

**Public-Interest Incorporated foundation**  
**Research Institute for High-Life**  
**Japan-Asia Collaborative Research Project**  
**Study report "The New Trends in Asian Urban Lifestyle"**

## **"The New Trends in Urban Lifestyle in Ho Chi Minh City"** **(serial in 4 parts)**

### **Part 2 Economic Growth of Ho Chi Minh City and Changes in the Life**

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## **Introduction**

Part 2 outlines the growing trend in the Ho Chi Minh City economy and the more energetic consumption in 2012 in spite of various challenges. Also this part features goals and challenges of TPP and other free trade agreements with various countries Vietnam has actively been promoting. With the economic growth, the Ho Chi Minh citizens get wealthier and their consciousness of brands changes as well as lifestyle and business style of the middle class; these changes are also viewed in this part. Lastly, the present gap between urban part and rural area is considered, a significant issue caused by the economic growth.

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★ **Japanese co-researcher's viewpoint**

## **1. Growing economy of Ho Chi Minh City in 2012**

### 1) Overview of Ho Chi Minh City economy

As for the economy of Ho Chi Minh City in 2012, the citizens recovered calm consumption life as the high inflation of the last few years went under control and the consumer price index has just moderately increased by 4.07% over the previous year. Let's view the macro economy of Ho Chi Minh City first.

The nominal GDP of overall Vietnam in 2012 was 138 billion dollars, increased by 11.7% over the previous year. And that of Ho Chi Minh City was 591 trillion 863 billion dong (approximately 28.4 billion dollars), which was an economic growth of 9.2%, though not as high as the 10.3% in 2011. When this growth is viewed by segment, the 10% increase of service segment which accounts for 54.3% of Ho Chi Minh City's GDP has largely contributed to the growth. While the construction business has suffered low growth of 4.2%, the industry has steadily grown by 8.9% contributing the whole growth 8.9% of industry and construction segment. Also, the agriculture increased 5.1%.

The details of industry segment show that although the business has been recovering from the effect of prolonged global economic recession, export has decreased, demand for car and motorcycle has diminished and their stock has increased. On the other hand, under the influence of westernized diet, business of dairy products increased 12.3%. Also such businesses as beer (10.2%), electronics (6.6%) and medications (10.2%) have steadily increased. However, cement (-3.2%), home appliances (-13.6%) and apparel (-3%) showed negative growth. The flagging construction business has an adverse effect on employment.

Next, when the balance of trade in Ho Chi Minh City is examined, the export including crude oil was 29 billion 963 million dollars, a steady increase by 6.3% over the previous year. The import was 26 billion 135.8 million dollars, dropping a year on year 4.6% influenced by inflation control and diminishing domestic demands. As a result, Ho Chi Minh City achieved a major trade surplus of 3.8 billion dollars for the first time in the past three years, though in the previous year the balance was in deficit by 0.65 billion dollars.

Such economic growth has resulted in 3,600 dollars of GDP per capita, a 15% increase

over the previous year in Ho Chi Minh City; as the citizens' incomes have become higher, the consumption market has been getting larger.



\*New residential area in Ho Chi Minh City      \*Motorcycles are called "Honda"; therefore they say "My Honda is Yamaha".

**Table 1: Major economic and social indicators of Ho Chi Minh City**

Items	Plan for 2012	Actual Values for Jan-Dec, 2012
Economic growth (%)	over 10%	9.2
Agriculture, forestry and fishery (%)	5	5.1
Industry and Construction (%)	9.5	8.3
Services (%)	10.5	10.0
Growth of export value (%)	14-15	6.3
Growth of export value except crude oil (%)	10	3.0
New foreign direct investment (million dollars)	-	541.1
Government revenue (billion dong) A	233,682	218,850
Ho Chi Minh City revenue (billion dong) B	-	71,589
Ho Chi Minh City spending (billion dong) C	42,809.9	54,255
Increase rate of consumer price index (%)	-	4.07
Job creation (10 thousand persons)	26.5	28.93
Unemployment rate (%)	4,9	4.9
Rate of poor households <sup>(1)</sup>	4.5	3.35
Rate of households with access to public water supply in urban cities (%)	87	-
Users of public traffic means (ten thousand persons)	593	-

<sup>(1)</sup> Standard of poverty: annual income per capita under 12million dong in urban areas and 10million dong in rural areas

Source: Ho Chi Minh City People's Committee, Ho Chi Minh City Statistical Office material

**Table 2: Real GDP growth rate (%)**

	2010		2011		2012(1-12)	
	Ho Chi Minh City	Nation	HCMC	Nation	HCMC	Nation
GDP growth rate	11.8	6.78	10.3	5.89	<b>9.2</b>	5.03
Agriculture, forestry and fishery	5.0	2.78	6.0	4.0	<b>5.1</b>	2.72
Industry and Construction	11.5	7.70	10.2	5.53	<b>8.3</b>	4.52
Services	12.2	7.52	10.5	6.99	<b>10.0</b>	6.42

