

## U.S. STRATEGIC MANAGEMENT IN VIETNAM'S TRANSITION ECONOMY

Peter Geib

### Abstract

*The aim of this research is to evaluate effective U.S. organization and management strategies in Vietnam's transition economy. The goal is to show effective organizational planning in terms of international firm structure as well as market entry strategies. Vietnam's economic reforms initiated in 1987 have created an important emerging market increasingly integrated with the Southeast Asian Political-Economic system. The research fulfills several scholarly needs. It fulfills a need for information on the transition of a centralized command economy to a market economy. It also fulfills a need for an evaluation of effective management strategies including localization, training and development, relationship marketing, and niche marketing.*

### METHODOLOGICAL NOTES

The core of this research is based on twenty structured interviews conducted by the author in June and July of 1994. It should be noted that these managers were sometimes Vietnamese nationals and occasionally so-called Viet-Kieu (returning Vietnamese nationals). Their insights contributed immeasurably to the value of this effort. The research also involves efforts in the analysis of the continuous flow of trade and investment reports from a variety of sources. The author focused more of his efforts in Ho Chi Minh

City (Saigon) although the author also traveled to Dalat and Na Trang.

### HISTORY

Vietnamese civilization dates back to 207 B.C. when it was called Van Long. After more than 1000 years of Chinese control, the region broke free of foreign domination in 938 A.D. and was ruled by a series of feudal dynasties until 1868 when it fell under French rule. The country was occupied by the Japanese during the Second World War. After the Japanese defeat, Ho Chi Minh proclaimed the independent Democratic Republic of Vietnam on 2 September 1945. The French attempt to re-establish colonial rule led to fighting in 1946. The country was plunged into war for the next 29 years until it was reunified in 1975 [On site interviews, Ho Chi Minh City, June, 1994].

Change is coming fast now, but it follows years of war and communist isolation. After World War II, Vietnam turned to single party rule under Communist Party centralization. After 1954, the Vietnamese Communists expelled the French. But with the support of China, the participants split Vietnam between North and South. [Karnow, p. 217]. In the south, war continued in various forms against the French, British, and Americans until 1975 when the country was united as a Communist country drawing mainly on Russian support. There was war on and off for another fourteen years with China and a full scale assault in Cambodia at the cost of at least forty thousand more lives and the continued devastation of whatever infrastructure remained from the French and American Wars.

After the North defeated the South in 1975, Hanoi sought to establish Vietnam as the Socialist outpost in Southeast Asia, this policy isolating her effectively from mainline economic developments. Her Stalinist leadership continued with a more dramatic internal restructuring. Between 1975 and 1984, collectivization of agriculture continued to be emphasized. In the two five year plans there was an emphasis on heavy industry. Moreover, Vietnam cut itself off completely from hard currency trade and investment, relying instead on "barter trade" with Soviet bloc countries. The results were predictable. Productivity rapidly declined. Soft currency debt soared principally of course to the Soviet Union [\$12 billion]. There was in fact the danger of mass starvation by 1984. Finally, the U.S. led embargo added significant pressure to Vietnam's economic situation. [on site interviews, Ho Chi Minh City, June, 1994].

### **MOTIVATIONS FOR REFORM**

The 1986 party congress decided to take the leap and move toward reform. There were several important motivations.

First, there was a deeply felt productivity decline that underlined the dysfunctionality of the system. Vietnam was taking on the characteristics of a "Banana Republic" with increasing indebtedness, worthless money, dilapidated infrastructure, and trade relations based on simple barter. Important segments of the party began to emerge as reform elements, and fortunately began to carry policy in their direction [on site interviews, HCM City, June, 1994]. That is not to say that there has been an unambivalent

commitment to capitalist reform. The political will to reform, particularly at the middle levels of bureaucracy, indeed sometimes an intense hostility, continues to represent one of the main obstacles to doing business in Vietnam. It is clear that the middle levels of bureaucracy feel distinctly threatened by the reforms. It is also clear that the upper levels of governmental decision-making may be ambivalent about some aspects of the reforms.

