

CHAPTER I

INTRODUCTION

A. BACKGROUND

After the revolutionary change of the political and economic system of Vietnam country in 1975, the government of Vietnam introduced a centralized socialist regime that emphasized the role of the state as a center for property ownership and centralized economic planning. After about 10 years of economic progress, the result has not been able to resolve the problem of people's poverty and economic recovery, but the economic stagnation and the lack of enthusiasm for production. Therefore, the Government of Vietnam implemented the Doi Moi economic reform policy in December 1986.¹

Doi Moi mentioned above has become a staple in the country's economic development in Vietnam since the year 1986 onwards. For more than 20 years, Vietnam has been successful in making quick development progress, because the economic fundamentals have several advantages in leveraging resources including crude oil. Forests, minerals, etc., combined with the Vietnamese landscape, which is long coastline has become a major port in China's sea trade.

Vietnam's economic reform, although officially begun in 1986, did not consider Vietnam to be truly competitive on the world stage until 1995 when Vietnam was recognized as the member of Association of Southeast Asian Nations (ASEAN). The resumption of diplomatic relations with the United States in mid-1995² after the United States abolished the boycott,

¹ Knokwan Congrenying, 2001, A Comparative Study of Potentialities Tourism Industry Between Thailand and Vietnam, p 1.

² Mark E. Manyin, Foreign Affairs, Defense, and Trade Division, Updated June 17, 2005, The Vietnam-U.S. Normalization Process.

Vietnam also links its own economy with the world economy to become a member of World Trade Organization (WTO), in November 2006 resulted in Vietnam launching its products and services to WTO members.

According to economic data, in 1995, Vietnam's economic growth rate reached 9.5 percent of GDP. However, in 1998-1999 Vietnam's economic growth rate dropped to only 4.4 percent and 4.7 percent, respectively. However, in the early of 2000s, there was another leap forward for the economy of Vietnam as the highest average economic growth in ASEAN especially, in 2001-2005 achieved by 7.8-8.0 percent.

The tourism industry is one of the fastest growing service sectors in the past. According to statistics, the volume of foreign tourists coming to Vietnam reflects that since Vietnam has implemented the Doi Moi economic reform policy, foreigners traveling to Vietnam have continued to increase. Considering that since 1997, Vietnam has seen an increase in foreign tourist arrivals from 1.72 million in 1997 to 3.48 million in 2005 and increase slightly in 2006. If we compare with Thailand as the top country of tourism of ASEAN country, in the year 2006 almost no expansion, the number of foreign tourists still has about 11 million people or slightly reduced, which is caused by external factors, such as competition, the country's tourism industry.³

To attract tourists to visit Vietnam, the Government of Vietnam has adopted a strategy to promote tourism throughout the year from the campaign to promote tourism to see a natural beauty and cultural arts of Vietnam. It is something that travel wants to touch. During the previous period, Vietnam experienced many problems, as a result, Vietnam is becoming more open to international competition and it makes people interested in coming to find and know more about Vietnam.

³ Somsri and Tapanee,2005, A Study Competitiveness of the Tourism Industry between Thailand and Vietnam,57-82

The volume and growth of tourists are directly related to the volume and growth of other businesses, which is a component of the tourism industry. Especially, business services such as accommodation, food, souvenir business, transportation, communication and tour Guide etc. According to economic data of Vietnam in 2004, production in the transportation and communications sector was valued at 15,318 billion Dong, up from 8.1 percent, and the hotel and restaurant sector were valued at 11,432 billion Dong, up from 7.4 percent. In 2005, Vietnam's transport and communications production were valued at 15,318 billion Dong, up from 9.5 percent. The restaurant industry was valued at 13,466 billion yuan, up from 17.0 percent. This reflects that the tourism industry has contributed to the economic growth of Vietnam.

In addition, Vietnam plans to develop tourism infrastructure. In 2005, Vietnam attracted 190 foreign investors in the tourism industry, representing a total registered capital of US \$ 4,460 million. Most tourism investment projects in Ho Chi Minh City, Hanoi, Ba Ria-Vung Tau Dao, Danang etc.⁴

From all the above, it can be perceived that at the end of the century, Vietnam has been changed from a socialist economy to a more liberal, this is the beginning of Vietnam's entry into the world of economy. Later, Vietnam joined the Association of Southeast Asian Nations (ASEAN) in 1995⁵, and membership of the World Trade Organization in 2006⁶, has resulted in Vietnam having a favorable investment climate and political stability.