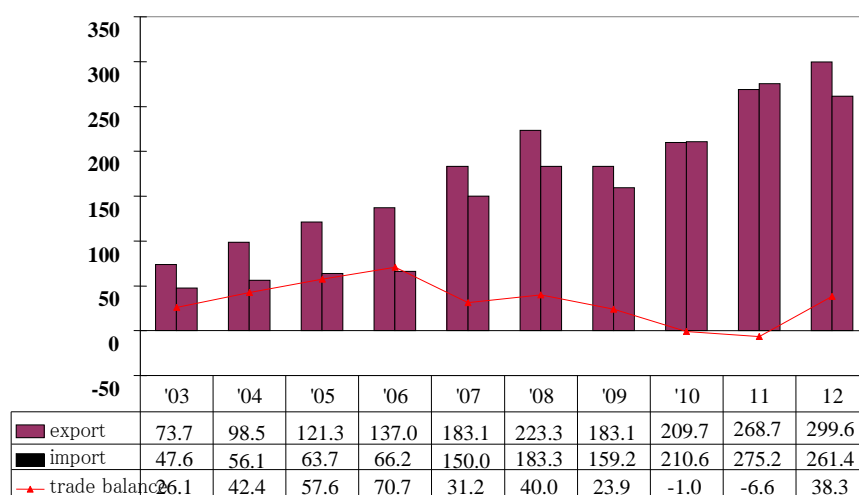
Source: General Statistics Office of Vietnam "Statistical Yearbook", Ho Chi Minh City Statistical Office "Ho Chi Minh City Statistical Yearbook", and others

**Table 3: Nominal GDP distribution ratio (%)**

	2010		2011		2012(1-12)	
	HCMC	Nation	HCMC	Nation	HCMC	Nation
Total	100	100	100	100	<b>100</b>	100
Agriculture, forestry and fishery	1.2	20.58	1.2	22.02	<b>1.2</b>	21.65
Industry and Construction	45.3	41.10	44.5	40.25	<b>45.3</b>	40.65
Services	53.5	38.33	54.3	37.73	<b>53.5</b>	37.7

Source: Ho Chi Minh City People's Committee, Ho Chi Minh City Statistical Office material

**Graph 1: Transition of trade value of Ho Chi Minh City (by 100 million dollars)**



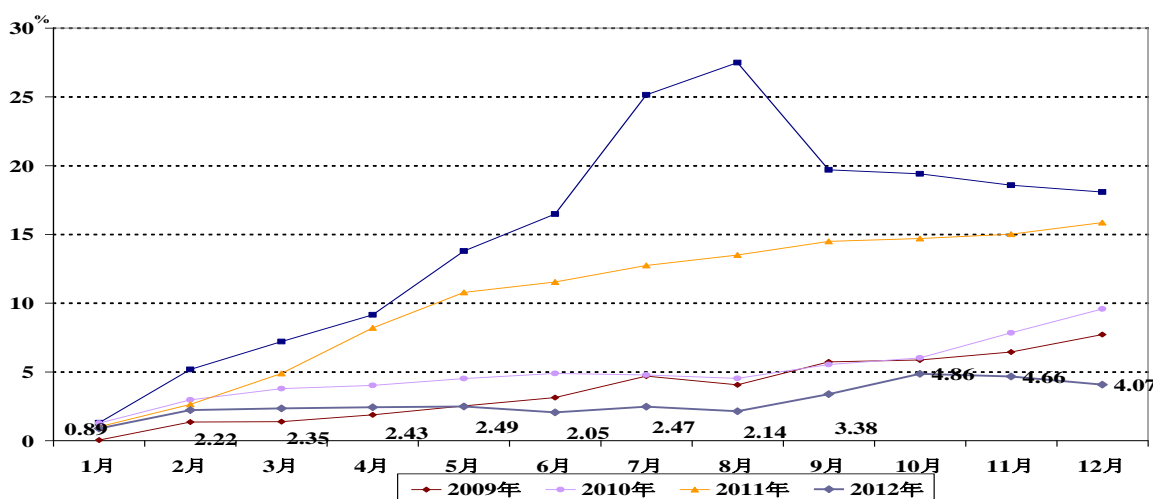
Source: General Statistics Office of Vietnam "Statistical Yearbook", Ho Chi Minh City Statistical Office "Ho Chi Minh City Statistical Yearbook", and others

**Table 4: Increase rate of consumer price index (CPI), in comparison with previous December (%)**

2009		2010		2011		2012(1-12)	
HCMC	Nation	HCMC	Nation	HCMC	Nation	HCMC	Nation
7.71	6.52	9.58	11.75	15.86	18.13	<b>4.07</b>	9.21

