

# **Assessing Vietnam's Attractiveness to Swiss Companies**

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## Abstract

Vietnam is fierce to overcome challenges to reach the stage of an industrialized economy of low-medium income by 2020. Thus, anyone seeking for a promising location in South-East Asia should have a closer look at this country. The Prime Minister affirmed the attraction of Foreign Direct Investment as a key policy for the upcoming five years. Overall, the country's history shows that FDI inflow does contribute to its economic development.

The country's export industry strongly depends on imports, and traditionally, Vietnam shows a trade deficit. But recently, the country managed to generate a plus the third year in a row. Where exactly is Vietnam placed within the stages of development and how much does Switzerland contribute to its FDI inward flows?

Moreover, competition among developing countries for inward FDI is increasing. Therefore, it is crucial to understand how a country can increase its competitiveness by assessing factors driving a country's development and, hence, its attractiveness.

The author found an approach to assess a country within the limited scope of the thesis. A main source builds on the Global Competitiveness Report of the World Economic Forum, which annually analyses a country's strengths and weaknesses. This underlying thesis will assess those ratings of the last years by comparing the findings with experiences made by foreign managers in Vietnam. Their statements will contribute to show various challenges, as well as hurdles, foreign companies face by doing business in Vietnam. This approach will provide a comprehensive framework of the current situation in Vietnam focusing on investment flows and government measures, which dictate the business climate of the country.

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### **Statement of Authenticity**

I the undersigned declare that all material presented in this paper is my own work or fully and specifically acknowledged wherever adapted from other sources.

I understand that if at any time it is shown that I have significantly misrepresented material presented here, any degree or credits awarded to me on the basis of that material may be revoked.

I declare that all statements and information contained herein are true, correct and accurate to the best of my knowledge and belief.

Date: August 4, 2016

Author: Ellen Spinnler

## 1. Purpose of the Study

FDI has been a vital part of the Vietnamese development and restructuring since its opening in the 1980s. When Vietnam launched the *doi moi* or renovation in 1986, a government initiative aimed to improve the country's economic condition (Vuong, 2014). It then took more than ten years for the government to create a favourable atmosphere for foreign investors. The amended Law on Foreign Investment and the implementation of the new Enterprise Law in 2000 greatly increased FDI inflow. For the past ten years, Vietnam has joined the World Trade Organization in 2007 and has served as a member of the Association of Southeast Asian Nations (ibid.).

Due to its low production costs, its highly motivated labour forces and its political stability, Vietnam has recently evolved to an attractive alternative to China. Moreover, the ASEAN member state is insofar dependent on foreign direct investments, as that a big portion of it is responsible for the country's export volume (SNB, 2014). According to the statistics office of Vietnam, foreign invested capital contributes to 20% of the GDP and 60 to 70% of total exports (Weber, 2016).

The first part of the thesis will illustrate global FDI trends followed by Switzerland's role as investor world-wide, in emerging markets, and in Vietnam. Statistics will show Swiss industries that have been recently exporting to Vietnam.

Going a step further, a country's attractiveness can only be assessed when knowing its current stage of development, its related aspects and characteristics. According to Michael Porter (1990), a country's stage of development needs to be known, in order to place the right measures to enhance the countries productivity and thus, its overall prosperity. Vietnam's stage of development plays a vital role when evaluating the country's future prospects. According to the World Economic Forum's Global Competitiveness Index (GCR, 2015), Vietnam is currently categorized as country in transition between factor-driven and efficiency-driven.

The theoretical part will be broadened by experiences of Swiss company representatives, operating in different kinds of industries in Vietnam. Their insights will contribute to draw a comprehensive picture of the business climate of the country. The thesis will not only assess their motivation to invest in Vietnam, but also examine daily challenges and obstacles in business life.

## 1.1 Research Questions

Based on the aims of the thesis, the following research questions will be examined:

- How much does Switzerland directly invest abroad and what industries are exporting to Vietnam?
- What characteristics of Vietnam's current development stage can be observed?
- What are the decisive factors for Swiss companies to invest in Vietnam and what opportunities and hurdles do they face?

## 1.2 Methodology

Assessing a country's attractiveness is extensive and can not be covered within a thesis of this scope. Many studies have analysed a country's characteristics, but the factors considered are numerous and no single holistic approach could be identified. This thesis strictly focuses on the assessment of the current stage of development and the country's ability to enhance competitiveness.

This thesis focuses on secondary sources and interviews to support its statements. Among the sources mentioned in the bibliography, the database of the UNCTAD, the Swiss National Bank and the Federal Customs Administration provide a key basis of statistics on FDI related topics. There are some literature and models about a country's stage of development used in the thesis to provide a sound framework for the questionnaire and the majority of the theoretical part. Another major source consists of the Global Competitiveness Report of the World Economic Forums assessing a country's competitiveness every year.

The empirical part is based on interviews conducted with Swiss managers in Vietnam. This approach provides an overview of today's investment climate in Vietnam. The conclusion will be built upon the evaluation of how the policies correspond with the statements of the managers in Vietnam.



### 1.3 Focus

The thesis is built upon three main pillars. A first step constructs a theoretical framework of a review of Swiss FDI in general, hence, total outflows of investments between 2008 until 2014. This time period has been chosen to offer an accurate data set. As Vietnam joined the WTO in 2007, figures and approaches of how statistics were made had changed. Hence, only data after the accession until 2014 have been taken into account. Furthermore, FDI flows to emerging markets, hence, to countries chosen by the authors, and as a last step, FDI flows to Vietnam will give an overall picture of Swiss FDI abroad.

Then, the identification of recent theory on stages of development and the significance of being competitive will show the importance for a country to maintain and further attract FDI in the future. The Wealth Driven Stage (Porter, 1990), hence, the last stage of a country's development, will not be discussed in the thesis. The focus lies in the country's current stages of development. Thus, the aim of the second part of the theoretical framework is to connect competitiveness and attractiveness, providing a fundament for a country to enhance its attractiveness.

For the last part, a sample of interviews will illustrate how Swiss company representatives assess the country's current phase. Their long-term experience will give practical insights into daily challenges and hurdles, and moreover, answer the questions, why companies are investing in Vietnam. A short section will discuss reasons, why companies closed down their factories and operations, and finally left Vietnam.

### 1.4 Type of Analysis

Research methodology can either be categorized as qualitative or quantitative.

As the aim of this thesis is to reveal insights into daily corporate operations, qualitative research has been chosen as a research methodology. More specifically, the empirical investigation will be based on interviews, as they allow pursuing the desired analysis of several company settings in depth. Throughout the thesis, the mentioned research questions are aimed at guiding through the research process, preserving the author from losing focus and ultimately allowing the development of the final output of this thesis – assessing the attractiveness of Vietnam to Swiss companies.

## 2. Investment and Developing Competitiveness

The first section begins with an overview of global foreign direct investment trends, followed by figures showing Swiss FDI flows to some emerging markets in Asia. As a last step, Swiss investment and capital stock in Vietnam are examined. Additionally, export of merchandise goods from Switzerland to Vietnam, will provide a comprehensive view about trade between both countries.

### 2.1 Global Investment Trend

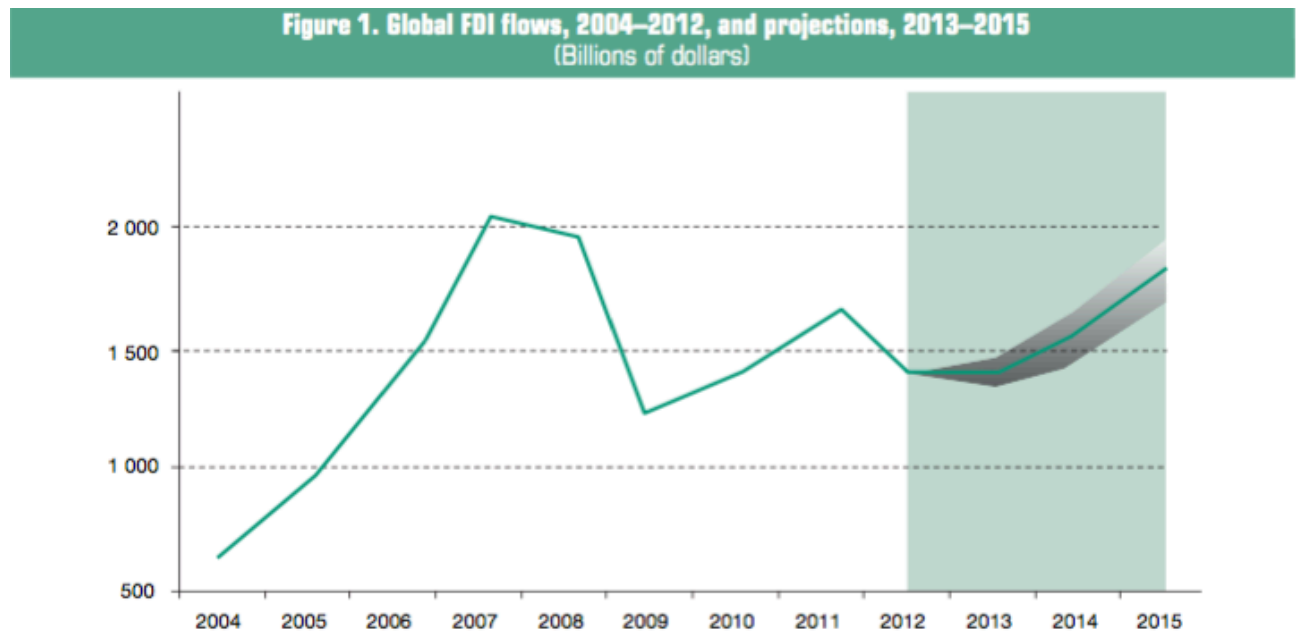
Based on the UNCTAD World Investment Report (2013), global foreign direct investment decreased in 2012 by 18 percent to USD 1.35 trillion. Because of the instability of the global economies and the wide-spread dominance of policy uncertainty, the recovery of this rather negative trend will remain stagnant (ibid.). Hence, with an upper range of USD 1.45 trillion, global FDI in 2013 was forecasted to remain close to the level in 2012 (ibid.). For 2014 the report estimates flows of around USD 1.6 trillion and USD 1.8 trillion in 2015 (ibid.).

For the very first time, developing countries took a lead and absorbed more FDI than developed economies, accounting for 52 percent of global FDI flows (UNCTAD, 2013). The reasons can be found in the falling FDI flows in developed countries, which now account for 42 percent of flows worldwide (ibid.). At the same time, developing countries were able to reach almost one third of global FDI out flows and this trend seems to be continuing.

Overall, FDI flows to developing countries observed a small decline in 2012 (UNCTAD, 2013). FDI flows to developing economies in Asia fell 7 percent to USD 407 billion, but remained at a relative high level (ibid.). Singapore, India and Indonesia were among the largest recipient of FDI worldwide.

Besides other lower-income countries, such as Cambodia and Myanmar, Vietnam emerged as attractive FDI location for labour-intensive manufacturing (UNCTAD, 2013). Moreover, governments have identified the importance of FDI inflow for their productive capacity-building and for the sustainable development of their country (ibid.). Hence, their national decisions about investment policies are increasingly driven towards new development strategies.

Figure 1: Global FDI Flows, 2004-2012



Source: UNCTAD, World Investment Report 2013

Figure 2: Top 20 Global Investor Economies in 2012



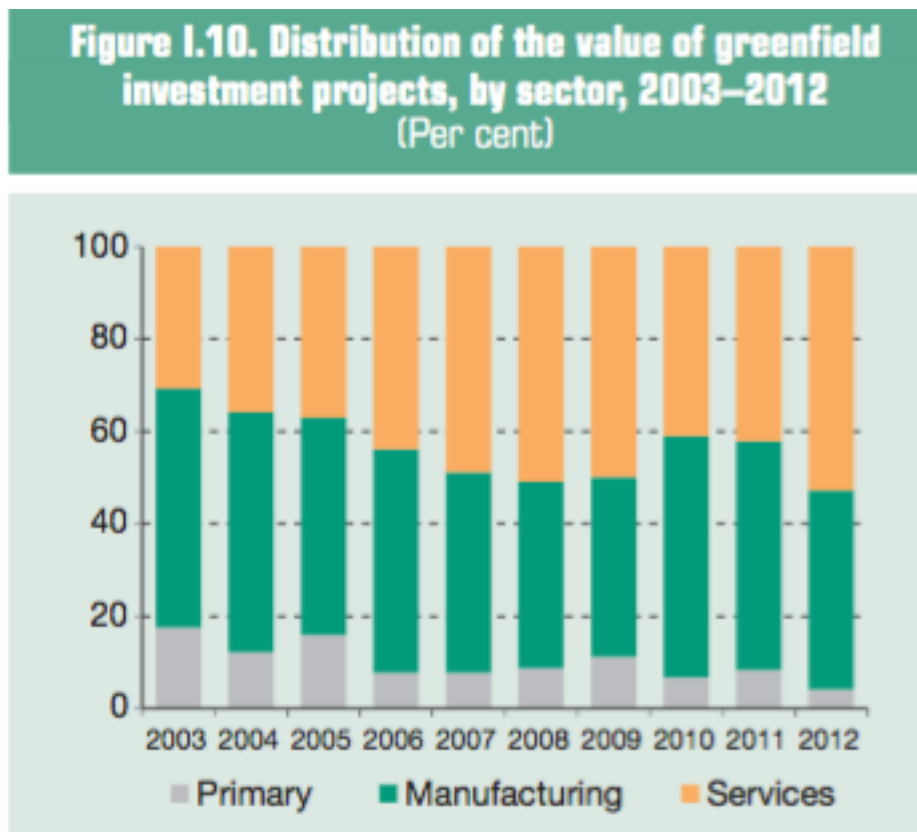
Source: UNCTAD, World Investment Report 2013

Switzerland was able to position itself as one the largest FDI investors (rank 9), behind other European countries such as the UK (rank 5) and Germany (rank 6). Hence, Switzerland globally invested USD 44 billion in 2012 worldwide.

