

The strategic shift of U.S. firms towards Vietnam at the expense of China: A business system analysis

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ABSTRACT

In the recent past, Vietnam has dramatically increased its investment relationship and trade with the United States. At the same time, United States foreign direct investment and trade with China has been decreasing. This is even more significant when we are in a period of internal growth within the United States. Using comparative business system analysis theory and a mixed method approach we conclude that Vietnam is turning into the new China for United States firms due to the fewer differences that exist between their business systems. The Chinese business system has major differences when compared with the economic system of the United States, whereas the Vietnam system has closer resemblance to the United States system. We have laid out inferences of our arguments for future research, particularly in the area of institutional comparative advantage.

Keywords: foreign direct investment; trade; China; Vietnam; USA; business systems; comparative advantage.

INTRODUCTION

From the mid-1970s through the mid-1990s, trade and commerce between the United States (U.S.A.) and Vietnam was essentially non-existent. That was largely due to the ripple effects from the end of the Vietnam War. U.S. President Gerald R. Ford extended former President Richard M. Nixon's 1964 trade embargo on Vietnam, and outlawed bilateral trade, commerce, and financial transactions. Ford's embargo created two decades of heightened tensions between the two countries which did not improve until the Clinton administration restored diplomatic relations in 1995.

The three key reasons why diplomatic relations were restored in 1986 were: (a) a shift from a centrally-planned economy to a form of market socialism (Martin, 2016), (b) recovery of the remains of U.S. personnel during the war with Vietnam, and (c) Vietnam's withdrawal from neighboring Cambodia. The economic shift was particularly relevant to increased trade and commerce with the U.S., because it was the first time Vietnam was really open to trade and commerce internationally instead of relying solely on domestic production, i.e. a planned economy. This shift in economic ideology was a crucial step in opening up to international commerce and trade with the United States and other nations around the world.

The recovery of the remains of U.S. soldiers *Missing in Action* (MIA) and *Prisoners of War* (POW) personnel, and Vietnam's cease-and-withdraw action in Cambodia had a profound effect on post-war

relations. During the war and since, the Vietnamese government placed a great value on the recovery and/or recording of burial locations of the remains of U.S. soldiers (Mills-Griffiths, 2016). That could arguably be seen as Vietnam's attempt to show the United States that it wanted to restore diplomatic relations and cease-tensions. The issue of U.S. MIAs and POWs during the war was a very sore issue in the United States.

Many people in the United States felt that relations with Vietnam in any shape or form should be withheld until the remains of American MIAs and POWs were found and returned. As negotiations between the United States and Vietnam regarding POWs and MIAs got more serious in the mid to late 1980's, the remains of some 160+ MIA American soldiers were repatriated, many of which showed distinct evidence of long-term storage (Mills- Griffiths, 2016). Further interaction took place in the early 1990's which can be illustrated through the following paragraph (Mills-Griffiths, 2016):

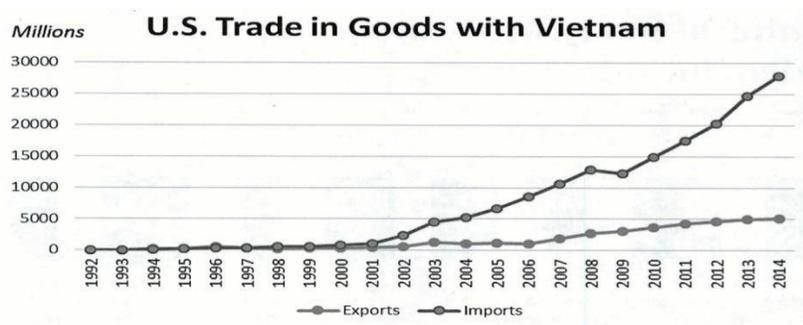
The Vietnamese provided graves registration lists with names of unaccounted-for Americans. Inclusion of these names was likely purposeful, as was filtering through private channels photographs of dead, unaccounted-for Americans, some of whose remains have yet to be returned. The Government of Vietnam directed combat photography; their soldiers did not own personal cameras, much less carry them. Regardless of mixed or conflicting assessments, these and other actions by Vietnamese officials were apparently intended to signal the US Government of remains availability for diplomatic and/or economic purposes.

The fact the Vietnam Government kept and preserved the remains of MIAs and POWs for some 20+ years irritated many people, but the fact that the whereabouts of loved ones and a peace of mind was finally achieved in knowing the truth helped restore the United States and Vietnam relationship.

In the year 2000 the U.S. and Vietnam signed a bilateral trade agreement that fostered their bilateral relations (Martin, 2016). The U.S. essentially extended particular favor to Vietnam in the Bilateral Trade Agreement (BTA), and raised Vietnam to a status of most favorable nation for foreigner relations. The countries completed a trade and investment framework agreement and made air transport, textile, and maritime agreements (US Department of State, 2016).

Continued improvements in the bilateral relationship occurred in 2006 when the U.S granted Vietnam normal trade relations status. Trade between the two countries increased with the acceptance of Vietnam into the World Trade Organization (WTO) in January of 2007. Trade between the two countries grew from \$4.6 million in 1992 to almost \$33.08 billion in 2014 (Nguyen & Pham, 2015, p 31). Figure 1 below shows the changes in trade volumes since 1992:

Figure 1



Source: (Nguyen & Pham, 2015, pp. 31)

As shown in the figure 2 below, Vietnam has a trade deficit with China; however, that deficit is less than it has been in the past. The reason for this deficit results from the fact that businesses in Vietnam must import raw materials, equipment, and machinery from China due to their proximity. Vietnam is currently

exporting more goods to Europe and the U.S., with growth rates of 13.2% and 20.2% respectively, instead of relying as heavily on China. Exports to Europe and the U.S. are growing at a higher rate than Vietnam’s exports to China. Both Vietnam and China share the same top four exports: textiles and garments, telephones and parts, foot-wear, and computers and parts (Vietnam Customs Statistics, 2012).

