Chapter 1: Introduction

1.1 Research Context and Problem

The “Doi moi” policy has brought expressive economic fruits and radical changes within the Vietnamese economy. The GDP growth remained relatively high, having an average annual rate of 7.5% between 1990 and 2007. Physical infrastructure and human resource have been improved compared to the previous phase, and the financial market has been initially set up. International trade and foreign investment activities have become more liberal and open, and as a result they have performed remarkable achievements. The business environment has become more attractive due to simplification of administrative procedures. All of the above factors have led to an improvement in Vietnam’s national competitiveness and productivity. However, Vietnam’s competitiveness, productivity, and economic growth in the new context reveal some concerned problems that need to be examined and clarified.

Firstly, national competitiveness has become a central preoccupation of policy makers and business leaders in both developed and developing countries. Although its importance has been acknowledged, national competitiveness remains a widely unaccepted concept (Porter 2004, p 19) and it has been a controversial issue among professional economists who are often skeptical of the concept (Lall 2001a, p32) while governments and policy makers are particularly interested in the issue of competitiveness (Lall 2001a, p 2), specifically the policies that can improve it. Governments have established councils and competitiveness committees have written white papers and organized conferences on the subject (ADB 2003, p204). In fact, national competitiveness is a real concept (Lall 2001b) and the most meaningful concept of competitiveness at national level is national productivity (Porter 1990, p 6). Productivity is a fundamental for national competitiveness and a nation’s living standard in the long term. Productivity will secure sustained economic growth and citizens’ improvement in living conditions (Porter 2004, p 21). The central challenge in economic development then is how to create the conditions for rapid and sustained productivity growth (Porter 2003, p 25).

Secondly, although Vietnam has had a relatively high growth recently, it should not be complacent and needs to pay continued attention to being competitive (Dapice 2003). The clearest evidence that Vietnam could develop even faster comes from a comparison with China (Vu 2003, pl); both countries have followed a similar way and institution from a planned to a market oriented economy, but economic growth in China has typically exceeded Vietnam’s by about two percentage annually (Figure 1.1) and inflows of foreign direct investment (per
capita) in China are higher two fold than that in Vietnam. This view was widely held in the words of United Nation Development Program resident representative in Hanoi, Jordan Ryan, “Vietnam should not be lulled by its success...[It] can and must do much better as it faces intense global competition”\(^1\).

Thirdly, the principle economic goal of a nation is to produce a high and rising standard of living for its citizens. The ability to do so depends on its competitiveness and productivity with which a nation’s resources (labor and capital) are employed (Porter 2003, p 25). Productivity is a value of the output produced by a unit labor and capital. It depends on both the quality and features of products (which determine the prices they can command) and the efficiency with which they are produced (Porter 2004, p 22). In line with economic growth, labor productivity performance (defined and measured as output per employee) in Vietnam has improved over time (Figure 1.2). However, labor productivity performance in Vietnam still lags behind neighboring countries, especially with China. If in 1990 labor productivity level between two countries was not quite different, now there is a significant difference in productivity level (Figure 1.2). Obviously, China has made a greater progress in productivity and competitiveness than Vietnam, and China’s labor productivity growth is much higher than the rate of its counterpart. What causes lead to this issue need to be understood.

Fourthly, there are some emerging key issues of Vietnam’s national competitiveness such as production resources shortage, out-dated technology, dominance of SOEs and slow their reform, red-tape and corrupt administration. These issues impact negatively the productivity and competitiveness as well as sustainable economic growth in the long-term. At the same time, Vietnam cannot do everything to improve its competitiveness due to a limitation of resources and competence. Furthermore, national competitiveness is a large scope concept relating to many areas of an economy. Therefore, the problem is that we have to point out the most urgent key issues and the top priorities measures to enhance Vietnam’s national competitiveness and productivity as well as sustain its economic growth.

The key to success in the coming years is that the Vietnamese government should design strategies to take full advantage of the potential benefits that globalization and competition offer. The government and its enterprises need to understand what competitiveness means and how it fits in the development process.