The figure below shows an overview of global FDI investment by sector. It can be observed that the distinctive performances of the three sectors changed the composition of the value of the FDI projects. The global crisis affected the manufacturing sector most and thus, lost investments towards the services sector (UNCTAD, 2013). It can be assumed that the long-term trend, means larger FDI investment in the service sector, was responsible for the decline in the manufacturing sector.

Regarding the primary sector, the increased downgrading trend seems to hold on. The sector declined to 4 percent, counting to half of its 2011 share and less than one fourth of its 2003 share (ibid.).

Figure 3: Development of Investment Projects by Sector, 2003-2012



Source: UNCTAD, World Investment Report 2013

## 2.2 Swiss Foreign Direct Investment

The following figures and statements concentrate on a time frame between 2008 until 2014 and are mostly based on statistics of the Swiss National Bank and the Federal Customs Administration.

According to the IMF (2015) Switzerland is one of the largest direct investors abroad, measured in capital stock and compared to other countries around the globe. The presence of many large multinationals and headquarters in Switzerland and the country's attractiveness towards foreign-controlled holding companies support this statement (ibid.). However, countries like the US, the UK, Germany, France, the Netherlands and Luxembourg, still exceed Switzerland's amount of FDI (SNB, 2016).

With an amount of CHF 10 billion in 2014, Asia was among all destinations, the most important for Swiss direct investment (SNB, 2016). Compared to the EU, where Swiss firms invested CHF 6 billion in the same period, but at the same withdrew CHF 9 billion from their subsidiaries in the rest of Europe (ibid.). Other withdrawals took place in North America, Central and South America, accounting for CHF 4 billion in total. Most Swiss FDI to single destinations were reported in China and Hong Kong, accounting a total of CHF 4 billion, followed by Indonesia with CHF 2 billion, and the United Arab Emirates with CHF 1 billion (ibid.).

However, besides the EU and Asia, returns of flow of capital back into Switzerland, hence, disinvestment, predominated (SNB, 2014).

Table 1: Swiss Capital Stock in 2014, Mio. CHF

Recipient	Capital Stock 2014 in Mio. CHF	Change %
All countries	1'056'264.61	-0.76
Asia total	107'028.68	-1.59
Vietnam total	525.12	-12.93

Source: Author, based on SNB figures

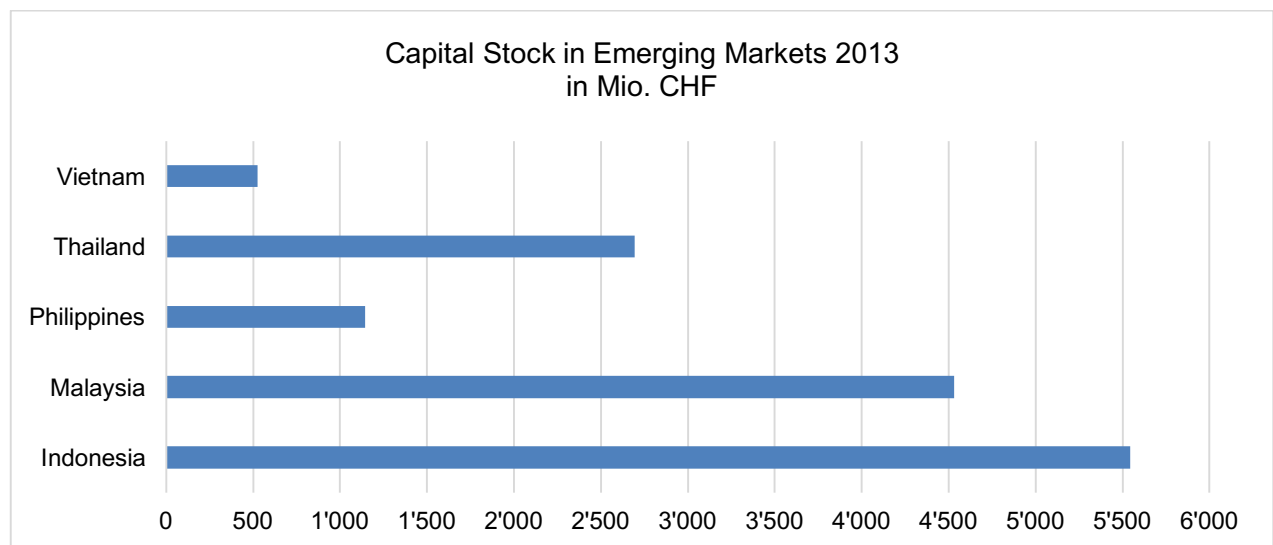
### 2.2.1 Swiss FDI in Emerging Markets

The author received a customized evaluation from the Swiss National Bank about Swiss FDI in emerging markets between 2007 until 2015. The evaluation shows capital stock and the development of FDI by industry and services. The SNB is not allowed to provide out a more detailed split of sectors. The author decided to analyse figures of Indonesia, the Philippines and Thailand (without Vietnam). Therefore, "emerging markets" will be represented in this thesis by those three countries: Indonesia, the Philippines and Thailand.

The following figure illustrates total Swiss FDI capital stock in emerging markets, including Vietnam, by the end of 2013. Figures for 2014 were not available or inconsistent as 2014 was a "year in between" (SNB, 2016).

Swiss investments in Indonesia were among the highest, accounting for CHF 5.5 billion, followed by Malaysia (CHF 4.5 Bio.), Thailand (CHF 2.7 Bio.), the Philippines (CHF 1.2 Bio.) and Vietnam (CHF 0.5 Bio.).

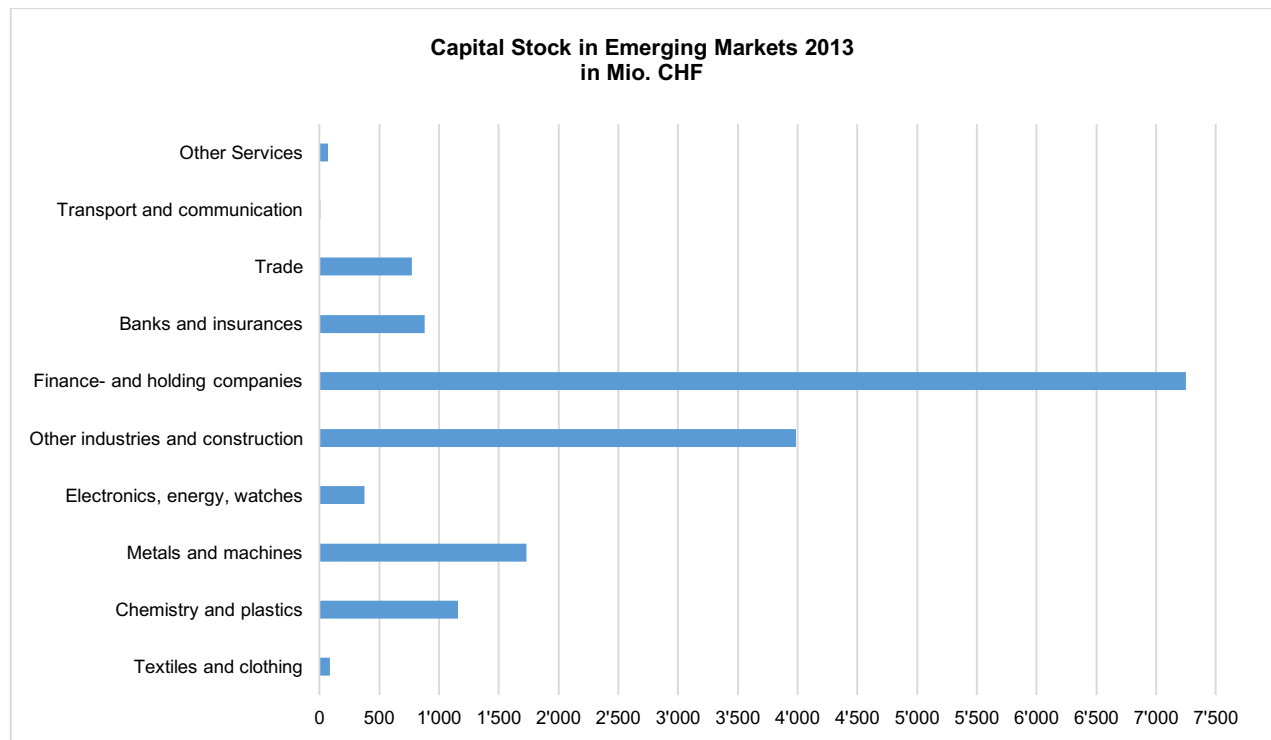
Figure 4: Capital Stock in Emerging Markets and Vietnam, 2013, in Mio. CHF



Source: Author, based on SNB figures

The total capital stock by the end of 2013 accounted for CHF 16'308 Mio., hence lower than the year before (2012: CHF 17' 316 Mio.) and higher than 2014 (CHF 13'919 Mio.). As shown in figure 5, capital stock of financial- and holding associations and constructions are among the highest (SNB, 2016).

Figure 5: Capital Stock in Emerging Markets by Sector, 2013, in Mio. CHF



Source: Author, based on SNB figures.

Table 2: Development of Capital Stock in Emerging Markets by sector, 2007–2014, in Mio. CHF

	2007	2008	2009	2010	2011	2012	2013	2014
<b>Industry</b>	3'615	3'872	4'455	4'963	5'206	7'933	7'331	4'188
Textiles and clothing	105	70	111	110	114	95	85	mv
Chemistry and plastics	898	821	863	983	1'092	1'222	1'157	mv
Metals and machines	491	444	438	489	496	1'705	1'729	mv
Electronics, energy, watches	236	330	314	387	319	348	376	mv
Other industries and construction	1'885	2'206	2'729	2'994	3'185	4'563	3'984	mv
<b>Services</b>	8'239	7'085	8'065	8'864	8'820	9'383	8'977	9'731
Finance- and holding companies	6'927	6'150	7'276	7'891	7'624	7'952	7'251	7'757
Banks and insurances	435	442	428	413	753	861	877	mv
Trade	800	411	282	471	379	502	775	mv
Transport and communication	31	37	36	42	17	8	5	mv
Other services	46	46	43	47	47	61	69	mv
<b>Total of all companies</b>	11'854	10'957	12'520	13'827	14'026	17'316	16'308	13'919

Source: Author, based on SNB data

Over the past ten years, Swiss investors focused on spending their capital into finance- and holding companies and other industries and construction. Overall, the service sectors received relatively more capital than the industry. Moreover, all sectors were able to boost their FDI inflow. However, FDI flow to the textile and clothing sector, trade, transport and communication, generally decreased.

### 2.2.2 Swiss FDI in Vietnam

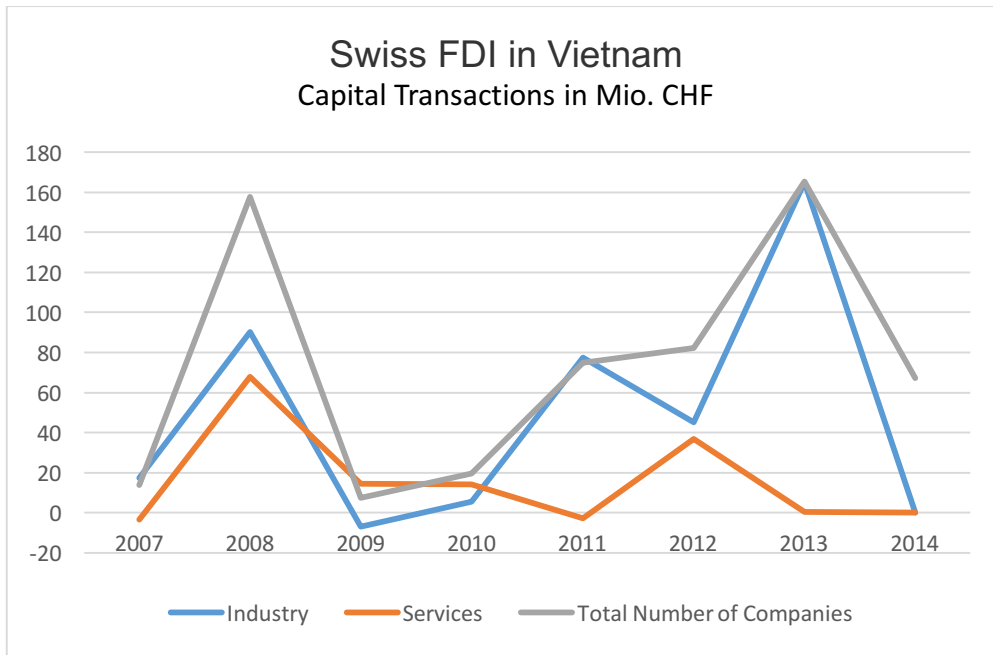
Vietnam has created a competitive and dynamic environment since its reforms in 1986 (FDFA, 2015). The multi-sector economy has been enforced to develop and further mobilize all social resources for economic growth. External economic relations have been expanded and the flow of FDI increased (ibid.).