Figure 2

Export, Imports' Total Value and Growth Rate of Vietnam by Continent/Market in the whole year 2014

| Continent/market | Export | | | Import | | |
|-------------------|------------------|-------------------|--------------|------------------|-------------------|--------------|
| | Value (Mil. USD) | Annual change (%) | Share (%) | Value (Mil. USD) | Annual change (%) | Share (%) |
| Asia | 75,200 | 10.4 | 50.1 | 121,640 | 12.5 | 82.2 |
| ASEAN | 18,840 | 3.9 | 12.5 | 23,000 | 7.8 | 15.5 |
| China | 14,910 | 13.0 | 9.9 | 43,870 | 18.8 | 29.6 |
| Japan | 14,700 | 7.9 | 9.8 | 12,910 | 11.1 | 8.7 |
| Republic of Korea | 7,140 | 7.9 | 4.8 | 21,740 | 5.0 | 14.7 |
| Europe | 31,820 | 13.2 | 21.2 | 10,770 | -5.8 | 7.3 |
| EU (28) | 27,930 | 14.8 | 18.6 | 8,910 | -5.8 | 6.0 |
| Oceania | 4,350 | 16.7 | 2.9 | 2,580 | 23.3 | 1.7 |
| America | 35,380 | 22.8 | 23.6 | 11,360 | 26.4 | 7.7 |
| USA | 28,660 | 20.2 | 19.1 | 6,280 | 20.1 | 4.2 |
| Africa | 3,010 | 5.2 | 2.0 | 1,690 | 19.5 | 1.1 |
| Total | 150,186 | 13.7 | 100.0 | 148,049 | 12.1 | 100.0 |

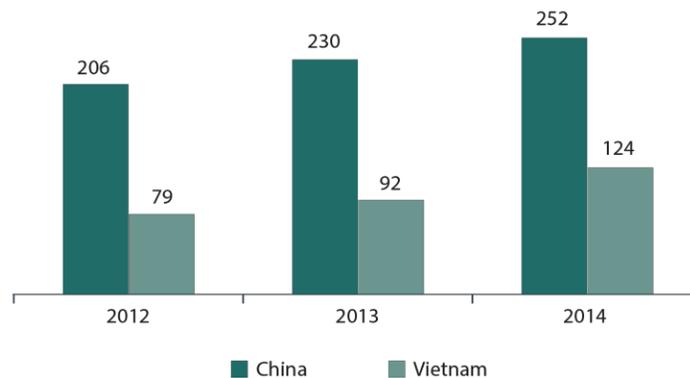
Source: Vietnam Customs

Once enemies at war, the U.S. and Vietnam are now major partners in trade and commerce. Aided by low wage costs and a zealous government, Vietnam is turning into Asia’s desired spot for foreign investment. With almost half of the population of 94.4 million people being under the age of 29 years, it would be tough to turn down foreign investment in this potential “goldmine” of a nation (Central Intelligence Agency, 2016).

Unlike Vietnam, China has experienced a decline in a young skilled workforce due to the “one-child policy” that was implemented in the late 1970’s. Along with decreased birth rates, the high economic growth rates that China has accomplished in the past decades have raised their labor costs to levels that are now substantially higher than Vietnam’s. From Figure 3 below, you can see this comparison between the average minimum wages in a month in each country:

Figure 3 (figure 1 in AmCham Vietnam, 2013)

Figure 1 - Average Minimum Wage - by Country (\$/month, 2012-2014)



Source: China Labour Bulletin (June 2013); AmCham Vietnam (July 2013)

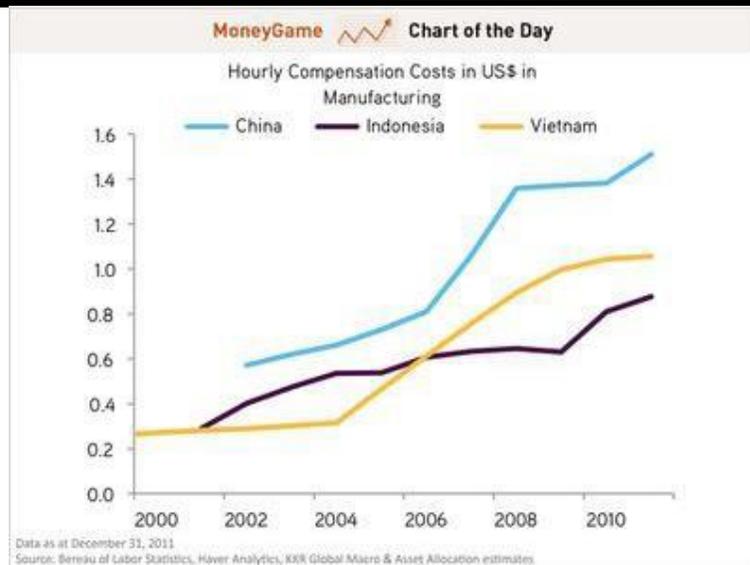


Figure 4

Source: (The HR Capitalist, 2013)

For decades, the U.S. had looked to China for cheaper labor, which increased trade between the two nations, but this is not the case anymore. With China seeing a 20% raise in labor costs in the last 4 years, Vietnam has stayed relatively the same following the China Labor Bulletin in June 2013 and AmCham Vietnam in July 2013).

But with all of these advantages in favor of Vietnam, does that necessarily mean the country has become the “New China” to the US? From a trade perspective, the data shows us that since 2006, Vietnam has experienced a 663% increase in trade with the United States and has shown continued growth every year since then. That compares with a much smaller growth from China (refer to figure 1). Independent of this tendency, it should be kept in mind that Vietnam departed from a much lower trade position when compared with China.

Currently, Vietnam is the 28th largest export economy worldwide. The top exports are broadcasting equipment, computers, crude petroleum, leather footwear and integrated circuits. The U.S. is the top export destination for Vietnam. Vietnam was the United States’ 20th largest country to import from in 2013. The U.S. top imports were apparel of different varieties, furniture, bedding and machinery (Census, 2016).

U.S. investment in Vietnam has also increased of US investment. Since 2011, US investment has grown from 1.5 billion USD to 11.6 billion USD (Foreign Investment of Agency, Ministry of Investment, Government of Vietnam (FIA), 2015). That is an increase of almost 800%. In comparison China rose from 53.66 billion USD to 74.56 billion USD (Statistical, 2016), which is only 73.5% increase for the same period. This should not be a surprise since Vietnam has made significant investments in infrastructure in order to encourage foreign investment such as in airports, roads and fiber-optic cable networks (Mukherjee, 2016).