A second motivation for the reforms is that the Vietnamese leadership is keenly aware that the other nations of Southeast Asia are rapidly passing them by, with sustained growth rates of between 7-10% for 25 years. Singapore, Thailand, South Korea, Taiwan, Hong Kong, and now Malaysia and Indonesia have lifted their people from poverty to relative affluence in one generation. Several interviewees emphasized that Vietnam takes many of its economic cues from China despite the historical tension between the two (China occupied Vietnam for 900 years) [on-site interviews, HCM City, June, 1994]. Now that Southeast China is booming and maintaining at least the semblance of authoritarian control, the Vietnamese leadership looks to China as the way to do it and to the old Soviet leadership as the way not to do it. But it is clearly the competitive factor that has motivated the reforms [on-site interviews, HCM City, June 1994].

A third motivating factor has been the collapse of the Soviet Empire. The Vietnamese economy had been reduced to "Banana Republicanism" by dependence on the Soviet Union. Particularly in the years immediately following the end of the U.S.-

Vietnam war, Vietnam's economic policy was ideologically driven. The leadership had no place to go but to trade soft currency with the inferior Soviet bloc products. This led Vietnam increasingly into indebtedness to the Russians to the amount of about \$12 billion. Fortunately, for the Vietnamese, the Ruble has been losing value faster than Vietnamese money [on-site interviews, HCM City, June, 1994].

In 1994 and 1995 the watchword in Vietnamese politics has been caution. Major party conferences have lately focused on the issue of stability. Of course this translates into maintaining the communist party's monopoly of political power. A certain political wariness is a result of the leadership's ambivalence toward the lifting of the U.S. Embargo. As much as Hanoi wanted to see the American Embargo lifted, it was worried about what the opening up would bring in terms of pressure on human rights and the political activism of overseas Vietnamese. Thus some tightening of control took place. Nevertheless, the main focus has been on economic reform [Institute of Southeast Asian Studies, p. 20].

### ECONOMIC OVERVIEW

In 1986 the sixth Congress of the Vietnamese Communist Party approved an extensive economic restructuring program called "doimoi" (renovation) dealing with food, goods, and export products. With the exception of the rapid implementation of macroeconomic policies, Vietnam's reforms have progressed gradually and unevenly since 1987. In one way or another, reform has touched every aspect of the economy: trade,

investment, finance and banking, enterprises, and macroeconomics. It seems that macroeconomic stabilization has been the most successful because of its comprehensive approach that curbed inflation, reduced the state deficit, increased control over the monetary system, improved the balance of payments, and established a market-based exchange rate [Institute of Southeast Asian Studies, p. 54].

**Table 1**  
**General Economic Trends**

	'91	'92	'93	'94	'95	'96
<b>GDP (% change)</b>	6.0	8.3	8.0	8.2	9.4	9.7
Agriculture	2.2	6.3	3.3	4.0	4.5	4.0
Industry	9.9	12.0	11.3	11.0	12.0	13.5
Services	8.2	8.7	10.5	11.5	12.7	12.5
<b>Gross Domestic Investment (% of GDP)</b>	11.6	12.0	19.8	22.0	23.5	25.0
<b>Exports</b>						
US \$ billion	2.1	2.5	3.0	3.8	4.5	5.5
% change	18.0	19.0	20.0	25.0	20.0	22.0
<b>Imports</b>						
US \$ billion	2.1	2.5	3.5	4.8	5.3	6.6
% change	18.8	20.4	38.3	22.9	23.5	25.0
<b>Inflation Rate</b>	67.4	17.6	5.3	11.0	11.5	11.0
(% change in RPI)						
<b>Debt/Service Ratio</b>	20.2	22.4	21.4	19.5	17.4	17.5
(% of exports)						
<b>Current account balance (US \$ billion)</b>	-188	-36	-590	-1,000-750	-1,200	
<b>Exchange rate</b>	11.9	11.0	10.6	11.0	11.5	12.0
(000s Dong/US \$)						

Source: Institute of Southeast Asian Studies, Singapore, 1995.

**Table 2**  
**Investment by Sector**

1988-1993	
Hotel/Tourism	20%
Oil and Gas	19%
Heavy Industry	17%
Light Industry	16%
Transport/Comm	7%
Construction	6%
Services	6%

It is important to note that GDP is expected to grow at an annual rate of 9.7% in 1996. Trade is growing at an annual rate of 20% despite the loss of the traditional export market--the Soviet Union. Industrial output and services will grow from 11% to 13% in 1995. One fact illustrates the dramatic trade turn around experienced by Vietnam. It has gone from a net rice importer to the third largest rice exporter in three years time. While the GDP growth rate has clearly accelerated, the average growth rate has been over 4% since 1986 [All the above statistics were gathered as a result of on-site interviews, HCM City, June, 1994 and from the Institute of Southeast Asian Studies].