This year, Vietnam and Switzerland are celebrating 45 years of diplomatic relationship. First agreements on Promotion and Reciprocal Protection of Investments and Double Taxation have been signed in 1992 (FDFA, 2015). Followed by an agreement on Protection of Intellectual Property and Cooperation in this Area in 1999 (ibid.).

Clearly shown by the following figure (SNB, 2016), Swiss FDI in Vietnam has never been constant. After a sharp drop of capital transactions in 2008, FDI in Vietnam recovered and increased until 2013, then declined again. The author guesses that the sudden decrease of foreign investments was related with the world economic crisis.

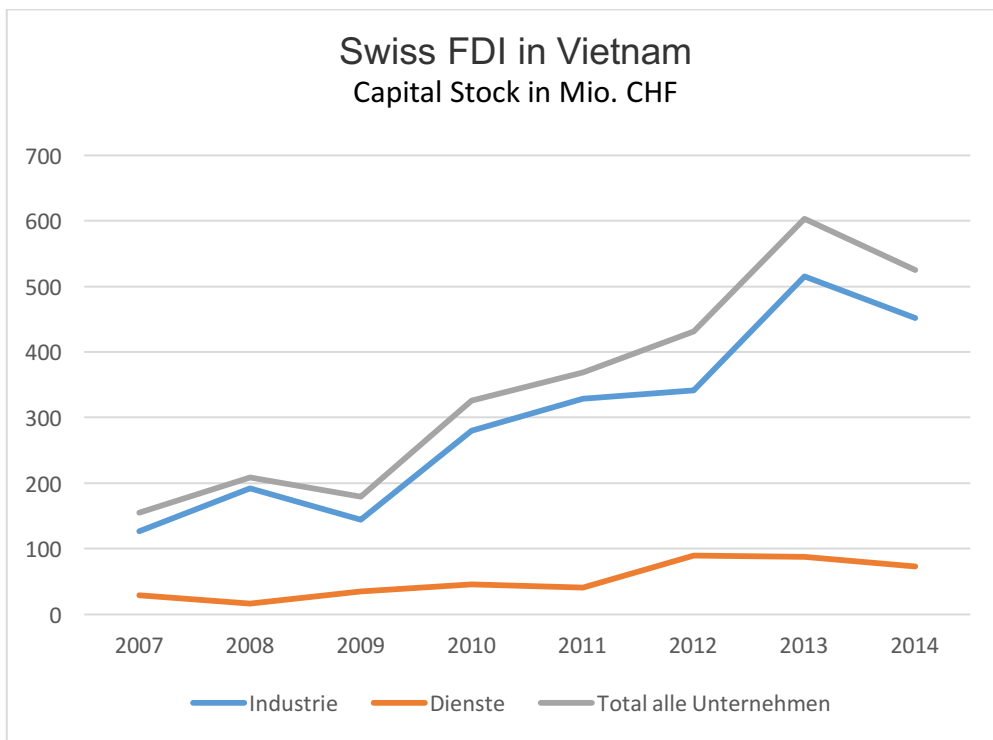


Figure 6: Capital Transactions in Vietnam, Mio. CHF



Source: Author, based on SNB figures

Figure 7: Capital Stock in Vietnam, Mio. CHF



Source: Author, based on SNB figures

Swiss FDI in Vietnam can be divided into three main sources: Industrial manufacturing, Construction and material manufacturing and Services (S-GE, 2015). According to Switzerland Global Enterprise, total inflow of FDI between 1990 and 2014 was made by Construction and Material manufacturing 45%, followed by Manufacturing 38% and Services 17%. In other words, FDI from Switzerland to Vietnam, between 1988 until 2014, counted of around CHF 2 Billion (ibid.). In 2014, major exports from Switzerland to Vietnam constitutes of pharmaceuticals with 38%, followed by machines 34.5%, optical and medicinal goods 6.3% and watch accessories 4.8%. In total, Switzerland exported in 2014 goods and services worth CHF 421.34 Mio. (SECO, 2015). Moreover, the following sectors would have the greatest potential to enter the Vietnamese market: Service activities, Chemical / Life Science, Medical Technology, Energy Technology, Trade and Manufacturing. Regarding the different industries in Vietnam in 2014, Service Activities 21%, followed by Manufacturing 16%, Real estate 12% and Wholesale and retail 11% contributed to the biggest shares of the whole GDP (ibid.).

According to Mr. Nguyen (2016a) Switzerland had 101 investment projects in Vietnam by December 15, 2014. The total registered capital reached 1.94 billion dollars and ranked 18 of 101 among all countries and territories (ibid.).

The following table illustrates an overview of Swiss FDI in Vietnam by 2015. The figures were broken down by sector and cumulated from 1990 until the end of 2015. According to the MPI figures below, Swiss companies in Vietnam transacted until 2015 around 101 investment projects, generating a total amount of around USD 1.7 Billion. In 2015, Swiss companies realised 9 investment projects of a total amount of USD 75.5 Mio. (2014: USD 112.5 Mio).

Table 3: Accumulated Swiss FDI in Vietnam, 1990-2015

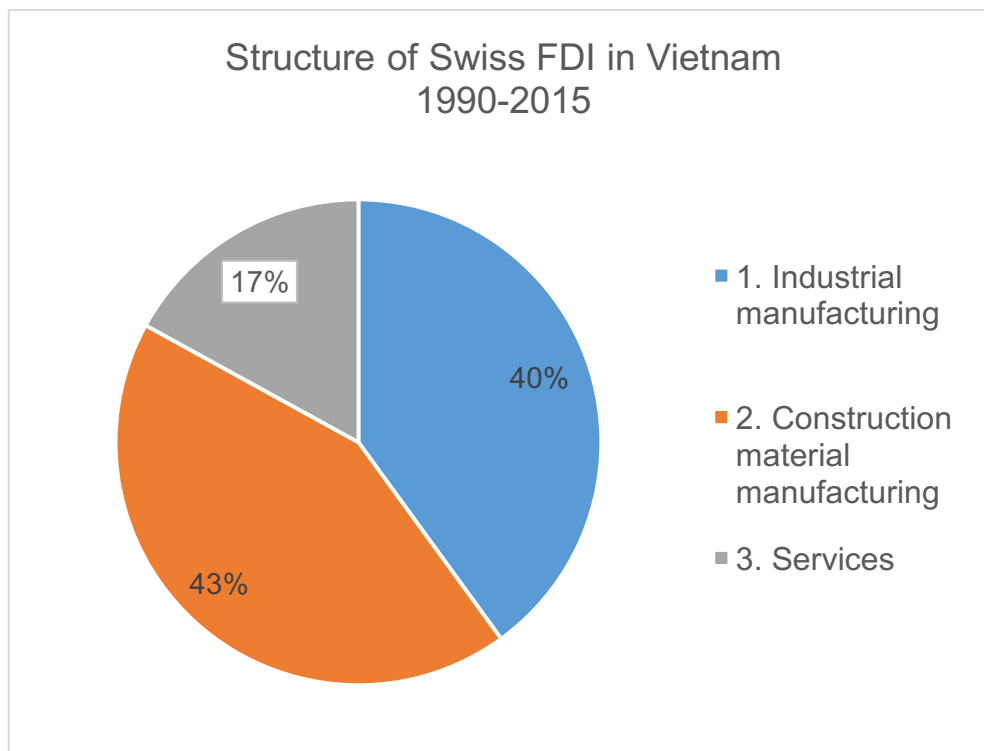
Sector	Total number of projects	Number of projects in 2015	Invested capital 2015 (USD million)	Total investment (USD million)
<b>1. Industrial manufacturing</b>	<b>63</b>			<b>715</b>
Mechanics	12	1	0.738	198
Food Processing	10	2	73.5	461
Pharmaceuticals / Chemicals	8			47
Electronics-Information (software)	28	2	0.105	6
Printing & Packaging	5			2
<b>2. Construction material manufacturing</b>	<b>11</b>			<b>766</b>
<b>3. Services</b>	<b>35</b>			<b>290</b>
Hotel / Tourism	7			225
Shipping / Forwarding / Trading	8	1	0.238	8
Consulting	20	3	0.925	56
<b>Total</b>	<b>109</b>	<b>9</b>	<b>75.506</b>	<b>1'771</b>

Source: Embassy of Switzerland in Hanoi based on MPI figures

According to statistics of the Ministry of Planning and Investments (Nguyen, 2016), Switzerland ranks at place 18 (0.7% share). Therefore, Switzerland is still the fourth biggest investor from Europa and before Luxembourg, Germany and Denmark, but after the Nederland's, France and the UK (ibid.).

The biggest Swiss investments were in the fields of construction/mechanic/machines industry, food processing, hotel and touristic sector, in the consulting area and the pharmaceutical/agribusiness sector (FDFA, 2015). The Vietnamese government registered a total volume of investments of USD 2 Billion, whereas USD 1.4 Billion were effectively been expensed. The Swiss National Bank counts a total of CHF 525 Mio. of investments until 2014 and more than 16'000 workplaces, generated by Swiss companies in Vietnam (SNB, 2016). Furthermore, the Swiss National Bank mentions that much Swiss investment flows via foreign/Asian branch offices into Vietnam and therefore, have never been recorded as Swiss FDI.

Figure 8: Structure of Accumulated Swiss FDI in Vietnam



Source: Embassy of Switzerland in Hanoi based on MPI figures

### 2.2.3 Swiss Merchandise Export to Vietnam

The following figure shows the ratio between total trade (merchandise export) to Vietnam on total trade world-wide between 2008 until 2015. Since the Federal Customs Administration had changed the way they calculated the exports and imports, comparisons of figures between 2012 and the wished years 2014 and 2015 has not been possible (FCA, 2016). Thus, the author decided to compare figures of 2014 and 2015.

More precisely, the total "business cycle" is shown, hence, without gold bars and other precious metals, coins, precious stones and gems, works of art and antiques (FCA, 2016). Back in 2014 the trade volume between Switzerland and Vietnam measured around CHF 1.37 Billion (without gold), offering Vietnam a surplus of CHF 532 Mio. (2013: CHF 357 Mio.) (ibid.). Total export of Switzerland to Vietnam increased in 2014 by 24.8% to CHF 421.3 Mio. (ibid.). However, latest figures below indicate a slight decrease of total traded goods in 2015 by -2.11%.

Among all exported goods, pharmaceutical products and machines are the two strongest export categories. Measured as a single figure, export of machines increased in 2015 again, however, measured on total trade which decreased in 2014, export of machines also dropped in 2015. Export of chemical and pharmaceutical goods increased overall and to Vietnam as well. The same development can be seen by precision instruments, clocks, watches and jewellery. Products for the agricultural sector to Vietnam more than doubled. On the other side, where machines, appliances and electronics decreased in total, export of these goods to Vietnam increased over the analysed time period.

Overall, the portion of merchandise trade to Vietnam compared with Switzerland's total merchandise trade increased steadily over the last years from 0.12% to 0.18% (cf. Table 4). However, the amount of merchandises to Vietnam remains relatively little.

When looking at the statistics in detail, it needs to be mentioned that Swiss products are also imported from other countries than Switzerland. According to estimations of the Swiss Business Hubs in ASEAN, Swiss companies residing in Singapore transfer approximately CHF 65 Mio. of goods from Switzerland to Vietnam (FCA, 2016). Moreover, if other business hubs in the near region would be added into the calculation, the total export of Switzerland to Vietnam would count more than CHF 500 Mio. (ibid.). Among all trade partners of Switzerland in the ASEAN region, Vietnam holds the fourth position after Singapore, Thailand and Malaysia (ibid.).

Table 4: Ratio between Merchandise Export to Vietnam on Total Trade between 2008-2015

Kind of Goods	2014		2015		% change 2014/2015
	in % of total	in CHF Mio.	in % of total	in CHF Mio.	
01 - Forestry and agricultural products, fisheries	3.46%	15	4.23%	21	9.68%
02 - Energy source	0%	0	0%	0	0%
03 - Textiles, clothing, shoes	1.38%	6	1.21%	6	
04 - Paper, articles of paper and products of the printing industry	0%	0	0.20%	1	1.61%
05 - Leather, rubber, plastics	1.52%	5	1.21%	6	1.61%
06 - Products of the chemical and pharmaceutical industry	41.94%	182	45.97%	228	74%
07 - Stones and earth	0.23	1	0.20%	1	
08 - Metals	2.07%	9	2.82%	14	8.06%
09 - Machines, appliances, electronics	33.41%	145	30.64%	152	11.29%
10 - Vehicles	1.84	8	2.82%	14	9.68%
11 - Precision instruments, clocks and watches and jewellery	10.83%	47	10.86%	53	9.68%
12 - Various goods (music instruments, home furnishings, toys, etc.)	0.69%	3	0.40%	2	-1.63%
<b>Total Trade to Vietnam</b>		<b>434</b>		<b>496</b>	<b>14.29%</b>
Switzerland's Total Trade in Mio. CHF		285'179		279'155	-2.11%

Source: Swiss Federal Customs Administration (Accessed July 7 2016)

### 3. Economic Development of Nations

Countries successfully reach a higher stage of economic development by going through a process of continuous upgrading, in which the nation's economic environment advances to support and encourage gradually high-level and productive ways of competing by companies situated there (HBS, 2015).

Further, countries get familiar with systematic changes of different aspects of competitiveness for prosperity as they are facing different challenges at distinctive levels of development (ibid.).

For policy-makers in a given country, it is vital to understand these broad patterns in order to manage the related challenges.