Recent FDI investments in the technology sector include that of Intel and Apple. Since 2010, Intel has operated a \$1 billion test and assembly plant in Vietnam’s capital, Ho Chi Minh City (Jennings, 2015). Also, Apple has shifted a large portion of their smartphone production to the country. On the import side you can see from Figures 5 and 6 below, Vietnam ranked #12 in United States imports, but in 2013, Vietnam wasn’t even found in the top-15. It has since moved up a spot every year and claimed a bit of that trade.

Figure 5**Year-to-Date Imports**

| Rank | Country | Imports | Percent of Total Imports |
|------|--------------------------------|---------|--------------------------|
| --- | Total, All Countries | 1,621.4 | 100.0% |
| --- | Total, Top 15 Countries | 1,289.1 | 79.5% |
| 1 | China | 337.0 | 20.8% |
| 2 | Mexico | 218.9 | 13.5% |
| 3 | Canada | 206.5 | 12.7% |
| 4 | Japan | 97.0 | 6.0% |
| 5 | Germany | 85.7 | 5.3% |
| 6 | Korea, South | 53.5 | 3.3% |
| 7 | United Kingdom | 39.8 | 2.5% |
| 8 | France | 35.1 | 2.2% |
| 9 | India | 34.5 | 2.1% |
| 10 | Italy | 33.4 | 2.1% |
| 11 | Ireland | 33.0 | 2.0% |
| 12 | Vietnam | 31.1 | 1.9% |

Source: CIA (2014)

Figure 6**Year-to-Date Total Trade**

| Rank | Country | Exports | Imports | Total Trade | Percent of Total Trade |
|------|--------------------------------|---------|---------|-------------|------------------------|
| --- | Total, All Countries | 1,075.1 | 1,621.4 | 2,696.5 | 100.0% |
| --- | Total, Top 15 Countries | 754.2 | 1,261.9 | 2,016.1 | 74.8% |
| 1 | China | 79.3 | 337.0 | 416.3 | 15.4% |
| 2 | Canada | 200.6 | 206.5 | 407.1 | 15.1% |
| 3 | Mexico | 172.0 | 218.9 | 390.9 | 14.5% |
| 4 | Japan | 46.4 | 97.0 | 143.3 | 5.3% |
| 5 | Germany | 36.8 | 85.7 | 122.6 | 4.5% |
| 6 | Korea, South | 30.7 | 53.5 | 84.3 | 3.1% |
| 7 | United Kingdom | 42.1 | 39.8 | 81.9 | 3.0% |
| 8 | France | 23.1 | 35.1 | 58.2 | 2.2% |
| 9 | India | 15.4 | 34.5 | 49.9 | 1.8% |
| 10 | Taiwan | 19.0 | 29.2 | 48.2 | 1.8% |
| 11 | Italy | 12.4 | 33.4 | 45.8 | 1.7% |
| 12 | Switzerland | 16.6 | 27.4 | 43.9 | 1.6% |

However, some may question if the US firms are changing their production investments from China to Vietnam, and if this is true how the institutions are influencing that.

To investigate this problem we draw from the comparative business system literature (Whitley, 1992, 1999) to understand how the institutions in both countries are influencing this potential trend.

Literature Review***Comparative business system***

Comparative business system theory assumes that nations influence firms through their institutions, and firms usually cannot control such influence (Hall & Soskice, 2001). But if it is true that firms depend on the institutions and economic organizations presented in a specific economy, it is also true that such institutions and economic organizations were built facing important pressures from existing firms, especially from leading ones (Whitley, 2007).

An important contribution regarding the way that firms operate came from the British sociologist and institutionalist Richard Whitley, who coined the concept of '*business system*' in his (1992) book. He stated that a firm's behavior and nature can be explained by the institutions and other external agents that are implemented in an economy that in turn create business systems.

Firms are pressured by a relational center of forces. It is in such relationships that firms develop different dimensions, that are used tacitly by some to strategically to understand what is important for their objectives and build up the strategies to lead to superior competitive advantages.

There is a degree of limited complementariness among different institutions, leading to stable business systems, whereas others rearrangements would lead to the opposite situation (Amable, 2000; Whitley, 1999). Here, in the analysis of these usually stable relations, by tracing the different forces involved, we can find the business system. The forces are the different economic agents and interest groups, such as labor, shareholders, management, government, communities, agencies and clients.

Based on the above, and keeping in mind that different countries present different institutions, we expect that the same firm would have different strategies and operations when presented in distinctive nations. This is why we expect that specific institutional arrangements tend to support specific firms' organizations and will not distribute randomly across nations (Amable, 2003; Hall & Soskice, 2001; Tan & Tan, 2005; Whitley, 1998, 1999). Following the same principle, some can expect that the rationality of firms FDI and trade will have in mind the host and home countries business system and how they compare.

Based on the above, in this study we use the Whitley (1999) framework that uses an institutional and national economical dimensions to analyze how the business system difference between the US, Vietnam and China is influencing US firms decision makers in their process of trading or FDI. The areas that shape economic activities and business systems are: the state; the financial system; skill development; control system; inter-firm relations; norms and values governing trust; and authority relationships. Furthermore, and following the works of Redding (2002) and Redding & Witt (2009), we complemented our research in business system with a culture-perspective. Based on that, we compared the culture of the three countries using Hofstede's framework.

The State

Vietnam and China states fall into the *predatory* category (Evans, 1989, 1995). Both countries are based on totalitarian systems with a Communist party in power. This has created, in both countries, monopolistic organizations that usually are directly connected with the country institutions.

Looking exclusivity to Vietnam, some can understand that the Communist Party of Vietnam (CPV) has an absolute power over the country's direction and firm level choices and will not accept that individuals, firms, or associations will have any type of influence on the legislator (Witt & Redding, 2013). However, the decision making process is very long due to the fact that the decision making process is based on consensus among ministries, local and central governmental departments, and the different regions (Ohno, 2009).

