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 political 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

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 political 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 Vietnamese 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 after 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.”

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...
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” 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.

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;