### U.S. - VIETNAM RELATIONS

One of the major obstacles to recent Vietnamese economic development has been the politics of U.S.- Vietnamese relationships. One aspect of this has been the U.S. Trade Embargo. The Clinton administration lifted the Embargo February 4, 1994. But the MIA question in particular has prevented further

progress on normalization of the relationship. Under Secretary of State for Far Eastern affairs, Winston Lord, took a diplomatic mission to Hanoi in July of 1994 to help pave the way for full diplomatic recognition.

Other aspects of the relationship include the following:

- No most-favored-nation status
- No credit available from the export-import bank
- Vietnam is not high on the U.S. political agenda although we are clearly moving toward full diplomatic relations [on-site interviews, HCM City, June, 1994].

### NATURE OF REFORMS

Vietnam's economic crisis led to Vietnam's economic reform (Doi Moi) program. The government approved reform in 1986 and reform was implemented in 1987. Its provisions signaled a dramatic departure from the statist policies of the past.

### Reforms

The nature of the reforms may be summarized in the following way:

- Encouragement of private sector initiatives
- Encouragement of foreign investment in several forms
- Privatization of state enterprises
- Freeing of prices
- Reduction of state subsidies
- De-centralization of decision-making
- Emphasis on education [on-site interviews, HCM City, June, 1994].

There is a real effort to plug Vietnam into the world trading community evidenced by

attempts to seek ASEAN membership for Vietnam.

### Private Sector Initiatives

Between 1987-1994 thousands of small and medium sized private businesses have emerged. This reality is most evident in the cities particularly in Ho Chi Minh City (Saigon) which provides 30% of the non-agricultural product of the country. Casual observation shows increasing productivity in the vibrant urban activity of the city accompanied by the usual in-migration, congestion, and pollution problem. Ho Chi Minh City's economy supports a per capita income of perhaps \$500 as compared to \$230 nationwide.

Private sector provisions encompass agricultural reform. Reform initiatives have reversed agriculture collectivization and returned land to family farms and plots. This effort alone turned Vietnam from a net rice importer to the world's third largest rice exporter in three years. There has been a good deal of official ambivalence about these reforms [on-site interviews, HCM City, June, 1994].

### Trade and Investment

The landmark law on foreign investment was passed in 1987. It first sparked a trickle then a flood of money in foreign investment. By the middle of 1994, 944 projects handled by approximately 600-700 companies were licensed, with total capital commitment of \$9.2 billion, lead sectors include General industry (\$3.6 billion), Hotel and Tourism (\$1.9 billion), and services (\$703 million).

[Vietnam Economic Times, July, 1994, SCCI p.9].

Principal country investors include the following: (as of 6/16/94)

- Taiwan 137 projects 1.62 billion
- Hong Kong 186 projects 1.59 billion
- Australia 41 projects 741 million
- South Korea 72 projects 712 million
- France 58 projects 676 million
- Singapore 63 projects 549 million
- Japan 60 projects 510 million

The U.S. is 18 on the list with 11 projects and about 78 million committed [Vietnam Economic Times, SCCI, July, 1994, p.10].

### Privatization

The privatization of state enterprises is by all accounts the most difficult and controversial aspect of the reform program. It has barely begun and involved two particularly difficult cultural and political problems. First, there is the question of political will. Can the highest level leadership bring itself to "let loose" its "crown jewels" to the capitalist way? This problem is magnified by a hostility from the middle levels of bureaucracy where there is the strong perception that privatization is a real threat to bureaucratic jobs.

One manager indicated a second major cultural problem of privatization--the necessity of "saving face." Decisions have been made over the years regarding placement of individuals and leadership roles. With the Vietnamese emphasis on saving face and relationships, it is difficult to make the necessary staff and personnel changes given

the political capital invested [on-site interviews, HCM City, June, 1994].

### **Reduction of Subsidies**

Another aspect of the reform package is the reduction of subsidies to state enterprises. This raises the usual political problems associated with consequent unemployment.

