Impacts of government policies and regulations on the development of international retailing and services – case study of Vietnamese market

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Abstract

Purpose - The aim of this study is firstly to evaluate the success and the shortcoming of current policies and regulations concerning to retail market in Vietnam, and secondly to investigate the factors belonging to Vietnamese Government policies and regulations affecting to the retail market in Vietnam.

Design/methodology/approach - We firstly collect the secondary data and official documents from Vietnamese General Statistic Office, Ministry of Industry and Trade of the Socialist Republic of Vietnam to examine how the policies and regulations affect to the retail market in Vietnam. After that, using the EFA method we conduct surveys with retail enterprises to find out which factors from policies and regulations being able affect to retail market in Vietnam.

Findings – It is argued that Vietnamese Government policies and regulations have been improved to meet the requests and standards in the way to integrate global market. The impact of policies and regulations have been measured with the confidence level is average.

Key words – Impacts, government policies and regulations, retail market in Vietnam

Introduction

The Vietnamese retailing and service have reached some achievements by the annual growth within 20 year-stage. In 2013 the total turnover was around 130 billion dollars with population about 90 million people (GSO of Vietnam, 2013). And with the average aged 22 to 55, the most consumed customers are about 70% population; it is really the positive signal for retailing and service in Vietnam in coming years. With the opening market agreements when participating to World Trade Organization – WTO, Vietnamese Government had allowed the foreign investors to open the foreign-owned enterprises since 2009 with maximize contribution capital 50%, but next stage since January 11th, 2015 this percentage opening will be 100% foreign-owned capital. Until now there are some famous retail groups in the world such as BigC, Metro, Lotte Mart, Seven Eleven, Central Group ... has invested and expanded steps by steps in Vietnamese market.
According to the data analysis of AT Kearny, Vietnam has slipped from the rank as one of most attractive developing market in the world (2008 – after one year participating in WTO) to the 6th in 2009, 14th in 2010, 23rd in 2011 and out of rank of the top 30 developing countries for retail investment since 2012 till now. After 7 years participating to WTO, the attractiveness for foreign investors for retail and service of Vietnam still has some limits, reflected by the Compound Annual Growth Rate – CAGR is around 10% for stage 2000 – 2013. And one important criterion for foreign investors considering, the market attractiveness of Vietnam is so low (this is only 8.4% in 2011); it means that Vietnamese retail market is not attractive for foreign investors. The surveys confirm that foreign investors appraise Vietnamese retail market still having a lot of barriers such as unstable macro economy status, red tape, purchasing power decreasing, retail market schedule is not synchronous, low quality for supply chain, human resource not meet required etc. And in addition, we also must mention about big problems concerning to shortcoming of infrastructure and so high cost hiring-space, which are considered as serious barriers for foreign retailers.

For the positive aspects, during stage 2001 – 2010 Vietnamese Retail Spending – CAGR per capita) is about 12%, higher than the average is about 8%. In addition, with the average growth rate of modern retail channel is 28% higher than average is about 20%; and with the population of 90 million who spend 70% their earning for shopping, Vietnam still can become more attractive in coming future.

For the channel distributions, in Vietnam there are still two channels: traditional and modern channel. For the traditional channel, we can talk about traditional market and small family shops. And the other important channel is spontaneous market – in the corner, in the exposed small piece of land or sometime, in bridge …etc. This typical channel has been lasting so long, but for the development of social economy, this will be restricted and decreased day by day. For the modern channel, there are trade centers, supermarkets, convenient stores …etc. Hereinafter are some data for these channels:

| The number of traditional market, supermarket and trade center till December 31st per year |
|---------------------------------|------|------|------|------|------|
| Total traditional market        | 7,871| 8,495| 8,528| 8,550| 8,547|
| Rank to size level up to Decree No.02/2003/ND-CP - dated January 14th, 2003 |
| Level 1                        | 215  | 219  | 224  | 232  | 247  |
| Level 2                        | 921  | 954  | 907  | 936  | 926  |
| Level 3                        | 6,735| 7,322| 7,397| 7,382| 7,374|
| Total supermarket              | 385  | 451  | 571  | 638  | 659  |
| Total trade center             | 72   | 85   | 101  | 116  | 115  |

For conducting the retail market and service, before participating WTO until now, Vietnamese Government has announced so many policies and regulations. For example, for publicizing roadmaps for goods trading and directly related activities Trade Minister issued the Decision No.10/2007/QD-BTM of May 21, 2007.