Source: General Statistics Office of Vietnam, Ho Chi Minh City Statistical Office "Ho Chi Minh City Statistical Yearbook", and others

**Graph 2: Transition of Ho Chi Minh City CPI (%)**



Source: General Statistics Office of Vietnam, Ho Chi Minh City Statistical Office material

## 2) Direct investment is decreasing; Japan is the No.1 for the number of investments

Since the supporting industry is fragile in Vietnam, the advancement of foreign companies, remittance from the overseas Vietnamese and ODA (Official Development Assistance) are important factors for the economic development. However in 2012, the direct investment from abroad decreased under the influence of global recession. Although the number of newly approved investments were 401 (541 million dollars) and increased by 17 cases over the previous year, the amount of investment has drastically decreased to one-fifth of the year before. The investment value per project has decreased to 1.34million dollars from that of 6.26 million dollars in 2011.

The sectional numbers and values of investments are: 125 projects and 133.1million dollars for commercial section, 8 projects and 117.6 million dollars for real estate, 40 projects and 106.4 million dollars for industry, 92 projects and 25.5 million dollars for science technology, and 75 projects and 13.1 million dollars for communication-related;

the commercial services section enjoyed the largest investment.

The first place of investing countries is Japan (91 projects, 108 million dollars), followed by Singapore (65 projects, 282 million dollars), Korea (44 projects, 12.2 million dollars), Hong Kong (21 projects, 10.9 million dollars), and France (19 projects, 24 million dollars). Korean and Taiwan companies used to rush for advancement into Vietnam; now the movement has ceased and the number of service projects of manufacturing, processing and distribution has been increasing especially by the Japanese small and medium-sized firms.

### 3) Advancement of foreign companies changes the citizens' lifestyle

The advancement of foreign-service businesses has significantly changed the citizens' lifestyle. For example, first food businesses have replaced traditional street stalls and eating facilities, and offer expensive but clean food and good services as well as new food fashion. Thanks to the convenience stores, neighboring citizens can easily purchase drinks, food and daily commodities. Also foreign exclusive shopping centers offer sophisticated fashion and interior goods to the middle and rich people.

Furthermore, foreign developers have created new housing rooms that infuse Western style interior with Asian taste, instead of traditional Vietnamese living style. As for company management, Western-style management has been introduced to significantly change the management and working styles of the Vietnamese. In this way, the advancement of various foreign companies has been greatly changing the Ho Chi Minh citizens who had lived and worked according to traditional sense of values.



\*A Japanese beer company has acquired a certain share of the market.



\*The first outlet of locally-loved Japanese convenience store.

**Table 5: Foreign direct investment to Vietnam, new approvals (case/million dollars)**

	2010		2011		2012(1-12)	
	HCMC	Nation	HCMC	Nation	HCMC	Nation
Number of cases	375	1,240	439	1,091	<b>401</b>	1100
Approved value	1,883	17,866	2,804	11,559	<b>541</b>	7,854

*Source: GSO "Statistical Yearbook", Ministry of Planning and Investment Foreign Investment Office, Ho Chi Minh City Statistical Office "Ho Chi Minh City Statistical Yearbook"*

## 2. Vietnam seeks liberalization of trade and investment

### 1) Promotion of Free Trade Agreement (FTA)

Though a socialist nation, Vietnam has actively been promoting free trade policy after becoming a member of ASEAN in 1995. Currently Vietnam enforces FTAs including ASEAN Economic Community (AEC) and among the community with China (ASEAN China Free Trade Area, ACFTA<sup>1</sup>), Korea, Japan, Australia/New Zealand, and India. With Japan, bilateral FTA has been concluded. In 2007, Vietnam was accepted into WTO. Furthermore, the nation has expressed its intention to join the Trans-Pacific Partnership (TPP) with the US and other countries, and has started negotiation for conclusion of EU-Vietnam Free Trade Agreement (EVFTA).

While FTA has great merits, however, it could bring about various problems to Vietnam. Participation to WTO or conclusion of FTA would lead to abolishment of non-tariff barriers and reduction or elimination of tariff, damaging uncompetitive domestic businesses and companies. At the same time, import would increase and balance of current account would deteriorate. As a matter of fact, after joining WTO, Vietnam saw a significant trade deficit of 10 billion dollars. Then, why is Vietnam promoting FTA under such circumstances? After Vietnam achieved independence, the nation failed in the planned economy, and furthermore the China Vietnam War shattered the economy. In the 70s, the nation tumbled down to the poorest country in the world. Even when compared with the ASEAN countries, Vietnam economy has significantly fallen behind; conversion from socialist economic policy was called for. Therefore, the nation switched to market-oriented policy through the Doi Moi and

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<sup>1</sup> ACFTA: Comprehensive economic cooperation agreement between ASEAN (10nations) and China, which comprises agreement for goods, services and investment and seeks creation of free trade area. Vietnam concluded the agreement in 2004. The preceding ASEAN 6 countries (Brunei, Indonesia, Malaysia, the Philippines, Singapore and Thailand) lower in phases the tariff of 90% of items to 0% from 2010, Vietnam from 2015.



developed its economy, but the effect is hardly adequate yet. Seeking enhancement of domestic industries' international competitiveness and export expansion, the government is trying to actively promote FTA and accelerate the development of Vietnam economy.

