Asian companies. They are good at financing, and they also have a major advantage in the heavy participation of Japanese official aid and direct investments in Vietnam’s development process. Many of the Japanese companies are Singapore-based, which means that they are also competitive by not having the high Japanese salary costs.

South Korean companies are very strong actors on the market. They compete solely on price, and are due to their aggressiveness regarded as one of the largest competitors on the market. Their way of determining costs is different from others, and they can count on below profit projects and carry the losses forward.
Southeast Asian companies, like the ones from Singapore, often compete with efficiency and quality like the western companies. Taiwan and China are also becoming stronger, and like the Korean, they compete solely on price.

Australia is one of the strongest competitors in Vietnam, and have the same high quality and standard as European or American companies. The French companies are well known for their excellence in quality, as is every European company, and therefore also regarded as having very high prices. Many French companies also get subsidies from the French government.

American companies are not very active in the local market, although they are perceived to be providers of excellent technical service with good expertise. They also have strengths in design, construction project management, and tender evaluation. The services are associated with high costs, which is one of the reasons for the low level of activity. There is also an absence of American ODA. (Tung Hoa, 1998)

**Linkage Strategy**

Other crucial competitive factors in the construction industry include business/government relationships. Developers and investors in Vietnam tend to work with companies on a long term basis owing to credibility of the trust created to relationship over various development projects. Relationships are established through exchange, which creates linkages. Exchange can be either of resources, mainly information, or social. In order to be successful in this, the foreign company has to have a great knowledge of how the market works in these matters, who the key persons to establish relationships with are, and to be familiar with the system. We will return to how this works in Vietnam under 4.2.4 which concerns how Scandinavian companies can be competitive by establishing relationships and connections with the Vietnamese government. For now, we only look at what advantages that are possessed by companies from different countries regarding the creation of linkages.
Domestic companies benefit from their knowledge and contacts with local clients, which is an important source of construction orders; there are natural strong linkages with the government officials. In smaller infrastructure projects, the project management unit has a large influence on the choice of entrepreneurs and they often favour companies that belong to the Ministry or one on which it otherwise has a great influence.

Companies from other Asian countries have a better understanding of the procedures and behaviour due to the similar cultures, which makes it easier to establish, maintain and use social linkages. Korean and Taiwanese companies reportedly use bribing as a natural way to establish relationships and build their networks.

It takes a long time for western companies to know these matters, and it involves a long term commitment to the market. Western companies in particular faces severe problems in handling matters like corruption, since it is against the policy. Those who have worked in the region before have an advantage in knowing the ways around, but still, it is necessary to know the market extremely well. The French have had a long presence in the country and have a lot of legacy history. They also have an internal resource in their overseas Vietnamese, which can help in overcoming the cultural barriers to building networks. (Tung Hoa, 1998)

Exchange of information is extremely important; to inform the government about the intentions of the company, but also to gather information about the market and its changes, to learn about projects, etc. The Japanese are good at this; they get to know the market very well before they do business so that when they act, they know what they are doing.

First mover Advantage
There are many well-established construction companies on the Vietnamese market, which hold strong positions due to their early arrival and their home countries’ significant contribution to the inflows of ODA
FDI into the country. These companies have a clear first mover advantage over companies entering the market today, and especially those who have been loyal to the market during the recent down turn.

Threat of new entrants – The entry barriers
The Vietnamese market has been known to be very problematic. Some of the problems are still there, although the situation is increasingly becoming better for foreign investors entering the market. Much has been done in order to encourage foreign investments, but nevertheless, new entrants on the market are facing a number of obstacles that makes it difficult for establishment and further growth:

Corruption and Bureaucracy
Corruption is a widespread phenomenon that causes problems to any western enterprise as it is often against company policy to engage in such matters. To Asian competitors bribing is a common tool in business practices, which can make it hard for western companies in project negotiations. The bureaucracy is perhaps even more of a threat than corruption, as it is very time consuming and frustrating. (Folkmanis, 1997) The approval processes often involve contacts with various officials at several ministries, departments, and it is important for the company to know that they are dealing with the right persons.

Legal framework
The legal system is one of the main barriers to entry. New laws are sometimes announced on a daily basis, which makes it extremely difficult to keep pace. Government proclamations, laws, and decrees are made very vague and are seldom translated into any foreign language, which makes them very hard to understand. Also, the legal interpretation differs between regional and central levels.
High Costs
A foreign investor who has the image of Vietnam as one of the poorest countries in the world, and who is used to doing business in other countries in South East Asia, is surprised by the costs of operating in Vietnam. Even if the rent is not too overwhelming, the telecommunication expenses will take a large part of the investor’s budget. The dual pricing system makes everything twice as expensive for foreigners, including taxes and travel expenses.

Crumbling infrastructure
The insufficient infrastructure is a great opportunity for foreign construction and civil engineering companies, but at the same time it is a huge obstacle to establishment in the country. Transportation and telecommunications infrastructure are inferior or non-existent, and the power supply is unreliable. The inadequate infrastructure make it expensive and time consuming to transport goods, and impossible to reach remote areas suitable for extraction of raw material or location of production facilities. (Downing, Farrel, Healy, 1997)

Bargaining power of buyers
The potential clients for foreign construction and civil engineering companies are: (1) management boards of IZs and EPZs; (2) government ministries who are in charge of development plans of the country’s industrial and social infrastructure; (3) international donors of ODA money, and; (4) private developers and investors. (Tung Hoa, 1998) In all of these cases, the buyer has an extremely strong bargaining power. In the large infrastructure development projects, it is the Vietnamese government that has the final word in the decision of contractor. To this comes that the Vietnamese government lack the cash to purchase large scale, which makes them very price sensitive. (Mitchell, 1997) An increased proportion of the construction projects is started by private sector clients. Most often they are foreign, and demand higher quality, although one has to bear in mind that
there are a large number of foreign competitors that provide this, which make the buyer a strong negotiator.

**Suppliers**

We will not identify any suppliers but instead look only at a foreign company’s general relationship to Vietnamese suppliers. The Vietnamese government does not require, but strongly encourage the foreign investors to have a local content, meaning that they need to use local suppliers to a high extent to get a favourable position in the project approval process.

Having a high local content is important from the perspective of cost since local labour and materials are cheap and import tariffs are high. Supplies in certain areas will have to be imported since the quality is too low. However it is important to establish good relations with suppliers, to know their technology level and what they can offer you. Long term relationships lower the information costs, which can be very high if searching for new suppliers for every project. The supplier relationship should also be close and frequent, since the suppliers have a low degree of business education and they sometimes without knowing it offers services below costs.

### 4.2.4 Government

Below, we identify and describe the relevant government network for a foreign company in the Vietnamese construction and civil engineering industry. After that we analyse different company strategies used towards the government. We take look at the government acting as an approval and licensing entity and also as the buyer of infrastructure services, however our focus will be on the latter. The text is built on primary material, interviews, if nothing else stated.

Like China, Vietnam has a bureaucracy inherited from the Soviet ministerial system, and the country’s industry is centrally governed by central and local arms of those ministries. (Engholm 1995) A company’s
contacts with the government are influenced by the surrounding institutions. The constantly changing legal system is forcing foreign companies to have frequent contact with government officials to know the applicable laws and to be informed about upcoming changes. The political system in Vietnam is very dynamic, and officials are continuously changing position. The widespread corruption is another factor influencing a company’s contacts with the government, and it is especially common on the local levels. The cultural impact in the form of Vietnamese view on time, trust and consensus affects the frequency and length of company meetings with government and approval times.

4.2.4.1 Mapping of Government Network

In order to establish efficient relationships with the Vietnamese government, it is important to understand the system and to know who is in an influential position regarding decisions, otherwise it is easy to get lost in the bureaucracy. The government contacts that a foreign construction company has on the Vietnamese market are, on one hand, for obtaining licenses and approvals to engage in projects. On the other hand, the company has contacts with the government in large project negotiations where the contacts are of a buyer-seller nature. The company builds a network of relations with the government both on a central and a local level, although our focus is on large infrastructure projects, where negotiations always are at the central level. Below we identify the relevant government contacts for a foreign construction and civil engineering company.

Licences and Project Approvals

The four main government contacts for a foreign construction company that wants to obtain licences and approvals are:

The Ministry of Planning and Investment (MPI). The MPI makes the final approval of all foreign companies’ participation in large projects in Vietnam.
The Ministry of Construction (MoC). After getting the approval from MPI, the company can go on with applying for a construction license at the Ministry of Construction. The MoC is responsible for management of construction and development, and the SOEs in the construction sector.

The Ministry of Trade (MoT). The main authority for regulating and registering import and export is the Ministry of Trade which hands out the necessary licences and permits for importers. It is responsible for licensing all representative offices.

The provincial People’s committee. This is the authority on a provincial level that the company has contact with. This authority gives approvals and licenses for smaller infrastructure projects.

The contact level for approvals and licenses depends first on the amount of $US invested; secondly it has to do with the sector in which the venture exists, and thirdly the impact on local residents, natural resources, and the surrounding community. Projects that are to be evaluated are divided into three groups: A, B and C. (MPI, 1998) (see Appendix 5) All investments of over US$10 million require approval on a ministry level. Licenses for projects valued at less than US$10 million can now be obtained directly from People’s committee on a provincial level. (Mitchell, 1997) However, all larger infrastructure projects funded by the state, or by ODA money, are subject to approval at Ministry level. The procedure for project approval is much the same at both the Ministry level for projects over US$10 million, as at the local level below that amount, since all ministries at national level have equivalent departments at local levels. The project approval process is illustrated in appendix 6.