The central government addressed the problem by proceeding with a strong decentralization process by giving autonomy to local regions, in a process called localism (Nguyen, 2008). That gave privileges to a specific group of firms that were directly connected with such local authorities, by using political lobby, and led to the construction of a group of infra-structures, such as airports, ports, universities, and others, that in many times are under-utilized (Witt & Redding, 2013). It should not come as a surprise the fact that corruption levels are high – Vietnam ranked 103/167 in the corruption index and China 83/167 (Transparency, 2016). At the firm level, the bureaucracy is still evident since it is 9 procedures and 31 days in average to get a license to start a business in Vietnam.(The World Bank-IBRD-IDA)

In China, the central government is trying to move towards a developmental phase but the signs are still very inconsistent. If on one hand the central government is highly publicizing an anti-corruption campaign;

on the other hand the signs on the ground are very much contrary (Lockett, 2016). In fact, in China, the Communist Party has supremacy over personnel selection and a well-organized rotation system of officials at all levels, undoubtedly signing local officials as subordinates of a strong central governance (Yang, 2004). The control by the state has always been the principle of statecraft, and the loss of control is genuinely intimidating from the state perspective (Redding & Witt, 2007). We can observe that the Chinese central government delegated much of its fiscal and administrative authority to provincial or even local governments (Zhang, 2006).

With government decentralization, and after the reforms in the 1970-80's, some provincial and even local government agents were allowed to sponsor firms, as collectives or as stockholding firms (Oi, 1995), using them as a way to penetrate a market where there was a strange, uneasy relationship between politics and the economy. With such a move, the central government was trying to follow the practice of "think central, act local." Because of this, local governments possess an important incentive to leverage growth since the fiscal decentralization allows them to benefit from it (Montinola et al., 1995). Still, the relationship between local authorities and firms is a "fuzzy relationship" as Lin (2011, p. 80) described, but is also a way of keeping "their flexibility to compete in the market place" and to match official interests with their own.

Some authors (e.g. Lin, 2011; Redding & Witt, 2007), argued that this was one of the most effective characteristics that allowed Chinese firms to explore and exploit all the corners of the Chinese market, as well as internationally, and one of the reasons for such internally high growth. This behavior on the part of the central government may seem very permissive for provincial or local governments, but in fact, and even with the central state far from the local reality, such a highly pyramidal, hierarchical, and strong line of command can take the lead when necessary, through punishments that can be severe and without questioning, wherein provincial or local actors are conscious of such reality and cannot do much.

The state does not solely influence institutions. The state in China also plays an important role over individuals and organizations (Boisot & Child, 1999; Li et al., 2011; Lin, 2011) by providing, for example, supervision, selective support, capital control (Lin, 2011), control of the media and the nationality, imposition of high levels of bureaucracy and control, and constraints to information, among others. State directives legitimize public property rights against the restraints on private property rights (Li et al., 2011), and frequently support laws and regulations that favor specific economic agents (Scott, 2002). Regarding state-owned enterprises, in 2003 the Chinese government created a ministerial-level authority called *State-owned Assets Supervision and Administrative Commission* (SASAC) with the responsibility of control, supervision, strategic adjustments, and improvement of structure and corporate governance based on modern enterprise systems.

Through the highly bureaucratic system that exists in the different levels of government, or through more direct means, the Chinese government acts as an "active hand" over individuals and organizations (Lin, 2011), contrary to what Walton (2008) defended. It is here that many private foreigner enterprises have foreseen potential liabilities.

In the USA, under the theory of liberal market capitalism, the market driven system is regulated by the state, (Whitley, 1999; Hall and Soskice, 2001; Schmidt, 2002; Amable, 2003; Hancke et al., 2007). The stock-market and regulatory framework plays an important role in the USA, unlike China and Vietnam which are more static and predatory.

The financial system

The financial system in Vietnam is heavily dependent on state-owned banks that are an arm-length of the central and local governments. They are the primary providers of institutionalized financial resources to firms. With the entrance of the country in the WTO in 2007, one of the most important measures that the agreement demanded was measures towards the stock-exchange system and the financial institutions that should become less governmental dependent (Witt & Redding, 2013). Nowadays the banking system is open to foreigner and private banks that can provide credits to individuals and corporations – HSBC Vietnam is a case in point with 100% of offshore ownership. This is a major difference when compared with the Chinese

system. The Vietnam stock exchange opened in Ho Chi Minh City in 2000 and later in the Capital Hanoi in 2005. Currently, the total market capitalization in both stock exchanges is around 26.8 % of the total GDP of the country in 2015, compared to 9.56 in 2008 (The World Bank). However, only about two-thirds can be marketed freely since the remainder still belongs to large state owned/controlled corporations (Witt & Redding, 2013).

Even with the openness of the financial system in the recent past, it still follows its political system and the allocation of capital is highly discretionary with state owned/controlled firms having a much better access to capital even if many cases present a much higher risk. This fuels a typical economic risk that Vietnam is not an exception. In 2015 the state-owned firm's debt represented 11.4% of the total country GDP, and totaled approx. 61.3% of the GDP in 2015 (Viet Nam News, Nov 30, 2015). This reality might be even worse if we consider the poor audit system that the country holds. On the other hand, private firms have a very low access to the financial system and usually needs to look for the "underground" financial capital system that when granted, is with exorbitant interest rates (Vuong, 2011). Finally, and following Witt and Redding (2013), the shortage of finance has been recompensed by the inflow of transfers from the Vietnamese diaspora overseas, which in 2011 represented around 7.8% of the total country GDP.

The Chinese institutionalized financial system is controlled by the state and, as in many other dimensions, is highly imperfect (Buckley et al., 2008; Child & Rodrigues, 2005), not transparent, and does not follow market rules of competition. Even with high levels of liquidity (Lei, 2012), the allocation of such liquidity is far from being egalitarian and balanced by different agents. Furthermore, based on the previous conjectures about how the Chinese state centralized system works, financial institutions are expected to fully cooperate with the directions of the central government (Lin, 2011). The author said that the 2008 financial crisis is a good example: when the central government asked banks to increase their loans, the banks responded with unanimity by releasing large credits throughout the economy.

Contrary to what we would expect in a developed economy, the central bank of China, the most important guarantor of the financial system, does not have autonomy from the central government, nor from the main financial institutions. This inevitably creates a sense of fragility, impunity, and lack of control in the financial system that in turn creates an important potential brittleness. The Chinese institutionalized financial system also is characterized by large and dominant institutions, but with an under-developed banking system (Johnson et al., 2002; Lei, 2012) and with a lack of expertise in the analysis of project investments. Due to the high rate of savings of firms and of the population (Kuijs, 2006), access to capital for Chinese entrepreneurs and firms is possible in non-institutional markets, known as *shadow banking*¹⁵.