#### 3.1 Porter's Stages of Development

Countries at distinctive levels of development face changing dimensions of microeconomic and macroeconomic competitiveness for sustainable prosperity. As nations develop, modes of competing and nature of competitive advantages move through several characteristic stages, though rates of progress and the specific development path will vary by country. This process can be described as a sequence of stages, each with a different set of economic characteristics and challenges. Michael Porter (2008) describes these stages as follows:

##### 3.1.1 Factor-Driven Stage

The first stage of development is characterised by basic factors of production, such as abundant and semi-skilled labour and unprocessed natural resources, which form the basis of competitive advantage and sources of exports (Porter, 1990). Hence, the factor-driven stage strongly bounds the sources of competitive advantages by limiting the selection of industries in which the companies can successfully compete in international terms (ibid.).

Rather low wages support this stage and companies in such an economy compete on prices in industries that require either little product or process technology or technology that is inexpensive and widely available (ibid.). FDI, imitation, supply arrangements or acquisitions of foreign capital assimilate latest technology, as countries at this stage are not able to create them by themselves (ibid.).

Companies have limited roles in the value chain, focusing on assembly, labour-intensive manufacturing, and resource extraction. Most companies lack direct access to their end users and

local demand for exported goods is mostly non-existent. However, foreign companies provide most of the access to foreign markets (Porter, 2008).

Factor-driven economies are highly sensitive to world economic cycles, commodity prices, and exchange rate fluctuations and almost all emerging countries are centrally planned economies at this stage (GCR, 2008).

### 3.1.2 Efficiency-Driven Stage

Economies entering the second stage are mostly driven by increased wages and factor costs and thus, need to start developing more efficient production processes and enhance product quality (Porter, 2008).

Hence, at the efficiency-driven stage, enhanced productivity of standard products and services becomes the dominant source of competitive advantage. Competitive advantage is further drawn from improved conditions like firm strategy, and rivalry (Porter, 1990). This includes the widening from basic factor costs towards advanced factors, such as university trained graduates and the availability of well-functioning mechanisms for factor creation, like educational institutions and research institutes. Still, the country's factor pool is relatively generalised. More sophisticated and better assimilated technology and modern facilities allow the nation's pool of factors to be employed much more efficiently at this stage (ibid.).

Moreover, this stage is characterised by the willingness and ability of a country and its companies to invest forcefully (Porter, 2008). This approach allows firms to compete in more sophisticated industries and to offer unique products or to produce unique processes. At this stage, firms still compete in the relatively standardized, price-sensitive segments of the market, and product designs often reflect foreign market needs (ibid.).

Heavy investment in efficient infrastructure, business-friendly government administration, strong investment incentives, improving skills, and better access to investment capital allow major improvements in productivity (Porter, 1990). The products and services produced are not globally differentiated, however, with technology and designs still largely coming from abroad. Technology is accessed through licensing, joint ventures, foreign direct investment, and imitation.

Nations at this stage normally assimilate foreign technology but also begin to develop the capacity to improve technology themselves (ibid.). Companies extend capabilities more widely in the value chain, and serve a wider mix of original equipment manufacturer customers and end users. An investment-driven economy is concentrated on manufactured goods and outsourced service exports (ibid.).



However, in the efficiency-driven stage, the used technology is often a generation behind international leading standards, but foreign technology and methods are not just applied but also improved upon (Porter, 1990). A country's capability to absorb and improve foreign technology is essential to reach this stage of development, moreover, it is a decisive difference among factor-driven and efficiency-driven economies. Means, companies start developing their own improvements including their own product models in-house (ibid.).

Besides the willingness to invest, another source for competitive advantage at this stage is the role of the government. The government faces various tasks, such as channelling scarce capital into particular industries, promoting risk taking, providing temporary protection to encourage the entry of domestic rivals and the construction of efficient scale facilities, stimulating and influencing the acquisition of foreign technology, and encouraging exports (Porter, 1990).

Additionally, the government must also take the lead in making investments to create and upgrade factors, though firms must begin to play a growing role as well.

At this stage, discipline, tough decisions and a long time horizon, thus a political process needs to be enforced by the authorities (Porter, 1990). The government must show strong commitment to enhance factor quality and must invest in other preconditions for upgrading competitive advantage. Hence, decisions may be taken about what industries may be favoured over others. Multinational companies will address their interest towards the government. Here, authorities often need to resist ensuring local rivalry (ibid.). Hence, a politically secure government, continuity in government officials, and the ability to counteract special interests seeking favours are all highly desirable to support advancement (ibid.).

### 3.1.3 Innovation-Driven Stage

The third stage is characterised by specific industries that reflect the nation's particular environment and history (HBS, 2015). It is called innovation-driven because firms not only improve technology and methods from other nations but create them (ibid.).

People's income rises and the level of education increases which leads towards more sophisticated consumer demand side (Porter, 2008). The desire for convenience and the energizing role of local rivalry increases too. New companies enter the domestic market, trying to satisfy the increased needs of the customer and at the same time accelerate improvement and innovation (ibid.). Overall, the country's competitive strength enhances and the range of more specialised industries increases.

Supporting industries on highest international level support this process. Consequently, new competitive industries emerge out of related industries (Porter, 1990).

Compared to the second stage, competitive advantage due to factor costs becomes quite rare, as growing success in many industries puts upward pressure on factor costs and the value of the currency (ibid.). Instead of factor cost advantages, selective factor disadvantages stimulate innovations that advance product and process technology (ibid.). Further, the enhancement of proven universities, research facilities, and infrastructure grows.

At this stage, the production of innovative goods and services by using the most superior methods becomes the dominant source of competitive advantage (Porter, 1990). Institutions and incentives supporting innovation are also well developed. Companies compete with unique strategies that are often global in scope, and invest strongly in advanced skills, the latest technology, and innovative capacity (ibid.).

### 3.2 Boosting a Country's Competitive Advantage

A country needs to clearly understand the meaning of competitiveness in order to achieve sustainable competitive advantage (Porter, 2008). Clearness how to analyse it effectively will be crucial to create an economic environment that boosts efficiency, innovation and prosperity (ibid.).

In his book *The Competitive Advantage of Nations* (Porter, 1990), Porter analysed how prosperity is created and sustained in the modern economy. His inputs have influenced the thinking of cities and regions and transformed their national policies. According to Porter (1990), competitiveness is based on the measure of productivity and focuses on the microeconomic fundamentals of competitive advantage.

### 3.3 Creation of Sustainable Competitive Performance

A country's industry finds itself in constant transition. An economy can upgrade itself by moving towards higher-level sources of competitive advantage and toward positions in advanced productivity industries (Porter, 1990). Overall productivity growth reinforces such a process. National economies need to be seen in a comprehensive manner in order to provide ways of thinking about how nationwide economies progress in competitive terms (ibid.).

How a country develops its path to reach new levels of enhanced competitiveness differs as each stage involves distinctive industries and segments as well as different firm strategies (Porter,

1990). Moreover, stages differ by government policies, providing a useful basis for governmental discussions of a country's policies.

It is crucial for an economy to be able to upgrade their competitive positions. This can be achieved by developing capabilities to compete successfully in new, high-productivity industries and segments. Penetration of foreign markets by high productivity industries can be managed through FDI, and at the same time shifting less productive activities abroad (Porter, 1990). A country has two options, either upgrade and extend its competitive advantage or fall behind (ibid.). Hence, in case that one industry achieves a higher competitive advantage, other industries can benefit from the success and manage to upgrade more easily. Additionally, a country's companies need to successfully position itself in international competition. The ability to export and at the same time sustain position against import will further enhance national growth (ibid.).

As started in the chapter of economic development, national economies show a number of stages of competitive development, but the stages do not claim to explain everything about a nation or its development process (Porter, 1990). Moreover, some concerns in development are certainly left out, and no nation will fit a stage exactly. Instead, the stages are an effort to highlight those attributes of a nation's industry most important to rising economic prosperity (ibid.).

### 3.4 Requirements for Competitive Advantage

During the first three stages, forces are present that create the potential for superior competitive advantages and put pressure on the industry to seek and achieve them.

The following conditions need to be in place that a nation is able to progress to more advanced stages (Porter, 1990):

#### 3.4.1 Motivation

Motivated workers and managers are required to reach the next higher stage. Means, the motivation to work long hours, earn higher wages, seek greater profits, start new companies, and create larger companies (Porter, 1990). To hold the high level of motivation, citizens need to believe that they will be rewarded for hard work and good ideas. At the same time, owners of capital must also be motivated to make sustained investments (ibid.).

### 3.4.2 Domestic Rivalry

In order to drive innovation and thus, to upgrade competitive advantage, active rivalry among domestic competitors in a wide range of industries is necessary (Porter, 1990). The fear of making failure leads to inertia of the rivalry. Vigorous competition among local companies leads also to an important spill over effects on other factors (ibid.).

### 3.4.3 Capacity to Create New Business

A country reaching for an advanced stage needs to have effective mechanisms in place to create new businesses either through start-ups or internally by established firms (Porter, 1990). Healthy rivalry builds on the possibility to establish new businesses, to change into superior industries and to develop suppliers and related industries (ibid.).

These forces support each other and form a virtuous circle. It is vital to have factor conditions in place that are increasingly advanced and specialized to upgrade a nation's economy (Porter, 1990). This development depends on improving demand conditions, the energy from selective disadvantages, and the presence of superior supporting industries (ibid.). However, this will not lead to an upgrade unless sustained investment and rivalry forces it. This in turn, rivalry and the development of supporting and related industries depends on active new business formation. Hence, all these forces must be present to enable mutual dependency, and thus, the process of upgrading. In other words; a nation's rate of progress is constrained by its weakest link (ibid.).

## 3.5 WEF Global Competitiveness Report

The annually issued Global Competitiveness Report of the World Economic Forum contributes to enhance the understanding of crucial factors determining economic growth. It further tries to explain why some countries are much more successful than others in raising income levels and opportunities for their populations. The report offers people in business and governments an important tool in the formulation of improved economic policies and institutional reforms (GCR, 2008).

According to the report, competitiveness is defined

as the set of institutions, policies, and factors that determine the level of productivity of a country. The level of productivity, in turn, sets the sustainable level of prosperity that can be earned by an economy. In other words, more competitive economies tend to be able to produce higher levels of income for their citizens. (WEF, 2008)

The author analysed all reports between 2008 until 2015, especially the country profile of Vietnam to further gain insights of the country's recent development. The report is build upon 12 pillars and measured by the Global Competitiveness Index, developed by the World Economic Forum. The index includes a weighted average of many different components, each measuring different aspects of competitiveness. The pillars are separated into three groups – the amount of stages of development – and stand for each stage's typical characteristics. Hence, a country's performance can be assessed by rating the performance of each pillar.

### 3.5.1 Drivers of Competitiveness

If a country is able to improve their productivity, the nation will also be able to advance its prosperity (GCR, 2015). By improving productivity, the value of goods produced will increase, thus domestic income levels raise and the overall pool of demand to be met improves as well. It is crucial that the economy is capable to create an environment where companies and employees can upgrade their productivity throughout the economy (ibid.).

According to the report of the World Economic Forum (2008), productivity and competitiveness is driven by many determinants; the role of institutions, openness to trade and investment, geographic location, and the quality of the business environment. Hereby, the goal is to capture all influences that allow policymakers to understand a country's strengths and weaknesses.

It is vital to understand that those conditions can be separated into national and general conditions, like the quality of public institutions, which create opportunities for higher productivity in an indirect way (ibid.). Those opportunities may or may not be realised. Factors, such as the average skill level of the labour force, however, directly affect productivity. Thereby, the attitude, how these influences appear, depends largely how these policy processes are governed (ibid.). Where general conditions are more likely to be under direct control of national governments, direct productivity drivers are often the result of involvement by many parts of government, the private sector, academia, and other institutions (ibid.).

In order to understand the connection between productivity and competitiveness, one needs to understand that competitiveness is what actually determines the productivity with which a nation's endowments are used to create goods and services (ibid.).

Both, macroeconomic and microeconomic factors are responsible for competitiveness to arise. As the thesis rather focuses on firm level analysis, only microeconomic related factors will be discussed.

A country's government is one of the stakeholders that directly affects a firm's productivity. But not just the central government plays a crucial role, moreover, different agencies and administrative units at several levels of geography, with differing degrees of autonomy, are involved in decision making a policy action (WEF, 2008). In order to reach a new stage of development, countries are often forced to make many simultaneous changes across a broad number of policy areas. Hence, as long as these evolving constraints to productivity are addressed, productivity growth will not occur (ibid.).