**Literature review:**

According to Dunning, J.H. and Narula, R. (1997) one condition that enterprise should consider when making foreign direct investment is that they should have some competitive advantages such as scale, technology, marketing network, low interest rate capital from sponsors or other intangible asset etc. And Romer (1986,1990,1993,1994) and Lucas (1988) also determined that the investment behavior is affected by (1) the change in demand; (2) interest rate; (3) the development level of financial system; (4) public investment; (5) human resource capacity; (6) other projects in the same field or concerning field; (7) the technology development status; (8) the stable level of investment environment; (9) the rules and proceeding; (10) the sufficient level of information. And the theory of local marketing also points out that there are three groups of factors which affect to the satisfaction of investors: (1) infrastructure for investment; (2) policies and regulations; and (3) working and living environment.

In Vietnam, we find out that three groups of factors interact and specially, the government policies and regulations strongly affect to the other groups. Such as when Government issues the policies for the foreign investors can buy the permanant houses in Vietnam, it immediately affect to foreign investors who come and work in Vietnam. Or we can see how the regulations and policies affect to the banking system, which directly affect to the favorable interest rate for foreign investors or banking network etc.

Basing on this developed theories, and discussion with professors studying in this FDI field and also got advices from CEOs of some famous retail groups in the world coming to Vietnam such as *BigC, Metro, Lotte Mart, Seven Eleven*; we have run the study frame as below:
Findings

With the sample as 250 FDI enterprises in investing in Vietnamese retail and service filed chosen intentionally and 206 respondents (see the Appendix No.1), we use the Linker Scale to measure the positive association between the foreign investors’ satisfaction with some variables such as tax for investment, working and living conditions for investment, public services for investment and the stability for investment’s favor (see the Appendix No.2).

Using software SPSS 20.0 with Exploratory Factor Analysis, we have some results as below: (please see the Appendix No.1 for Questionnaire and No.2 for Scale of factor which affect to the FDI in Vietnamese retail and service filed)

- 0.5 < KMO < 1
- Sig. < 0.05
- % cumulative variance = 68.565% (see the Appendix No.3)

<table>
<thead>
<tr>
<th>KMO and Bartlett's Test</th>
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<tbody>
<tr>
<td>Kaiser-Meyer-Olkin Measure of Sampling Adequacy.</td>
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<tr>
<td>Bartlett's Test of Sphericity</td>
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Renamed dependent variables into 5 scales and continue testing their reliability, we have all of 5 scales with the appropriate reliability (their Cronbach’s Alpha > 0.6) as below: (see the Appendix No.4)

- TAX (including variables TAX1, TAX2, TAX3 and PUB1);
- STB (including variables STB4, STB5 and STB6);
- STB-1 (including variables STB1, STB2 and STB3);
- PUB (including variables PUB2, PUB3 and PUB5);
- WOR (including variables WOR1, WOR2, WOR4 and PUB4);

Continue with Multiple Regression Analysis (MRA) we have the final result as below: (see the Appendix No.5)

- For Coefficients testing: we have 3 of variables TAX, STB and WOR have Sig. < 0.01 so they are appropriate meaning with variable SAT (general satisfaction). The two other variables are STB-1 and PUB not appropriate meaning with variable SAT (general satisfaction) because they have Sig. > 0.01.
- For Model appropriation testing, we have the adjusted R square is 0.393, it means that 39.3% of the change of satisfaction of foreign investors in Vietnamese retail and service fields being explained by variables TAX, STB and WOR.
- For ANOVA, we have Sig. < 0.01, so we can conclude that independent variables have linear correlation with dependent variable.