The main features of the US financial structure are a small amount of bank loans, a significant stock market and a much larger bond market than any of the other areas in relative terms. (*Source*: Allen, Chui, and Maddaloni (2004) p. 492. Original sources: CEIC Data Ltd, International Financial Statistics, and national sources).

The USA is the most market-based economy. Households in the Euro area own significantly fewer financial assets than in the other economies with a total of 192% of GDP compared with 306%, 327% and 267% for the UK, the US and Japan. (*Source*: Allen, Chui, and Maddaloni (2004) p. 493. Original sources: ECB, Federal Reserve Board and Bank of Japan). Compared to developed economies of Europe, UK and Japan, USA is an outlier in terms of the direct holdings of shares and other equity. Also, households have relatively little in banks. The US has much less investment than the other countries except for the "other" category.

Skill development

The educational system in Vietnam is seen as one of the strongest aspects of its business system. The large number of young and working population in age group of 15- 64 is 69.3%, with only 5% over 65. The

¹⁵ 'All the credit not regulated by the same standards as conventional bank loans' Kanbur and Zhang (2005).

present literacy level is high. The overall youth literacy rate is 98.06%. The youth literacy rate definition covers the population between the ages of 15 to 24 years. (Countrymeters and CIA). The large majority of universities are post-millennium and the vocational system exists. At the university level there is an overall low quality and more than half of fresh graduates need between six months to one year of post-university trainee (Witt & Redding, 2013). The country still faces an important problem of lack of qualified human capital and in the past years has been recruiting from overseas in order to meet its necessities. The good news is that these foreign human resources will serve as trainees to the Vietnamese workers. Finally, the human resources training is done in-house due to cost-savings but with the recognition from firms of its necessity and importance (Witt & Redding, 2013).

The structure of education in China is still very constrained by the education system created by Mao Zedong during the Cultural Revolution. The education system is fully controlled by the state, and even today foreign schools and universities are not allowed to open and manage facilities without the chancellery of a Chinese school and are under the tight control of local authorities. In China there is no system of recognition of skills and the technical and vocational educational system is very weak. Where it exists it is organized poorly by the state.

Unions and other agencies of employees do not participate in the organization or certification of competencies. In China the labor market is very volatile with workers changing jobs on a regular basis. Firms can, up to some degree¹⁶, easily dismiss workers based on the rules-of-law¹⁷. This does not give firms any incentive to invest in training workers since such investment can easily be lost and the results be enjoyed by competitors. In fact, firms expect that workers will come with the necessary skills that they would need to perform their tasks. Usually, in such societies like China, the educational system is the provider of the development and canvassing of such skills.

Due to its poor level of education, at least from a practical point of view, in China workers are available to have a first opportunity at almost any price and conditions since it would be the only way to earn the so necessary skills that the market place values and schools are not providing. On the same page, in a typical country like China, jobs are planned not to depend highly on people's skills and originality, which leads to a kind of Fordism with mechanization of tasks, control, and low levels of specialization.

One aspect which is similar between Vietnam and China is state owned enterprises provide long term employment and hence the workforce should have developed OJT (Extensive on Job Training) like in Japan, Taiwan and Korea and prevent job hopping. Due to the lack of human resource development program and incentive structures that encourage the acquisition of valuable skills, there is a subsequent lack of practical OJT skills both in China and Vietnam (Hall & Soskice, 2001).

In terms of the United Nations Educational Index (Calculated using Mean Years of Schooling and Expected Years of Schooling), the USA ranks 5th worldwide with a score of 0.89 compared to China which ranks 91st with a score of 0.61 and Vietnam which ranks 121 with a score of 0.513 (Education, 2013). So in terms of education and skill-sets the USA ranks at the top. On the other hand recent data published by the Global PISA in 2015 (Program for International Student Assessment), shows that Vietnam is rising up the ranks pretty fast in spite of lack of being a relatively poorer nation.

In the USA public policies have also been developed to fund or enhance workplace-based training, several of which appear to have positive employment and earnings outcomes for workers: (1) subsidized on-the-job (OJT), (2) registered apprenticeships, and (3) subsidized jobs and transitional employment. On January 30, 2014, President Barack Obama signed a memorandum directing Vice President Joseph Biden to lead a Government-wide review of Federal programs in the workforce and training system to ensure these programs are designed to equip the Nation's workers with skills matching the needs of employers looking to hire. This

¹⁶ If workers are less than 5 years to retirement or more than 15 years in the company, firing can become more complicated. Otherwise the market presents a flexible human resources policy based on financial compensations. ¹⁷ 中华人民共和国劳动合同法 - Labor Contract Law of PR

review, which involved the Secretaries of Labor, Commerce, Education, Health and Human Services, and staff from other Federal agencies, culminated in an action plan to make the workforce and training system more job-driven, integrated, and effective. (US Department of Labor report, July 2014)).

In the USA the federal government works with all four agencies, namely department of labor, education, commerce and health and human services to enhance skills based on demands in the economy. At the state level too there are many skill based educational and training programs supporting the skill based work force. For example, in the State of Minnesota programs are developed through DEED (Minnesota Department of Education and Employment Department).

Control system and ownership

The firms in Vietnam lean to be hierarchical in structure and patriarchal in operation with specialized tasks, meaning that workers do not have many motives to excel (Witt & Redding, 2013). The same authors explain that due to its country history, the Vietnamese companies still hold a centralized decision-making and complex structures, which give rise to task replications and large number of procedures, some of which are completely unnecessary. The decision process follows a top-down system with low levels of participation or contribution from lower levels. As in others Confucianism societies, status is very important and a powerful tool for growth in business.

The decisions are usually at the top of the organization and departments as finances and human resources are centralized (Witt & Redding, 2013). However, for strategic decisions the middle and low managerial levels are not heard, the same does not happen in the implementation phase where one would expect vertical and horizontal communications. Interestingly to notice is the fact that the promotions are based on merit even in family owned firms where some would expect nepotism. This might be a consequence of the long Western influence in managerial activities as Truong and Van Der Heijden (2009) explained that led to a more professional approach instead of a pure Confucian one. However, there is still resistance on delegation of tasks.