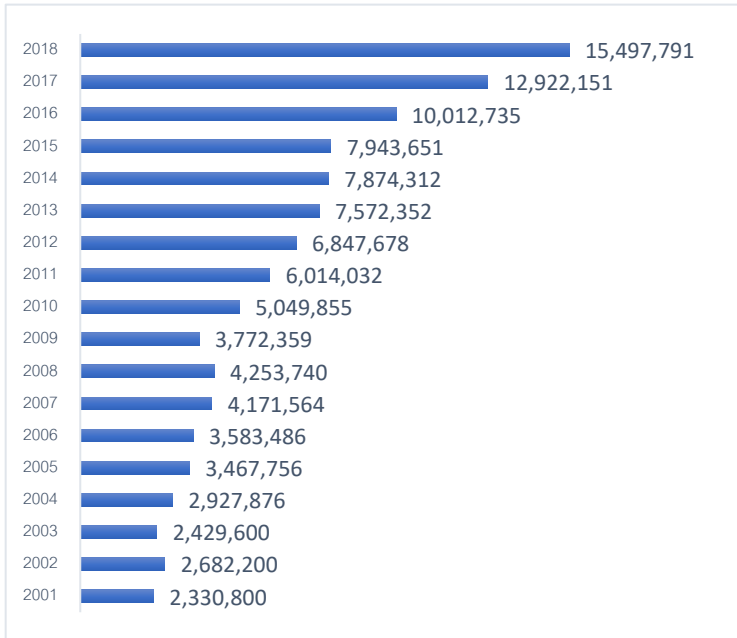
⁴ Knokwan Congcrenying, 2001, A Comparative Study of Potentialities Tourism Industry Between Thailand and Vietnam, p 2

⁵ Sadhavi Chauhan, Observer Research Foundation, 23 October 2013, Vietnam's role in ASEAN, from website <http://www.eastasiaforum.org/2013/10/23/vietnams-role-in-asean>

⁶ Office of the United States Trade Representative, May 2006, Vietnam's Accession to the World Trade Organization (WTO)

Nevertheless, the tourism industry of ASEAN countries such as Thailand is better than Vietnam like in the volume of tourists, the reputation of attraction, modern accommodation, modernization of communication technology, transportation, and convenient service. However, the recent study shows that Vietnam's tourism industry is becoming an important competitor to the ASEAN countries especially the Thai tourism industry. See the figure 1.1 shown the increasing of tourist number.

Figure 1.1: statistics of tourist in Vietnam for the period 2000-2007:



Source: Tourism Statistic 2007, Vietnam National Administration of Tourism Ministry of Culture Sports and Tourism

From the table above, it shows that the number of tourists in Vietnam is increasing year by year and predicted of number tourist including the investor in Vietnam will further

increase in the next years. In 2001 the tourist arrival only 2,330,800 compare with 2018 the increase 15,497,791, there are a lot of different numbers.

With over 3000 kilometers of coastline, pristine beaches, dynamic growing cities, mountainous highlands, and diverse cultural and historic sites, Vietnam's tourism industry continues to rank amongst the fastest-growing tourist destinations in the world, with revenue in 2018 reaching VND620 trillion (US\$26.75 billion), up VND110 billion (US\$4.75 billion) compared to 2017. Since 2010, the number of international tourists has grown three-fold from 5 million to more than 15 million in 2018. In 2018, international arrivals to Vietnam reached 15.5 million, up 2.7 million compared to 2017, while domestic tourists grew by 6.8 million compared to 2017, to an estimated 80 million in 2018. Visitors coming by airways increased by 14.4 percent in 2018, while arrivals by road increased by almost 60 percent, and by seaway decreased by 16.8 percent.

Vietnam, recently named the "Asia's Leading Destination" for the first time at the 2018 World Travel Awards, offers a variety of options for tourists such as cultural and historical tours, sea-based tours, adventure tours, eco-tours, and luxurious vacations. In 2018, Ho Chi Minh City led among all the cities and provinces with 36.5 million visitors, which included 7.5 million international and 29 million domestic visitors. Hanoi, the capital, attracted 28 million tourists, including 5.5 million international tourists. Both cities also recently featured amongst the top 10 most dynamic growing cities in the world in JLL's Short-Term City Momentum Index (CMI) 2019.

Quang Ninh, a northeastern coastal province, emerged as one of the new destinations in 2018, attracting 12.5 million tourists, including 5.3 million international visitors. In addition, Da Nang, one of the largest city in Vietnam attracted 7.7 million tourists, including three million international tourists. Other

major destinations include Hoi An, a well preserved historical trading port and Phu Quoc, the largest island in Vietnam.

In 2018, the number of visitors from Asia increased by 23.7 percent compared to 2017 to 12.1 million. China accounted for the majority at 4.96 million, up 23.9 percent, while the number of South Korean visitors increased the highest at 44.3 percent compared to 2017 to 3.48 million. Visitors from Europe and America increased by 8.1 percent and 10.6 percent, to 2.1 million and 903,800 respectively. Tourists from Australia increased by only four percent in 2018 to 437,800, while inbound tourists from Africa witnessed a growth of 19.2 percent to 42,800. The number of visitors from only two countries witnessed a decline in 2018. Cambodia and Laos, both neighboring countries witnessed a decline of 8.8 percent and 15.2 percent respectively.

