

# Pestel and swot analysis of vietnam



**ASSIGN  
BUSTER**

Vietnam is approximately 331688 km<sup>2</sup> in area and occupied the eastern coast of the Southeast Asian peninsula. The northern part of the country part consists mostly of highlands and the Red River Delta. The south is divided into coastal lowlands and extensive forests. Because of differences in latitude and the marked variety of topographical relief, the climate tends to vary considerably from place to place. During the winter or dry season (November to April), the monsoon wind blowing from the northwest brings considerably moisture. Consequently the winter season in most parts of the country is dry. Major Vietnamese cities include Hanoi in the north, Da Nang in the mid coastal region, and Ho Chi Minh City (formally known as Saigon) to the south.

Vietnam has considerable energy resources such as oil, gas and coal and its 41, 000 km long waterways provide the basis for hydropower. The country is rich in minerals such as bauxite, iron ore, lead, gold, precious stones, tin, chromate, anthracite, granite, marble, clay, white sand and graphite. In addition, Vietnam has a considerable fresh and saltwater fauna, dense tropical forestry resources and it possesses great agricultural potential.

The history of Vietnam, reference to the Geneva Accord signed in 1954. The accord ended French colonial rule, and the country was partitioned into the Democratic Republic of Vietnam, led by Ho Chi Minh and the Republic of Vietnam in the South. The capitals were Hanoi for the North and Saigon for the South. Fights led by Ho Chi Minh to unite the country started in 1959 and lasted until 1975. Hanoi became the capital of the country whilst Saigon was renamed Ho Chi Minh City.

Following reunification, the Vietnamese government's initial plan was to manage the economy via methods of central planning. Based on experiences gained during the 1976-1980 five years plan, subsequent central plans introduced more relaxed policies with respect to agricultural collectives, State Owned Enterprises and allowed more scope for private initiatives. These measures were instrumental in elevating poverty. Growth rates during the early 80's were higher than during the 1976-1980 five year plan, however it became evident that further policy shift were necessary to enable the Vietnam economy to perform closer to its potential.

Economic reform was the key point of discussion at the Sixth National Party Congress held in December 1986. The process then initiated of moving from a centrally planned economy to an open, socialist-oriented and multi-sector market economy known as Doi Moi (renovation). In 1992, the National Assembly revised the post-unification constitution to better reflect the aspirations articulated in the Doi Moi process. Economic performance since 1986 has justified the policy of relaxation of central control, the challenge faced by Vietnam has been the maintenance of rapid economic growth and integration into the global economy.

## **2.0 Analysis of Vietnam's Political**

Vietnam is a socialist country operating under the leadership of the Communist Party. A national congress of Vietnam's Communist Party is held every five years determining the country's orientation and strategies and adopting its chief policies on solutions for socio-economic development. The National Congress elects the Central Committee which in turn elects the Politburo. The last congress was held in April 2006.

## **2. 1 The Communist Party of Vietnam**

The Vietnam Communist Party is a political organization, it is essential to be discussed because of its critical role and deep involvement in the political and legal life of Vietnam.

Vietnam is control by the Communist Party. The party has a central role in shaping the country's policy and legal system and maintains a firm control over all the government and social system. Its structure is parallel to the government's structure and has close relation to the government. Its influence is reflected through the formation and election of the National Assembly, the operation of the administration, and the function of the judicial system. The Party also maintains its influence at all levels of the society through its affiliated organizations.

## **2. 2 National Assembly**

The National Assembly is the highest law-making body in the country. It comprises delegates who are elected for a five-year term from various strata of people and different ethnic groups in the country. The National Assembly is both the supreme state authority and the unique legislative body and has the power to promulgate and amend the Constitution and Laws. The National Assembly meets twice yearly.

## **2. 3 The President of Vietnam**

The current president of Vietnam is Mr Nguyen Minh Triet (refer to photo). The President, as the Head of State, is elected by the National Assembly from its members to represent Vietnam in domestic and foreign affairs for five-year tenure. The President has the right to proclaim Laws and

Ordinances passed by the National Assembly and the Standing Committee. The President is the commander-in-chief of the armed forces and Chairman of the Council of Defense and Security. In foreign affairs, the President has the authority to appoint ambassadors and to sign international agreements and treaties. The President appoints and dismisses the Prime Minister and the members of the Government on the basis of resolutions of the National Assembly or its Standing Committee. Furthermore, the President has the right to nominate key officials such as the Chief Justice of the Supreme Court and the Chief Procurator of the Supreme Procuracy, subject to the National Assembly's approval.