In terms of ownership, the firms in Vietnam are usually state owned enterprises (SOEs), controlling around 11.4 % of the GDP in 2015, (Vietnam News) or private owned enterprises (POEs), the latter being in the large majority family owned. The SOEs are the still dominant pillar of the economic arrangement of the country and enjoy privileges as the access and conditions of credit, approvals, and land use (Witt & Redding, 2013). However, the latest economic expansion of the country is due to the POEs since they present a much less bureaucratic internal system, are more open to hire young individuals that are open to innovative ideas, and in many cases these young managers have studied new managerial approaches and understand the benefits of innovations.

In relation to the control system and ownership in China, we need to contextualize that capitalism in China is about two major interest groups that are predominant and existent in the society, such as in the case of Vietnam – family businesses and state controlled enterprises. If the importance of the family business is related to their large number, the importance of SCE's is related to their power, weight in the economy, and their straight connections to the legislative and other institutions in China.

In both groups, the decision makers are in the top ranks of the organizations. The roots of this are associated with the path-dependency of recent Chinese history, both its centralized authority and its highly and fierce punishment system without a predictable sense. Common to all types of Chinese firms, communication is highly vertical from the top to the bottom; a horizontal exchange of ideas is not frequent. The low level of upwards communication during the managerial process is notorious and is a remnant of the conservatism of Mao's era (Redding & Witt, 2007). Some (Ibid) argue that this is one of the reasons why Chinese employees always dream of owning their own firms.

The pool of skilled talents in China is poor and the best ones tend to work for international firms where their pay is higher, they have more flexibility, and their 'voice' is heard. Here is an important characteristic of the Chinese business system. It is very common to see that medium and senior managers

across a firm do not share any kind of ideas or communication horizontally. Their role is to receive orders from above and verify that they are being followed (Redding & Witt, 2007). The authors say that this originates in firms that are good doing mass production with highly standardized and specialized tasks allied with the discipline and low-cost labor. With such a system, we do not foresee Chinese firms entering into the more complex systems of management that are required for multi-national firms or for firms in which the required exchange of ideas flows not only horizontally but vertically, and in both directions as well. Furthermore, the integration and coordination of variety is an important asset of complex firms and yet to be seen in Chinese organizations.

Two basic characteristics of ownership of U.S. public firms are that U.S. firms are primarily *diffusely owned* and secondly *more* diffusely owned than comparable firms elsewhere (Tirole, 2006). Similar views are expressed by Franks, Mayer, and Rossi (2007). According to Denis and McConnell (2003), on an average, global ownership is more concentrated in non-U.S. countries. This is very true for Vietnam both in state controlled enterprises as well as in private sector family owned business as per the data stated in previous section. The obvious question then we can ask and as per (Becht and DeLong, 2005) - Why then there is so little block holding in the United States? One of the reasons can be liberal market capitalism as well as a means to separate ownership from management, resulting in corporate governance and corporate finance over the past 70 years (Tirole, 2006). This separation of ownership from management has resulted in the birth of modern corporate finance (Helwege, Pirinsky, and Stulz (2007). The downside of ownership concentration as we see in Vietnam or to some extent in China as well as many other countries results in the financial inability to take advantage of globalization (Stulz (2005).

Inter-firm relations

Even if the political arrangement of Vietnam is based on a totalitarian system, the local authorities allow the establishment of associations that can be in the form of professional or industrial associations (Witt & Redding, 2013). These associations are one of the main engines for inter-firm relations one should expect the establishment of such relations. However, the country still has a low level of intellectual property and copyright protection allied with a defragmented supply-chain that does not foster relations among producers, suppliers and distributors, which decreases the propensity for the establishment of such inter-firm relations.

In China, if on one hand inter-firm relations cannot be held in market relationships since agents do not have the grounds for it (namely due to lack of trust in contracts that are a cause of the low quality and applicability of the rules-of-law), on the other hand agents cannot trust in inter-firm strategic interactions since there are no industrial associations or other institutions that would support, regulate, and incentivize them. Such industrial associations neither exist nor are allowed, and there is no institutional ground for their development. Inter-firm relations are, because of this, almost non-existent in the Chinese economic coordination system, and the transference of technology and know-how happens usually with the transference of individuals. Some may ask if firms do not collaborate or cooperate with each other in China? Yes, they do. And they do so especially in their '*comfort zone (also called Guanxi)*' and without the transfer of know-how among them. The different elements of the supply-chain have business-to-business transactions without inter-firm knowledge transfer.

The inter-firm relationship for most industries in the USA is based on industry norms as well as the regulatory framework for each industry. The relationship in the supply chain is usually pretty strong and it enhances the value chains. For publicly listed companies, the relationships are based on the framework as per the rules laid down by the regulatory framework and agencies as well as the norms of each trade industry or trade associations. In Europe, there are some kinds of institutionalized long term cooperative ties among different firms in the same or similar industries (Hall and Soskice, 2001).

Norms and values governing trust

Typical in a Confucianism system, trust is a critical element in Vietnamese business (Witt & Redding, 2013). This is aligned with the institutional voids that the Vietnamese legal system still presents. Not

surprisingly, the business transactions only happens after such levels of trust are established, which are an important hindrance for the economic development compared with the pace that we observe in Western countries. However, Quang et al. (1998) found that honesty was critical for managers in their relations with business partners, which is a much different when compared with China. Interesting to notice is the fact that trust is disseminated throughout Vietnamese society, and people fairly trust each other (Witt & Redding, 2013).

People who are familiar with China know that the term *guanxi* (the closest words in English are networking/lobbying, but they do not reflect the full magnitude and meaning of the word in Chinese)¹⁸ is of vital importance. Such importance is the result of the lack of trust in the existing institutions that is extrapolated to the relations among individuals, organizations and government entities. The institutions are not the guarantee of exchange among the different economic agents and do not generate trust among relative strangers.