## **2) Merit and demerit of participation in TPP**

In an attempt to expand export to the US and Japan, Vietnam has expressed its desire to join Trans-Pacific Partnership (TPP) before Japan did. TPP is a free trade agreement consisting 12 participants including the US, which would be a huge economic bloc making up about 40% of the global GDP. Mr. Marantis of the US Trade Representative says "After conclusion of TPP, Vietnam would enjoy 28% increase of export and 11% rise of GDP" at TPP conference. Vietnam is particularly interested in expansion of export to the US<sup>2</sup> because the trade is likely to make further profit.

Currently the major export items to the US are sewn products, leather goods (shoes etc), agricultural and marine processed goods, coffee and others, and the tariff on which are from 17.2 to 40%; after Vietnam joins the TPP the tax rate would be 0% and the export is expected to increase substantially. Japan, who has expressed intention to join TPP, is another potential counterpart for export of agricultural and marine products. TPP is expected to mark a significant turning point for Vietnam in invitation of enterprise, development of business environment including laws, enhancement of domestic companies' competitiveness, solution for human rights issues and improvement of hiring.

However, there are some concerns. Since Vietnam is dependent on other countries for the materials of export items to the Northern America including sewn products, textile and leather products, Vietnam's role is limited to processing and adding just a few percent of value to the items. As for coffee, while Vietnam's export volume occupies 20% of the global market, the value accounts for only 2% because of the extremely low added value. At the same time, there is a fear that import of US agricultural products would suddenly increase, which would have a severe impact on the Vietnamese farms and rural villages. Also the export competitiveness of "Made in VN" is in question. When looking at the other side of the coin, it is doubtful whether the fragile domestic industry lacking in international competitiveness can contend against the developed countries' export thrust. Furthermore, elimination of non-tariff

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<sup>2</sup> Reason for participation to TPP with the US and other countries: the trade balance of Vietnam with major countries in 2011 was 12.4 billion dollars surplus with the US, 8.8 billion dollars surplus with the EU; therefore, Vietnam seeks active trade expansion with the both regions. On the other hand, trade with China runs in a big deficit of 13.5 billion dollars.

barriers in service sector could have a devastating damage on the immature domestic industries including finance, medical services, intellectual properties and distribution. Also there is a fear that Vietnam's compliance with TPP including ISDS (Investor-State Dispute Settlement) may undermine the identity of the nation.

Even when considering the negative influence on various fields such as economy, diplomacy, security and environment, the majority insist that participation in TPP should do more good than harm to Vietnam because it would put a brake on China, a member of ACFTA, enhance domestic industry and balance the trade.

### **3) Border trade between Vietnam and China is advantageous for China**

The border trade under the jurisdiction of the seven Provinces bordering on China (Dien Bien, Lai Chau, Lao Cai, Ha Giang, Cao Bang, Lang Son, Quang Ninh) is extremely important for export of Vietnamese products and import of raw materials. The statistics by the Ministry of Industry and Trade shows the trade by the seven Provinces has increased 40% on average every year from 2006 to 2008. As a result, the value of Sino-Vietnamese border trade made up a third of the whole export value in 2008.

Current border trade has risks of price volatility, contraband and quarantine etc, while the nation has difficulty controlling the trade all the time. When agricultural and other products are in shortage, the Chinese side always gather a bulk of products announcing that they will take the merchandises at high price, though they would beat the price and buy the gathered goods at a bargain. Vietnamese side always assumes the risk of price fluctuation. When China wants to place a limit on the import of Vietnamese products, they officially announce various deals and put a stop to the trade. China always alters their trading policies including price and volume in favor of their business. Such problems are not regulated by WTO or ACFTA; it is a grave issue for Vietnam which has not developed trade-related laws or bargaining power.

It is feared when ACFTA comes into effect in 2015, a massive amount of Chinese products flow into the Vietnam market and flood around the country. Since inspection and import restriction systems have not been ready against Chinese vegetables polluted with pesticide or poisonous powdered milk, toxic products could find their way into Vietnam on a large scale.

After the "Doi Moi", thousands of government employees visited developed countries for research and study of various systems, but still it is doubtful whether they can design trade systems for present and future developments and import restriction policies against toxic products, and can carry out appropriate trade control.