\(^1\) As reported by Agence France Press, August 13, 2003
Fifthly, the rapid globalization during the last few decades has opened up many opportunities. Vietnam’s joining the WTO organization has affected every level of its economic activities. The lowering of tariffs and the dismantling of other restrictions to trade has generated intense competition and strong incentives for
perceptive entrepreneurs. The result is that most domestic markets are being subject to increased competition from foreign firms. At the same time, a collaborative world in which countries seldom make complete products from start to finish offers plenty of opportunities. World trade barriers are breaking down and economic instabilities are better understood than in the past (ADB 2003, p208). In addition, competitiveness is considered by all countries to be a prerequisite for maintaining high levels of income and employment. Greater competitiveness allows Vietnam to diversify away from dependence on a few primary-commodity exports and move up the skills and technology ladder, this being essential in order to sustain rising wages and permit greater economies of scale and scope in production (UNCTAD 2002, p117). In this context, the Vietnamese government needs to rethink how to catch the opportunities and avoid challenges brought by globalization and to maintain the national competitiveness of Vietnam as well as its long run growth prospects. It possibly provides sound macroeconomic policies and necessary reforms in the financial and state owned enterprise sectors as well as public institution.

Due to the importance of the competitiveness in development processes in Vietnam, there have been a number of studies and conferences focusing on this problem. Le, Dang Doanh (2001) examined Vietnam’s national and product competitiveness. Nguyen, Phuc Hien (2002) proposed some recommendations for enhancing the competitiveness of Vietnamese enterprises in the context of international economic integration. CIEM² (2003) took on the project of enhancing the national competitiveness of Vietnam. Vu, Minh Khuong and Johnathan Haughton (2003) conducted a study of the competitiveness of Vietnam’s three largest cities (Hanoi, Hai Phong and Ho Chi Minh city). Wen-Jen Hsieh and other Vietnamese scholars (2004) carried on an analysis of national competitiveness: the perspective from Vietnam. Chiang Kao and other scholars (2007) measured the national competitiveness of Southeast Asian countries (included Vietnam). However, most of these studies remain descriptive and concentrate on specific impacts or aspects of Vietnam’s competitiveness. A comprehensive analysis of the role of the competitiveness and its determinants as well as its emerging key issues in the development process in Vietnam are still lacking and policy recommendations are thus not very effective and feasible. This study is therefore to fulfil this gap: it investigates and analyzes drivers driving Vietnam’s national competitiveness so as to propose measures to enhance its competitiveness.

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² Central Institution for Economic Management
1.2 Research Objectives

The overall purpose of this study is to examine Vietnam’s national competitiveness as well as its determinants. The concrete intents of the study are:

1. To examine determinants driving Vietnam’s national competitiveness.
2. To analyze and evaluate Vietnam’s national competitiveness through using the combination of hard and survey data.
3. To point out emerging key issues of Vietnam’s national competitiveness.
4. To propose some solutions and policy implications to enhance Vietnam’s national competitiveness and sustain its economic growth.

1.3 Research Questions and Hypotheses

In order to reach the above objectives of this thesis, the main hypotheses of this study that are: (1) competitiveness approach is in the long run, (2) the fluctuation of exchange rate is excluded, (3) the Vietnamese economy is in the process of regional and global integration.

Research questions need to be answered that are:

1. What factors drive the national competitiveness of Vietnam? How does each factor influence Vietnam’s national competitiveness?
2. How is the state of Vietnam’s national competitiveness?
3. What are emerging key issues of Vietnam’s national competitiveness?
4. What need to be done to enhance Vietnam’s national competitiveness and sustain its growth?