## **2. 4 Political Risks**

When it comes to investing in Vietnam, one of the Asia countries, it would be a mistake if we do not analyze the country's political risk. When trading in Vietnam, there are several significant political risks that need to be concerned.

### **2. 4. 1 Corruption in Vietnam**

#### **Table of Corruption Perception Index 2009**

According to the Corruption Perceptions Index 2009, Vietnam was ranked at number 120 or index 2. 7 as compare to many other countries. This shows Indonesia has a high level of corruption. Many companies consider corruption to be the most significant political problem in Vietnam.

The factors to cause corruption are as the following. First of all, due to rapid economic growth, the demand for administrative functions is increased, such as the need for more government permissions to engage in economic

activities via licenses, approvals; this will increase opportunities for petty corruption in Vietnam.

Second, to facilitate economic growth, Vietnam has undergone comprehensive political and economic restructuring. A reform of decentralization in Vietnam has given greater authority over investment licensing to provinces, municipalities and so-called investment zones. These decentralization efforts have led to the uneven implementation of laws and variations in requirements and have given local officials considerable discretion to demand bribes for issuing licenses and permits, leading to more administrative corruption.

Third, foreign firms are particularly vulnerable to administrative corruption due to their lack of knowledge of local customs and procedures. These firms are more likely to pay for a license, even though it might be illegitimate and unnecessary according to the law, to avoid antagonizing the local administration.

Lastly, the official salaries of Vietnam's public officials are very low. The minimum payment is only 28 dollars per month. Therefore they try to get extra money from bribery.

## **2. 5 Political SWOT Analysis**

### **i. Strengths**

The Communist Party government appears committed to market-oriented reforms necessary to double 2000's GDP per capita by 2010, as targeted.

The one-party system is generally conducive to short-term political stability.

Relations with the US are generally improving, and Washington sees Hanoi as a potential geopolitical ally in South East Asia.

## **ii. Weaknesses**

Corruption among government officials poses a major threat to the legitimacy of the ruling Communist Party.

There is increasing public dissatisfaction with the leadership's tight control over political dissent.

## **iii. Opportunities**

The government recognizes the threat that corruption poses to its legitimacy, and has acted to clamp down on graft among party officials.

Vietnam has allowed legislators to become more vocal in criticizing government policies. This is opening up opportunities for more checks and balances within the one-party system.

## **iv. Threats**

The sharp slowdown in growth expected in 2009 is likely to weigh on public acceptance of the one-party system, and street demonstrations to protest economic conditions could easily develop into a full-on challenge of undemocratic rule.

Although strong domestic control will ensure little change to Vietnam's political scene in the next few years, over the longer term, the one-party-state will probably be unsustainable.

## **2. 6 Legal Framework**

Following the open-door policy of 1986, Vietnam has enacted its Constitution in 1992 to strengthen legal institutions and to pave the way for its party-led economic reform. Vietnam improve its legal system in order to create a favorable environment for the development of a multi-sector market economy as well as a more open and stable investment environment. During recent years, many laws and regulations have been enacted to establish the legal framework for the open-door policy and to comply with the integration requirements of international agreements, of which the most important laws include:

the Civil Code (2005);

the Labor Code (1994, as amended in 2002 and 2006);

the Commercial Law (2005)

the Law on Enterprises (2005)

the Law on Investment (2005)

the Law on Credit Institutions (1997, as amended in 2004)

the Land Law (2004)

the Law on Accounting (2004)

Law on Real Estate (2006)

Law on Tax Administration (2006)



Law on Social Insurance (2006)

Law on Personal Income Tax (2007, effective as 1 January 2009)

Law on Corporate Income Tax (2009)

Law on Value Added Tax (2009)

### **2. 6. 1 Main legislation for FDI**

The main legislation governing foreign direct investment (FDI) activities are the Law on Investment and the Law on Enterprises in Vietnam.