Legal systems are one of the most important aspects of an institutional framework (Merryman, 2007). The legal system in China does not provide the assurance of a free and fair trial (Peerenboom, 2001). North (1990), said that business transactions in China are not based on contracts and rule-of-law since the transaction costs are very high when Chinese institutions have failed. Consequently, this led the economy to a situation of trusting more in interpersonal ties, *guanxi*, than in formal and institutional rules that usually are found in a market-orientated economy. Such situations happen frequently with the entities that possess the capability of influencing the 'results of the game' such as governmental officials. Because of that, it is common to see Chinese managers cultivating ties with Chinese officials in order to increase the probability of advantages over their competitors, or because of a government bid, a court case, political prestige (Li et al., 2011), or simply to use such relation in a future situation. Based on the above, inter-firm cooperation is very low, and the tendency to delegate control over resources is severely diminished since it has affected the perception and management of risks. Very similar approaches are seen in Vietnam too with state control enterprises and many informal relationships and *guanxi* type of relationships.

In the US, there is more trust on institutional procedures and norms than on informal interpersonal relations. Relationships do play a role but institutional systems, procedures, norms and rule of law triumphs over personal relationships and connections.

Authority relationships

In Vietnam, the SOEs usually presents a matrix structure while POEs commonly have a functional and focused market structure (Witt & Redding, 2013). In general, there is a lack of task delegation that does not foster the development of large and complex firms. This is particularly important for strategic decisions where the senior management do not trust that lower levels would be able to implement some of the decisions, namely because they were not involved on their development. In non- strategic decisions we can observe a top-down delegation that fosters the horizontal and vertical, in the latter in both directions – top-down and down-top.

In China, the supervisor-subordinate relationship is governed by informal rules, a low degree of direct reciprocity, and important gaps in terms of social and moral values between the leader and those led. Subordinates also usually have low levels of autonomy and accept changes in lines of command well without questioning. The delegation of tasks is almost non-existent in China, which remains an important constraint for manager development.

In the United States, approaches to planning, control, supervision, commitment, motivation, scheduling, and deadlines are all influenced by the concept that individuals can control their futures. United States scored highest on Hofstede's individualism scale (Nguyen & Pham, 2015). In cultures with more collectivistic and fatalistic beliefs, these good business practices may be followed, but concern for the final outcome is different. After all, if one believes the future is determined by an uncontrollable higher order, then

18 To know more please refer to Sheng and Geng (2013)

what difference does individual effort really make?

The acceptance of the idea that *independent enterprise* is an instrument for social action is the fundamental concept of U.S. corporations? A corporation is recognized as an entity that has rules and continuity of existence and is a separate and vital social institution. This recognition can result in strong feelings of obligation to serve the company. Indeed, the company may take precedence over family, friends, or activities that might detract from what is best for the company. This idea is in sharp contrast to the attitudes held by Vietnamese who feel strongly that personal relationships are more important in daily life than work and the company, and Chinese, who consider a broader set of stakeholders as crucial.

Consistent with the view that individuals control their own destinies is the belief that personnel selection and reward must be made on *merit*. The selection, promotion, motivation, or dismissal of personnel by U.S. managers emphasizes the need to select the best qualified persons for jobs, retaining them as long as their performance meets standards of expectations and continuing the opportunity for upward mobility as long as those standards are met. In other cultures, where friendship or family ties may be more important than the vitality of the organization, the criteria for selection, organization, and motivation are substantially different from those in U.S. companies.

In some cultures, in private sectors in China and Vietnam organizations expand to accommodate the maximum number of friends and relatives. If one knows that promotions are made based on personal ties and friendships rather than on merit, a fundamental motivating lever is lost. However, in many other cultures, social pressure from one's group often motivates strongly. Superstitions can even come into play in personnel selection; in Japan, a person's blood type can influence hiring decisions! (Japan Today, January 20, 2012).

The very strong belief in the United States that business decisions are based on *objective analysis* and that managers strive to be scientific has a profound effect on the U.S. manager's attitudes toward objectivity in decision making and accuracy of data. Although judgment and intuition are important tools for making decisions, most U.S. managers believe decisions must be supported and based on accurate and relevant information. Thus, in U.S. business, great emphasis is placed on the collection and free flow of information to all levels within the organization and on frankness of expression in the evaluation of business opinions or decisions. In other cultures, such factual and rational support for decisions is not as important; the accuracy of data and even the proper reporting of data are not prime prerequisites.

The frankness of expression and openness in dealing with data, characteristic of U.S. businesses, do not fit easily into some cultures. Frequently existing data are for the eyes of a select few. Compatible with the views that one controls one's own destiny and that advancement is based on merit is the prevailing idea of *wide sharing in decision making*. Although decision making is not a democratic process in U.S. businesses, there is a strong belief that individuals in an organization require and, indeed, need the responsibility of making decisions for their continued development. Thus, decisions are frequently decentralized, and the ability as well as the responsibility for making decisions is pushed down to lower ranks of management. A key value underlying the American business system is reflected in the notion of a *never-ending quest for improvement*. The United States has always been a relatively activist society; in many walks of life, the prevailing question is "Can it be done better?"

Business size, ownership, public accountability, and cultural values that determine the prominence of status and position (PDI) combine to influence the authority structure of business. In high-PDI countries such as Mexico and Malaysia, understanding the rank and status of clients and business partners is more important than in more egalitarian (low-PDI) societies such as Denmark. In high-PDI countries, subordinates are not likely to contradict bosses, but in low-PDI countries, they often do. As businesses grow and professional management develops, there is a shift toward decentralized management decision making. Decentralized decision making allows executives at different levels of management to exercise authority over their own functions. As mentioned previously, this approach is typical of large-scale businesses with highly developed management systems, such as those found in the United States. A trader in the United States is likely to be dealing with middle management, and title or position generally takes precedence over the individual holding

the job.

Committee decision making is by group or consensus. Committees may operate on a centralized or decentralized basis, but the concept of committee management implies something quite different from the individualized functioning of the top management and decentralized decision-making arrangements just discussed. Because Asian cultures and religions tend to emphasize harmony and collectivism, it is not surprising that group decision making predominates there (Fogel, 2006; Kharti, Eric, Tsang, & Begly, 2006).