Project negotiations

When the government is in the form of a buyer, the company’s actual contact with the government is in terms of tenders and negotiations. It is mainly the MPI that a company has contact with in the negotiation process and there are three levels at MPI that are of relevance for a company: the FDI department, the Evaluation department, and the Project monitoring
department. Contracts that have high purchase values, such as large infrastructure projects, are awarded by the Prime Minister’s office, except for projects with World Bank, ADB, and UNDP assistance, which are awarded by an evaluation board consisting of government people and the financiers. However, it is the Vietnamese government that is in charge of the disbursement of the ODA money, and thus has the final decision. A National Tender Evaluation Council was established in 1994 to help the Prime Minister evaluate the bids for major infrastructure projects with state investment capital or ODA resources. (Engholm, 1995)

4.2.4.2 Main Objectives
The foreign company needs to maintain a good relationship with the government for many reasons. Above all, a well-established network of relations is a prerequisite to be able to achieve a competitive advantage on the Vietnamese market. To establish such a network, a company has to gain business legitimacy in Vietnam. This involves behaving according to the rules, and proving to be efficient, which is extremely important in order to get permission to act on the construction market. Another objective by foreign companies is to get a favourable position through its government relations, which can increase the efficiency in the complicated license and project approval processes, which are extremely time-consuming in Vietnam due to the bureaucratic structure.

4.2.4.3 Network Strategy
To establish a network of relations with the government that gives the company a favourable position compared to its competitors, the company’s strategies have to be adapted according to the environmental influences in Vietnam that decide how a competitive advantage can be obtained.

Competitive strategy
All competing bids for a specific project look the same on the outside; they provide high quality services, financial ability, and superior technology. Even those offering the lower prices are able claim to have the same high
quality, since there are no standards. Therefore, the competitive strategy of a foreign company towards the government must include an expression of what the company can contribute to Vietnam; that is what it can do for the country better than competitors. This involves the offering of a competitive package, including factors that contribute to the welfare of the country.

Job creation is one such factor that is highly appreciated by the Vietnamese government due to the high unemployment in the country. The company can offer to have a certain extent of local subcontractors and suppliers, which is also favourable for the company due to the cheap Vietnamese labour. Related to this is the need to educate and train the employees, who lack technical skills and the training for working with international standards and managing foreign enterprises. The government views education and training as the most important contribution, and would like to see more sponsoring of higher education from foreign companies. In interviews with the MPI, a returning subject was the possible contributions of foreign companies: “What the Vietnamese wants is training and higher level of education, knowledge in project management and how to get funds for projects”.

As Vietnam desperately wants to catch up with the rest of Asia, which includes requiring the latest foreign technology and receiving intensive training, technology transfer provided by foreign companies becomes increasingly crucial. A foreign company can provide this to its partner companies and subcontractors.

Environmental concern is another key word in project negotiations, but since the Vietnamese are not capable of paying for upgrading of their domestic companies which are contributing to severe environmental degradation, they highly value foreign companies’ environmental friendly technologies. The government also requires environmental impact assessments as part of the feasibility study of large project.
Since all companies from industrialised countries are able to include these matters in their competitive offers, a company has to distinguish itself in the way it communicates its package to the government. It has to do with a continuous resource- and social exchange in order to create strong linkages between the government and the company.

**Linkage strategy**

Creating linkages with the government is a matter of corporate lobbying, relationship building, and posturing. It is important to not rely on one decision-making contact, but instead several at very many levels and right levels, due to the constant dynamic in the system. Key persons do not necessary have to be ministers although it is sometimes good to have such relations; the ministers often listen to assistants and advisors, who make the recommendations to the evaluation boards. It is also crucial to have good relations with tender committees, since it is possible to gain favourable positions by influencing them.

By continuously exchanging resources and having social contacts, linkages can be created which make relationships stronger and that are characterised by mutual understanding and trust. This can help the company to gain legitimacy and make the approval processes more efficient, as well as the opportunity to influence decision makers. The aim should be to create a stable network of favourable relationships that give the company a competitive advantage.

Companies can also benefit from exchange on a purely political level, such as development aid and political delegations with the purpose of creating goodwill and a linkage on a national level.

The exchange of resources mainly involves information, where the foreign company informs the government about what it can do for the country in terms of technology and know-how exchange, financial ability, environmental concern and superiority of its services. It is important to
inform the Vietnamese government of what exactly they will get with the product or service offered, which can lead to repeated contracts in the future if the company’s keep its promises. Information of the company’s long term commitment to Vietnam is also necessary, which further increases the trustworthiness of the company. In return the company can get information about legal changes and upcoming projects, especially before it goes public. However, it is important not to rely on a single source of information, but to have many different sources.

Information exchange can take place in many different ways, either by formal face-to-face meetings, or in workshops and seminars. One way is to invite a delegation to the company’s headquarters in Scandinavia or elsewhere, and show them an on-going project, or introduce the latest technologies. However, these workshops and seminars should be packaged as a social gathering combined with information about the company’s capabilities, and this is where the social exchange comes in.

Social exchange involves building trust and creating personal friendship relations with government officials, which can put the company in a better position to perform lobbying activities. The Vietnamese are pragmatic, and known for a lack of loyalty, which makes it extremely important to have continuous contacts in order to develop relations on a personal basis. As mentioned above, informal gatherings could be used to inform the government of the company’s intentions. This could mean a seminar about the technologies and capabilities of the company combined with dinner, karaoke, or other social activities in accordance with Vietnamese manners. Once relationships are established, they must be nurtured. Social visits, sending cards and gifts are common business activities in Vietnam, which should be adopted by foreign companies. It is important to handle bribes in a good way and to know when, if at all, it is appropriate. Bribery is reportedly used very heavily by Asian competitors, which make the situation for western companies very difficult.
All kinds of exchange activities must be performed continuously, which means that the company needs to have a local presence in order to prove their long term commitment.

By having a well-established network, a company can gain a first-mover advantage in the sense that the competitors are locked out. This can be achieved as strong bonds built on mutual trust between the company and the government are developed, and if the competitive offer is effectively communicated. The first-mover advantage can be in terms of gaining access to first-hand information, as well as enjoying faster processing of licences and approvals.

4.2.4.4 The Linking Process
The linking process concerns how to bridge the gap between the MNC and the Vietnamese government, and is here seen as the process of establishing contacts and relations in order to negotiate for large construction and civil engineering projects in Vietnam. It is a complicated process that involves a number of stages that stretches over what is often a very long period of time, from the preparations to the follow up stage. It is therefore useful to consider how Scandinavian companies should formulate their strategies for participation in large projects.

The Scanning Stage
The first step is to make a pre-feasibility study. The foreign company collects information about upcoming projects, and what licences that is needed. In this step, the company searches for the relevant partners, subcontractors and suppliers, as well as for financing and other factors that are to be included in the competitive offer. It is also useful to collect information from the international aid organisations to see what prospected development projects that are in the pipeline. A company has to identify key persons in the government’s decision-making process and initiate the first contacts with them in order to gain a favourable position and access first-hand information. This pre-work is a very time-consuming process,
and is extremely important in order to be thoroughly prepared for the negotiations.

The Approach Stage
At this stage, the company knows about different projects and initiates the first contacts with administrative units for licences. These authorities must be visited and supplied with information about the company’s intentions in order to give the company the legitimacy needed to participate in the negotiations. Seminars can be arranged for this purpose to inform about the company. Formal and informal contacts with tender committees are also made to acquire information about tender specification, preferably long before the tender goes public. Having an early contact, there is also a chance of getting the specification adjusted to the company’s services and capabilities.

This can also be called the qualification step, since the company begin with expressing its interest in a project, and presents its capabilities, relevancy to job requirements, references and track records, and associated consultants. Based on this, the government project coordinating (or implementing) unit set up a long list of firms that are suitable for the project. This list is then further narrowed down to a short list with the help of a more rigid set of criteria.

The Bidding Stage
The short listed firms are then provided with technical requirements for making their tenders, and in this Bidding stage the bid is prepared to suite the tender, which is finalised by a formalised offer from the company. At this stage, the company’s possibility to influence the decision-makers is very limited.

The Negotiation Stage
In the Negotiation Stage, a Tender Evaluation Committee evaluates the bids first from technical aspects, followed by the financial for those that
qualify. Informal and formal meetings to specify the final offer often follow bids, and here the company has a possibility to influence the tender evaluation committee. The first ranked company will be invited to negotiate the contract, and if they fail the second best will be invited. When projects are sponsored by multilateral aid, the Tender Evaluation Committee consists of both government officials and representatives from international organisations. The final decision is however made by the government, which makes it important to influence the government in this situation as well.

The Completion Stage and Follow-up Stage
In the Completion Stage the deal is implemented, and specific contractors are chosen. The main contractor mobilises its resources for doing the job. Government contacts are at this stage with the project monitoring department, who is supplied with information about the proceeding of the project. The Follow-up Stage involves continuous contacts with government officials, in order to nurture the established relationships and to get information about future projects. An evaluation board periodically ensures that project objectives and milestones are met; an evaluation of benefit monitoring.

4.2.4.5 Network Capability Profiles
The network capability profile of a company illustrates a company’s ability to handle the various types of government network linkages for the different stages in the project approval process. One respondent at a company in Vietnam stated: “It is important to have a person that can open doors, and not through bribery, but through trust and understanding. It is important to find someone to do the lobbying, someone that can work up the network in the pyramid.”