A companies' productivity depends in some part on the expertness with which firms compete and can be raised in two ways (GCR, 2015):

- By improving the operational effectiveness of its activities and by assimilating global best practices
- By achieving distinctive strategies and by involving unique products and innovative means of production and service delivery

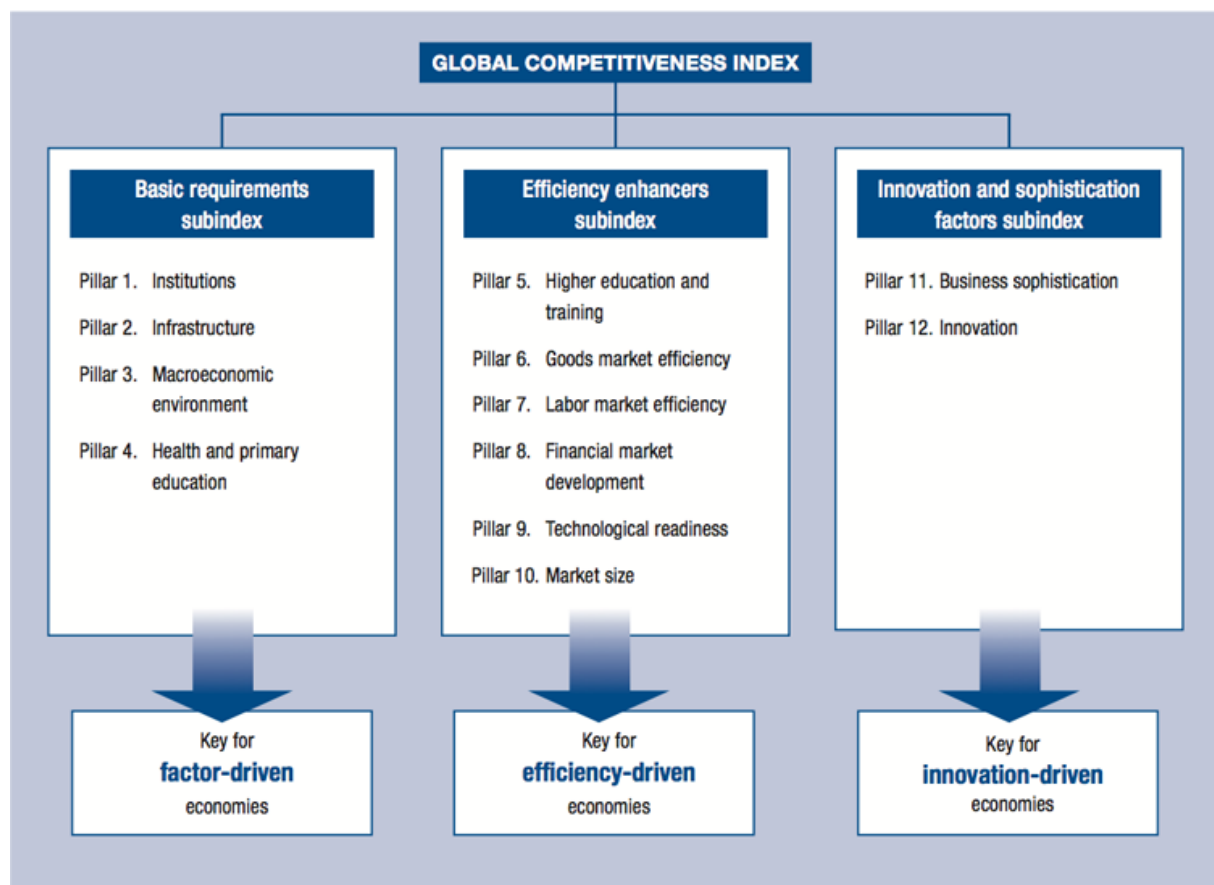
Conversely, in case that a company focuses on using low factor input costs at low productivity methods, little contributes toward sustainable prosperity. Although speaking about microeconomic factors, the productivity of companies is also affected by corporate governance structures (ibid.). Widespread monopoly power and government favouritism can harm productivity (ibid.).

This unfavourable environment is often boosted by the presence of large, highly diversified business groups, common in developing countries (ibid.). Additionally, one should distinguish between business groups that are an instrument of market power or preferential political access, and that can generate private profitability, but conversely, hinder public prosperity (WEF, 2008).

### 3.5.2 Concept of the WEF Report

The components that each measures different aspects of competitiveness are grouped into 12 pillars. The following figure shows pillar 1-4 that need to be of high level and thus, are key in order to be classified as factor-driven country. Further, pillar 5-10 show other factors – in addition to pillars 1-4, that have to be in place and enhanced by the government, in order to reach the status of an efficiency-driven economy.

Figure 9: WEF Global Competitiveness Index



Source: WEF Global Competitiveness Report 2008

It needs to be mentioned that the pillars above will affect different economies in different ways. The best way for country A to improve its competitiveness will maybe not suit for country B, as they are most likely not at the same stage of development.

The GCI, and many other economic theories, assume that to maintain the first stage of development, public and private institutions (pillar 1), a well-developed infrastructure (pillar 2), a stable macroeconomic environment (pillar 3), and a healthy workforce that has received at least a basic education (pillar 4) needs to function well (GCR, 2008).

Once a country advances its competitiveness, development enhances and output will increase and wages will rise (Porter, 2008). A country will then reach the efficiency-driven stage of development. Hence, they start developing more sophisticated production processes and increase product quality. At the same time wages raise and prices can not be increased (ibid.). As a result, higher education and training (pillar 5), efficient goods markets (pillar 6), well-functioning labour markets (pillar 7), developed financial markets (pillar 8), the ability to harness the benefits of existing technologies (pillar 9), and a large domestic or foreign market (pillar 10), increasingly drives competitiveness (GCR, 2008).

The last move of a country, the reach of the innovation-driven stage, is characterised by again, wages at higher level, associated with higher standards of living (Porter, 2008). The increased level of wages can only be sustained if the country is able to produce new and unique goods and services of highest quality and at internationally competitive innovative standards. Hence, at this stage, firms are forced to compete by creating new and different products using the most sophisticated production processes (pillar 11) and by innovating new ones (pillar 12) (cf. Figure 9, GCR, 2008).



## 4. Case Interviews Methodology

### 4.1 Approach of the Questionnaire

As a first step the author read through various models and literature in order to gain an overview. The main challenge was, based on the broad topic of the thesis, to set up a questionnaire that focuses on the word "attractiveness". How can attractiveness be assessed? It becomes clear that attractiveness of a country is based on prosperity, productivity and thus, is characterised by its competitiveness. Hence, the author concentrated on reading the Global Competitiveness Report (GCR) in the period between 2008 and 2015. The membership of the World Trade Organization brought many changes and opportunities for Vietnam and also for its investment climate. To make sure that the characteristics of the country within the scope of analysis remained the same, the time period after the accession of the World Trade Organization in 2007 was taken into consideration.

According to the latest report in 2015, Vietnam has been positioned in the transition stage between factor-driven and efficiency-driven (GCR, 2015). This raised the question about the pillars still being in need of improvement in order to boost Vietnam's position towards efficiency-driven. The next step was to go through the reports from 2008 until 2015 and to compare all relevant figures – changes of the figures, ups and downs of the figures – to put them in an excel file and to illustrate the most notable developments over the past 10 years.

By analysing the reports between 2008 and 2015, the author recognized that 1) Institutions, 5) Higher Education and Training, and 9) Technological Readiness, are among the weakest factors. Pillar 1, Institutions, is the only one that is listed as key factor for factor-driven economies. The other two pillars are key for efficiency-driven economies and thus, important to look at (cf. Figure 9, p. 31). Because Vietnam is still in need of improvement and those two pillars, Higher education and training and Technological Readiness have been decreasing during the last years. As Vietnam's goal is to enhance its investment climate and thus, its attractiveness, these two areas need much attention. Other key pillars improved over time and can be considered stable. Hence, those were not considered in the questionnaire.

## 4.2 Characteristics of the Three Weakest Pillars

### 4.2.1 Pillar 1: Institutions

The first pillar examines the institutional environment of a country (GCR, 2015). The climate has to be sound and fair and became more apparent during the recent economic and financial crisis. The state at the international level plays an increasing role for further consolidating the fragile recovery of a country, hit by the crisis (ibid.). Moreover, this pillar is determined by the legal and administrative framework within different individuals, companies, and governments interact to facilitate prosperity.

Pillar 1 is characterised examines the following aspects (GCR, 2015):

- Legal and administrative framework
- Quality of institutions
- Influence on investment decisions and the organization of production

### 4.2.2 Pillar 5: Higher Education and Training

In order to move up the value chain, highest quality of higher education and training plays a crucial role (GCR, 2015). Well-educated employees who are able to perform complex tasks, understand the evolving production system, and adapt rapidly to their changing environment are highly wanted in our today's globalized economy. Hence, a country needs to be able to nurture this need and establish a pool of well-educated people. This pillar measures the quality of education as evaluated by business leaders (ibid.). Moreover, the degree of staff training is also considered within this pillar, because vocational and on-the-job training are of high importance. In many economy's, training ensures the constant upgrading of employees' skills (ibid.).

### 4.2.3 Pillar 9: Technological Readiness

Technology is critical for companies to successfully compete and prosper (GCR, 2015). This pillar measures responsiveness of an economy to adopt existing technologies to enhance the productivity of its industries. This approach focuses on the agility to fully leverage information and communication technologies in daily activities and production processes for increased efficiency and enabling innovation for competitiveness (ibid.). The access and usage of ICT is key for an economy to enables its overall technological readiness.

It is not relevant, whether the country itself has developed or only used the technology within its borders. Moreover, the companies operating in this country need to have access to advanced products and the ability to absorb and use them. FDI often plays a crucial role when it comes to sourcing foreign technology, especially countries at lower levels of technological development. Thus, the level of technology the company can benefit from needs to be separated from the country's ability to manage "blue-sky research" and to develop new technologies for innovation that enlarges the access to knowledge (ibid.). This is also the reason why pillar 5, technological readiness, is separated from pillar 12, innovation (ibid.).

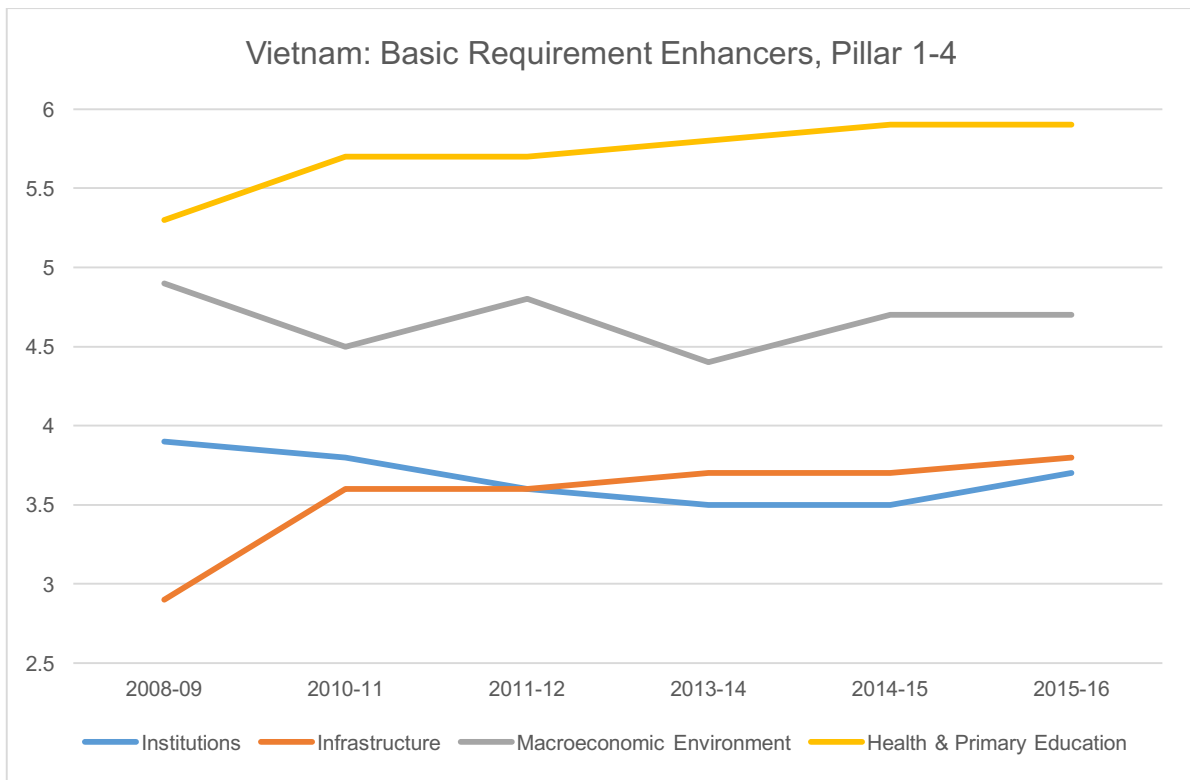
### 4.3 Development of the Three Weakest Pillars

Based on the latest report (GCR, 2015), Vietnam has been defined as a country in transition. Hence, since approximately two years, the country has been positioned between a factor-driven and efficiency-driven economy. The following descriptions and analysis will concentrate mostly on those two stages.

Moreover, the authors' aim was not to examine how the 12 pillars are measured in detail, but rather to study how strong Vietnam has improved its performance over the last years. By doing so, the author decided to focus on those pillars that had shown the weakest improvement.

The figures below show the development of first, pillar 1 to 4, thus Institutions, Infrastructure, Macroeconomic environment and Health & primary education.