Furthermore, are they able to develop and support domestic industries to compete against the import from China and other countries? These are big question marks the Vietnam government is facing.

### **3. Remittance from Viet Kieu and overseas workers supports the Vietnam economy**

#### **1) Value of remittance from Viet Kieu amounts to 10% of the GDP**

Approximately 4 million overseas Vietnamese called Viet Kieu live in foreign countries. They are Vietnamese people who left their mother country during the period of North and South Vietnam or after fall of Saigon because of political or financial reasons, and many of them live in the US. They had a hard time soon after they emigrated, but when their life became easier, they started to send money and goods to their relatives who were reduced to poverty at home. When the amount of remittance became huge, the government changed its policy and actively used their financial help instead of denying them as anticommunists. In 1987, the government issued entry visas to them and raised the limitation of the maximum amount of remittance. Then, the government has promoted remittance from the Viet Kieu by endowing them with equal rights as the Vietnamese nationals through abolition of dual price system for the Viet Kieu, approval of their domestic business, and acquisition of lands in their own name.

According to the World Bank, the amount of remittance from overseas Vietnamese to Vietnam was about 10 billion dollars in 2012, which ranks 9th in the world. The amounts of overseas remittance of other countries are: 69 billion dollars of India, 60 billion dollars of China, 24 billion dollars of the Philippines, 23 billion dollars of Mexico, 21 billion dollars of Nigeria and Egypt each, and 10 billion dollars of Pakistan and Bangladesh, the same as Vietnam. The amount of overseas remittance accounts for about 10% of the GDP and is a significant income of foreign currency for Vietnam economy. At the same time, the amount of remittance from Viet Kieu to Ho Chi Minh City accounts for about 42 to 43% of all the remittance to Vietnam; approximately 70% of which are used for service and production businesses, 23% for real estates, and 6% for relatives.

According to the Committee for Overseas Vietnamese Affairs, currently about 4 million Viet Kieu and more than 400 thousand workers ( who are dispatched abroad for 2-3years of training or working) live and work in about 100 foreign countries, and 80 % of which are developed nations. The recent transition of remittance amount shows the sum from Japan, Korea, Malaysia and Taiwan has increased while that from Europe

and the US is on the decline.

According to Department of Overseas Labour (DOLAB) of the Ministry of Labour, Invalids and Social Affairs (MOLISA), approximately 80 thousands laborers were dispatched abroad last year, and in 2013, about 90 thousands are planned to be sent to Korea, Malaysia, Russia, and Taiwan.

**Table 6: Number of Viet Kieu living in major foreign countries**

Country	Number of Viet Kieu (persons)	Country	Number of Viet Kieu (persons)
The US	2.200.000	Czech	60.000
France	300.000	The UK	40.000
Australia	300.000	Japan	40.000
Canada	250.000	Laos	30.000
Taiwan	200.000	Poland	20.000
Cambodia	156.000	Norway	19.000
Thailand	100.000	Holland	19.000
Malaysia	100.000	Belgium	14.000
South Korea	100.000	Sweden	14.000
Russia	60.000	Denmark	14.000

*Source: The World and Vietnam report, Ministry of Foreign Affairs Vietnam*

## 2) Positive effect of overseas and domestic remittance

The percentage of remittance receipt both from overseas and domestic is on the rise. Especially the increase of domestic remittance is caused by the domestic immigrants who have flowed from rural villages into Hanoi, Ho Chi Minh City, and other urban areas and remit money to their parents.

Although the number of studies is limited on the effect of overseas remittance by emigrants and migrant workers on the Vietnam economy, the Vietnam Living Standard Survey shows that about 5% of Vietnamese households have family or relatives living abroad. The number of people amounts to a million of domestic workers, and the number of home laborers could be reduced for that. However, the overseas remittance has various positive effects such as growing income of the Vietnamese, greater chance of education and improvement of living standard of rural areas and other poor households.

Particularly the US Viet Kieu have greatly been contributing to the development of domestic industry through huge investment and introduction of modern management methods in Vietnam. Furthermore, they have lived, studied, and worked in the US

and brought in their US style into Vietnam, where their lifestyle has great influence on their fellow Vietnamese. In a sense, the overseas Vietnamese with two motherlands have created an unprecedented, new global network in Ho Chi Minh City.



\*Events are frequently held in the city.



\*A restaurant on a street corner is popular among foreigners.