### **Prices Freed**

Price liberalization is a major aspect of the reform program. Market pricing has been injected into many aspects of the economy. Certainly one sees the effects of supply and demand in the price of real estate and hotel rooms in Ho Chi Minh City, but ultimately price liberalization cannot be deeply effective until privatization has been accomplished [on-site interviews, HCM City, June, 1994].

### **De-centralization**

De-centralization of economic decision-making at all levels is an important part of the reform package. In the old centralized system distributors and end-users waited for quotas and supply before indicating demand. Brand identity and demand was non-existent. Distributors and wholesalers increasingly drive demand. Observers say that the old black market networks have now become the basis of legitimate distribution networks [Vietnam Economic Times, SCCI, July, 1994].

The reforms have made a difference. The investment curve is up. Since 1987 foreign direct investment has reached \$9.2 billion and over 900 projects. [on-site interviews, HCM City, June, 1994]. In the first two years of the reforms, GDP expanded by 5% and inflation

has stabilized at just over 12.9%. Although it is at a higher level currently, this has been an immense relief given that the economy was momentarily on the brink of free fall after the collapse of the Soviet Empire with a rate of inflation over 500%. [Institute of Southeast Asian Studies, p.54]. It was Vietnam's previous experience with hard currency countries and the long established relationships with Southeast Asian nations and the "China Growth Area" that saved the economy in the first instance [on-site interviews, HCM City, June, 1994].

### **Cholon**

The Saigon Chinese community of Cholon has a special and important place in the economic history of Vietnam. For centuries Cholon has been the home of the Chinese community in Vietnam. Its recent history has been particularly interesting. A number of managers and observers indicate that it was the source of many financial transactions during the war with the Americans. In short Cholon financed and facilitated the war against the North. This meant that following the war age old hostilities and jealousies against the Chinese were reinforced by the "revenge" for the Cholon's support of the South. This support of the South accounts in part for the Chinese boat people phenomenon in the late 1970's. Chinese could buy their way out of the anti-Chinese persecutions that followed the war. Ironically, with momentum gathering for the reforms, Hanoi is now encouraging the return of the overseas Chinese community in order to take advantage of the business and financial skills of the Chinese community. It is no accident that the

leading countries in providing foreign direct investment to Vietnam are Taiwan and Hong Kong [On-site interviews, HCM City, June, 1994].

## OPPORTUNITIES

### Human Infrastructure

One of Vietnam's greatest assets and its greatest business opportunities lies in its population. First, it is a large population of 72 million. Those companies who can position themselves over time for the large internal market will do well as the population grows in per capita income. Second, the population is educated and 95% literate with a high level of technical literacy. A number of managers commented that many of the Vietnamese must have received training in countries like the Czech Republic under the old regime. Third, it is a low-wage population. Fourth, the population is sophisticated. This is no doubt the consequence of years of dealing with the outside world in times of war and peace. It's worth noting that several of our cycle drivers sometimes spoke several languages. Fifth, managers continually referred to the strong aggressive work ethic. Despite continuing differences between North and South, Vietnam appears united in its nationalism and committed to the ideology of modernization [On-site interviews, HCM City, June, 1994].

### Material Infrastructure

In terms of material infrastructure, Vietnam needs everything which creates substantial opportunity. There is great growth potential in this sector with the resumption of aid by the World Bank, the change in the

Foreign Investment Law to allow for turn key projects, and the lifting of the U.S. Embargo in February 1994. Areas with the greatest investment include:

- **Telecommunications**-All the world's major telecommunications firms are showing interest. Hanoi and Ho Chi Minh City have built satellite relay stations. But the telephone system is not adequate to meet the demands.
- **Roads and Rail**-Both the road and rail systems are underdeveloped and require reconstruction to cope with increased passenger and commercial traffic. The major north and south railway link was severely damage by the war and little has been done to upgrade it. Roads are heavily used and only about 10% are paved.
- **Air**-All major airports need reconstruction. Ho Chi Minh's Tan Son Nhat airport, for example, still retains the war time concrete shelters for fighter jets which obstruct the use of the airport [On-site interviews, HCM City, June, 1994].