**Discussion and conclusions**

Basing on the results above, we have the rank of importance of factors as below:

<table>
<thead>
<tr>
<th>Independent variable</th>
<th>Value</th>
<th>%</th>
</tr>
</thead>
<tbody>
<tr>
<td>TAX</td>
<td>0.176</td>
<td>21.36</td>
</tr>
<tr>
<td>STB</td>
<td>0.162</td>
<td>19.66</td>
</tr>
<tr>
<td>WOR</td>
<td>0.486</td>
<td>58.98</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td>0.824</td>
<td>100%</td>
</tr>
</tbody>
</table>

So we suggest some solutions in coming future in order to attract more foreign investors who have attention to retail and services field:

First of all, when coming to invest in foreign countries, these investors care firstly about the subsistence allowance such as for income tax rate or the comfortable hiring conditions for living and business activities. Secondly, almost of FDI investors care so much about the dissimilarity between workers and FDI enterprises. Because it will affect badly to the business if happen, so the procedures or clear regulations in order to solve this problem or prevent it happen are considerably important for FDI enterprises when come and invest in Vietnam. Thirdly, through the survey we also found that almost FDI enterprises highly appreciate if the environment living is not polluted. And the status of doing business with counterfeit is also highly cared by FDI enterprises in retail and service field. That the reason why the Government regulations and policies which guide to the market control official force how to work effectively are considered one of most important factors which can affect to the investment decision of FDI enterprises in retail and service field.

Concerning to the tax regulations and policies, FDI enterprises in retail and service field hope that they can have more favor from Government, or in other way they hope that the tax policies favors for investment are more attractive. In addition, the tax procedures for investment should be simple and quick. In order to solve these obstacles, recently Vietnamese Ministry of Finance has announced their agreements to reduce strongly the time of tax declaration. If this agreement will be done it will help to improve not only the FDI capital but also contribute to the GDP increase.

Last but not least, the stability for investment’s favor is also one of FDI enterprises’ considerations. Such as the time of existence of FDI enterprises in Vietnam, or the conditions for
hiring land, tax favor etc... have been changed fast can affect to the business status of the FDI enterprises in retail and service.

In general, the Government regulations and policies for retails and services sector had been implicated following the agreements of Vietnamese Government with WTO and FTAs. And the emphasis of these regulations and policies are the favor to FDI enterprises. This Government’s point of view is the result of the old thinking in management in society, in which the most important sector is production, which being considered the main sector creating value to society. For the retails and services sector, in the past this field was considered as only simple exchange goods in small traditional market and of course, not made any added value. If fact we can see that Vietnamese Government rarely has barriers to protect the local retails and services, and nearly free ENT. The current result is that almost of Vietnamese local enterprises cannot compete with other big FDI enterprises such as Big C, Metro etc., which have developed so many their branches throughout Vietnam. This result is also reflecting the old thinking of Vietnamese Government officials who pay too much attention on how to attract more and more FDI capital investment. But in the opinion of writers, we believe that coming future Government regulations and policies will change strongly according to the way not pay so much favor to FDI enterprises anymore (not like the current data research showing that 58% of FDI enterprises attention to investment favor condition).

For the stability for investment’s favor, in coming future it will be still stable. The reason is that in short time Vietnamese local enterprises cannot growth so fast to keep up to FDI enterprises due to lack of management knowledge, distribution network and high technology etc.

For the combination among Vietnamese local enterprises in retails and services sector is also another weak point that lead them to the failure. Because they developed separately, so their strength has been still limited. And of course, if basing only on their capacity, there is no way to win even though in local market.

In conclusion, the retails and services sector is still so potential in Vietnamese market. If the FDI enterprises know how to make use of Government favor for investment combining with their high level knowledge in management, technology, network and huge capital etc... they can develop fast, strongly and gain huge profit in coming future in this potential consuming market with young and high-earned consumers. But Vietnamese Government official also see this current status, and of course they will change the regulations and polices by using some technical barriers in coming future to adjust this “play ground” for retails and services field.

References


**About the authors**

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