

Faculty Proposal

Title: The Economic Development of Vietnam from International Trade and Foreign Direct Investment (FDI) Perspectives.

Faculty mentor's name: Dr. James P. West; **Rank:** Professor of Economics and Management – Chairman of the Department of Economics and Business.

Name of student on the project: Huy Huynh.

The start date of the project and length in week: May 27 – August 15, 10 weeks.

Provide a succinct and non-technical description of the project. The audience for the proposal is a committee of inter-disciplinary faculty.

Vietnam has made a shift from a highly centralized planned economy to a socialist-oriented market economy since 1986. This shift is known as *Doi Moi* campaign. Lawrence E. Grinter, Professor of National Security Affairs, Air Command and Staff College, Air University, is an expert on South East Asia economic and foreign affairs issues. In his article, "Vietnam's Thrust Into Globalization: Doi Moi's Long Road.", Grinter points out the opportunities and challenges that the Vietnam's economy may face in the process of shifting to a socialist-oriented market economy. In the thirty years since the Vietnam's shift to a market economy, the opportunities and challenges mentioned in Grinter's article have changed. Moreover, the process of globalization has become one of the keys of domestic economic development in countries all over the world.

Globalization, likewise, plays an important role in the development of the Vietnam's economy which, following the lead of many of its neighbors, has an export-oriented economy. The purpose of this SOAR project is to investigate, revise and update the information about the opportunities and challenges of the Vietnam's emerging socialist-oriented market economy and to determine the strengths and weaknesses of the Vietnam's economy as a global competitor both in international trade and attracting foreign direct investments (FDI). The goal of this project is to provide a comprehensive analysis of the strengths and weaknesses of the Vietnam's economy in international trade and attracting FDI.

Throughout our research, we will also link the information we obtain with the ideas about international development in a book called *Development as Freedom*, written by Amartya Sen. Sen was awarded the Nobel Memorial Prize in Economic Sciences in 1998 for this work. The book has a strong relation to many issues which developing countries face in the process of modernizing and globalizing. In his book, Sen argues that freedom is the ultimate goal and the essential means of development (Sen 1999). As Vietnam started to shift from a traditional and command economy to a socialist-oriented market one, we want to study to what degree of freedom the Vietnamese have achieved after almost 30 years of economic development.

While to some a socialist market economy is an oxymoron, in the case of Vietnam it will be viewed as a multi-sectoral commodity economy regulated by the market, consisting of a mixture of private, collective and state ownership of the means of production. In a socialist-oriented market economy, armaments, power generation and distribution, oil and petrochemicals, telecommunications, coal, aviation and shipping industries are under absolute control of the government; thus, the country's market-based mixed economy is totally dependent on the state-owned industries. This is the socialist side of the Vietnam's economy. Citizens and foreign investors are allowed to do business in other industries under the regulations of the government, and this is the capitalist side of a socialist-oriented market economy. Vietnamese leaders think this model fits their communist government because it is considered to be a multi-sector market economy in the process of undergoing a long-term transition towards socialism, with the view that socialism can only emerge once Vietnam's productive forces are developed to a point where socialism becomes a technical possibility. This is consistent with Karl Marx's view expressed in "Das Kapital" that capitalism is a stage to be passed through en route to the ideals of the true communist state.

An environmental scanning analysis about Vietnam's social, political, economic and technological aspects will be conducted to gain the latest information about the business environment in Vietnam. One version of this is called a STEP analysis. We will then conduct an analysis about strengths, weaknesses, opportunities, and threats which the Vietnam's economy has as a global competitor, and this

is called SWOT analysis. By doing the STEP and SWOT analyses, we can have an in-depth study about the internal and external elements that can affect the performance of the Vietnam's economy in international trade and attracting FDI. Economically, it is helpful to compare the development strategy of Vietnam to the development models of the worlds' top four emerging economies of Brazil, Russia, India, and China. A look at the contrast between North and South Korea may also be instructive in this analysis.