1.4 Methodology

In order to answer the questions, multimethodology\(^3\) or mixed methods research are used in this study. Mixed methods research is a combination of qualitative and quantitative methods (Creswell 2003, p 208). This combination is very common in sociology. It in the most general sense may involve multiple methods, multiple investigators, and multiple methodological and theoretical frameworks (Denzin, 1970 quoted in Fielding and Schreier 2001, p12). The value of the combination of qualitative and quantitative methods in a research is that qualitative and quantitative methods can validate or supplement each other and may result in illuminating

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3 http://en.wikipedia.org/wiki/Multimethodology
insights about the investigated social phenomena (Kelle 2001, p1). This method is used to investigate determinants of Vietnam’s national competitiveness. In addition, methods of analytical analysis, synthesis, statistics, and evaluation are used in analyzing and assessing the state of Vietnam’s national competitiveness.

Data resources In order to conduct this study, we use both hard and survey data. Due to systemic and interdisciplinary nature of the theoretical framework and poor statistics of Vietnam, we could not rely on statistic data sources alone. We were forced to use survey data sources in order to match the wide variety of the theoretical frameworks and understand the research further. Hard data is collected from international and domestic organizations (ADB, WB, IMF, GSO, etc). Survey data is collected from WEF and conducted in Vietnam (see further in section 4.2.2).

1.5 Structure of the Thesis

This thesis is structured in seven chapters. Chapter 1 presents an introduction, including research problem, objective, hypothesis and question, methodology and structure of the thesis.

In Chapter 2, we first discuss the conceptual frameworks of national competitiveness. Scholars and institutions have been very prolific in proposing their own definitions of competitiveness. Relying on multifaceted opinions, a condensed concept of national competitiveness is proposed. The evolution of competitiveness and the causes of competition among nations are included in this section.

In the second and third sections of this chapter, Porter’s Diamond model and the stages of competitive development are presented. The model is a dynamic of competitiveness and it is also comprehensive because it aggregates all the ideas of competitiveness from classical to modern. The last section examines the “golden” rules of competitiveness that are fundamental to the analysis in the following chapters.

Chapter 3 examines determinants of national competitiveness and its roles. Relying on the above mentioned theoretical frameworks, six determinants of national competitiveness will be explored: Production Resources, Technology Development, Market Conditions, International Business and Economic Activities, Government Role and Company’s Strategy and Operation. The interdependence among these determinants as a dynamic of national competitiveness also will be examined in this chapter. These determinants will provide most of the independent variables for our empirical study in the second section of chapter 4.
In Chapter 4, in the first section of this chapter, we discuss the economic development in Vietnam since its reform. This section shows us an outlook of expressive economic performance of Vietnam as well as its background and integration into the regional and global economy in two decades. In the second section, we empirically test all of the determinants presented in the previous chapter and above-mentioned summary. We do this by using a model of multiple linear regression. Models 1-3 will be conducted using hard data of time series from 1990-2005 with GDP per capita as the dependent variable. Models 4-6 will be done using survey data from 154 respondents with VNC\textsuperscript{4} as the dependent variable. These results of the regression will provide empirical evidence which determines the drive of national competitiveness in Vietnam. The result is also a basic for analyzing the competitiveness of the Vietnamese economy in the following chapter.

In Chapter 5, we will analyze the state of Vietnam’s national competitiveness relying on six identified determinants. We also evaluate Vietnam’s competitiveness progress in the last two decades and the remaining weaknesses compared to some selected regional countries. Some main indicators are used to illustrate this analysis and assessment. This chapter is fundamental to point out some emerging key issues and to propose some solutions enhancing Vietnam’s national competitiveness in coming years in the next chapter.

In Chapter 6, we first point out some emerging issues of Vietnam’s competitiveness based on the analyzing of the previous chapter. These include production resource shortage and low quality, outdated technology, bureaucratic and corrupt administration, and slow SOEs reform. In the second section of the chapter we propose some solutions to enhance the competitiveness of Vietnam such as: addressing production resources shortage and quality; developing an independent and vibrant domestic private sector; strengthening public institution and government effectiveness. Each above mentioned solution includes some detailed recommendations.

Conclusions and findings of the thesis are presented in chapter 7.

\textsuperscript{4} VNC, standing for Vietnam national competitiveness, is identified by each respondent (see Appendix 5)