With a view towards creating a comprehensive legal framework for FDI activities in accordance with international standards, Vietnam has signed and acceded to various bilateral and multilateral arrangements on investment, such as agreements for the promotion and protection of investment with 46 countries and territories, Framework Agreement on the ASEAN Investment Area (AIA), etc. The international agreements contain provisions inconsistent with the provisions of the legal instruments on FDI, the provisions of the international agreements shall be applied.

### **2. 6. 2 Court System**

Vietnam has a two tier court system, including courts of first instances and courts of appeal. The judgments are then susceptible to further reviews under special circumstances. The court system consists of the Supreme Court, the provincial People's Courts and the district People's Courts. There are specialised courts at the Supreme Court and at the provincial level. These include the Criminal Court, Civil Court, Economic Court, Administrative Court and Labour Court.

<https://assignbuster.com/pestel-and-swot-analysis-of-vietnam/>

The Chief Justice of the Supreme Court is elected by the National Assembly, has the term corresponding to the term of the National Assembly and can be re-elected. Other Justices of the Supreme Court are appointed and removable by the President and have the term of 5 years. The Chief Justice of the Supreme Court appoints and removes judges of the inferior courts.

Under the law, Vietnamese courts render their judgments independently. However, there are still many concerns on the independence of the courts.

The tribunal panels at the first instance are composed of both judges and people's jurors (usually one judge and two people's jurors). People's jurors at each level are lay people elected by the People's Council of the same level at the recommendation of the Vietnam Fatherland Front and could be re-elected. The participation of these jurors who are not qualified legal expert and who are elected by the local government raises questions on their capacity and on the influence of the local government on the court's activities.

The law in 2002 centralized the appointment of the judges by the Chief Justice of the Supreme Court instead of appointment by the local People's Council. The budgeting of the local courts, previously decided by the provincial Departments of Justice, is now decided by the National Assembly. This hopefully will make the local courts more independent from the local government.

Another factor leading to the concerns on the independence of the courts is the unwritten practice of the local court requesting for opinion from the superior court in complex cases.

Judgments in Vietnam are not publicly published and it is difficult to get access to past judgments.

### **3.0 Economy analysis**

Vietnam's economy has expanded rapidly since the Communist Party of Vietnam turned away from the communist economic policies in the 1980s. A sustained growth rate of around 8% for over 15 years shows great progression and has increasingly attract numbers of foreign investors.

Vietnam received over US\$20 billion of foreign direct investment in 2007, and there are almost 1, 500 new projects licensed in the same year.

Although the economy is developing at a rapid rate, entry costs for investors are still low, and cheap labor costs coupled with a young, literate workforce make business investment a very attractive and lucrative prospect.

The Vietnamese government has shown their commitment to economic liberalization and international integration. Structural reforms needed to modernize the economy have been implemented, helping to produce more competitive, export-driven industries. Vietnam joined the WTO in January 2007. This should give a major boost to Vietnam's export led economy and should spur on the country's economic liberalizing reforms.

However the recent global recession has hurt Vietnam's export-oriented economy with GDP growing less than the 7% per annum average achieved during the last decade. In 2009 exports fell nearly 10% year-on-year, prompting the government to consider adjustments to tariffs to limit the trade deficit. The government has used stimulus spending, including a subsidized lending program, to help the economy through the global

financial crisis, and foreign donors have pledged \$8 billion in new development assistance for 2010. Domestic investment grew 16% while committed foreign direct investment fell 70%, a steep reduction after 5 years of growth. Nevertheless, the weaker economy, current account deficit, and subdued foreign investment environment means Vietnam's managed currency, the dong, faced downward pressure through 2009, leading the government to devalue it by more than 5% in December. Initially from 2003 to 2006 Vietnam GDP real growth rate had gradually increased, which is 6%, 7.2%, 7.7%, 8.5%, respectively. However until 2009, the growth rate was fell dramatically from 8.5%(2008) to 6.2%.

### **3. 1 Infrastructure of Vietnam**

#### **Highway system**

The road system consists of over 200, 000 km network including over 10, 000 bridges. However road conditions are not ideal, less than half of the national highways have two lanes or more. In addition, road congestion is increasing in major cities. In recent years, the Government has mobilized a significantly large amount of capital to upgrade the highway system with financial support from international lending agencies.