### The Tourist Industry

Vietnam's natural beauty is stunning. This is clearly a country with great potential for a tourist industry. Vietnam has been attracting about 120,000 tourist per year. Projections are as many as two million people over the next two years. This will be a neat trick since there are only about 5000 beds in the country suitable for visitors. There are virtually no 5 star hotels. But it should be underlined that

there is hotel construction everywhere particularly in Saigon [On-site interviews, HCM City, June, 1994].

### **Tax Laws**

Tax incentives request is one of the most important business opportunities. Income tax on foreign enterprises is based on the law on foreign investment. The following corporate tax rate give some sense of the incentives provided. In the first place, foreigners can own up to 100% of their businesses.

At 10% rate--Infrastructure projects in mountain areas and areas with difficult conditions; projects of special importance (May be eligible for exemption from tax for 4 years with a 50% reduction in tax for the following 4 years).

At 15% rate--Infrastructure projects located outside mountain areas or areas with difficult conditions; natural resources projects (except oil, gas, and rare resources); heavy industrial projects; long-term industrial crop growing projects; located in mountain areas or areas with difficult conditions (May be eligible for exemption from tax for 2 years, with a 50% reduction in tax for the following 4 years).

At 20% rate--Projects satisfying two of the following criteria:

- A. Employ over 500 workers
- B. Employ advanced technology
- C. Export at least 80% of products
- D. Prescribe capital of over U.S. \$10 million (May be eligible for exemption from tax for 2 years, with a 50% reduction in tax for the following 3 years.)

### **Agriculture**

Agriculture is the most important economic sector. It employs 70% of the population and accounts for 50% of Vietnam's exports. The principal agricultural products are rice, corn, vegetable, rubber, tobacco, and coffee. Foreign investment opportunities lie in the areas of technical knowledge, storage and processing of agricultural and forestry products, and equipment and fertilizer manufacturing [On-site interviews, HCM City, June, 1994].

### **Oil and Gas**

Vietnam has some of the world's largest proven oil reserves, estimated at 1.7 billion barrels. Annual growth is estimated to be 25% per annum. Petro-Vietnam is the state-owned company responsible for development and managing the current output of approximately 300,000 barrels a day. Petro-Vietnam has been entering into a variety of production sharing agreements with foreign investors [On-site interviews, HCM City, June, 1994].

### **Mining**

In addition to oil and gas, Vietnam has great natural wealth such as coal, phosphate, iron ore, bauxite, gold, tin, granite, marble, and gemstones.

### **OBSTACLES**

There are clear obstacles to business and foreign investment. Some of these obstacles are changing but some are based on immutable social values.



### **Political Risk**

Political opposition particularly at the middle levels of the traditional bureaucracy represent a continuing obstacle to effective business opportunity. It appears that at the highest levels of policy-making there is a good deal of pragmatism about the reforms. The policy-makers at the top of Vietnam's party hierarchy, despite long-held values, recognized the need for change and initiated their market reforms in 1986. The story is different at the middle and lower levels of bureaucracy. All interviewees agreed that the middle levels of bureaucracy are a major problem. Bureaucrats are not only ideologically opposed, they are fearful of losing their economically unproductive jobs as privatization gathers momentum. Hostility by bureaucrats toward reforms is further driven by an increasing gap in incomes as those in the private sector move ahead [On-site interviews, HCM City, June 1994].

### **Financial Institutions**

Almost all interviewees report that there is a great need to develop adequate financial institutions. An inadequate financial system is clearly a principle problem. Banks cannot be trusted to do an effective job of lending. Vietnam needs modern banks with updated bank infrastructure. Updated bank infrastructure means among other things electronic banking. Individuals need to be able to predict bank process outcomes--such as check clearing. Effective financial institutions mean a network of commercial banks, foreign and domestic, that are able to attract and manage foreign investment.

The lack of capital coming from the banking system and the absence of a capital market have proved to be major disadvantages to foreign investors. Moreover, modern financial institutions also mean an institutional network that is capable of managing monetary policy and hence inflation.

Indications are that major improvements may be underway. There are now approximately 22 foreign banks in operation, seven of which are full branches, and there is a long line of foreign banks waiting for approval to open branches. Moreover, there are plans to initiate a stock exchange in 1995. Citibank and now Chase are making plans to do business [On-site interviews, HCM City, June, 1994].