**Table 7: Percentage of households receiving remittances based on origin of remittances**

	1992/93	1997/98	2002	2004
Households receive remittances from				
No Remittances	79.3%	77.3%	20%	12.3%
Domestic Remittances	16.1	17.8	77.3	86.7
International Remittances	5.6	5.6	5.9	7.3

*Note: The percentage includes cases of receiving both domestic and international remittances, data: VHLSS 1992/1993, 1997/1998, 2002 & 2004*

*Source: Pfau & Giang, Remittances, living arrangements, and the welfare of the elderly in Vietnam, VDF*

**Table 8: Age-specific percentage of households receiving remittance**

Age of family	1992/93		1997/98		2002		2004	
	Population (%)	Receive (%)	Population (%)	Receive (%)	Population (%)	Receive (%)	Population (%)	Receive (%)
20-29	10.7	5.1	5.4	3.4	5	4.9	3.2	3
30-39	29.6	29.2	28.3	20.4	26.2	19.5	23.1	13.5
40-49	29.6	29.2	29.4	25.1	31.5	25.8	32.4	29.7
50-59	18.3	23.6	17.8	17.3	17	17.7	20	22.5
60-69	13.1	15.4	13.4	18.4	11.5	15.4	11.5	14.7

*Source: Same as above*

#### **4. The dream of the middle and wealthy classes for the future**

##### **1) The middle class gets richer and has a greater say**

In Southern Vietnam a proverb says "If you don't sell, you can't make money". The Vietnamese people traditionally think of standing on their feet and start their own enterprise. Since Vietnam has a long history of wars, all Vietnamese wish to become affluent in peaceful time. Particularly the middle and wealthy classes have stronger desire for affluence.

The middle class in Vietnam consists of about 18 million people accounting for approximately 20% of the whole population; the diversified middle-upper class comprises skilled workers, highly educated persons, high-income taxpayers, and more than a small number of influential persons to the Vietnam economy and government policies.

A survey by TNS (Taylor Nelson, Sofres) held in 2011 shows that the income of middle class is approximately 4.5 million to 15 million dong, which is sufficient for living cost including housing expense. As such, the wealthier middle class has started to contribute to the development of Vietnam society.

##### **2) The middle class's way of business**

While Vietnam has been facing many difficulties both in economy and politics, the country is still a very attractive market for domestic entrepreneurs and foreign business persons. The prime reason is that the country is rich in working resources and highly promising as consumption market, with the people of average age as young as 28.

In such an environment, intellectuals of the middle upper class including doctors, engineers, lawyers and teachers actively work and invest in order to become wealthier. They often have supplementary incomes in addition to their primary source of income. In Vietnam, people commonly have a side job, which is considered to be a sign of competence. They sometimes use their status and authority for extra income, or often start business using their specialist knowledge. For example, doctors work together to open a clinic, a group of engineers establish an enterprise of maintenance services, or teachers start a foreign language center or a consulting company.

Some of them want to be rich on a global scale. Because of slumping real estate and stock markets of Vietnam in these years, they think of finding their way abroad in various ways. Although they are not well-financed for now, the Vietnamese people are earnest and highly ambitious. They have been positively moving into various countries and regions including Africa, Cambodia, Laos, Myanmar, etc. As a result, most of the commodities and bank systems in Cambodia and Laos are made in Vietnam.

As for their investment in Myanmar, well-located and well-conditioned immovable properties are owned by the Vietnamese, who have at last started to lead business in other country.

### 3) Dream of "Happy life with family"

What is a "happy life" for the Vietnamese people? It is "to live a happy life with one's family in possession of a certain amount of property". In Vietnam, few people think of living alone. Therefore, even if they live away from their home town, many would like to return home and live with their family and relatives. If financially possible, many desire to live with and take care of their parents. This is a traditional family view in Vietnam, "filial piety". People understand parental difficulty of child raising as they grow older. The Vietnamese work hard for their children and hope to have them more highly educated for their success; this is a universal value of the Vietnamese people. The Vietnamese parents not uncommonly sacrifice themselves for the sake of their children.

In Vietnam family comes first, so they rarely use money for selfish purposes. For they work hard and try to make more money simply for the sake of their families' better life. Accordingly in Vietnam, the people take it for granted that those with good job or fortune take care of other members of family and relatives, help them enter school, take job and advance their career. Through strong bond of community and blood relationship, they have helped each other and protected their own family and village.



\*Buddhist Temple attracts citizen worshipers



\*Traditional market supports the citizens' life

## **5 . Change in the Vietnamese people's brand consciousness**

### **1) Greater number of people have become aware of brands**

Before the Doi Moi in 1986, the Vietnamese people didn't have opportunities to experience world's major brands. After 1986, however, in an environment of expanding trade and exchanges with more than 140 countries and regions, the Vietnamese started to get contact with brands of other countries all over the world. Since common people with low income don't have opportunities to experience brands by traveling abroad etc, they often purchase moderately priced goods at market. Therefore, in reality, the brand consciousness of the Vietnamese is still low.