To be successful on the Vietnamese market it is important to have a mix of indirect and direct linkages. In Direct linkages, the company can be classified as an authority specialist that focuses on a special department for
complex approvals, and/or a procedure specialist, focusing on routine licence applications on all departments. It can also be useful to have an indirect linkage being an intermediary network specialist, which means using a third part, an intermediary, in contacts with government.

**Direct linkage**

Since the Vietnamese society is comprised of an interconnected network of personal relationships, and much trust is built on the individual, direct linkages are important. To be an authority specialist is useful in project negotiations that are technically complex and different from time to time, and when it is important to have an expert within the company focusing on influencing the authorities in charge for the tender specification from case to case.

The fast shifting legal environment makes it useful to have experts in the company working with identification of upcoming legal changes. One of the companies interviewed has a department with people focusing on these matters full time, by having frequent direct contacts with key persons in the government. This helps the company to keep updated on the frequent legal changes, and enables them to achieve a first mover advantage when it occurs.

For licences and approvals that are less complex and more standardised, the foreign company can act as a procedure specialist towards the government. There is a lower degree of trust involved, and the company have frequent contacts with the same key persons over time.

Direct linkages can be handled by a foreign company itself, by having employees that establish relations with key persons. In order to obtain as much trust as possible, these people should always be Vietnamese, who know the system, the culture and the language. When influencing the government for large projects procurements it is extremely important to have local persons with a good contact net. For example, one Swedish
company hired a previous army officer who possessed an extensive network of government officials. This person ran operations towards the government and turned out to be extremely successful.

By having a Vietnamese partner, a foreign investor might also gain access to key contacts that are extremely valuable for the foreign part. The partner can have lobbying power with local and central government officials; it can alter the bureaucracy and lobby for fast decisions, help the venture get scarce materials, get imported goods through customs, and basically act as an interface with the local authorities.

**Indirect linkage**

To be able to come in contact with and be able to influence the right government officials, intermediaries with broad contact nets can be very useful.

The embassies can be used as door openers to get contacts with decision-makers that would be impossible otherwise. A common opinion of the respondents in Vietnam was that this intermediate is very useful and should be used even more in the future than they are today. However the embassy is a generalist and not company specific, and they support the companies by introducing them to important key persons. Thereafter the company has to manage on its own.

Chambers of Commerce provide another means of getting in contact with the key persons in the government. The Nordic Chambers of Commerce (Nordcham) in Vietnam is the Nordic chambers that are gathered in a united front, where the right persons in the government can be approached in the right way, and shared specific problems are brought up.

As previously discussed, the Vietnamese government is receiving a lot of assistance from Sweden and SIDA in areas such as legal development. In some cases, this has been a way to influence how these laws and
regulations are written so it in some way can benefit the MNC and its operations in the country.

Using consultants and agents specialised in the bidding procedure is very common in Vietnam. Vietnamese consultant companies do not yet have high credibility due to the lack of legal framework for consultancy firms. It is better to use foreign consultants and legal firms that have a branch office in Vietnam. However it is important that these consultants are personally recommended, since the quality varies a lot. Overseas Vietnamese, Viet Kieus, can be very helpful as an intermediary if they are qualified, but it can also involve complications due to the perception of them as deserters among the Vietnamese. Many of them are just trying to make fast money and often they do not have the contact nets they claim to have, and it is important to carefully choose whom to rely on especially since, according to several sources, they are also often connected to illegal operations.

To identify key persons and establish relationships with these persons that have extensive networks and who are able to open doors in the government system is important. A Danish company used this kind of intermediary person, which was a Vietnamese who had an extremely good network of government contacts. This contact significantly helped the company to be successful on the market.
CHAPTER 5
SCENARIO CREATION

In this chapter, we analyse the future development of the political economic, sociocultural and, instead of the technological environment, the construction and civil engineering industry. We have used a scenario technique where we set up three possible future outcomes for the next ten years, until 2010. We begin by giving the reader a background in terms of a summary of the situation at the turn of the century. Each scenario then begins with a description of the tendencies that support them.

5.1 Background to the scenarios: A summary

At the end of the 20th century, Vietnam was at the crossroads. The country had experienced an external shock from the Asian crisis through sharp declines in FDI and a stagnation of export earnings. Moreover, the effects of the initial reforms, the doi moi, had been absorbed. Vietnam had so far successfully managed to combine a market economy with socialism, but the recent economic slowdown not only caused economic but also social problems. The high population growth rate indicated a rising unemployment since there was an insufficient industrial growth to absorb the increasing workforce. The political system could be at risk in the near future, since the legitimacy of the political leadership was dependent on a continuing rapid growth and a reasonably equal distribution of the benefits of growth. It is important to remember that still 80 per cent of the population lived outside urban areas.

Political instability was feared to appear in different parts of the region, and a possible conflict between China and Vietnam in the South China Sea was not to be neglected, even though the risk was small. China had been provoking Taiwan and there were border disputes between Vietnam and China. Another instability was the destabilisation in Indonesia and the risk for further dichotomy of the country. The U.S. was due to this assumed to
begin to strengthen its general presence in the region to stabilise surrounding countries.

In order to increase the inflow of FDI and to promote exports, there was a need for structural reforms, and Vietnam was at this stage about to choose the pace of this next round of reforms, the doi moi II. Without reforms in the banking system and state sector, and a more effective legislation and regulatory framework regarding trade and investments, there would not be an increase in FDI.

Another bottleneck to economic growth and inflow of FDI was the insufficient infrastructure. The country needed an increased amount of ODA money to development projects, since the government had to control the public spending to keep down the budget deficit.

This is the point of departure as we begin to look back from the year 2010 upon the developments in Vietnam during the first decade of the 21st century. As we see it, the development in Vietnam is likely to follow one of three different reform processes, namely a gradual reform process, a reform process under increased government control, or a high-speed reform process. All scenarios are branch specific, meaning that we look at the outcome from the perspective of the construction and civil engineering industry. The industry is large scale, and very sensitive for the economic development in the country. It is dependent on the country’s financial ability to continuously prioritise infrastructure development, and thus also on its relations with international organisations.

5.2 Scenario One: A Gradual Reform Process

5.2.1 Tendencies that support this scenario

After having experienced high growth rates during the first half of the 90's, the Vietnamese government felt encouraged to continue the reform process.
That the Asian crisis revealed the structural problems of the country further imposed the need for reforms in order to get increased FDI as the ASEAN countries started to recover from the crisis. Another factor that contributed to the decision to make reforms was that Vietnam was aiming at becoming integrated into the world economy.

The risk of deeper social clashes gave the directions towards reforms that would make everyone better off. This made the government cautious in implementing radical reforms from the start, and it would also give legitimacy to the government by increasing the social welfare.

5.2.2 Political Environment

By the end of the 20th century, the Vietnamese government realised the urgent need for structural reforms and an increase of the liberalisation process. However, there was a fear that the political system would be at risk, and therefore they wished to maintain the political control and no changes were made in the political system. The Party’s monopoly on power, the uncertainty about the exercise of this power, and the resulting unpredictability became a crucial weakness of the system. In 2001, the Communist Party further decreased its influence in the politics, but remained as the single party. In the election, there was a generation shift, which meant a less conservative approach in the political system.

Until 2005, a lot of incentives in terms of policy changes were implemented to improve the conditions for FDIs, and to adjust to ASEAN trade regulations. The foundation for a sufficient legal framework was laid, although it remained fuzzy. In its strive for an attractive investment climate, the government began to put a lot of effort to remove some of the bureaucratic structure to make license and project approval processes smoother and faster. This included an increased decentralisation of the power to provincial governments, but under organized circumstances where the central government kept its strong position. Large efforts to eliminate
the deeply rooted corruption were also made, which showed to be successful as the investor confidence began to increase. In the 2007 election a decision was taken to continue in the same direction with continuous reforms and improvements of the investment climate at a gradual pace.

Today Vietnam has enjoyed a decade of political stability that has derived from the reforms that made it possible for the people to benefit and get a better life; the market socialism delivered what was promised. The power of the Communist Party has weakened, but it will still remain in control for some years. The country has developed a sufficient legal framework, and is making progress in adapting to international standards.

5.2.3 Economic Environment

By the time for the new century, Vietnam slowly began to implement the second round of economic reforms, doi moi II. The plan was to modernise the financial sector, and to begin to equitize small and medium-sized SOEs. An agreement was signed with the IMF, to make the necessary reforms to get a higher credit rating and an increased disbursement of development aid, which led to an increase in ODA money. The aim was to promote exports and the inflow of FDI, and at the same time focus on rural development in order to reduce the gap between the rich and the poor. The region had slowly started to recover from the crisis, and the inflow of FDI from neighbouring countries began to increase.

The establishment of a stock exchange was completed in 2002, and by that time, the exchange rate had become much more flexible, and the currency convertible. At the same time, Vietnam had made progress to become integrated into the world economy, and the trade agreement with the US was signed. This opened the door to a future entry into the WTO, which was further encouraged by Chinas entry in 2005.
With the generation shift in the government in 2002, the pace of reforms was somewhat speeded up, and the bank reforms were completed in 2005, together with the privatisation of small and medium sized SOEs. At this point the neighbouring countries started to recover from the Asian crisis and FDI inflow started to pick up.