### **Money**

There are a number of issues related to money itself. Inflation is happily under control after severe problems. Inflation is currently running at a rate of 11% or 12% but is has been as low as 5%. First, there is a shortage of hard currency. Second, the domestic money is exceptionally weak. Finally, there is always the threat of resurgent inflation and money must hold its value for business planning purposes. The problem of resurgent inflation cannot be finally solved until effective financial institutions have been established [On-site interviews, HCM City, June, 1994].

### **Repatriation of Profits**

In principle, investors may transfer their share of their profits abroad. In practice, repatriation of profits can be problematic. Profits can only be repatriated in a year in

which such profits are made and only after withholding tax is paid and all other obligations to the state fulfilled. Vietnamese money is not convertible and any profits made may be affected by inflation and exchange rate fluctuation [On-site interviews, HCM City, June, 1994].

### **Legal Framework**

All interviewees report that a rapidly changing legal framework (or no framework at all) is a major obstacle to doing effective business in Vietnam. The problem stems in part from the communist arbitrary exercise of power and the continuous attempt to personalize the exercise of power. This problem can be explained as a lack of "law and order" and due process at all levels.

One attorney interviewed explained a particularly interesting aspect of Vietnamese legal history. Not only is there heritage of the arbitrary exercise of power, there is the contemporary clash of the French administrative code law tradition with the tradition of Anglo-American case law. Moreover, there are about 5000 students studying law. Unfortunately, it is the old Soviet law which might indicate how difficult it is to reform institutions of higher education. These cross-currents are exacerbated by the rapidly changing legal framework of a system in transition. Managers consistently reported that tax laws, investment laws and joint venture codes, indeed commercial codes of all categories, are subject to rapid and unpredictable change. A stable legal framework also provides insurance against "corruption" which had been a major impediment to foreign investment in every

transition economy from Europe to Asia. Finally, in Vietnam there is the new classical confusion between public and private sector. This contributes to social disorder, jealousy, and other political problems [On-site interviews, HCM City, June 1994].

### **Infrastructure**

Just as infrastructure represents long-range opportunities in many areas, all interviewees report that infrastructure is inadequate to meet growing demand.

## **STRATEGIES FOR EFFECTIVE MANAGEMENT**

### **Emphasis on the Long Term**

In Vietnam, managers in U.S. firms emphasized the long-term strategic view. Vietnam is in rapid transition. It is growing rapidly, but there are substantial obstacles such as infrastructure problems that will require time to overcome. Additionally, Vietnam requires the time necessary for effective relationship marketing. Every manager emphasized the complexity of political factors such as local party policy requirements that delay negotiations. Financing may represent special problems due to the lack of a modern banking system [On-site interviews, HCM City, June, 1994]. One implication of the need to take the long term view is that the advantage may go to large firms who "can afford to wait." But managers in Saigon report that markets were open to small and medium-sized firms if they searched for appropriate niches "on ground" in Saigon [On-site interviews, HCM City, June, 1994]. It is clear from interviews and observation that

it is the emergence of an entrepreneurial culture particularly in regard to the development of small and medium-sized business that is driving the market.

### **Emphasis on Localization**

Managers in U.S. firms seek to localize as quickly as possible. It has clearly been a "winning" strategy. One motivation is to establish political goodwill. But an equally important incentive is the need to hire individuals who can understand and operate within the rapidly changing culture [On-site interviews, HCM City, June, 1994]. A third motivation is not only hiring knowledgeable individuals but individuals who are committed to Vietnam. It is also clear that localization in Vietnam means hiring young. Business is skeptical of hiring older workers who may well hold all the problem assumptions of the pre-reform systems.

### **Emphasis on Training and Education**

An emphasis on training and education is closely tied to localization. The idea seems to be to hire locally as soon as possible and train as much as possible. Education and training are viewed as principal strategic management tools. Managers are faced with the problem of maintaining, adopting, and developing their corporate cultures in a highly diverse social and political culture. Once the selection of appropriate individuals occurs managers indicate that training is continuous on all levels from personal hygiene to sophisticated financial analysis, training occurs in all locations in Vietnam and abroad [On-site interviews, HCM City, June, 1994].

### **Relationship Marketing**

If strategic planning in Vietnam requires patience, in great part it is because one must build effective relationships. Virtually every manager interviewed emphasized the need to develop long-term trust relationships in order to do effective business [On-site interviews, HCM City, June, 1994].