This year (2014) is the fiftieth anniversary of the United States major escalation into the Vietnam War after the Gulf of Tonkin incident. After the war, the United States had no interest in normalizing relations with Vietnam until 1995. The collapse of the Soviet Union, the economic transformation of China and the apparent total discrediting of their communist economic ideology was an underlying reason for a change in the U.S. view. The more immediate reason for normalization of relations between the two countries was the pressure of the U.S. corporations on the government to reach a new consumer market. In 2000, the signing of Bilateral Trade Agreement (BTA) between the U.S.A and Vietnam played a significant role in the economic development of Vietnam, and the accessibility to the U.S market hastened the country's transformation into a manufacturing-based and export-oriented economy. In 2006, Vietnam was granted the entrance into World Trade Organization (WTO), and Vietnam has encountered many opportunities and challenges since becoming a member of WTO (Brown 2010). Nowadays, the U.S.A is the largest export partner of Vietnam. The trade relation between the U.S.A and Vietnam will be studied carefully to support the analyzing process.

In 1979, China invaded northern Vietnam, and the two countries did not normalize relations until 1991. Nowadays, China is one of Vietnam's critical trade partners and the largest import partner, with China sending machinery, telecommunication equipment, pharmaceuticals, fertilizer, and vehicles, while the Vietnamese export crude oil, coal, and agricultural goods to China. In his article about the relationships between China and South East Asian countries, Grinter points out many difficulties which China and Vietnam have in building their trade relation. Vietnam's policy on diversity and multilateralism in the country's foreign affairs and the intense dispute between China and Vietnam over the Parcel islands impose potential threats on the trade relation between the two communist countries (Grinter 2008). This literature will be reviewed to obtain useful information for the analysis of Vietnam's economy in international trade.

We will conduct an analysis on the ownership advantages, location advantages, and internalization advantages (OLI model) that international investors can get when they participate in FDI in Vietnam. Ownership is defined as the multinational enterprises' possession and leveraging of certain valuable, rare, hard-to-imitate, and organizationally embedded assets overseas in the context of FDI. Location is defined as the advantages enjoyed by a firm that derive from the places in which it operates. Internalization is defined as the replacement of cross-border markets (such as exporting and importing) with one firm (the multinational enterprise) located in two or more countries (Peng). Moreover, we also analyze the difficulties and challenges investors may face when they practice FDI in Vietnam.

Enumerate the roles and responsibilities of the student(s) and faculty mentor, and include a time table of expected milestones.

My (the professor's) responsibility is to give the student a clear direction to organize the research process and collect appropriate information to analyze, and to provide oversight as to how to employ the various models (STEP, SWOT and OLI) in an effective manner. I will give the student frequent feedback on each section of the research to make sure we are on the right track. The research process requires a lot of reading and comprehension of difficult materials, and I will discuss with and help the student understand these materials. For example, the concepts elucidated in Sen's "*Development as Freedom*", requires extensive discussions between the faculty mentor and the student to understand the concept concisely, and it is even more difficult to link the concept with the economic development of Vietnam. My own research on the application of Sen's analysis will be instrumental in understanding the subtleties of freedom as both the process and outcome of economic development. An important question to be answered will be the relevance of the socialist market model, explicitly being employed by Vietnam, or is this merely adherence to the time-worn dogma of Marxist theory?

Time table of expected milestones:

Week 1: Study the literature to revise and update the information about Vietnam's economy - Collect data for the STEP analysis.

Week 2: STEP analysis - Read the first two chapters of *Development as Freedom*.

Week 3: Submission of STEP analysis - Study the roles of the U.S and China in Vietnam's economic development - Read two chapters of *Development as Freedom* - Collect data for SWOT analysis.

Week 4: SWOT analysis - Read the next two chapters of *Development as Freedom*.