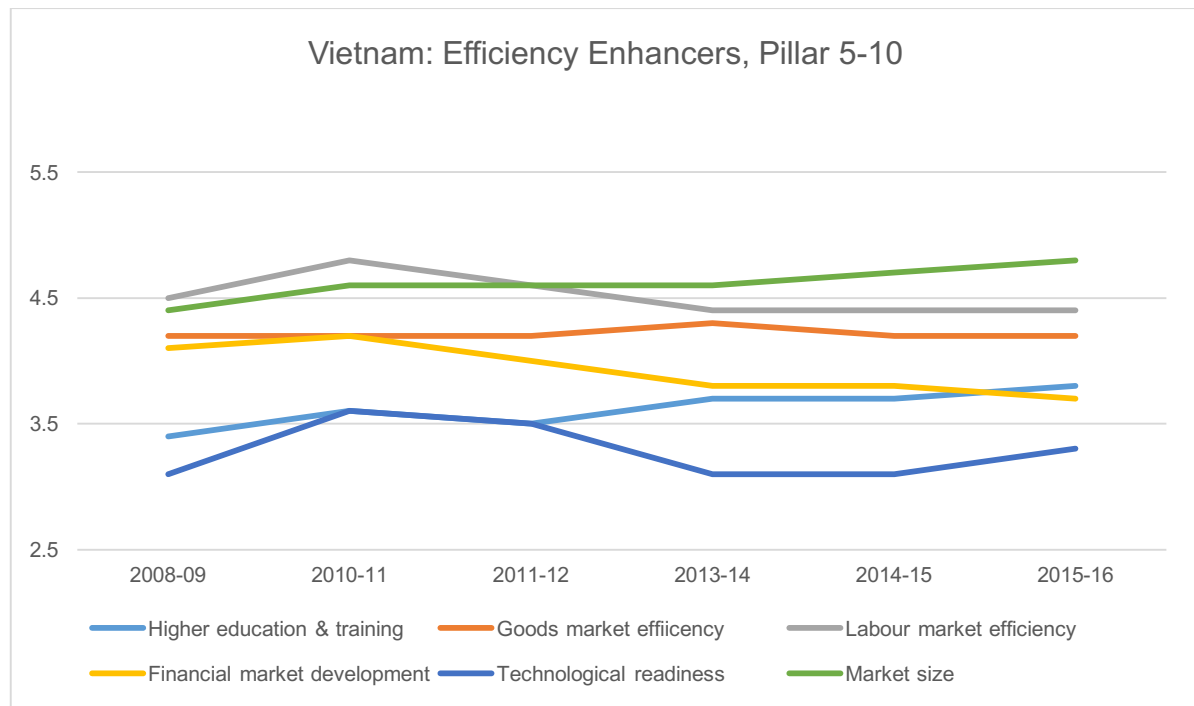
Figure 10: Development Basic Requirements, Pillar 1-4 (score 1-7)



Source: Author based on figures from WEF reports (2008-2016)

The author decided to focus on pillar 1, institutions, as among all pillars, institutions showed the weakest development and rank, behind pillar 2, infrastructure. Moreover, between 2010 until 2014, the rating of this pillar declined and since 2015 improves again. Considering that Vietnam is currently positioned in transition, pillar 1 needs most improvement. Otherwise, the country will, among other reasons, not reach the next higher stage.

Figure 11: Development of Efficiency Enhancers, Pillar 5-10 (score 1-7)



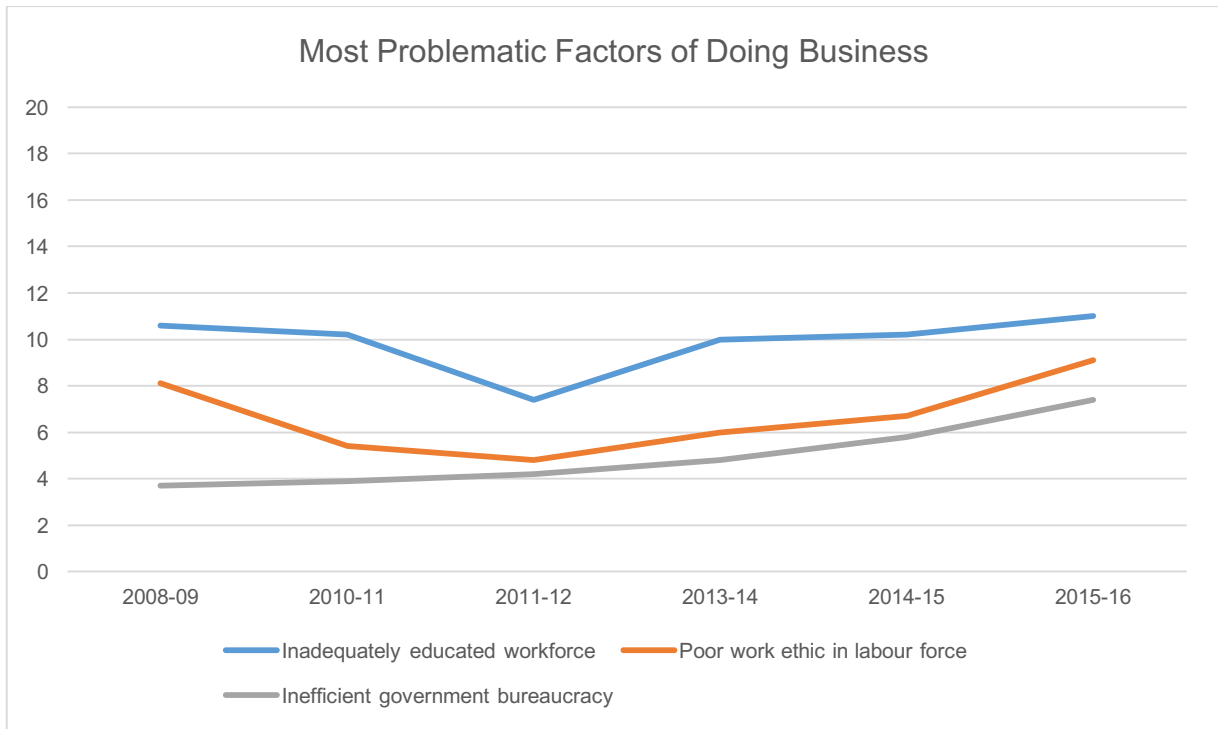
Source: Author based on figures from WEF reports (2008-2016)

Among pillar 5-10, Higher education & training, and technological readiness, show the weakest development between 2008 until 2016. Additionally, the ranking of Financial market development is declining since 2010. However, since the author decided to focus at those with the lowest scores over the mentioned period, this pillar had not been analysed in detail. Overall, rankings of the pillar remained relatively steady.

The author is convinced that Vietnam needs to focus on Higher education & training, as well as technological readiness, in order to reach the efficiency-driven stage.

Companies were asked between 2008 until 2016 about the most problematic factors when doing business in Vietnam. The author analysed the ratings over this period and established the figure below (Figure 12, p. 38), showing key factors, hindering companies in executing their daily business.

Figure 12: Most Problematic Factors of Doing Business in Vietnam



Source: Author based on figures of the WEF reports (2008-2016)

The higher the score, the more problematic it is for a company to do business in Vietnam.

Obviously, the inefficiency of the governmental bureaucracy, has been rated as constant negative influencer. The perception of Poor work ethic in labour force declined initially, since 2012 however, increases again as problematic factor.

Compared to the above figures one can conclude that the rather bad performances of pillar 1, institutions, are related with the ranking of the most problematic factors, hence, inefficiency of the administration. The same can be roughly said for pillar 5, Higher education & training, both times performing relatively low during the last eight years.

#### 4.4 Structure of the Questionnaire

The questionnaire for the companies in Vietnam bases on the literature about competitiveness and stages of development and on personal experiences of the author. The questionnaire had been subdivided into the following topics:

##### A) General Information

1. Contact details of the interviewee and the target company
2. Sales figures of the target company

##### B) Accessing Vietnam

- Reasons for setting up a business in Vietnam and whether governmental incentives played a crucial role
- Expectations of the target country towards Vietnam

##### C) Operating in Vietnam

- Questions about challenges the company is facing today
- Questions about the Vietnamese workforce: level of education and work ethic

##### D) Conclusion

- Questions about factors the company would do differently when entering Vietnam again and suggestions how other companies could successfully enter the Vietnamese market
- Suggestions of how the Vietnamese government could enhance the business climate

#### 4.5 Data Collection

As defined in the methodology, data was collected through interviews. Whenever possible, interviews have been held face-to-face. However, the majority of the interviews were held via Skype call due to distance constraints of the CEOs of the company.

The semi-structured face-to-face interview allowed the interviewee to share experiences and expertise, and the interviewer to react upon interesting aspects as well as asking for clarifications.

## 4.6 Sampling

The entirety of all companies was divided into two samples; companies successfully operating in Vietnam and companies that left Vietnam. For the first sample, companies had been selected holding Swiss ownership or being headquartered in Switzerland. Further, companies needed to be in Vietnam not more than 10 years (of which one company was established in 1995).

The initial goal of the author was aimed at interviewing nine cases, whereof in fact seven were selected. Following the definition in the beginning, a sample of Swiss companies employing up to 1'000 employees has been selected. In order to reduce business specific biases, companies from different sectors had been chosen. As the feedback for the interviews was mostly positive – nearly eighty percent of the contacted firms agreed on support on the condition that their information is anonymised and the public version does not include interviews or transcripts.

Table 5: Companies Interviewed<sup>1</sup>

<b>Company Identifier</b> <b>M = Manufacturer</b> <b>S = Services</b>	<b>Sector Activities</b>	<b>Interviewee</b>	<b>Method</b>
M1	Manufacturing Pottery/Ceramics	Owner & CEO	Face-to-face
M2	Manufacturing Architectural Ropes	CEO	Face-to-face
S1	Financial Services	COO	Skype call
S2	IT Solutions	General Director	Skype call
S3	Post Solutions	CEO	Skype call
S4	IT Product Development	Office Manager	Skype call

Source: Author

<sup>1</sup> The real company names and interviews have been kept anonymous and are not published in the official version of the paper. The interviews have been made available to the client and supervisor.



For the second sample, companies that withdrew from the Vietnamese market, the author was not able to interview them directly. Instead, an interview was held with the head of country management of DKSH. The interview with DKSH served as expert interview, as the company is focusing in Asian market expansion since the late nineteenth century.

Table 6: Expert Interviewed

<b>Company</b>	<b>Surname</b>	<b>First name</b>	<b>Position</b>	<b>Date</b>	<b>Method</b>
DKSH	Martin- Martinez	Jorge	Vice President	20.07.2016	Skype call

Source: Author

Besides the interview with DKSH, the author held a discussion with Dr. Nguyen Manh Quyen from the Trade Office of the Vietnam Embassy in Switzerland. He informed about future measures of the Vietnamese government. Moreover, he answered questions about key industries, the government intends to focus in the future.

## 5. Evaluation of Case and Expert Interviews

The aim of this section is to unpack the findings made during the interviews with the final goal of answering the initial research questions. The evaluation will reveal trends and patterns which appeared in the sample analysed. Although no statistically significant conclusions can be reached, tendencies are recognizable.

### 5.1 Experiences of Companies Operating in Vietnam

Among all topics covered in the questionnaire, the author decided to focus on the following key aspects:

- I. Decisive Factors for Setting up a Business in Vietnam
- II. Expectations of the Swiss Companies
- III. Work Ethic of the Vietnamese Work Force
- IV. Challenges and Opportunities in Daily Business Live
- V. Key Success Factors
- VI. Recommendations to the Vietnamese Government

As statements are kept confidentially, the author decided to provide the quotes with the company identifiers (cf. Table 5, p. 40) to show from what industry the statements are coming from. Hence, "M1, M2" refers to "Manufacturer" and "S1, S2, S3, S4" to "Services" companies.

#### 5.1.1 Decisive Factors for Setting up a Business in Vietnam

Analysis of all cases has shown that no company did proper market research before entering the Vietnamese market. Thus, one's gut feeling, other companies' success stories and personal experiences made in the country, brought them to invest in Vietnam. Governmental incentives, especially for the IT business, were known and appreciated, but were not critical for the final decision. Some mentioned that Vietnam plays more and more an alternative to China as the country is located attractively as a hub to Asian markets.

(...) Vietnam offers an alternative to China (e.g. China + strategy) - certainly in the manufacturing sector. (S1)

In comparison to other outsourcing markets, the biggest advantage so far is labour arbitrage. (S3)

Further, living costs are relatively low and competences and knowledge is given or can be improved. Vietnam profits from the absence of a strong influence of religion and an entrepreneurial culture.

No doubt, the strongest key factor to invest in Vietnam, according to all managers, is its local workforce. The Vietnamese working population seems to enjoy a good image among foreign managers and they appreciate the Vietnamese governments' interest and effort to educate them well.

Vietnamese people are business minded, reliable and solution oriented. (M1)

(...) the main resource is Vietnam's workforce which with its young and well educated workforce was (and remains) no doubt a strong factor in favour of Vietnam. (S1)

Especially companies in the manufacture industry appreciate the hand skills of the Vietnamese people. Several managers have been convinced by the incredible agile hands of the people that even brought solutions to some companies where robots were not able to help.

Several companies were looking for suitable people and thus, Vietnam, compared to other neighbour countries, offers them. Another important reason was to remain competitive by holding costs low (competitive pricing).

Besides the local workforce, managers agreed that the Vietnamese government has always been keen on creating a favourable atmosphere for foreign investors, hence he had no doubt that, without any further clarifications, Vietnam fitted for their plans. The atmosphere has always been very open and flexible. Moreover, the relative high stability of the law in Vietnam and the protection of property rights are strong compared to neighbouring countries and thus, favourable indicators to establish a business. However, the stability of the country is nice to have but was again not a decisive factor.

### 5.1.2 Expectations of the Swiss Companies

Managers have been asked for the motives to establish a business in Vietnam. They were able to choose among three factors; efficiency-driven, knowledge-driven and responsiveness-driven.

The majority of the interviewees admitted that efficiency-driven factors, thus low labour costs and the advantage of economies of scale, played the most important role. However, knowledge-driven factors, such as the usage of people's idea, become more important.

Roughly said, the Vietnamese labour force in general is a good value for the money for certain industries. Especially companies find lower skilled people easily and they are very competitive, hence they provide a higher competitive advantage for the country compared to Malaysia, Thailand and China.