Today, the economic growth rate of eight per cent indicates an impressive recovery during the past ten years. However, the growth rate has somewhat been held back by the increased public spending on rural development. Vietnam is now preparing to enter the WTO within the upcoming years.

![GDP Growth %](image)

Figure 5.1: Assessment of the Economic Growth with a Gradual Reform Process
Source: Own estimation

5.2.4 Sociocultural Environment

In the first four years of the century, the Vietnamese economy had severe problems absorbing the young people entering the workforce. It was somewhat improved as the economic growth rate began to reach over seven per cent, but the unemployment continued to be a big problem in the country.
Apart from the economic structural reforms, the action program addresses social welfare issues and rural development in order to reduce the social clashes in the society. There was also a lot of public spending on improvements of the education and public health. However, the regional differences between north and south continued to be very large, and the urbanisation increased continuously.

5.2.5 The construction and civil engineering industry

Already in the first years of the new century, there was a significant increase in ODA money to development projects of various kinds. The large need for rural development in order to promote growth in the countryside and alleviate the poverty involved an increased number of development projects in infrastructure in rural areas. Most urgent were the energy and transport sectors. Also in the industrial engineering sector there was an increasing demand, as industrial zones and export processing zones were implemented in various regions. The improved investment climate increased the inflow of FDI, which contributed to increased industrial growth.

The large demand in the entire sector has been based on the need to upgrade the infrastructure in order to develop a capacity to meet the increasing industrial growth, and to promote the inflow of FDI. Today the demand still exceeds the supply, and there is huge potential for investors in the construction and civil engineering industry.

5.3 Scenario Two: Increased Government Control

5.3.1 Tendencies that support this scenario

In the middle of its transition from a centrally planned to a market economy, Vietnam experienced a sharp decline in economic growth as an effect from the Asian economic crisis. This frightened the Vietnamese
government, since not only had it had a severe effect on the Vietnamese economy, but it also showed that the newly emerged, fast growing market economies were very vulnerable to market forces. The structural problems that were exposed by the crisis would demand reforms of the state sector. However, influential interest groups such as the managers of SOE have strongly opposed this, and would rather see a return to central planning and political isolation. The choice of the government was therefore to increase its control over the economy and implement tougher political repression.

5.3.2 Political Environment

In the first year of the 21st century, the Vietnamese government and the Communist Party adopted a stronger role over the economy. The structural reforms that had been promised before the end of the 20th century were postponed for an indefinite amount of time, and a very cautious path was taken where very modest policy changes were made. In the elections 2001, there were no changes in the political system. The one party system continued, and although a new generation of Party members was waiting to get a position higher up in the system, a generation shift was not yet to be seen. In an attempt to further centralise the power, implementation of new reforms and policies was strictly governed from Hanoi in order to gain better control over the provincial and local levels, and curb the ever-increasing corruption. For foreign investors, the bureaucracy developed to constitute an even bigger obstacle as more and more licences and permits were needed to engage in business on the Vietnamese market. Decisions and approvals on foreign investments were exclusively handled by central government, and the contacts with officials on local level were significantly reduced.

After a five-year period, in 2005, the political stability was at risk, and the government’s legitimacy was at stake. The Vietnamese people had very little confidence in the government due to the slow progress in economic development that followed from the slowdown of the reform process.
In the new elections in 2007, the older generation took a step down and made room for the younger generation in the politics. However, there were no changes in the political system at this time either. The direction of the new government was more liberal compared to the old conservative government, although no drastically changes in the speed of the reform process took place. The people started to gain confidence in the government and its new direction, and the situation today is more stable. There is no evidence of a democratisation process or the implementation of a multi-party system.

5.3.3 Economic Environment

The pace of economic reforms slowed down in the beginning of the new century, as the government increased its control over the economy. By having strictly regulated markets, the government prevented the country from an economic collapse like the one in Indonesia in the 1990’s. Instead of increasing the industrialisation, more emphasis were supposed to be put on education, healthcare and agriculture. However, with the absence of comprehensive reforms of the banking system and the SOE’s, the economy started to slide into a deeper recession. Without reforms, the agreement with the IMF had to be delayed and by that Vietnam did not receive the amount of ODA money needed to have a sufficient growth. The trade agreement with the US was interrupted, which further limited Vietnam’s chances to become integrated into the world economy.

By 2005, the effects of the Asian crisis were still seen all over the region, and many countries had taken a protectionist position after years of slow development. Much of the economic cooperation between the ASEAN countries had also been put on hold. The Vietnamese government had monitored the cautious development of the Chinese economy taken by the Chinese government, and followed in its step with further precautions.
In 2007 the Vietnamese economy was in a terrible condition, so the new generation of politicians had to declare the need for opening up towards the global economy in order to increase the economic growth and welfare. Actions were taken to implement economic reforms that could lead to an agreement with the IMF and a membership of the WTO. Today Vietnam is making some progress, but the pace of the reform process is still too slow. The amount of FDI needed to increase economic growth is not yet satisfactory, and growth will not reach over eight per cent until another five years have passed.

![GDP Growth Chart](chart.png)

**Figure 5.2: Assessment of the Economic Growth with Increased Government Control**

Source: Own estimation

### 5.3.4 Sociocultural Environment

With the focus away from industrialisation, the government wanted to focus resources on the social development, with the aim to make the living standards between north and south and the rural and urban areas less diverse. Thus the aim during this decade has been to improve the standard of living for the whole population, with a focus on social rather than
economic welfare. However due to the stagnating industry the aim of social welfare was hard to fulfil.

The high population growth rate continued in the new century. The effect was an ever-increasing unemployment and poverty as there was no economic growth to absorb the increasing work force. By 2005, the unemployment reached such a high level that the Vietnamese started to question the government’s ability to deliver social and economic welfare. Today, the situation has started to improve, but it will take at least another ten years until the industrialisation reaches a level where there is a significant reduction of the unemployment. The regional differences between north and south have not accelerated during the decade, but are more or less the same and the urbanisation has somewhat stagnated.

5.3.5 The construction and civil engineering industry

The government’s decision to not continue the reform process had a critical effect on the inflow of ODA funding to development projects. Only very small amounts were pooled into smaller projects, and the state funds were very limited if not non-existent. Until 2007 the government focused on rural development, and infrastructure for social welfare. To supply the immediate demand for electricity was a high priority.

Today, there is optimism about an increased inflow of ODA, and due to the large need to upgrade the entire infrastructure there will be major potential for construction and civil engineering companies in the years to follow.

5.4 Scenario Three: High Speed Reform Process

5.4.1 Tendencies that support this scenario

As the effects from the former round of economic reforms had been absorbed, and the Asian crisis further brought down the growth rate, the
Vietnamese government felt that a thorough renovation of the policy regime would be required to improve the efficiency and growth of the economy. Moreover, the international pressure on Vietnam to make extensive reform progress in order to become integrated into the world economy further supported the government’s initiative. China had intended to take the fast track and become member of the WTO, and Vietnam saw this as an opportunity to follow in China’s steps and speed up the reform process.

5.4.2 Political Environment

By the turn of the century, the Vietnamese government introduced an extensive reform programme that would get the country on a fast track to become integrated into the ASEAN and the world economy. By the time for the elections in 2001, the direction of the economy to promote exports and the inflow of FDI to speed up the growth had brought even larger differences between the country’s rich and poor, and the government had begun to lose its legitimacy. A rapid reform process meant increased decentralisation to province governments in order to facilitate economic growth. This, however, led to the absence of central control and autonomy at province level that increased the disparities within the political system. For foreign investors this meant that much of the key contacts on central level had to be replaced with officials on a more local level.

In 2005, a number of new organisations, associations and action groups had been established, which put a pressure on the Communist Party. As the pressure to implement democracy became stronger, the party had no choice but to face extinction and make room for the new wave of democracy. As the old system was dismantled, it became obvious that there was no well-established legal or judicial framework, and there were tendencies of further instability as the government had problems dealing with an uncontrollable economy. The situation started to look like Russia in the 1990’s, which resulted in chaos. The new government put more focus on
the elimination of the large disparities between the rural and urban population.

An improvement of the legal framework was implemented by 2007 to stabilise the situation. Today, there is still a political instability but the government has started to regain its legitimacy, as people are hopeful regarding improvements in their living standards.

5.4.3 Economic Environment

The economic reform agreement was signed with IMF in the year 2000, and it led to a fast restructuring of the banking system and of small and medium sized SOEs. The establishment of a stock exchange, flexible exchange rates and a convertible currency took place. Shortly thereafter, a trade agreement with the US was signed, and Vietnam had got a fast entry into the world economy. All these fast changes lead to an increase in the inflow of ODA money to various development projects, while state capital was pooled into export-oriented industries in high growth areas, and less into rural development and social welfare programs.

Also the FDI inflow took up speed, as the neighbouring countries started to recover from the crisis, and once again Vietnam began to become very dependent upon these countries. Due to the very slow rural development, investments were made in the high growth areas, the growth triangles: Hanoi – Hai Phong, HCMC, and Da Nang. These issues increased the overall economic growth dramatically. However, the differences in GDP/capita between rural areas and these high growth areas became even larger.

By 2005 the economic growth had made it possible to eliminate the budget deficit, and the new government began to spend more on rural development in order to reduce the clashes in the society. The rapid industrial growth led to an overheated economy in 2006 due to the shortage of skilled labour
force, which was a result of the lack of capital put into social welfare and education.

The economic growth has been growing at a stable pace since the middle of the decade, and after a very turbulent period with drastic changes it is today close to ten per cent annually. Vietnam has applied for membership in the WTO by next year.