Many fakes and copies of designer fashion goods and bags are on the market in Vietnam. Some purchase such imitations realizing they are fakes of high brand goods, while many others buy them without any knowledge of the brands themselves. In the US, Japan and other developed countries, production and sales of bogus designer goods are criminal acts, and the consumers dare not own such products, which would be regarded as disgraceful deed. In Korea, however, many carry imitations intentionally, because they are sensitive about their appearance.

Under such circumstances, a great number of brand name products have come into the market in Ho Chi Minh City and Hanoi City along with economic development. The Vietnamese are attracted to brands and designer products as they get in touch with the goods close by. There are no official statistics, but the percentage of those who own brand name products seems to be little less than 10% of all. While some of the wealthy people wear designer goods to show off their financial power, others have started to purchase the brand products appreciating their high quality and durability. The Vietnamese people certainly buy authentic designer goods when they have knowledge of brands. In this sense, they are different from the Korean who use imitation even if they have the knowledge.

The Vietnamese customers who want authentic designer goods don't trust the brand name products sold in Vietnam and not unusually purchase them abroad. Their cautiousness has a certain reason; once designer products sold at a brand store in a famous hotel in Vietnam were found out to be bogus.

In Ho Chi Minh City, not only the wealthy, but common people often purchase brand name goods and luxury items. In the streets, such items are not uncommonly seen as iPhone, Louis Vuitton handbag, motorcycles of Honda or Yamaha, and automobiles of Benz or BMW. As such, there is rising interest in high brand products; in today's Ho Chi Minh, a growing number of people try to buy designer goods they covet for even if they are forced to borrow money from their relatives.



## 2) Promotion of brands born in Vietnam

After participation in WTO, Vietnam has suffered severe quality competition with foreign companies, which resulted in bankruptcy of many domestic small and medium sized companies. In the future, many foreign brands of western and other countries will come into the expanding Vietnam consumption market and intensely fight for market share. For example, Korea has deployed branding strategy by capturing the hearts of women and youths with contents of Korean wave and leading them to purchase of Korean-made smartphone, home appliances and cosmetics. Vietnamese companies confront and compete against such companies both in domestic and overseas market.

Under such circumstances, the government has announced a policy to nationally promote the Vietnamese branding strategy (in November 2003). Ministry of Industry and Trade and other related ministries make concerted efforts to put importance on "quality, innovation, creativeness and leadership", to improve the quality standard of Vietnamese products, and to actively promote policies for creation of world-class brand name products. Also private companies exert effort to exceed the quality standard, and have started to improve their knowledge and method of logos for unique brand building and product design. The Vietnamese are skillful with their hands in nature and have a great potential for creation of world-class designer products.

The Prime Minister of Vietnam has designated April 20 as "Day of Vietnam Brand", a day for appreciation and promotion of Vietnam brand for the world. In order to win the competition in the international market, it is vital to establish the quality of Vietnam brand in a prompt manner. For this purpose, Vietnam and Ho Chi Minh City, as brand value creator, are required to generate admirable culture and urban lifestyle that arouses sympathy both among domestic and foreign people.



\*European cosmetic brands attract a lot of female customers.



\*Casual brands are supported by the young people.

## **6 . Widening gap between urban and rural areas**

### **1) Gap has been widening in Vietnam society with economic development**

Before the Doi Moi, the nation controlled allocation of commodities, occupations and positions; therefore, there was almost no income difference. After the Doi Moi, however, promotion of market economy has significantly changed the social hierarchical structure. Unlike the urban areas that enjoy economic development caused by the change of national policies, the rural areas are not subject to the benefit of reforms and still accept low living standard; the financial gap between urban and rural areas has been widening.

General Statistics Office shows that the monthly income of wealthy class in 2011 was 3.4 million dong and the average income was 1.387 million dong (about 5000 yen: 1 yen = 277dong), while that of poor class was 0.369 million dong; the income disparity in Vietnam is as wide as 9.2 times. The gap has been widening between not only urban and rural areas, but also within rural region or urban area. Furthermore, it is a grave issue of the multi-ethnic Vietnam that the minority peoples living in northern mountainous area or central highland area have received almost no benefit from the economic growth either for life or education opportunities.

Vietnam is an education-conscious society where the wealthy and middle classes are devoted to children's education. Since the college graduates in urban areas have strong desire for improvement, they seek social rise as they brush up their skills and languages at their own cost and change jobs for better salary. However in poor rural areas, people are forced to give up academic ambitions because of financial difficulty and many have little educational background. When they come to a city from a farm village seeking for a job, most of them are forced to work at factories, stalls or construction sites. Even so many of them remit to their parents living in their farm village out of their small income. Such poor people can't afford to have their own children fully educated; the situation has started to reproduce poverty, posing a grave issue to the society.