Speaking about efficiency-driven factors and in comparison to other outsourcing markets, the biggest advantage so far is labour arbitrage. Combined with government incentives, such as tax reductions for IT companies, and the country's stability, Vietnam provides an attractive place for doing business. However, the adding value is relatively low as assembling activities are wide spread. The programming sector is growing but still far below the developed stage.

By looking at the knowledge-driven motives, the well-educated labour and their ambitiousness to learn, provide basic conditions to use their skills in order to create even more complex tangible and intangible values in the near future. Managers highlight, that people's enhanced involvement depends largely on how the government will implement new policies.

### 5.1.3 Work Ethic of the Vietnamese Workforce

Overall, managers are making very good experiences when working with the local workforce – especially when communication is easy and language barriers are low, loyalty and trust incredibly increases. Some highlight that a good and respectful interconnection with employees is key and very important. Another point is that the local workforce needs to learn to take responsibility on failures and that mistakes are ok and there to learn and increase personal knowledge.

Like in other Asian countries, people in Vietnam try to avoid making mistakes. As the country is embossed of communism, people listen carefully to clear instructions – especially at lower level. (S1)

All managers agree that it mostly depends on the behaviour of the top management – how they treat the employees and how they live the company's values.

(Company manager) points out that every manager coming to Vietnam should consider the country's history. The people had been suppressed over decades. Thus, one need to treat them – like elsewhere – with highest respect. (M1)

Once you have passed the cultural gap, they are committed, professional and willing to learn. (S4)

Vietnamese people seem to prefer a rather familiar atmosphere but are used to listen to clear instructions, rather at lower level.

Moreover, managers mention that their companies always have actively fostered the involvement of the local management.

Reasons, why an employee leaves, can either be familiar reasons, for example when moving abroad, or in case that an employee has no chance to take over a higher position within short time. Leaving the company for monetary reasons are seldom as most companies interviewed admit to pay relative high salaries and as mentioned, the atmosphere makes the company very attractive to stay.

#### 5.1.4 Challenges and Opportunities in Daily Business Live

Company representatives were asked to mention some challenges by doing business in Vietnam. They were asked to build their answers upon the three pillars, higher education and training, technological readiness and institutions.

##### **Higher Education**

All managers agreed that it is not a challenge to find employees, but it is quite hard to bring them on a certain level the company requires. Vietnamese people need higher education and on the job training. There is insufficient knowledge for work on international standard requirements. Moreover, there is a limited pool of highly skilled professionals, besides plenty of unskilled people. Especially the IT businesses face the challenge to keep skilled employees as competition and war for talents is very strong in Vietnam.

There are plenty of unskilled workers, but well trained financial professionals are rare. (S1)

Training is an ongoing process and they need to be accompanied day by day. Managers really need to accompany them and show them anew, how specific steps need to be done and also as new solutions do seldom come from the local workforce. Most companies do advanced training with selected employees e.g. workers holding a university degree, showing them how to lead and how to solve managerial functions at mid-level.

Either you find people straight from the rice field or graduating from university – nothing in between, roughly said. Employees lacked from professional on-the-job experiences. (M2)

One challenge is to maintain high quality as Vietnamese people sometimes do not understand new processes or the need to treat tools and equipment carefully. Instructors need to make sure that specific know-how about new licenses and permits are granted – they always need to be informed and they need to explain the importance of such permits. (M2)

However, a positive aspect that points out is the entrepreneurial spirit, rooting in all those small and flexible family businesses spread over the country. This entrepreneurial thinking is shown by one's own initiative at work, especially at management level.

Thus, employees contribute by being creative and thus, enhancing profitability. However, companies should not expect that local employees will come with new strategies as Vietnamese people are mostly short-term thinkers.

(...) the local workforce needs to learn to take over responsibility on failures and that mistakes are ok and there to learn and increase personal knowledge. Often, Vietnamese people cannot admit mistakes. (M2)

Overall, the country is still not developed and people lack on higher skills. For managerial positions, companies still focus on employing expats instead of local people.

### **Technological Readiness**

Given the young population in Vietnam and a strong proficiency in Vietnam for sciences, engineering and technology, the Vietnamese workforce has proven to be fast learning and an early adopter of new technology (especially IT and communication which are both important in the financial sector).

Secondary sectors are less developed as he thinks that the industrial society had somehow been jumped over and modern technologies have been forced lately. Thus, there is some gap among the development phases. (M1)

### **Institutions**

Governmental bureaucracy and administrative infrastructure seem to remain a substantial hurdle when doing business in Vietnam, although to a much lesser extent today than 20 years ago. Regulations are either unclear or contradict each other, oftentimes, the implementation guidelines lack, making it difficult to know what is permissible and what not.

Every company operating in Vietnam will suffer to a certain degree from such inefficiency, though the degree will depend on the sector. (...) As a rule, the closer the sector to areas of national interests of Vietnam the more challenging it gets to operate. (S1)

Sure, as any company here. If there are any disputes, process of resolving those is not transparent and extremely long, with very low probability of positive outcome for the company. (S3)

The governmental bureaucracy and administrative infrastructure has improved and the same can be said of the experience and skills of higher ranking government officials who nowadays are mostly foreign educated.

The company had the luck that the Vietnamese employees managed to find accurate solutions to bureaucratic issues and thus, administrative steps have never been a big issue to the company. (M2)

However, managers admit that the whole social insurance system and tax system is still very complex and complicated to understand. Often, this factor had been described as unpredictable aspect within the whole business environment.

### 5.1.5 Key Success Factors

Overall, like in any other country, the company needs to properly analyse the local market. Which other competitors the company will be facing and what kind of products are already there. The financial strength needs to be strong to at least be able to survive the set up phase.

Vietnam has still a relatively closed market and the government has much control over various sectors. Hence, the company entering the country needs to know the specific conditions of the market, its regulations and special laws. The economy is widely controlled in the country and authorities have much power.

The company needs to know how to maximize the effect of the product in the country and how it will reach the huge population of 95 million people.

Case comparison has shown that all companies ascribe their success to lie within one or several of the following three success factor groups:

Overall, managers recommend taking enough time and patience for a slow, step-by-step growth to keep the business healthy in the long run and to ensure endurance. Appropriate funding to ensure long timeframes is another aspect to focus on.

All managers agreed that it is vital to have highly motivated and skilled people from Switzerland in place when opening the first branch in Vietnam. Most companies admit to rather fully control the company in case this would not be possible, the company should carefully assess how shared control will be managed. One manager mentioned that he would preferably buy an existing company instead of building up a new one.

Involvement of the whole top management from the beginning is crucial and the company should not save costs by its first employees onsite – rather send the best employee you have for this position or hire a very good one.

The financial sector is a people's business. Hence, an entrant in our sector will need to focus on recruiting the best possible talent, then train and nurture its talent, provide it with career advancement opportunities and provide a corporate culture that makes Vietnamese staff feel home, respected and like a family. (S1)

Moreover, living the same culture in Vietnam as in Switzerland can reinforce the ties between both branches. (S4)

Regarding the recruitment of the local work force, it is recommended to hire staff at an early stage of their career and to provide them on the job training, job rotation and career advancement to ensure retention.

Focus on the best talents during the recruiting process – and do it carefully. Then train and nurture them, provide career opportunities and a corporate culture where employees feel respected and like a family. This will give the entrant to a motivated workforce, doing some extra miles if needed. (S1)

(...) the hard-working employees, their diligence – overall the extraordinary work mentality of the Vietnamese people. (M2)

It is highly suggested to implement a comprehensive and well performing risk management framework to make sure that the management knows factors that can harm the business.

(...) a company needs to implement a well performing risk management and needs to be aware of certain situations that can harm the business. (S2)

The business environment is friendly towards foreign investors and thus, new companies should consider inputs of the foreign investor community operating in Vietnam since a while.

Managers agreed that a good relationship with the government always helps to support daily business actions. Moreover, as the country provides a good climate to plan projects years ahead – predictability and the stability of the country strengthen such plans.

It was further mentioned that Switzerland offers a good quality of country presence in Vietnam by the Embassy in Hanoi and the Consulate General in Ho Chi Minh City. Employees of the Swiss representations are able to quickly help in unclear or difficult operational situations.

As conclusion, all managers would not change their market entry process. However, it depends very much on the target of the company and the future goals. The Vietnamese market is quite open and developed, instead of jumping in take the time to consult different peoples, networks, companies.



## 5.1.6 Recommendations to the Vietnamese Government

### **Workforce**

All managers agreed that higher education needs to be improved. One key shortcoming is that whilst the quality of basic education is good the country is falling short on higher education. The present education system does not foster practice oriented thinking and acting, independent and critical thinking. Universities should implement practical management cases rather than only studying theories.

### **Technological Readiness**

Overall, the current situation is satisfying and almost all applications fit well to latest technologies. Managers are mostly sure that the country will arrange itself accordingly and they have no concerns that the government will manage to bring the country towards a higher developed, technologically absorbing development.

(...) is convinced that the booming country Vietnam will arrange itself accordingly and adapt new technologies step by step. (M2)

I have no concerns that the country will manage further steps towards a higher developed, technologically absorbing development. Time will bring solutions and take the country on higher levels. (S2)

However, some managers have concerns that the skillset of the employees will not develop fast to enough to reach a professional the level to appropriately handle new technologies, entering Vietnam in the near future.

Although there are new technologies entering the country – people are still not educated enough to use them appropriately. (M1)

However, the Vietnamese government could do more to encourage firm-level technology absorption by providing incentives to the private sector. At the same time, the government should also more readily adopt and use tried and tested technologies where appropriate (e.g. introduction of more financial instruments to the capital markets to allow them to widen and deepen and thus become a further source of capital to the private sector).

### **Governmental Bureaucracy**

For most company representatives, this aspect needs most attention and improvement.

Recommendations can be separated into three topics; policy implementation, prohibition of improper practices and the improvement of the welfare state.

In an ideal world, government employees should earn a sufficiently large salary to make a reasonable living without having to resort to improper practices. However, in practice this is unlikely to happen. Hence, the next best mechanism to improve this would be to force increased transparency, thereby making it increasingly difficult to continue with improper practices. (S1)

The government is advised to fundamentally consider how laws and policies are issued and managed. Moreover, the government should admit that not everything can be done within little time – managers need certain time to implement policies and to find suitable solutions within the company. Thus, new policies and amended laws need to be legally guided and clearly communicated how to implement.

(...) this aspect needs most considerations and improvements in the near future. The government should fundamentally consider how laws and policies are issued and managed. (S2)

Most managers would welcome the idea of having one single contact person that acts like a coach and is able to give advice in unclear situations.

It is difficult to get an overview among the different departments and authorities. It would be highly appreciated to have one single contact person or a coach in case a new company establishes its business in Vietnam. (M1)

By analysing the answers of the manager, the author got the feeling that the most difficult area for the government to improve on is improper practices and corruption. A good mechanism to improve this would be to force increased transparency, thereby making it increasingly difficult to continue with improper practices.

One manager mentioned spontaneously three points, how the Vietnamese government could increase transparency within public institutions;

First, the establishment of platforms where, for example, tender processes for institutional purchases are made public would help. There, prices and companies for the government would be made public and necessary available. Hence, government officials would not have the chance to give mandates in secrecy. Another point would be to make all governmental budgets open and available for the public like a public company. As a last point: the right of having a freed press. Moreover, professional journalism could show serious shortcomings without being afraid of having to go to jail after publication of sensitive information.

At last, the enforcement of the welfare state, as its current status is still far behind international standards, is another point highlighted by the managers. The social insurance and tax system is still very complex and the government should foster the equality for both, locals and expats, as this treatment is still different.

## 5.2 Companies that Withdrew from Vietnam

In addition to the companies interviewed, the author was able to hold a discussion with the head of country management of DKSH Vietnam, asking for his opinion why companies are forced to leave the country. Besides this question, the head of country management was asked for his opinion, how Vietnam will be able to reach the next stage of development.

The questionnaire from the discussion can be found in Appendix IV, p. 71.

### 5.2.1 Reasons to Withdraw from Vietnam

Vietnam is still a relatively closed country and the macroeconomic factors seem very easy and attractive. However, the country is difficult to enter as the laws contradict often. The country is not developed; each step takes longer to be taken than in a developed country. Hence, the company needs to have the right processes to compete against all the risks, and to manage them properly. (Martin-Martinez, 2016)

Managers interviewed in the first section mentioned, that rather smaller companies have difficulty to stay, not being able to finance their operations over 2-5 years without profit. It takes up to 8 months to come over the first important phases.

Additionally, smaller companies are often not familiar with cultural habits and they often lack of respectful treatment towards the local workforce. Companies often fail by not finding the right people as Vietnam is still a developing country and most local employees need much training and need to be accompanied. On the other side, expats need to be able to adapt to local conditions.

Moreover, the leading manager needs much patience to enter the market and to educate the local workforce in case the company needs specific tasks to be done. Companies intending to operate within the local market face much more hurdles and other difficulties than firms in the export business. Often, companies lack of having the right processes in place in order to compete against all the risks and moreover, to manage them properly.

Unclear policies and corruption may cause further difficulties to establish a successful business in Vietnam.

In terms of market research, Vietnam does not offer much transparency especially on data and statistics. Hence they are often wrong or not publicly accessible. Difficulty arises to analyse the market properly. Thereby need to be considered that the country is still developing, thus, each step takes longer to be taken than in a developed country.