Culture

The cultures of Vietnam, China and the United States are vastly different. It is important to keep cultural implications in mind when looking to increase trade and commerce between the two countries. Nguyen and Pham (2015) compared the cultural differences based on six dimensions, which were developed by Hofstede (Nguyen & Pham, 2015, pp. 32-34). These dimensions as well as an analysis as to how these cultural differences impact trade between the two countries are detailed below:

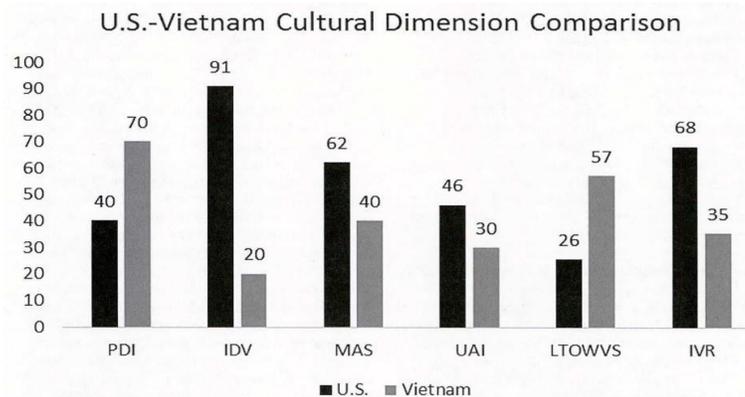
- **Power distance (PDI):** The United States has a lower power distance score than Vietnam, indicating that Americans are less accepting of an unequal distribution of power. Vietnamese people believe that everyone has a different role in society, and it is not necessary for each individual to have equal power. The U.S. would benefit by keeping this in mind during trade. We should not target any average consumer while trading in order to be inclusive. It would be more beneficial to recognize who holds the role of the trader in a particular Vietnamese region and conduct business with them. China has a high power distance score. In China, the supervisor-subordinate relationship is governed by informal rules, a low degree of direct reciprocity, and important gaps in terms of social and moral values between the leader and the followers. Subordinates also usually have low levels of autonomy and accept changes in lines of command well without questioning. The delegation of tasks is almost non-existent in China, which remains an important constraint for manager development.
- **Individualism/collectivism (IDV):** The United States is vastly more individualistic than Vietnam and China. China and Vietnam would be classified collectivistic societies with similarly low individualism scores. Americans typically are more assertive and independent while Vietnamese and Chinese act in groups and do what is best for the group as a whole rather than focusing on personal goals. They also commit to and value long-term relationships. To increase trade with Vietnam, the U.S. needs to greatly respect this cultural difference. We must consciously work to not be overly assertive. We need to first build relationships within Vietnam and then make it evident on how trade will be a benefit to the entire group.
- **Masculinity (MAS):** The U.S. has a higher masculinity score than Vietnam which shows that Americans are competitive and goal-oriented while being driven by personal success. China's masculinity score is a couple of points higher than the U.S. which also shows their drive towards personal success. Conversely, Vietnamese people are relationship-oriented and focused on caring for others while being driven by group success. It is important that the U.S. develop relationships with Vietnamese people. Additionally, while resolving conflicts, Vietnamese typically negotiate to reach a compromise instead of making one person right and the other wrong. It is important that we respect and incorporate this style of decision-making to ensure that we do not disrespect Vietnamese trading partners or damage relationships.
- **Uncertainty avoidance (UAD):** The U.S., China, and Vietnam have relatively close uncertainty avoidance scores. The U.S. and Vietnam have relatively close uncertainty avoidance scores. Both of their scores are below 50 which indicate that each society accepts ideas that deviate from the norm and they are open to new ideas. Vietnam's score is even lower than the United States which shows they are likely to try something new. Having low scores is good news for the chances of trading success between the two countries. They are both likely to be open to this new idea of increasing trade with

one another. Although they have a rocky past, they have the ability to embrace the uncertainty of the future and take a chance on the opportunities that will come with stronger trade relationships.

- Long-term orientation/short-term (LTOWVS): The U.S. has a lower score than Vietnam when long-term orientation is measured. This shows that Americans are more likely to focus on the past and present, whereas Vietnamese typically focus more on the future. Americans try to analyze information to make confirmations while Vietnamese find truth as being contextual. The U.S. tends to make decisions on a short-term basis to see immediate results. China, in contrast, has an extremely high long-term orientation score showing that they focus very little on the past and present and are almost always looking toward the future. This makes sense in the recent growth trend of China. They were planning for the future while other countries focused on the present. This mind-set will need to be altered in order to increase trade. As stated earlier, it is important to build trust and relationships before completely indulging in large-scale trade. This trading partnership can be successful in time, but it will not happen overnight. The U.S. will have to act more in-line with the Vietnamese culture and focus on long-term rewards.
- Indulgence/restraint (IVR): The U.S. has an indulgence rating almost twice as large as Vietnam's, and China's rating is even lower than that of Vietnam. Americans have a "work hard, play hard" mentality and therefore find it acceptable to indulge. This could be beneficial for trade between the two countries because the U.S. will be likely to indulge in importing many goods.

Figure 7 below displays the cultural differences between Vietnam and the U.S. based on the six dimensions described above.

Figure 7



Source: (Nguyen & Pham, 2015, pp. 33)

METHODS

The method used is a mixed methods approach. We started our research by interviewing senior managers in 10 companies in Minneapolis that pursued FDI in Vietnam. As a result of our epistemological and ontological position combined with the necessity of grounding our perspective to give it some structure, it was very natural for the researcher to choose *Template Analysis* (King, 2012) as the main technique of data analysis. The use of computer software aided the researcher in analyzing the complex and large quantity of data collected – Nvivo in our case. Based on those interviews we built a questionnaire that was distributed among managers in US firms that are pursuing FDI in Vietnam and in China. A statistical analysis was performed to answer the different propositions. The preliminary analysis of the data is complete but we are currently fine-tuning its presentation.

DISCUSSION AND CONCLUSION

Based on the preliminary analysis of the data we can immediately conclude that the comparative business system theory framework is particularly relevant to the study of the increase of US firms FDI and trade activities in Vietnam, and we can understand why it is happening at the expense of China.

This study is particularly relevant for the field of comparative business systems. The lack of use of business system theory in the academic international business literature reveals the prejudice that academics researchers are focused on past events. What practitioners and governmental officials are eager for, and researchers should focus on in research agendas, are not only the study of past events and its rationality but also how those studies can try to predict the future. This is where the comparative business system framework plays a critical role. The business system framework has shown to be very robust in explaining the rationality of US firms in their decision process of moving their FDI from China to Vietnam.

With this paper we advance the robustness of the business system framework, and explain why the FDI and trade with Vietnam will continue to grow at the expense of China.

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