![GDP Growth Chart](Chart.png)

Figure 5.3: Assessment of the Economic Growth with a Speedier Reform Process
Source: Own estimation

5.4.4 Sociocultural Environment

With the focus on faster industrialisation, the social welfare and human resource development became neglected. This led to an increase in the gap between the country’s rural and urban areas. In 2005 the new government started a program to decrease this gap, by focusing public spending on necessary areas. But the lack of educated people that was built up over the years had severe consequences for the economy in 2006. For the last four years the government has focused on increasing the living standard for people in the rural areas. The situation today is better, but there is still a
very high unemployment rate, and there is a large demand for educated and trained people. The regional differences between north and south have also accelerated and there are huge differences in living standards between north and south today, which has increased the flow of people to the cities.

5.4.5 The construction and civil engineering industry

With the high-speed development in the industrial sector, there were huge opportunities for construction and civil engineering companies in the beginning of the new decade. The growth required an enormous upgrading of the infrastructure, which led to that most investments and development projects were aimed at the high growth areas, where industrial and export processing zones were established in a rapid pace. There was a large demand for infrastructure improvements, mainly in the transport and energy sectors to meet the fast industrialisation. To some extent, there were also ODA funded development projects initiated in rural areas, but it was not until after 2005 that a larger share of both state and ODA funds were allocated to rural development projects. It is in the rural areas that there is the largest demand for improvements today.

5.5 The Most Likely Scenario

The outcome in the future could be based on any of these three scenarios, or a mix of either a gradual and tighter controlled reform process, or a gradual and high-speed reform process. However, we believe that the gradual reform process is the most likely scenario, where the Vietnamese government choose a cautious path towards opening up, and manages to keep the political stability combined with a steady economic growth. This is due to their careful surveillance of the developments in other countries in the region, especially in China that Vietnam tends to follow although at a slower pace. The outcome of this scenario is likely the best for the country’s development within the next decade.
CHAPTER 6
CONCLUSIONS AND RECOMMENDATIONS

Based on the institutional analysis, which included an investigation of the external environment as well as the markets and networks in which a foreign company directly participates, we evaluate the opportunities and threats facing a construction and civil engineering company on the Vietnamese market. We also identify the potential for competitive advantage within the Vietnamese construction and civil engineering industry in terms of the factors that determine how a company can be able to survive and prosper on the Vietnamese market – the industry’s key strategic factors.

6.1 Opportunities and Threats in the Environment

The current political situation in Vietnam is stable, and will remain stable in the short term, as there is a growing concern for regional development that will increase the welfare of the entire population and reduce the social clashes in the society. This is further supported by the fact that Vietnam has a tradition of unity and self-reliance, which indicates a continued social and political stability. The role of the Communist Party is likely to be decreased with the generation shift in the government, which is likely to obtain a more liberal approach to reforms in order to make the country more investor friendly. Although efforts are made to increase the transparency and speed up the approval and licence processes, the bureaucracy and corruption will remain obstacles to foreign investors since the system is very complicated and will take time to make efficient. The legal system will continue to be vague in the long run, since many improvements are needed and the implementation is very insufficient. Based on these conditions, a gradual reform process is most likely and appropriate, although the process might be too slow for foreign investors to be profitable at least in a short term perspective.
There is a need to continue the market economic reforms in order to sign agreements with the IMF and the US, which will increase the inflow of the FDIs and ODAs that are vital for the economic growth in Vietnam. After decades of lagging behind, Vietnam needs to keep pace with its neighbouring countries as they are recovering from the Asian crisis. This is supported by the Vietnamese people’s tradition of advancing forwards and never consider themselves to be inferior to others. To keep a stable and high growth in the long run, there will be a need for more liberalised reforms, which is also likely to be the case. Since the economy is small, it will be easy to reach high growth rates. Reinvestments from neighbouring countries recovering from the Asian crisis will nurture the high growth in the long run, and the government will prioritise investments in infrastructure and rural development.

Concerning the sociocultural environment, Vietnam has a skilled workforce that is eager to learn which is a huge opportunity for foreign companies. The main problem today is the unfamiliarity with international business practices among the Vietnamese that has to be taught. In the long run, the high population growth will lead to an unemployment that highly exceeds the demand in the industry. The disparities between the rich and the poor and differences between regions as well as between urban and rural areas, can also be a problem in the long run, if the rural development is not successful.

The technological level in Vietnamese industry is very low, and there is a great need and demand for technology transfer. The insufficient infrastructure is a bottleneck for further industrial growth, and severely needs upgrading.

From a financing perspective, the resource capacity for public investments in infrastructure is not sufficient for the investment proposals, and private sector funding of public transport is very risky since there are low returns on investments. The ODA inflow is therefore a prerequisite for the
implementation of infrastructure projects in the future, and will be a big
opportunity for construction and civil engineering companies if Vietnam
proceeds with the reforms as planned and proves to be able to handle the
disbursement of the ODA money. The insufficient financial markets also
limits foreign companies’ possibilities to use local financing, although
there will be possibilities for this if the banking reforms are successful. In
the long run, as growth picks up and GDP/capita increases, the amount of
ODA money will decrease, and more and more financing will have to come
from domestic sources. This provides potential for foreign construction and
civil engineering companies, both as direct investors and as
contractors/subcontractors in large public infrastructure projects.

6.2 Opportunities from an Industrial Perspective

6.2.1 Potential in the different sectors

The insufficient infrastructure in Vietnam provides a huge potential for
Scandinavian and other construction and civil engineering companies.
Much needs to be done to restore the basic infrastructure networks to
acceptable standards. Based on socioeconomic developments, the transport
demand will continue its rapid growth. What more speaks for an increased
demand is the expected shift in composition of GDP from agriculture
towards the industry and service sectors that comes with the transition into
a market economy. Another factor influencing the growing need for a
sufficient infrastructure is Vietnam’s increasing integration into global
markets, which demands network integration and complementarities in the
urban growth zones and for international trade.

The priority program for transport for 1999-2010 that will correspond to
the forces above has yet to be developed. The expected population changes
and economic growth patterns will lead to growing regional disparities, and
will emphasise a need for a differentiated transport response, and the
government must reconsider the spending on rural development, which
CONCLUSIONS AND RECOMMENDATIONS

according to the program only accounts for less than two per cent. Moreover, the estimated expenditure for the development program is based on optimistic assumptions about Vietnam’s future economic growth and international trade and has yet to incorporate the long term implications of the Asian crisis.

In the transport sector, there is a large need for upgrading roads, bridges and rail in order to get a sufficient network for the growing industrial activity in the high growth areas, and to connect the different parts of the country to increase the accessibility to neighbouring countries. Roads and bridges are high priority areas, both interregional and urban, and there are a number of intended projects in the pipeline. Rural roads are in great need of upgrading in order to increase the welfare of the people in these areas and to encourage rural industrialisation, but there is a need for an efficient resource absorption capacity in order for the government to allocate more capital to this sector. The railways are subordinated the road rehabilitation, but still provides huge potential for foreign expertise if it becomes more commercialised.

Considering the long coastline of Vietnam, and the large network of inland waterways, ports are of major importance for the country’s trade. There is great opportunity in this sector, as plans are made to modernise and increase the capacity of a number of major ports in the country, including three deep-sea ports. Airports are also among the high priority sectors, providing opportunities for investments.

The water sector in Vietnam is in great need of upgrading and rehabilitation, and improvements will lead to poverty elimination and health improvements. Waste water treatment is desperately needed, but water supply is the first priority. The development of the energy sector in Vietnam is critical to the future growth of the country. The demand for power, which is both industrial and consumer based, is expected to continue at a high growth rate for the next twenty years. Due to the
geographical preconditions and unexploited natural resources, Vietnam has a big capacity for increased energy production, and there will be an increased demand, especially for hydroelectric technology in a long term perspective.

6.2.2 The Competitive Environment

The Vietnamese market is difficult to operate on due to the number of barriers to entry. These include the complicated bureaucracy and the widespread corruption, as well as the fuzzy legal framework and the high operational costs. The insufficient infrastructure not only provides work opportunities for construction companies, but is also an obstacle for acting on the market. Moreover, the Vietnamese construction and civil engineering market is highly competitive; the market is far from mature, very small, and there are numerous international and domestic competitors. As the financial crisis has slowed down the efforts of the Asian firms, there is an increased competitive pressure from U.S., European and Australian competitors today.

The Vietnamese construction companies have advantages in their large scale, experience of the market, and access to bank financing. On the other hand there are numerous disadvantages such as a lack of know-how and tendering experience, as well as outdated and low quality equipment, which makes them less of a threat in the negotiations for larger, complex infrastructure projects.

In project negotiations in the infrastructure sector, all competitors’ tenders look much the same on the outside and it is very hard for a company to differentiate itself except on price. In many cases the government favours companies that can perform at a low price, but it is evident that the concept of quality has become increasingly important. Most of the Asian competitors, including the Vietnamese, are almost exclusively competing on the basis of price, whereas the Western competitors are regarded as
suppliers of high quality services. The contribution of technical expertise is highly demanded by the government.

The financial ability of a firm highly determines its competitive position, and another important competitive aspect is the favoured position of some competitors gained by the contribution of ODA money from the home country. Scandinavian development assistance is mainly aimed at institutional building, and not that much on infrastructure improvements. As a contrast to Danish and Norwegian aid, Scandinavian companies cannot specifically benefit from the assistance provided by SIDA, as in the bidding for these projects no concern is taken to nationality. One opportunity is to cooperate with companies that have this benefit, like in alliances or joint ventures, or apply for funding through the own company’s subsidiaries in a country that provide this preferential treatment.