### **2) Measures are desired for elimination of gap**

The survey held by United Nations Development Programme has revealed that the utilization rate of social security is 40% among the richest households in Vietnam, while the rate among the poorest is as low as about 7%. This result shows that the gap influences not only income but social security and other factors. Vietnam is a socialist nation. Excessive disparity violates the national philosophy and is against the wish of

whole Vietnamese people. All of the people seek balanced development of the whole Vietnam.

The possible reasons for the gap and inequality are influence of globalization, change of technology, special-interest politics by major companies, and policies that failed to adequately redistribute the wealth. Also because of the recent high inflation (23.1% in 2008, 18.1% in 2011), wage hike does not increase real income and the national standard of living has been falling. Investment in agriculture and farm villages has been decreasing, while a large quantity of farmland has been converted to industrial complex and housing area, resulting in decreasing agricultural production. Another major reason is that the industry segment that receives concentrated investment has been sustaining loss. It is a pressing challenge to make and implement policies to solve these problems in order to eliminate the gap.

The Hanoi and Ho Chi Minh Cities support the Vietnam economy like two wheels of a cart. Ho Chi Minh City used to lead the development, but today both of the cities are developing in relatively well-balanced way thanks to policies for invitation of enterprises and other measures. In the same manner, various measures for gap elimination are desired to solve such problems as gap between city and farm village and poverty problems caused by urbanization.

**Table 9: Poverty standard of Vietnam and that of the World Bank (by 1000 dong)**

fiscal year	Vietnam		World Bank
	urban area	rural area	overall
2004	218	168	173
2006	260	200	213
2008	370	290	280
2011-2015*	500	400	—

Source: GSO, 2010

\*Decision 09/2011/QĐ-TTg/30/01/2011

**Table 10: Ratio of poor households in urban and rural areas in Vietnam (2004-2008)**

areas	2004	2005	2006	2007	2008
overall country	18.1	15.5	14.8	13.4	12.3
urban area	8.6	7.7	7.4	6.7	6
rural area	21.2	18	17.7	16.1	14.8

Source: GSO, 2012



\*A woman sells food on the street.



\*A high-brand store popular among the wealthy people

### Japanese co-researcher's viewpoint

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#### Challenges and measures for localization

Indonesia and Vietnam, which enjoy quick economic growth among ASEAN countries, are highlighted as new markets. At least several years before, however, these emerging markets were regarded as BOP market, in other words, a market of poor consumers with annual income of 3000 dollars or less. Many used to consider that such marketing activities as product development and sales method designed for developed countries should be fundamentally modified for the BOP market, even though Japanese companies were specialized in the marketing activities.

As a matter of fact, the GDP per capita of Vietnam in 2003 of 10 years ago was about 500 dollars, and such attitude was perfectly correct for the situation at that time. A typical example of business for such market is the sales of monosodium glutamate; for price reduction the seasoning powder should be packaged in small pouches and sold directly by sheer force of numbers at lively market packed with meat, vegetable, dried goods and other merchandises.

However, in 2008 of 5 years ago, the GDP per capita rose to about 1000 dollars; as the previous report describes, in 2012 in Ho Chi Minh City the GDP per capita seemingly reached 3600 dollars and average annual income rose to 2500 dollars. The fact indicates that the nation has grown out of the BOP market in this short period of time and is making an enormous consumption market that "normal" marketing activity works. In other words, the Japanese companies will soon be able to answer the needs of local consumers of in this growing market at higher level with their acquired marketing skills. As a matter of course they should not throw in a Japanese-style;

however they need to change their way of thinking in product development that, in food business for example, tasty and high quality products are more required rather than nutritious food as a solution for social problems.

On the other hand, this change provides a new challenge of "localization" including product development. The Japanese companies are required to answer the local needs by making good use of the 4Ps of marketing. In this sense, a case of a food company making a great success in Vietnam is suggestive and interesting. The company has found out only recently that their established products did not suit the Vietnamese people's taste. The Vietnamese people are said to be reluctant to express their opinion even if they are asked to speak freely. Therefore, the Japanese person in charge of the Vietnamese subsidiary has actively participated in the local employees' favorite Karaoke, get-together, wedding party and other gatherings as often as possible so that he would be accepted in the Vietnamese community; as a result the local employees started to speak their mind. The employees gave such comments as "That product doesn't suit the Vietnamese taste at all". "If you say so," the chairman asked the Vietnamese employees to actively join product development, and at last succeeded in making "tasty" products for the Vietnamese.

It may not sound difficult, but local employees' cooperation is indispensable for localization of products. However, as the Part 1 report describes, the Vietnamese people have low sense of belonging to organization though they are earnest. In order to promote localization, Japanese leaders are required to actively get involved in the local employees' community and continuously talk about the direction the company is heading for, the philosophy and the social significance of the company so that they could enhance local employees' sense of belonging to the corporation.

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