#### **Railway**

The rail network consists of about 2, 600 km of single-track line covering several routes. There are about 260 stations in the network. The longest and most important route is the Hanoi – Ho Chi Minh City line, which stretches for 1, 730 km. This line is now serviced by an express train, which makes the journey in approximately 29.5 hours. The lines connecting Vietnam to China were re-opened a few years ago.

## **Inland Waterways**

Often overlooked by foreign investors, the inland waterway system offers a cheap and flexible mode of transport. Vietnam has more than 2,300 rivers and canals with total length of 198,000 km. Currently, the inland waterway has a system of over 61,000 km.

The two major inland waterway systems serve as major transportation outlets. The first major inland waterway system is in the Red River area in the north which stretches for approximately 2,500 km. Along this system there are five main ports, of which Hanoi is the largest. The second major inland waterway extends 4,500 km along the Mekong River and its tributaries in the South and boasts about 30 ports, including Ho Chi Minh City.

The larger river vessels are tug-drawn barges. Official estimates put the fleet capacity at about 420,000 tons with speeds ranging from 2 to over 20 km an hour. Smaller, wooden barges are mostly privately owned.

## **Ports**

Vietnam has eleven major seaports. Ho Chi Minh City serves most of the South and now boasts modern container loading facilities. Just a few hours' drive from Hanoi, Hai Phong serves much of the North. Given the rapid rise in trade volume, increasing port capacity is a national priority.

## **Airports and Civil Aviation**

There are three international airports: Ho Chi Minh City, Hanoi and Da Nang. Currently, the Government has significantly upgraded international airports to handle the increase in the volume of traffic associated with Vietnam's

invigorated economy. A new international terminal of the Tan Son Nhat airport in Ho Chi Minh City, capable of handling up to 10 million passengers a year was opened in December 2007. Noi Bai airport in Hanoi was upgraded, enlarged and completed for operation in 2002, construction of a second terminal is expected to start in October 2008 and completed in two years. Four new international airports are planned to be constructed in Phu Quoc, Dong Nai, Lao Cai and Quang Ninh provinces. Preparations for the new Long Thanh International Airport, 40 kilometers from Ho Chi Minh City in Dong Nai province is underway. The airport is scheduled to open in 2010 and by 2015 it will be further expanded to reach an annual transportation capacity of 80 to 100 million passengers, becoming one of the biggest airports in the region. In addition, there are 16 other domestic airports around the country.

## **3. 2 Economic Opportunities**

### **Foreign Affairs**

At present, Vietnam has established diplomatic relations with 168 countries, and it has economic and trading relations with about 165 countries. Vietnam joined the United Nations in 1977.

Vietnam became an official member of the Association of South East Asian Nations (ASEAN) in 1995, and has concluded a cooperation agreement with the European Community. Relationships with multi-national financial institutions such as the World Bank (WB), the International Monetary Fund (IMF) and the Asian Development Bank (ADB) have been re-established. Viet Nam has been participating in the ASEAN Free Trade Area (“ AFTA”) since 1996 and became a member of the Asia Pacific Economic Cooperation Forum (APEC) in 1998. Vietnam became an official member of the World Trade

Organization (WTO) on 11 January 2007. In January 2008, the country started a two year term as an elected non-permanent member of the UN Security Council.

Vietnam signed the bilateral trade agreement (BTA) with the United States in 2000. Besides aspects of international trade, the BTA covers a variety of other areas, including intellectual property rights, trade in services, development of investment relations, business facilitation and the obligation to ensure transparency of laws and regulations. The BTA essentially constitutes a commitment by both countries to open their markets to each other.

## **Intellectual Property**

In recent years, the Government has taken various measures to increase the legal protection of intellectual property and has created an environment of respect for intellectual property as compared to other neighboring countries. Intellectual property rights are protected by the Civil Code (1995 and 2005), the Law on Intellectual Property (2005) and a host of subordinate legislation.

Vietnam is a long-time signatory to the Paris Convention, the Madrid Agreement on International Trademark Registration, and the Patent Cooperation Treaty (“PCT”) and became a member of the World Intellectual Property Organization in 1976. On 27 June 1997, Vietnam entered into an Agreement on copyrights with the US. According to the Viet Nam-US Bilateral Trade Agreement, Vietnam is under the obligation to adhere to the Berne Convention.