The concept of relationship marketing receives a good deal of attention from scholars. But it is even more important in the context of contemporary Vietnam. Relationship marketing has been defined as the understanding, explanation, and management of the ongoing collaborative business relationship between suppliers and customers. In a paper delivered at the Midwest Marketing Association meeting in March of 1994, Acheson and Geib claim that as a firm enters foreign markets in transition there is an increased need for relationship because of the "great distance" in terms of geography, business practice, and culture [Acheson and Geib, 1994].

As indicated in previous sections, there are a number of obstacles associated with entering Vietnam's economy. One cannot assume political or legal predictability, banking infrastructure, or telephone services throughout Vietnam.

Farber and Wycoff suggest four steps to successful relationships that would apply to Vietnam:

- Build friendships
- Get to know people
- Ask the right question
- Bring potential customers in-house [Acheson and Geib, 1994].

### Strategic Alliances

Strategic Alliances are essential in Vietnam. Strategic alliances provide common goals for the sharing of risk, expertise, equity, capital and other resources. Strategic alliances have been the strategies of choice among successful firms throughout Asia. Managers in Vietnam emphasize that strategic alliances that have been marked by success include at the very least the following characteristics:

- Careful and tight focus
- Strong and continuous communication
- Carefully developed but flexible internal structure
- Financial resources

[On-site interviews, HCM City, June, 1994].

### Niche Marketing

Managers in Vietnam were clear that the emergence of an entrepreneurial culture represents particular opportunities for niche marketing by small and medium-sized firms. [On-site interviews, HCM City, June, 1994]. This strategic option needs to be seen in the context of a transition economy which is not only moving toward a market system but an economy that is rapidly restructuring. This restructuring can be characterized by the rapid downsizing and virtual disappearance of many giant but bankrupt companies. Under these conditions small and medium-sized firms, domestic and foreign, continually explore for specialized niche markets. Successful niche marketing is particularly important for foreign firms because of the up-front expenses involved in establishing market share [On-site interviews, HCM City, June, 1994].

### Turn-Key Operations

A strategy of choice among firms entering the Vietnam market is the turn-key operation. It is a strategy that is strongly supported by the government of Vietnam. In a turn-key arrangement, a U.S. entity works in partnership with a Vietnamese government entity (or company). Once the project is complete it is turned over to the Vietnamese entity. Turn-key strategies are generally applied to capital construction projects. Once the project is complete, it can be followed up with management contracts or other arrangements. It clearly provides an important market entry opportunity for U.S. firms [On-site interviews, HCM City, June, 1994].