Week 5: Submission of SWOT analysis - Study the models of Brazil and Russia - Read two chapters of *Development as Freedom*.

Week 6: Study the models of India and China - Read two chapters of *Development as Freedom*.

Week 7: Submission of the comparison between the Vietnam's development model and the BRIC's development models - OLI analysis - Read the last two chapters of *Development as Freedom*.

Week 8: Link the economic development of Vietnam to the concept of Development of Freedom.

Week 9: Thorough discussion on the project's outcomes - Write up a final report; **Week 10:** Write-up

Describe how the student will be engaged in discipline-appropriate scholarly research.

The student has taken macro and micro economics courses so he will be able to interpret most of the economic performance indicators such as GDP, inflation rate, and unemployment rate, and other measures of economic development. In the research, many analyzing models such as STEP analysis, SWOT analysis, and OLI model will be used to study the Vietnam's economy from international trade and FDI perspectives. These models are used in Dr. West's "International Issues in Management" course, which the student is taking in Spring 2014. The student is required to use both primary and secondary research methods including utilizing the library database to find and read appropriate literature that can strengthen his analysis. The student will also conduct interviews with individuals who have first-hand experience with the economic development processes of Vietnam. The student will also systematically study the literature of development economics, particularly as presented in the work of Amartya Sen, in "Development as Freedom".

Describe how the work of the student will contribute to the discipline and opportunities the student will have to share his or her work with other students, faculty, and the community.

Due to the dynamic nature of the business world, this paper will provide the latest information about the strengths and weaknesses of the Vietnam's economy in international trade and attracting FDI. Information obtained from the project will be helpful in further research on the Vietnam's economy. Through this research, we can have a better understanding of the concept of "Development as Freedom" of Amartya Sen, and its importance to the sustainable and peaceful development of Vietnam.

The information obtained from the research will be used to write a scholarly paper and to prepare Op-ed for a local newspaper. It is a great chance for people to learn about a foreign country and learn about the importance of globalization. The student will also make presentations two sections of Dr. West's Fall 2014 ECON 152 "Principles of Economics" classes (using the Vietnam economy as the basis for applying micro and macro-economic principles. The student will also prepare a presentation on the insights gained through his research, especially related to Sen's philosophy, to Dr. West's Fall 2014 Special Topics course, "Morals, Markets and Managers". This talk will also be open to the college community. The student also commits to giving a presentation in later class of International Management Issues, most likely offered in the Spring semester 2015.

Bibliography

Grinter, Lawrence E. "Vietnam's Thrust Into Globalization: Doi Moi's Long Road." *Asian Affairs: An American Review* 33.3 (2006): 151-165. *Academic Search Elite*. Web. 7 Mar. 2014.

Grinter, Lawrence E. "Chinese Trade and Economic Practices in Mainland Southeast Asia." *U.S - China Economic and Security Review Commission 18 March 2008*. (2008): n. page. Print.

Brown, Frederick Z. "Rapprochement Between Vietnam And The United States." *Contemporary Southeast Asia: A Journal of International & Strategic Affairs* 32.3 (2010): 317-342. *Academic Search Elite*. Web. 8 Mar. 2014.

Sen, Amartya. *Development as Freedom*. New York: Anchor, 1999. Print.

Peng, Mike W. "*Global 2nd Edition*" Mason, Ohio: Southwestern, 2013 Print.

Student Statement of Purpose

Title: The Economic Development of Vietnam from International Trade and Foreign Direct Investment (FDI) Perspectives.

Student's name: Huy Huynh; **Major:** Information System; **Expected date of graduation:** May 2015.

Faculty mentor's name: James West.

On-campus housing during the project is requested.