The National Office of Intellectual Property (“ NOIP”) is the authority responsible for the registration of industrial property and for the resolution of disputes with regard to industrial property in the first instance. Foreign organizations and individuals seeking to register their industrial ownership should file their applications through an authorized agent, who will transfer their application to the NOIP. The Office of Copyright Protection under the Ministry of Culture, Sport and Tourism has also been established and is responsible for the protection of copyright. Works may be registered with the Office of Copyright Protection; however, registration is not a prerequisite for copyright protection.

Currently, patents are protected for a period of 20 years. A certificate of utility solutions may be granted for 10 years. A certificate of industrial design is granted for 5 years and may be renewed every 5 years. However, the total effective period of a certificate cannot exceed 15 years. Certificates of trademarks are granted for 10 years with no restrictions on the number of renewals.

## **Investment Guarantees**

The Government of Vietnam guarantees fair treatment for investors. Capital and other legal assets of investors will not be expropriated or confiscated by law or administrative measures and businesses with foreign-invested capital will not be nationalized. Foreign investors are allowed to remit abroad investment capital and profits, loan principal and interest, and other legal proceeds and assets.



Expatriates working for businesses with foreign-invested capital or for a business cooperation contract are permitted to remit their income abroad. The Vietnam government respects intellectual and industrial property rights and the interests of foreign investors relating to technology transfers into Vietnam.

### **3.3 Economic Risks**

Global Finance Crisis is the hottest issues that people discuss most in this few years. The global financial crisis that started from the United States raises a very broad impact to Vietnam.

#### **Inflation**

Inflation has been in double digits since 2007 and peaking at 28% in August 2008. The fiscal deficit accounted for 4.5-5% GDP in 2008 while trade deficit reached US\$17.5 billion (or over 20% of GDP), a level that signals vulnerability to a sudden drop in external demand (Figure 2). A high rate of investment combined with a sizeable fiscal deficit resulted in rapid growth in aggregate demand in the first half of 2008. Massive capital inflows generated asset price inflation, especially in real estate and land prices.

#### **Export Decline**

Vietnamese exports have suffered the strongest negative impact. With economic problems in the US, EU and Japan, which together account for more than 60% of Vietnamese exports, Vietnam saw a significant decline in export revenues. Vietnam's export revenues fell 6.5% in November 2008 and a further 24% drop in January 2009 (year-on-year) (Figure 3). Orders for manufactured exports including garments, footwear and furniture dropped

quickly, while seafood<sup>5</sup> producers are also under pressure. The decline of orders has caused great difficulties for exporting companies, many of them are at risk of closing down. <sup>6</sup> Vietnamese exports' growth is forecasted to decline from 30% in 2008 to 13% in 2009.

## **Unemployment**

Unemployment has worsened. At February 28, 2009, 66, 700 workers (out of 45 million workers) lost their jobs in 2008 with national unemployment rate of 4. 65%. Thus, it is estimated that over 80, 000 workers lost their jobs nationwide in 2008. The latest forecast of Vietnam Labor and Employment Agency estimates the figure to hit 400, 000 nationwide in 2009. Job cuts are rising especially in big cities<sup>11</sup> with industrial, processing and exporting zones. The situation may worsen in 2009 with an unemployment rate of 5% and at a projected economic growth of 6. 5%. High unemployment has already affected domestic demand and consumers' sentiment in Vietnam, which are bearish in recent months.

## **4. 0 Culture and Social Analysis**

Vietnam is a country located in Southeast Asia, Vietnam is a culturally rich country whose distinct history played a role in the development of the modern day state. Vietnamese practices of Confucianism and showing reverence towards ancestors are evidence of China's historical influence on Vietnamese society. Vietnam became an independent state in the tenth century but was colonized by the French in the mid 1800s. Vietnam gained independence in the mid twentieth century but still retains traces of French culture which are visible in the way people communicate verbally and nonverbally. Though Vietnam has struggled over the past century through

<https://assignbuster.com/pestel-and-swot-analysis-of-vietnam/>

colonial rule, the Vietnam War and recent economic upheavals, it is now rebuilding itself to be able to compete on a global scale. Having a comprehensive understanding of Vietnam's unique cultural values and traditions can allow the company to develop strong and successful business relationships with Vietnamese counterparts.

#### **4. 0. 1 Language**

Vietnamese is the official language, although there are distinct northern, central and southern dialects and accents. It is a tonal language, with each syllable; there are six different tones that can be used, which change the definition and it often makes it difficult for foreigners to pick up the language.