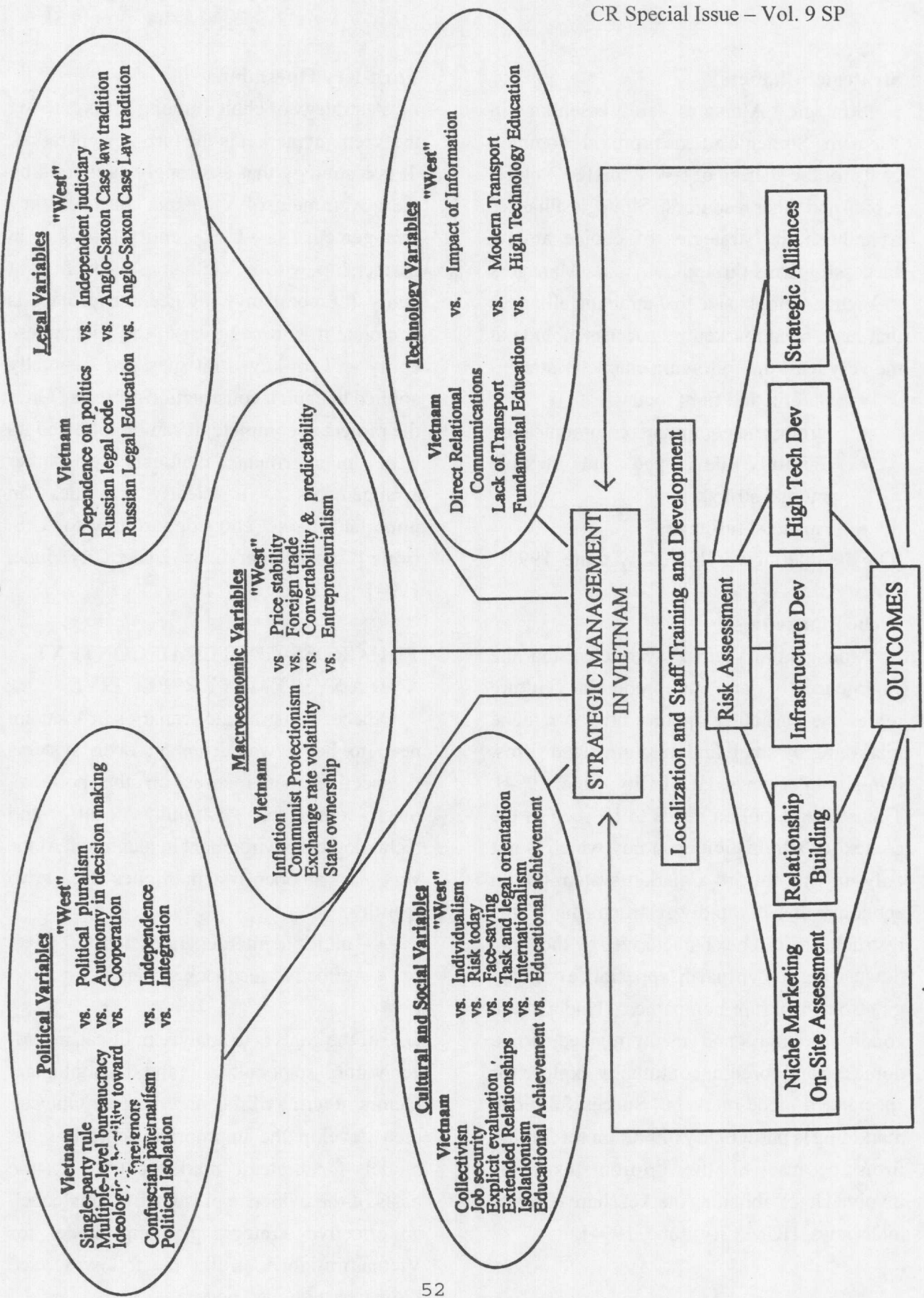
### THE CROSS-CULTURAL CONTEXT AND A SYSTEMS PERSPECTIVE

Successful strategic scenarios in Vietnam need to be viewed from an open systems perspective that focuses on the political, macro-economic, cultural, legal, and technological environment in planning. At the very least, an open system implies at least two realities:

- multiple interdependencies
- effective feedback systems

One of the goals is to analyze political, macro-economic, sociocultural, and technological factors in terms of risk assessment. One can then develop the appropriate staff training models for strategic market entry. On the basis of the evidence presented in this panel, an effective strategic planning model for Vietnam might look like the following (see Flow Chart on next page):

**FLOW CHART**  
**Risk Environment for Strategic Management**



Finally, one might hypothesize that the best way to further develop a generalizable systems planning model is to relate interdependent functions and feedback to specific stakeholders like the Vietnamese bureaucracy.

contemporary journalistic account of the Saigon and Hanoi area]

Vietnam Economic Times, *SCCI*, July 1994.

#### REFERENCES AND ENDNOTES

Fallows, James (1994), *Looking at the Sun: The Rise of the New East Asian Economic and Political System*, Pantheon Books, New York. [For an excellent contemporary analysis of the Southeast Asian Political Economy].

---

Peter Geib is Professor of International Business and coordinator of the International Business Program at Moorhead State University at Moorhead, Minnesota. This research is based in part on on-site structured interviews in Vietnam in the summer of 1994.

Farber, Barry J. and Joyce Wycoff (April 1992), Relationships: Six Steps to Success, *Sales & Marketing Management* p. 50-58.

Geib, Peter. *On-site interviews*, Ho Chi Minh City, June 1994. [20 structured interviews principally with key decision-makers in U.S. firms and joint ventures]

Karnow, Stanley (1991) *Vietnam: A History*, Penguin Books, p. 109-138. [For a fine condensed history of Vietnam]

*Regional Outlook: Southeast Asia, 1995-96*, Institute of Southeast Asian Studies, Singapore, 1995. [For an excellent overview of the most recent Southeast Asian economic indicators].

Sheeham, Neil (1992), *After the War was Over: Hanoi and Saigon*, Random House, New York: [For an excellent