Statement of purpose:

The main goal of this project is to review the opportunities and challenges of the Vietnamese economy as a global competitor based on the article written by Grinter (Grinter 2006). We will give a comprehensive analysis of the strengths and weaknesses of the Vietnamese economy in international trade and attracting foreign direct investments from other countries. Society, politics, economy, and technological capability are important factors that affect Vietnam's competitiveness in international trade and attracting FDIs. Vietnam's relations with the U.S and China seem to have many tremendous impacts on the country's economy; thus, we will study an extensive literature on these relations to support our analysis of the development of the Vietnamese economy. In addition, I will do primary research in Vietnamese and conduct interviews with Vietnamese economists to gain first-hand information on the subject. Moreover, it is necessary to study the development models of the world's top four emerging economies, Brazil, Russia, India, and China (BRIC). We will compare the development strategy of Vietnam with the development models of the BRIC countries to learn about its advantages and disadvantages as a global competitor.

We will use the framework on FDI of the British scholar John Dunning to determine the advantages and disadvantages which many companies get while doing FDI in Vietnam, and this framework on FDI is called the OLI framework. The OLI framework illustrates firms' quest for ownership advantages, location advantages, and internalization advantages when they participate in FDI (Dunning 13-40). Throughout our research, we will link the economic development of Vietnam to the ideas of 'Development as Freedom' of Amartya Sen to gain a better understanding of the goals of sustainable economic development in many developing countries (Sen 1999).

Rationale to participate in this project:

I came to the U.S from Vietnam to study abroad when I was 16. Naturally, I got most of my knowledge in economics in the U.S. I am taking a business course called International Management Issues, instructed by Dr. James West. Doing research on the abilities of Vietnam in international trade and attracting FDI from other countries gives me a unique opportunity to apply all the concepts and economic analyzing methods to reality; thus, I can enhance my understanding in the subject. Moreover, working on this project gives me a comprehensive knowledge of my country's economy which will help me build my career in Vietnam later. My major is Information Systems, which requires knowledge in both Computer Science and Economics, and I want to be a business analyst; thus, having an in-depth knowledge of how to conduct economic analysis will assist me in making educated decisions in my career. In addition, my professor can use the project's outcomes to support his instructions in his economics courses. The project will benefit myself as well as my professor academically. Throughout the research process, students will have many opportunities to present their works to the research community. Moreover, I will the opportunity to give brief presentations in Dr. West's classes about this project. As the social aspect of Vietnam will be analyzed to support my analysis of the economic development of Vietnam, giving presentations about the project is a great chance for me not only to share the knowledge in economics but also to present my country's culture to my audience. In addition, as the outcomes of the project will be used to write an Op-ed for a local newspaper, it is a great opportunity for me to share the work to a broader range of audience.

Expected outcomes:

I expect a variety of outcomes from this project. First, I expect that the opportunities and challenges of Vietnam's economy, which Grinter mentioned in his article (Grinter 2006), have changed significantly after almost thirty years of economic transformation. I want to discover new opportunities and challenges that the economy of Vietnam may face in this era of globalization. Second, I want to write a comprehensive report of the strengths and weaknesses of the Vietnamese economy as a global competitor in international trade and attracting foreign direct investments (FDI) from other countries. Third, I expect to find the relationships between the concepts of *Development as Freedom* by Amartya Sen, a book about modernization and globalization of many developing nations, and the economic development of Vietnam. I expect to learn whether the economic development of Vietnam is on the right track from the perspective of Sen. Lastly, I expect to learn a vast knowledge of economic research and data analysis, and I believe that I can improve my critical thinking and problem solving skills by encountering difficulties throughout the research process. As a consequence, I can build my own ability to conduct independent research in the future.

Bibliography

Grinter, Lawrence E. "Vietnam's Thrust Into Globalization: Doi Moi's Long Road." *Asian Affairs: An American Review* 33.3 (2006): 151-165. *Academic Search Elite*. Web. 7 Mar. 2014.

Sen, Amartya. *Development as Freedom*. New York: Anchor, 1999. Print.

Dunning, John. *Explaining International Production*. Unwin Hyman: London, 1988. 13-40. Print.