There are other languages spoken as well such as Chinese, Khmer, Cham and other languages spoken by tribes inhabiting the mountainous regions. Although there are some similarities to Southeast Asian languages, such as Chinese, Vietnamese is thought to be a separate language group, although a member of the Austro-Asiatic language family.

In written form, Vietnamese uses the Roman alphabet and accent marks to show tones. This system of writing called “quoc ngu”, was created by Catholic missionaries in the 17th century to translate the scriptures. Eventually this system, particularly after World War I, replaced one using Chinese characters (chu nom), which had been the unofficial written form used for centuries.

## **4. 0. 2 Non-verbal communication**

For certain feelings, Vietnamese people favor non-verbal communication. Vietnamese do not express feeling of thankfulness or apology in verbal communication, but non-verbal through silence or a smile. The proper respectful behavior is to avoid eye contact when talking to person who is not equal status or of the same gender. The smile is another non-verbal symbol conveying the feeling of respect in Vietnamese culture. It is used as an expression of apology, or as expression of embarrassment. For the Vietnamese a smile is a proper response in most situation in which verbal expression is not necessary, or appropriate.

## **4. 0. 3 Confucianism**

The teachings of Confucius influence the Vietnamese describe the position of the individual in Vietnamese society. Confucian teachings emphasize the importance of relationships, responsibility and obligation. This philosophy is still a vital component of Vietnamese society and is prevalent in Vietnamese business culture in conserving the harmony of the collective good.

The basic tenets are based upon five different relationships:

Ruler and subject

Husband and wife

Parents and children

Brothers and sisters

Friends

#### **4. 0. 4 Hierarchy**

As like other group-oriented societies, Vietnam hierarchical structures are very much based upon age and status. This derives from Confucianism, which emphasizes social order. Everyone is seen as having a distinct place and role within the hierarchical structure, be it the family or workplace. An obvious example is seen in social situations where the oldest person in a group is greeted or served first. Within the family the head would be responsible for making decisions and approving marriages. Therefore companies that want to invest in Vietnam are made sense to give more authority to local managers to control the subordinates. The organization structure can be designed as hierarchical, with power derived from prestige, force, and inheritance.

#### **4. 0. 5 Collectivism**

Vietnam is a collectivist society in which the needs of the group are often placed over the individual. Family and community concerns will almost always come before business or individual needs. Family in particular plays an important role in Vietnamese society. You will notice that close ties between extended families and communities can have a major influence on individual behavior and oftentimes there are multiple generations living under one roof. For this reason, the company of the investor can pay more attention to their employees' family members for example provide free medical treatment, childcare leave, family trips, etc. This can increase the employees' loyalty to the company. Besides, in order to increase efficiency of Vietnamese employees, the company should assign tasks to them by group rather than individual.

## **4. 0. 6 Religion**

Religion in Vietnam is closely related to the history of Vietnam and most importantly the culture of Vietnam. The earliest established religions in Vietnam were Mahayana Buddhism, Confucianism and Daoism (called the 'triple religion'). These religions have been co-existing in the country for centuries and mixed well with the Vietnamese tradition of ancestor worship. This special mix explains why the Vietnamese people find it hard to say exactly which religion they belong to. They usually classify themselves as non-religious, despite visiting religious temples several times every year.

At the year 2006, the major religious affiliations amongst Vietnam born people were Buddhism (58. 6%), Catholics (22. 1%), other (4. 6%), and no religion (11. 03%).

From the data, we were found that Buddhism, Confucianism and Daoism have greatly affected the Vietnamese's behavior. The foreign investors should take note there are quite a large number of vegetarians in Vietnam, because of the Buddhism religion.

## **4. 0. 7 Food of Vietnamese**

Food is a very important part of Vietnamese culture. The Vietnamese not only enjoy eating but believe eating good food can bring harmony and closeness to the family and relationships. The types of foods are chosen to bring luck and these vary from province to province.

Buying daily for fresh food is essential for all Vietnamese cooking. In general, Vietnamese people are not as concerned about nutrition as Westerners. They are more concerned with the quality of the foods.

## **4. 0. 8 Concepts of Time**

Like most Asians, the Vietnamese have a more extended concept of time than that of most A