The company needs a clear understanding of all related regulations even when they have a superior product to offer – they might fail because of missed regulations and policies. (Martin-Martinez, 2016)

One huge challenge, that often gets underestimated, is the ability to understand the consumer in Vietnam. Some products are regulated, like the health industry and pharmaceuticals. Some decisions are partially taken by the government and thus, the company needs to understand all related regulations even they have a superior product – they might fail because of missed regulations and policies.

The author received the below table from the Embassy of Switzerland in Hanoi. Besides the reasons listed in the last column of the table, there was not more information available about those companies left. The author was not able to get any information from the companies, especially as there was no contact person or other information on the list.

However, it can be seen from the table that some companies left Vietnam because of missing licences or the inability to not successfully enter the Vietnamese market. One company had been bought by another company, thus the company may still exist in Vietnam.

Table 7: Examples of Swiss Companies that Withdrew from Vietnam

Swiss Company	Project Name	Location	Period	Reasons given by VN Authorities
Laufen	JV Laufen-Thien Thanh: Ceramics Sanitary Wares	B.Ria-V.Tau	1996-1998	No efficiency in operation
Panoval Label	JV Printing Double-Layer Labels	HCMC	1996-1998	No implementation
Nestlé	Nestlé Dairy Ha Tay: processing of fresh dairy milk and yogourt	Ha Tay province	1996-2001	Factory in Hatay (now Hanoi) closed down
Farbax Group AG	Farbax Vietnam: cleaning and re-filling of used toner cartridges	VSIP Binh Duong	2006-2012	No import license granted for used toner cartridges
Dragon Line	Dragon Line VN Branch Office: Manufacturing & exporting of cotta terra & handicraft	HCMC	1997-2013	No branch office license granted
Secude International AG	Secude Vietnam Ltd.: Security software developer	HCMC	2006-2013	Bought by SAP AG Software Solutions in 2012

Source: Embassy of Switzerland in Hanoi

### 5.3 How Vietnam Reaches the Next Stage of Development

With focus on crucial aspects of the thesis, higher education is absolutely key. As soon as technology will rise, the people need to be able to manage machines – thus, they need proper education to reach the next step the company will be looking at. Hence, as labour costs will increase, companies will substitute them by machines and thus, local people then need the appropriate education to run, manage and maintain them.

## 5.4 Vietnam's Key Industries in the Future

The author was able to reach some Vietnamese people, working for the government. They provided some insights about future measures of the Vietnamese government in order to enhance the country's economic development. Besides their inputs, the author found various literature about the government's future economic strategies.

According to the Vietnamese Prime Minister's approval on June 9, 2014, decision no. 879/QD-TTg, the government pursues a strategy on the country's industrial development through 2025 (Nguyen, 2016). Additionally, they concluded a concrete vision towards 2035, including the priority of the following industrial sectors (listed according to highest priority):

1. Manufacturing and processing industry
2. Electronics and telecommunication
3. Latest energy and renewable energy

Compared to the data gathered in Table 4 (p. 22), it can be seen that Switzerland is currently exporting those merchandises which will be of highest importance in the near future. However, any kind of energy has never been exported to Vietnam. The author guesses, that this sector is still under control of the Vietnamese government and thus, would require some opening towards foreign investors.

It was a challenge to get accurate answers regarding future measures of the Vietnamese government in the areas of higher education and training, technological readiness and administrative bureaucracy:

In terms of higher education, the Ministry of Education and Training, Ministry of Labour-Invalids and Social affairs are actively boosting some programs where managers and students are sent abroad for higher studies, such as Masters or PhD. Similar projects to foster on-the-job trainings are ongoing in cooperation between Vietnam and Japan, Korea and Russia (Nguyen, 2016). These projects are aimed to improve people's vocational training (ibid.).

Talking about technological readiness, the government also fosters cooperation with foreign companies in Europe, Asia, and the US (Nguyen, 2016). They are convinced that firm-level absorption in many large scale companies and SMEs is improved and standing at middle level in comparison with other Asian economies (ibid.).

Considering the last topic, administrative efficiency, the Vietnamese government has introduced programs for administrative improvement in all sectors including in education and vocational training at universities and colleges (Nguyen, 2016).

## 5.5 Vietnam's Socio-Economic Development Strategy

Vietnam's goal is to become a developed country by 2020 (World Bank, 2016). In order to reach this ambitious goal, the government initiated several structural reforms under the umbrella of the so-called Socio-Economic Development Strategy (SEDS) 2011-2020 (ibid.). The following areas will get most attention from the government, called the "three breakthrough areas" (ibid.):

- Promotion of human resources/skills development, particularly skills for modern industry and innovation
- Improvement of market institutions
- Development of the infrastructure

In order to achieve the target's set in the 10-year strategy, the government acknowledges the slow progress of the reform priorities of the SED plan 2011-2016 and emphasizes the need to accelerate these reforms in the 2016-2020 plan again (World Bank, 2016).

It had not been ascertainable to what degree these strategies are in process or to what extent they had successfully been implemented. According to the US Consulate in Vietnam (2013), the country is still facing development challenges that affect foreign investors. To name a few;

Poorly developed infrastructure, inadequate and cumbersome legal and financial systems, an unwieldy bureaucracy, non-transparent regulations, high start-up costs, arcane land acquisition and transfer regulations and procedures, a shortage of skilled personnel and pervasive corruption. (US Consulate in Vietnam, 2013)

Moreover, foreign companies speak about delays in obtaining investment licenses, and that licensing practices vary among provinces (ibid.). Further, companies regularly are confronted with policy changes related to taxes, tariffs, and administrative procedures, sometimes with little advance notice, causing difficulties to plan ahead. To summarize, the US Consulate (2013) names many challenges that had been addressed by the Swiss managers, operating in Vietnam.

## 6. Evaluation and Discussion

The following chapter aims at revising the theoretical knowledge. Based on the findings made during the case interviews, the initial concept of the WEF report shall be complemented.

### 6.1 Importance of FDI to Vietnam

The world economic crisis had a relative delayed impact on the Vietnamese economy (SECO, 2016). For a long time, the country showed economic growth of around 7% on average, in 2010 growth slowed down. However, since 2014 economic growth increased again to 6% (5.4% in 2013). The strengthening of the Vietnamese economy had been strongly dependent on the positive development of the production sector, supported by huge FDI inflows (*ibid.*). For 2015 and the following periods, the IMF forecasts a constant yearly growth of 6% (SECO, 2016).

One can conclude that Vietnam strongly depends on FDI. Vietnam attracted 24.1 billion USD in FDI, up 10% over the same period in 2014 and up 9.6% compared to 2015 (22 billion dollars) (SECO, 2016).

In its strategy, the Vietnamese government concluded on the following policies in order to attract further FDI inflows (Nguyen, 2016):

- Selective investment to improve quality of cross-border cooperation, hi-technology transfer and environmental protection
- Continue to maintain of FDI into economic zones
- Target setting by the Ministry of Planning and Investment maintain FDI in fields of manufacturing and processing industry, real estate, production and distribution, infrastructure and transportation, agriculture, forestry and fisheries, and food processing

Besides the dependency on FDI, the country's export industry relies heavily on imports. The majority of the Vietnamese industry processes imported inputs, like the textile and shoe industry, but also the mobile phone fabrication (SECO, 2016). In 2014, Vietnam registered imports of a total of USD 148 billion (2013: USD 131.3 billion). At the same time, the economy is still characterised by an underdeveloped supply industry (*ibid.*).

Among all investing markets, China (29.6%), South Korea (14.7%), Japan (8.7%) and Taiwan (7.5%) are the most important for imports in 2014 (SECO, 2016). By counting 0.3% market share, Switzerland ranks 30th (*ibid.*).



Related to the listed points above and to boost FDI projects in Vietnam, the governments' goal is to increase productions and exports with the help of the following measures (Nguyen, 2016):

- Using advantages of foreign trade agreements with economies
- Entering global supply chain systems
- Implementing trade facilitation and e-business

Additionally, free trade agreements, such as those with the European Free Trade Association, the agreement on the Trans-Pacific Partnership, the Vietnam-Korea free trade agreements, should bring further opportunities to enhance the local as well as foreign companies to interact economically (Nguyen, 2016).

## 6.2 Vietnam's Current Stage of Development

With an average monthly salary of USD 1'046 to USD 4'125, Vietnam has been classified lower-middle income economy (World Bank, 2016 and United Nations, 2014).

According to both organizations definition, middle-income economies are marked with a Gross National Income per capita of more than USD 1'045 but less than USD 12'746. Per definition, low- and middle-income economies are sometimes referred to as developing economies (ibid.).

However, it is not the idea to suggest that all economies within this category are experiencing the same development.

Based on Porter's stages of development and all information gathered during the interviews, the author likes to point out some specific arguments that underpin each stage.

Arguments that Vietnam is still a factor-driven economy:

- Government recognized the need for FDI and actively boosts investment policy decision making
- Availability of basic factors of production, thus, semi-skilled labour (lack of practical experience)
- Different kinds of industries are limited and the international success of the companies operating in them
- Relatively low wages
- Competition on prices (interviewee S2)
- Used technology is widely available or little in need (in progress, usage of robots, M2)

- FDI companies bring in know-how and import technology if needed
- Centrally planned economy (ongoing opening process)

Arguments, that Vietnam is becoming an efficiency-driven economy:

- Most interviewees admit that wages increase continuously
- Some industries start developing products by themselves (IT programming, robot technique)
- Increased efficiency in production processes and quality overall
- Interviewees, operating in the IT sector admit, that rivalry increases
- Availability of advanced factors, such as university graduates
- Pool of factors is relatively generalised
- Willingness of the government and FDI companies to invest forcefully

Some points that Vietnam still needs to improve, in order to reach the efficiency-driven stage:

- Acquisition of complex technology and creation of own technology
- Establishment of local research institutes
- Competition among more sophisticated industries, also at international level
- Ability to offer unique products and the production of unique processes
- Heavy investment in efficient infrastructure, business-friendly government and administration, improving skills (confirmed by all interviewees)

Countries like Vietnam, finding itself in the transitions stage often have difficulties to deal with such processes and thus, find it hard to reach a higher stage of development. The author is convinced that such situations require comprehensive transformation of many interdependent aspects of competition, not just minor improvements in individual policy areas. Further, the dependency of different parts of the business environment needs to be taken into consideration. In case that one part lacks of improvement in any important area can lead to a deadlock in productivity growth and stagnant development. To give an example: when well-trained university graduates are not able to find suitable jobs because companies are still competing based on low-labour skills, a throwback against business is created.

### 6.3 Competitive Position of Vietnam

Based on the latest WEF Report (GCR, 2015), Vietnam gathered 12 places up to rank 56 of 140. Compared to other members of the ASEAN, Vietnam places itself behind Singapore (2nd) and the five largest states within the organization; Malaysia (18th), Thailand (32nd), Indonesia (37th), and the Philippines (47th). All five, except Thailand, have improved their showing since 2007, most notably the Philippines, which have jumped 17 places (ibid.).

Vietnam enjoys specific key advantages in various areas (ibid.). In particular, the country profits from its relatively large market size and the functioning of its labour market (ibid.). Further, strong female participation in the labour force and a strong relationship between pay and productivity in the economy are rated positively (ibid.).

However, the country's overall competitive position is eroded by weaknesses in the quality of infrastructure and institutions, as well as in higher education and training (GCR, 2015). In terms of the quality of its institutions, Vietnam suffers from burdensome government regulation and weak auditing and reporting standards (ibid.). And given the increasing importance of innovation for the country's competitiveness, its low university enrolment rate and the poor assessment of the quality of its educational system require urgent attention (ibid.).

Based on the literature about requirements for competitive advantage and all information gathered during the interviews, the author likes to highlight some points that further illustrate Vietnam's competitive strengths:

- High motivation of employees and managers was mentioned among all interviewees. Moreover, some company representatives admitted, that the image of the Vietnamese workforce initially brought them to invest in Vietnam. However, it is hard to clearly examine, to what degree the investment taken are sustainable.
- In terms of domestic rivalry, managers of IT companies complained to some degree that war for talents has steadily been increasing. Other interviewees did not mention any concerns by dealing with local rivalry, especially both manufacturing companies, operating in the export business. Overall, the author thinks that domestic rivalry has still not developed its full power.

Overall, Vietnam still lacks of superior industries and the ability to create unique products at international standard. Thus, this circumstances matches with the factors, determining Vietnam's current stage of development (cf. bullet points on p. 57-58).

## 7. Conclusion

In order to assess a country's attractiveness, one needs to clearly define a comprehensive framework. The author is convinced that there is not one single holistic approach applicable in the context of Vietnam's attractiveness to Swiss companies. Much of the identified existing literature on a country's stage of development is either from the last decade or from the same author – Michael Porter. He has presented useful frameworks to analyse the stages by revealing different aspects and capturing certain influential factors.

However, even though all models were able to interpret to some degree the stage of development of a country, none could provide a total, comprehensive framework

Hence, a tentative framework for analysis has been created, based on theories and adapted through the findings of the empirical study. This study revealed that most foreign managers in Vietnam are positive about the country's future and the majority believes in the government's strengths to enforce all actions needed for prosperity. However, Vietnam can only reach next smaller steps towards a more developed country with the help of foreign investors and the efforts of foreign companies that continuously train the Vietnamese workforce by sharing their expertise. These findings confirm that being able to compete against other nations and thus, provide prosperity to the whole population depends on several factors.

Because of its tentative nature, the framework presented in this paper is intended to create an impulse for further research in the Swiss-Vietnamese context. In order to develop a holistic and comprehensive as well as empirically valid model, further research and the inclusion of experiences of additional stakeholders and experts needs to be conducted.

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