Swedish companies in particular have not been successful in benefiting from the goodwill that has been built up over time through the Swedish development assistance in Vietnam. Over time this goodwill has eroded and Swedish firms today cannot expect any preferential treatment from the Vietnamese government. Regarding company reputation, the nationality is not a major determinant in Vietnam. What counts are the individual companies past experience and capabilities, and therefore reference projects are of utmost importance.

It is clear that a competitive advantage cannot be achieved unless a company knows how to act within the industry and towards the government. Asian companies have the advantage of understanding the procedures and behaviour, which makes it easier to establish, maintain and use social linkages.
6.3 Key Strategic Factors in the Industry

The government plays an extremely important role in Vietnam, and a foreign company has to learn how the system works and who the key persons in the hierarchy are, and to build relationships with them on a personal basis, in order to get a favourable position. Due to the complicated bureaucracy and the dynamic in the government, it is necessary to have many different contacts and not rely on one source. Frequent contacts are then needed in order to nurture these relationships and to implement a high level of trust, as the Vietnamese are pragmatic by nature. An increased decentralisation of power is possible in the future and will demand the establishment of networks at a local level.

To become legitimate, a company has to demonstrate the understanding of how the system works and act according to the rules of the game. It also has to prove to the government what it is capable to contribute to the welfare of the country.

Building relationships takes a long time, and it is important to get involved at an early stage in the project negotiation process in order to be able to influence key persons and obtain necessary information. Through the exchange of information strong linkages can be established, and it is most efficient combined with social events. A first-mover advantage in terms of the company gaining access to first hand information, as well as enjoying faster processing of licences and approvals, can be obtained by establishing relationships with the key persons. However, dealing with the corruption in Vietnam, Scandinavian companies face the same problems as other western companies and it is important to handle it in a good manner and to know where to draw the line.

To increase the trustworthiness of the company, it has to express its commitment to the country in a long term perspective. The advantages of having a physical presence in the country are self-evident, and setting up a
representative office is one way to do this. It is a simple and straightforward way to get a licence, make an application, pay the fee, and to establish and maintain relationships and networks with important officials. Unfortunately, it seems like Vietnam considers representative offices as purely representing the company’s overseas office, not as existing for investment, marketing, or trading purposes. Having a joint venture is not a necessity anymore since they have been filled with problems, and BCC has become an interesting alternative for many foreign companies. BOT is a form used in several industries, but also this form has been synonymous with problems. However it will be an important form both for foreign companies as well as for Vietnam in the future when the legal framework has become more developed.

Establishing linkages can be very difficult without extensive knowledge about the business and country culture. Therefore a company needs to have a liaison officer that is in charge of the direct contacts with the government officials or other persons in influential positions. This should preferably be a Vietnamese person with a good network of contacts. By having a local partner the foreign company gain access to a large contact net. Intermediaries can be used either to establish the initial contacts, like the Embassy or Chambers of Commerce, or at certain stages in the negotiation process, such as consultants that specialise in tender specifications. One way to establish a broad contact net for the company is to identify a “spider in the net”, a key person that has an extensive network of valuable contacts and who is able to open doors in the system, which is extremely valuable.

6.4 Final Conclusion

By answering the research questions, we have been able to solve the main problem:

“What are the opportunities for a Scandinavian construction and civil engineering company in Vietnam?”
To sum up, further reforms and a continued high growth assume that the infrastructure will be extended at a fast pace in order to prevent bottlenecks. This means that there are great opportunities for companies to participate in all areas of infrastructure development in Vietnam. However, the financing problem remains, and the opportunity for implementation of the projects in the Master Plan lies within an increased ODA disbursement, which will be a reality once Vietnam implements the necessary reforms.

Vietnam is a difficult market to operate on, and although there have been many radical changes there is a great need for further reforms in order to make the country investor friendly.

The industry is highly competitive, and it is difficult for companies to differentiate themselves. The opportunities for Scandinavian as for any foreign company are difficult to exploit without an understanding of how the system works and how to achieve competitive advantages. This is preferably done by carefully developing the company’s strategies for establishing and nurturing relationships with the government, which can provide the company a favourable position.

### 6.5 Recommendations

As Vietnam is moving more towards becoming a market economy, a number of reforms will be implemented that will make operations and establishments easier for foreign investors. Considering the huge potential for increased demand in the infrastructure sectors, and the current recession in many of the competitors’ home markets, we believe that now could be the right time for Scandinavian companies to move in to Vietnam. The Asian crisis has brought many of them to cut back on investments in Vietnam, which means that with a long term perspective a Scandinavian company can establish the important relations which take time to build, and an important first mover advantage will be established when the market booms.
One key to success lies within having the capital and patience for a long term commitment. A recommendation is to set up a local presence in terms of a representative office, since it shows the company’s long term commitment, and it is easier to have frequent contacts with key persons.

Another important factor is finding a local partner that has the knowledge of the system and an established contact net, and we believe that the preferential mode today is to have a BCC and work on a project-to-project basis. If the legal framework for BOT is strengthened, this form could serve as an interesting alternative in the future.

Intermediaries such as Embassies and Chambers of Commerce should be used to establish the initial contacts with people in influential positions, such as government officials.

It is evident that thorough preparations are necessary when negotiating for large infrastructure projects. By having the well-established relations with people in influencing positions the company can learn in advance about the tender specifications for a specific project. The company should have a liaison officer that deals exclusively with such matters, and it should preferably be a Vietnamese person.

Since the Vietnamese are pragmatic and the political system is very dynamic, we also highly recommend that any foreign company should not rely on one single source of information, but to have several.

To get an understanding of the business culture and practices in Vietnam is extremely important in order to be able to act in a proper manner, and learn how to deal with negotiations. This makes a company prepared for problems such as the client simultaneously negotiating with competitors and that an agreement lacks a specific detail that makes it binding.
CONCLUSIONS AND RECOMMENDATIONS

By contributing education and training to the Vietnamese, the company can gain the legitimacy that is necessary in order to get in a favourable position, but it takes a lot of effort to communicate the intentions of the company in terms of social calls combined with the providing of information.

Having seminars and combine them with dinner and entertainment can be very successful as long as the theme is Vietnamese and with no western influences. Gifts and personal favours are very common and important once a relationship is established, e.g. sending cards, flowers, and gifts to honour the person.

This brings us to the discussion of the corruption, which is very difficult to handle since it is a way of life in Vietnam. The company has to develop a strategy for dealing with this matter already from the start, and to determine when, if at all, it is appropriate.

Furthermore, with an establishment on the Vietnamese market it is easy to work towards Cambodia and Laos having Vietnam as the base. These are markets that will become more and more interesting in the future and a first mover advantage can be obtained by building relations in these countries for the future.
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APPENDIX 1

AREAS OF DISCUSSION: Companies in Vietnam

Entry, establishment and operating strategy

- How did your company first establish itself in Vietnam?
- What are the pros and cons with this entry strategy?
- What (if any) would you define as entry barriers to your establishment?
- Does your company have plans for further establishment in Vietnam? Why/Why not?
- How would you define the business climate in Vietnam?
- Regarding competition on the Vietnamese market, how important are the following matters:
  - Price, quality and finance
  - Product adaptation to market conditions quality/functional level
  - Transfer of know-how/technology
  - Established networks and relations

Government strategy

- What are the reasons for your company’s contacts with the Government in Vietnam?
- In order to establish a good relationship and to gain legitimacy from the government, what do you think is important to provide to the country?
- How important are industrial associations and chambers of commerce for the company’s contacts with central/local government?

- Does your company staff have personal meetings with the central/local government or do you use an intermediary? How frequent are the meetings, and in what purpose?

- How would you describe the government in Vietnam in terms of giving correct information and keeping promises?

- Is it important to provide government officials with gifts, transport, entertainment etc?

- How would you describe the process of negotiating and bidding for projects and licences?

The Construction and Civil Engineering industry (added to construction-related companies and organisations)

- What has been the development since the liberalisation of the Vietnamese market for construction and civil engineering?

- What is the demand and supply in the sectors of relevance to a foreign construction and civil engineering industry?

  - Water resources and sewage system
  - Energy
  - Transportation: 
    - Roads and railways
    - Tunnels and bridges
    - Airports
    - Harbours
What is the regional concentration of investments in the given sectors?

Regarding projects, what is the most common mean for foreign investors to participate in the Vietnamese economy?

What is the competitive situation in the construction and civil engineering industry in Vietnam?

Regarding competition in the industry, how important are the following matters:
- Price, quality and finance
- Product adaptation to market conditions quality/functional level
- Transfer of know-how/technology
- Established networks and relations

What is the competitive strength of the domestic actors and the actors from other countries?

In what ways would you say a competitive advantage could be sustained in the construction and civil engineering industry in Vietnam?

What is the prospected future of the Vietnamese construction and civil engineering industry?
AREAS OF DISCUSSION: SIDA, Swedish Embassy, Consulate of Sweden

Political issues

- What is your opinion of the current political situation in Vietnam?
- What are the Government policies on foreign direct investments?
- What is the situation regarding international relations with powerful and important nations/organisations?
- What is the situation regarding bureaucracy and corruption in Vietnam?

