

Ba Da Ba Ba: I'm Stealin' It

Vietnam and McCronyism

McDonald's in Vietnam

In February 2014, McDonald's opened its first restaurant in Ho Chi Minh City (HCMC), Vietnam. As the eighth-most populous country in Southeast Asia, Vietnam was the second-to-last middle-income country in Asia without a McDonald's presence. Business specialists speculated that the fast food company, which received 68% of its total revenues of \$27.57 billion from overseas markets as of 2012, opened the HCMC franchise in response to declining sales in other Asian markets -- particularly China and Japan. McDonald's expansion into Vietnam followed that of other popular American brands including Pizza Hut and Burger King. The arrival of such international franchises are an indication of Vietnam's growing economic vibrancy and a result of increasing foreign investment in the Southeast Asian country.

Foreign Interests in Vietnam

Vietnam is an attractive prospect for foreign direct investment (FDI) given its position as a net exporter and its healthy economy with high internal consumption. The country's po-

litical and social stability, young population, and geographic location positions Vietnam at a competitive advantage for FDI. However, the reliance on patronage and personal relationships with members of the ruling party remains essential for both domestic and foreign investors to conduct business in the country's promising economy. While an attractive prospect for FDI, the lack of administration and laws adequate for competitive markets pose a serious problem for Vietnam.

All in the Family?

Political theorists and economists alike found the HCMC McDonald's franchise of particular interest for another reason -- in its opening the restaurant associated with Henry Nguyen, the son-in-law of Vietnam's Prime Minister Nguyen Tan Dung. McDonald's move to partner with Henry Nguyen incited speculation by both the Vietnamese and global public that perhaps crony capitalism, where Nguyen's familial ties and linkages with the government, rather than Nguyen's education and professional experience, led to his ownership of

the popular franchise.

McDonald's assured the public that Nguyen's appointment was due to his business expertise and company loyalty. Nguyen had, after all, worked for years as a McDonald's employee while Harvard University, before going on to earn business and medical degrees from Northwestern University and work on Wall Street. McDonald's asserted that the combination of Nguyen's restaurant experience, and his work in the private sector, positioned him as the logical choice to own and operate the Vietnamese franchise. McDonald's vice president for corporate relations confirms that, "the contract with Henry Nguyen as developmental licensee (was) the result of a rigorous selection process that began years ago."

Despite these statements from McDonald's, however, the Viet-

ter the 1997 Asian Financial Crisis. Joint ventures remain the most common way for foreign businesses to begin operations in Vietnam. The equitization program- "the word 'privatize' is still politically suspect"- forced state owned enterprises (SOE) to limit the size of their workforce to allow for possible joint ventures. Despite a series of legal addendums following admission to the World Trade Organization (WTO) and Association of Southeast Asian Nations, foreigners can have no more than a 49% share in any local business. While joint ventures represent a gradual mechanism for greater economic integration, they are still considered a risky endeavor for the CPV. Effective functioning of any joint venture requires party support; "Corporations have been free to form joint ventures with foreign partners and sell stakes to overseas investors- just so long as the management, as a whole, does the Party's bidding. In return, they get access to preferential government support."



Photo: Ho Chi Minh City at Night
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namese public viewed Henry Nguyen's appointment as a continuation of the current ruling party's affinity for nepotism. A pattern of party leaders appointing family members to top executive positions was commonplace in the "patronage-fuelled business culture" of Vietnam and McDonald's was seen as just another normal business.

Understanding Crony Capitalism in Vietnam: A Look at its Political and Economic History

Corruption in Vietnam, and the lack of legal consequences and accountability deterred foreign investors to Vietnam af-

Vietnam's Outlook

Vietnam is following suit of its Asian neighbors whereby economic growth is given precedence over democratic institutions. Unfortunately, underdeveloped democratic institutions have enabled the persistence of crony capitalism and nepotism. In the name of economic planning, ruling party members often hold excessive power in the decision making of industries and businesses. Political scientists such as Francis Fukuyama blamed "unique Asian systems" -- including widespread crony capitalism -- as a cause of the 1997 financial crisis and a major

obstacle to continuing high levels of economic growth in the region.

Vietnam has enacted other reforms that it hopes will promote equitable economic growth and limit corruption. These policies include reducing permit requirements, simplifying company establishment procedures, and the establishment of 'one-stop-shops,' or businesses that offer a plethora of services. The Global Competitiveness Report of 2012 reflected these reforms to some extent in the Vietnam's improved performance numbers, but according to the business community, Vietnamese authorities still frequently change regulations without prior notice and often apply these regulations in an opaque manner.

Thus the current system still strongly relies on patronage and personal relationships with members of the ruling party. Private companies – both domestic and foreign – are willing to pay large fees to obtain introductions to the family members of the CPV elite. Even mission-driven organizations such as the World Bank allow CPV leaders to set loan terms and conditions in order to conduct work in Vietnam.

The public has expressed "widespread [...] grievances" over issues involving living standards, wealth inequality, land seizures, corruption, and cronyism in Vietnam. The anonymity of the Internet has allowed critics to skirt tight media controls and disclose scandals of crony capitalism to the public. Yet, for the most part, CPV leaders maintain control over dissent and have resisted calls to improve political rights. The country experiences small-scale protests from several interest groups -- mostly connected to land-use rights, political liberalization, and dispute resolution mechanisms.

Vietnam is currently a negotiating member of the Trans Pacific Partnership (TPP), a large-scale free trade agreement that would reduce trade barriers among countries on both sides of the Pacific Ocean. For Vietnam, it offers a great opportunity to liberalize its economy by limiting the power of SOEs. Because SOEs offer a high share of tax revenues, domestic tariffs have persisted in Vietnam. While the removal of tariffs is seen as an encouraging sign for job creation and more equitable business management, the case of McDonald's shows that the presence of foreign companies is hardly a sign of lessening crony capitalism and corrupt business practices.

Scholars suggest that the willingness of other countries to accept Vietnam in the TPP despite the fact that it is partially a state controlled economy "speaks to the seriousness of the government about reform and may also demonstrate that economic reform is easier to do in authoritarian states." This shows the paradoxical nature of economic liberalization in Vietnam;

it is easier to manage with an authoritarian government but an authoritarian government is equally likely to ensure that it holds a financial stake in all Vietnamese business transactions.

Rather than amending laws that encourage competitive markets, in 2012, the CPV began a "criticism and self-criticism"



Photo: Mike Licht
McD in Vietnam, after a political poster

campaign to address shortcomings among the leadership and strengthen the party's legitimacy in Vietnam. In October 2012, the Prime Minister apologized publicly to the National Assembly for mishandling state coffers. The government also arrested several wealthy individuals closely associated with Prime Minister Nguyen Tan Dung for "illegal business activities" and "economic crimes." However, the value of these "reforms" remains in question, as the arrests were also considered a power play engineered by the Prime Minister's rivals. The actual causes of Vietnam's economic slowdown may require further, deeper reforms to increase openness, transparency, and democracy.

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