Economic issues

- What is the general present and prospected economic development in Vietnam?
  - Potential for growth
  - Government development plans/programs
- What are the sectorial distribution (industry/agriculture/services), and the regional distribution of economic activities?
- What has been the impact of the Asian crisis on the economic situation in Vietnam?
- What are the main sources of foreign financial aid to Vietnam, and what types of projects are prioritised?
- How can Scandinavian companies benefit from foreign/Scandinavian financial aid?
How has the flow of financial aid from international organisations into Vietnam developed during the 1990’s?

Will there be an increase in foreign financial aid to development projects in Vietnam in the future? Why/why not?

**Entry, establishment and operating strategy**

- What would you define as entry barriers to a foreign company’s establishment on the Vietnamese market?

- What advantages do Swedish/Scandinavian companies have when establishing themselves in Vietnam?

- How would you define the business climate in Vietnam?

- What is the influence from overseas Chinese or other nationalities on the Vietnamese business system?

- Regarding competition on the Vietnamese market, how important are the following matters:
  - Price, quality and finance
  - Product adaptation to market conditions quality/functional level
  - Transfer of know-how/technology
  - Established networks and relations

- What is the competitive strength of the domestic actors and the actors from other countries?
**Government strategy**

- From a company’s perspective, is it important to have good relationships with the Government in Vietnam? Why/why not?

- In order to establish a good relationship and to gain legitimacy from the government, what do you think is important to provide to the country?

- How important are industrial associations and chambers of commerce for a company’s contacts with central/local government?

- What considerations are important in order to get access to central/local government officials?

- How would you describe the government in Vietnam in terms of giving correct information and keeping promises?

- Is it important to provide government officials with gifts, transport, entertainment, speed money etc?
AREAS OF DISCUSSION: Ministry of Planning and Investment

- What is the Government’s attitude toward foreign direct investments?
- What are the Government Incentives for foreign direct investments?
- How would you describe Vietnam’s international relations with other nations/organisations?
- To what extent has the relations with Sweden and the other Scandinavian countries developed during the 1990’s?
- What has been exchanged in the process of establishing these relations?
- How has this affected the trade and investment opportunities for Swedish/Scandinavian and Vietnamese companies?
- What will be important in order to sustain the good relationships in the future?
- How can Swedish/Scandinavian companies contribute to the development and welfare in Vietnam?
- What is your opinion on Swedish/Scandinavian companies compared to companies from other nations regarding:
  - Price
  - Quality
  - Education, technology transfer, know-how and information exchange
  - Established relations and connections
- What types of development projects are mainly prioritised today and will be prioritised in the future?
bullet Do you believe there will be an increased number of development projects in Vietnam in the future? Why/why not?

bullet What is your experience of Swedish/Scandinavian companies participating in development projects?

- How does this affect the situation for Swedish/Scandinavian companies that are bidding and negotiating for such projects?

bullet Which is the most common way for foreign investors to participate in projects on the Vietnamese market?

Legal matters

bullet Regarding the legislation concerning foreign direct investments, do you consider it to be efficient?

- What can be improved?

- The legislation compared to other countries?

bullet In what ways can a foreign investor establish itself on the Vietnamese market?

AREAS OF DISCUSSION: Added to Ministry of Trade

bullet How would you define Vietnam’s trade policies?

bullet Which are Vietnam’s main trade partners?

bullet What is Vietnam’s trade relation with the Scandinavian countries and the EU?
How can the trade relation between Vietnam and the Scandinavian countries be strengthened?

AREAS OF DISCUSSION: Added to Ministry of Construction

- What function has the Ministry of Construction?
- How is the Ministry of Construction organised?
- Regarding the legislation of the construction industry in Vietnam, do you consider it efficient?
  - What could be improved?
  - The legislation compared to other countries?
- What is your opinion of the demand in different sectors in the construction industry in Vietnam?
- What has been the recent development of the construction industry in Vietnam?
- What is your opinion of the competitive situation in the construction industry in Vietnam?
APPENDIX 2

Historical Timeline

939  The end of Chinese 1000 years of rule.
1884 Vietnam became a French colony
1940 Japanese rule
1944 Founding of the first unit of the Vietnam People’s Army commanded by General Vo Nguyen Giap
1945 Japanese forced out by the Viet Minh Independence League. The communist guerilla leader Ho Chi Minh becomes president and declares the establishment of the Democratic Republic of Vietnam (DRV). The first Indochina War officially begins.
1946-
1969 President Ho Chi Minh died
1973 The signing of the Paris Peace Agreement ends the US involvement in Vietnam but did not bring intended peace.
1975 Northern offensive; tank #843 of the NVA 2nd Army Division crashed through the gates of the presidential palace in Saigon marking the end of the Vietnam War and the unification of the Socialist Republic of Vietnam.
1979 Vietnam occupied Cambodia to end four years of border clashes with the Khmer Rouge. China invaded northern Vietnam in retaliation but is repulsed with heavy losses.

1986 The Sixth Congress of the Communist Party of Vietnam, known as the ‘Congress of Renovation’ launches radical economic reforms under the name of *Doi Moi*.

1987 Foreign Investment Law passed.

1988 First step in agricultural liberalisation, initial reform of the banking system.

1989 Dong revaluation to free market rates, operational autonomy for SOE’s, export subsidies eliminated, and the tax system revised. Vietnam withdraws its troops from Cambodia.

1990 State bank rules on banks, credit cooperatives and financial companies passed.


1992 Market principles were adopted.

1993 Extensive land use rights for farmers announced.

1995 US trade embargo was lifted.

1998 Vietnam becomes a member of the ASEAN and APEC.
APPENDIX 3

Government Structure

Figure I: Government Structure

Source: Ministry of Planning and Investment (MPI) 1999
### APPENDIX 4

**List of Competitors**

<table>
<thead>
<tr>
<th>Japan</th>
<th>South Korea</th>
</tr>
</thead>
<tbody>
<tr>
<td>Ando Corp.</td>
<td>A. J. Eng &amp; Const Co. Ltd.</td>
</tr>
<tr>
<td>Fuji Electric Construction</td>
<td>Dong Ah Construction Industrial Co. Ltd.</td>
</tr>
<tr>
<td>Fujita Corp.</td>
<td>Dong Sung Plant Co. Ltd.</td>
</tr>
<tr>
<td>Fukuda Corp.</td>
<td>Gyeong Development</td>
</tr>
<tr>
<td>Hasebe Construction</td>
<td>Halla Engineering &amp; Construction Corp.</td>
</tr>
<tr>
<td>Hessei Construction Co. Ltd.</td>
<td>Hanum Construction</td>
</tr>
<tr>
<td>Haraama</td>
<td>Hanshin Construction Co., Ltd.</td>
</tr>
<tr>
<td>Kazama</td>
<td>Handsung Housing Co. Ltd.</td>
</tr>
<tr>
<td>Kinden</td>
<td>Hyundai Engineering &amp; Construction</td>
</tr>
<tr>
<td>Kiso-Jihan Consultants Co Ltd.</td>
<td>Jindo Construction</td>
</tr>
<tr>
<td>Kitano construction</td>
<td>Keang Nam Enterprises Ltd.</td>
</tr>
<tr>
<td>Kumaqo Oumi Co. Ltd.</td>
<td>Kolon Construction</td>
</tr>
<tr>
<td>Kyoei</td>
<td>Korea Heavy Industries &amp; Construction Co. Ltd. (HANJUNG)</td>
</tr>
<tr>
<td>Maeda Corp.</td>
<td>Kukdong Engineering And Construction Co. Ltd.</td>
</tr>
<tr>
<td>Mitsubishi Construction</td>
<td>Kukdo Construction &amp; Engineering Inc.</td>
</tr>
<tr>
<td>Mitsui Construction</td>
<td>LG Construction Co., Ltd.</td>
</tr>
<tr>
<td>Nakano</td>
<td>Lotte Eng &amp; Const Co., Ltd.</td>
</tr>
<tr>
<td>Nishimatsu Construction</td>
<td>Lucky Development Co., Ltd.</td>
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<td>Obayashi</td>
<td>Nam Yang Co.</td>
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<tr>
<td>Obiki corp.</td>
<td>Samsung Engineering &amp; Construction Co., Ltd.</td>
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<tr>
<td>Penta Ocean Construction</td>
<td>Sarwohan Corp.</td>
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<tr>
<td>Rinkai Construction</td>
<td>Sedu Construction</td>
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<tr>
<td>Sarayjo Engineering &amp; Construction</td>
<td>Seoul Construction</td>
</tr>
<tr>
<td>Scovill Japan Ltd.</td>
<td>Shingyokyo Corp.</td>
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<tr>
<td>Shimizu</td>
<td>Sunrimo Construction</td>
</tr>
<tr>
<td>Shireyo Corp.</td>
<td>Taipo Consultants</td>
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<tr>
<td>Shizuma</td>
<td>Takisha</td>
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<tr>
<td>South Korea</td>
<td>Taisei</td>
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<tr>
<td>Toda Corp.</td>
<td>Toda Corp.</td>
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<tr>
<td>Tote Geo Tech</td>
<td>Toda Corp.</td>
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<tr>
<td>Yurtec Corp.</td>
<td>Won Heung Development</td>
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<tr>
<td>Zenitaka Corp.</td>
<td>Won Heung Development</td>
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<tr>
<td>Country</td>
<td>Companies</td>
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<td>--------------</td>
<td>---------------------------------------------------------------------------</td>
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<tr>
<td>Australia</td>
<td>ABC Resources Ltd.</td>
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<td>Baulderson Hornbrook</td>
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<td></td>
<td>Building Economist Pty., Ltd.</td>
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<td></td>
<td>Davis Langdon &amp; Seah</td>
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<td></td>
<td>Dome Development</td>
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<td></td>
<td>James Hardie Industries Ltd.</td>
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<td></td>
<td>(BH Supply &amp; Techservices General Distributor)</td>
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<td></td>
<td>John Holland Asia</td>
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<td></td>
<td>Leighton</td>
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<td></td>
<td>Minson Construction</td>
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<td></td>
<td>Mytene Nominees P/L</td>
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<tr>
<td></td>
<td>Project Design &amp; Development Co., Ltd.</td>
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<tr>
<td></td>
<td>Pyramid Pacific (Asia) Pty., Ltd.</td>
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<td></td>
<td>Tapper &amp; Wilcox Pty., Ltd.</td>
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<td></td>
<td>Thies Contractors International</td>
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<td></td>
<td>Transfield Overseas Pty., Ltd.</td>
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<td></td>
<td>Vietnam Australia Building Industry</td>
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<tr>
<td>France</td>
<td>Bachy Soletanche Corp.</td>
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<td></td>
<td>Bouygues Offshore</td>
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<td></td>
<td>Campenon Bernard Sge.</td>
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<td></td>
<td>C.B.C (Compagnie Generale De Batiment et de Construction)</td>
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<tr>
<td></td>
<td>CIP (Construction Ingenierie Project) Ltd.</td>
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<td></td>
<td>Degrages et Travaux Publics</td>
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<td>Dumez - GTM</td>
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<td>Freyssinet International</td>
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<td>Friedlander</td>
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<td>Glaser International</td>
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<td>Prezioso</td>
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<td></td>
<td>Technip</td>
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<td></td>
<td>Lamberet Constructions Isothermes</td>
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<tr>
<td>USA</td>
<td>Black &amp; Veach</td>
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<td></td>
<td>Delta Equipment &amp; Construction Co.</td>
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<td></td>
<td>Fluor Daniels Eastern Inc.</td>
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<td>KHM Inc.</td>
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<td>Leon D. DeMatteis Construction Corp.</td>
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<td>Louis Berger Inc.</td>
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<td>Pac Mar Inc.</td>
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<td>Hong Kong</td>
<td>Asian Fame Development Ltd.</td>
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<td></td>
<td>Bachy Soletanche Group</td>
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<td>China Fujian Engineering Ltd.</td>
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<td></td>
<td>Fels Construction Techniques Ltd.</td>
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<td>Gammon Construction Ltd.</td>
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<td>High Point Rendel (Hong Kong) Ltd.</td>
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<td>Hoang Van (Vietnam) Development Co., Ltd.</td>
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<td>Hong Kong Chiap Hua Manufactory</td>
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<td>Minson Construction</td>
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<td>Transfield Overseas Pty., Ltd.</td>
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<td></td>
<td>Vietnam Australia Building Industry</td>
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<td></td>
<td>A.I.C. Maunsell</td>
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<td></td>
<td>Acer Asia Pacific</td>
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<td>Freyssinet International</td>
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<td>Friedlander</td>
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<td>Glaser International</td>
</tr>
<tr>
<td></td>
<td>Prezioso</td>
</tr>
<tr>
<td></td>
<td>Technip</td>
</tr>
<tr>
<td></td>
<td>Lamberet Constructions Isothermes</td>
</tr>
</tbody>
</table>
Singapore
Bous Asia Pacific Pte., Ltd
Comenco Construction (SGA) Pte., Ltd.
Construction Technology
Future Engineering
Koh Brothers Building and Investment
Mehnert Asia
Rider Hunt Levett and Bailey
Sembawang

China
China Guangxi Corp. for Intl Techno
Economic Cooperation
China National Overseas Engineering
Corp.
China State Construction Engineering
Corporation
China Wuyi Corporation
China Yunnan Corp. for Inte Techno
Economic Cooperation
Guangxi Interl Construction Engineering
Corp.
Harbin Power Engineering Co., Ltd
Shanghai Extaeon Construction Co.

Taiwan
BES Engineering Co.
Continental Engineering Corp. (CEC)
Jiancheng Construction Co., Ltd.
Pan Viet Corp.
Shinming Wun Enterprise Co., Ltd
Shyang Yin Engineer Enterprise Co.,
Ltd.
Yao Teh Int'l Development Co., Ltd.

Thailand
Christiani & Nielsen (Thai) PCL
Italian-Thai Development Public
Company

Malaysia
Energo Project (Malaysia) Sdn. Bhd
Sungei Way Hatay Building Materials Co.,
Ltd.

New Zealand
Hawkins Construction Ltd.

Germany
Bilfinger Berger Asia Ltd. (B&B)
Veemr Construction Group

Italy
Impresa ING Fortunato
Innes S.P.A
APPENDIX 5

Classification of investment projects

Investment projects (excluding direct foreign invested projects) shall be divided into 3 groups, namely A, B, C in accordance with the following provisions:

Group A projects are those of national interest, and includes telecommunications, precious resources, transportation, real estate, pharmaceuticals, banking and finance, import/export trading and tourism. Group A also includes projects that will significantly affect the environment or require a large land area. Group A project applications must be approved by the Prime Minister, who will base the decision on recommendations of the National Project Evaluation Council. It is chaired by the State Planning Committee, and includes representatives from other ministries, state bodies, and local authorities, that are involved in areas relevant for the project.

Group B includes heavy industry projects that have a capital investment of US$30 million or more, and projects in other sectors having a capital investment of US$20 million or more. Application for Group B projects also require approval from the Prime Minister, who will base the decision on the recommendations of the Ministry of Planning and Investment (MPI) and the chairman of National Project Evaluation Council. Group C includes all other projects that can be approved directly by the MPI.

Group A projects shall include:

- Projects in respect of protection of security and national defence which are of national confidentiality, political and social importance projects for formation and construction of infrastructure of new industrial zones (not subject to the scale of investments).
- Projects for production of hazardous matters and explosives (not subject to scale of investments).
- Projects having substantial total invested capital.

<table>
<thead>
<tr>
<th>Fields</th>
<th>A</th>
<th>B</th>
<th>C</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. Electricity, oil and gas, chemicals, fertilizers, machinery manufacturing, cement, metallurgy, exploitation and processing of minerals, bridges, seaports, airports and highways.</td>
<td>&gt;400bn.</td>
<td>30 – 400bn.</td>
<td>&lt;30bn.</td>
</tr>
<tr>
<td>2. Irrigation other transportations, water supply and drainage, technical infrastructure, electricity, electronics, informatics, mechanics, material production, post and telecommunication</td>
<td>&gt;200bn.</td>
<td>20 – 200bn.</td>
<td>&lt;20bn.</td>
</tr>
<tr>
<td>3. Domestic BOTs, infrastructure, new domestic urban areas, ceramics and porcelain, glass, pharmaecochemistry, medicine, national parks, natural conservations, construction equipment, processing and production of aquatic and forestry products</td>
<td>&gt;100bn.</td>
<td>15 – 100bn.</td>
<td>&lt;15bn.</td>
</tr>
<tr>
<td>4. Public health culture and education, television and broadcasting, civil construction, warehouses, tourism, sports and scientific research.</td>
<td>&gt;75bn.</td>
<td>7 – 75bn.</td>
<td>&lt;7bn.</td>
</tr>
</tbody>
</table>

Table I: Projects Classified by Invested Capital Bn Dong
Source: MPI (1998)
Note: (US$1 = 14 000 Dong)
APPENDIX 6

Project Approval Process

Figure II: The Project Approval Process
Source: Modified from Engholm (1995)
## APPENDIX 7

<table>
<thead>
<tr>
<th>TRANSPORT MODE</th>
<th>Total Amount</th>
<th>1996-2000</th>
<th>2001-2005</th>
<th>2006-2010</th>
</tr>
</thead>
<tbody>
<tr>
<td>Roads</td>
<td>7,135</td>
<td>1,697</td>
<td>2,515</td>
<td>2,923</td>
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<tr>
<td>Railways</td>
<td>1,130</td>
<td>0,269</td>
<td>0,398</td>
<td>0,463</td>
</tr>
<tr>
<td>Ports</td>
<td>2,958</td>
<td>0,663</td>
<td>0,833</td>
<td>1,182</td>
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<tr>
<td>Inland Waterways</td>
<td>0,260</td>
<td>0,062</td>
<td>0,092</td>
<td>0,106</td>
</tr>
<tr>
<td>Airports</td>
<td>4,625</td>
<td>1,100</td>
<td>1,430</td>
<td>1,895</td>
</tr>
<tr>
<td>Urban Transport</td>
<td>4,625</td>
<td>1,100</td>
<td>1,430</td>
<td>1,895</td>
</tr>
<tr>
<td>Rural Transport</td>
<td>0,266</td>
<td>0,064</td>
<td>0,094</td>
<td>0,108</td>
</tr>
<tr>
<td>Shipping Industry</td>
<td>0,509</td>
<td>0,121</td>
<td>0,139</td>
<td>0,209</td>
</tr>
<tr>
<td>Total</td>
<td>18,213</td>
<td>4,333</td>
<td>6,420</td>
<td>7,460</td>
</tr>
</tbody>
</table>

**Table II: Proposed Investment by Transport Mode, 1996-2010**

Source: Ministry of Transport (World Bank, 1999)