According to the Vietnam National Administration of Tourism (VNAT), foreign visitors on an average spend \$900 on a trip to Vietnam, compared to US\$1,105, US\$1,109 and US\$1,565 spent in Singapore, Indonesia, and Thailand respectively. Unlike Singapore and Malaysia, Vietnam's tourism industry has been unable to develop its infrastructure in line with the rapid growth in the tourism industry and establish itself as a shopping destination or a hub for nightlife activities, which has an impact on its revenue.

In early 2011, the Vietnamese government released the "Strategy on Vietnam's tourism development until 2020, vision to 2030", on developing the tourism industry as a major driver of economic growth. The plan focuses on training professionals, market development, branding strategies, infrastructure development, and developing tourism products and services with local cultural characteristics.

Recently in 2017, the Prime Minister approved Decision 1861/QĐ-TTg ("Decision 1861"), a VND30 trillion (US\$1.32 billion) program to develop tourism and transport

infrastructure at major tourist destinations mentioned in the “Strategy on Vietnam’s tourism development until 2020, vision to 2030”. Poor provinces that are major tourist attractions will be given priority as most of their budgets are unable to meet the investment requirements for infrastructure development.

Along with Decision 1861, the government also approved the establishment of a VND300 billion (US\$12.9 million) tourism development fund for promotional activities and building plans. In addition to funding activities, the government has also relaxed visa policies by extending their existing policy of allowing visitors from 46 countries, including China, Japan, South Korea, the US, and the UK, to enter Vietnam for 30 days with a single-entry electronic visa until 2021.

B. Research Question

Those explanations have referred to the basic question related to the background as described previously:

How does Doi Moi reform influence the development of Vietnam’s tourism industry

C. The Theoretical Framework

To answer the above of research question, the authors use the theories and concepts as follows:

1. Vietnam’s Economic Revolution Reform (Doi Moi)

Vietnam Economic Reform has a form of socialist economy, a monopoly, and centralized government. After the government announced the economic reform policy "Doi Moi" (Doi Moi Revolution), there are 6 economic strategies to enhance economic growth as follows:

- 1) the distribution of administrative power.

- 2) Free market economy
- 3) Exchange rate and interest rate are based on the market mechanism.
- 4) For Agricultural Policy Long-term land ownership and free trade of agricultural products.
- 5) Increased role private sector
- 6) liberalization of investment.

"Doi" means to change the "Moi" meaning the new "Doi Moi policy", referring to the renovation policy that transforms the centrally planned economy into a market economy and open the opportunity to another countries to investment. The reform began in earnest in late 1989. The Constitution (1992) mentions the official Doi Moi policy, which refers to the introduction of a market economy, the freedom to own property (proprietary) and the owner of a private enterprise and allowing foreigner the right to use the land in the long-run and the business venture.

From the description above, the Doi Moi revolution reform focuses on economic development by encouraging foreign investment, international trade and investment of the tourism industry. Currently, the number of tourist arrivals has increased meanwhile the number of foreign investors as well increased from many countries such as Taiwan, Malaysia, South Korea, China, Japan, USA, Thailand, etc.

2. Economic Liberalization

The liberal economic was originated by Adam Smith classic economy in 1776. Adam Smith introduced a policy tool that limited the role of the state to public affairs, regulatory and law enforcement reduces government intervention in the economy in the form of ownership, production and sale of goods and services make the operation and management of the

economy ineffective.⁷ Economic liberalization in developing countries enhances economic perfection by enhancing the competitiveness of domestic and foreign economic actors and exposing management and performance. In addition, trade and investment liberalization by developing countries have attracted more foreign investment and direct investment, accelerating economic growth and addressing poverty.

Economic liberalization is the reduction of government regulations and restrictions in the economy in exchange for more private sector participation. The country's highest revenues have followed the path of economic liberalization in the past decade, with the stated goal of maintaining or enhancing their competitiveness as a business environment. The liberalization policies include some or all privatization of institutions and government assets, increased labor market flexibility, lower tariffs for businesses, fewer restrictions of domestic and foreign capital openings, etc. In developing countries, economic liberalization means the liberalization or "opening up" of their economies to foreign countries and investors. The three fastest-growing developing countries today. Brazil, China, and India have achieved rapid economic growth over the years or decades, partly due to the "liberation" of the economy to foreign capital.⁸ However, Vietnam is also as one of the faster growing developing economies and has achieved rapid economic growth in the past several years or decades, in part, from having "liberalized" their economies to foreign capital after implemented economic revolution reform (Doi Moi).

⁷ Chaudhary, C. M., 2008 India's economic policies. sublime publications. p. 131.

⁸ Zulu Hu, Mohsin S. Khan., 1997 "Why Is China Growing So Fast?", International Monetary Fund,

D. Hypothesis

Based on the background, the research question and the theoretical framework mentioned previously. The following hypothesis can be: Economic revolution reform (Doi Moi) influences the development of Vietnam's tourism industry by increasing the role of private sector and liberalization investment in the tourism business.

E. Research Methodology

This research used several ways to collect the data in order to discuss the problem, they were as follows:

1. Media research, collecting the data from media like the internet in order to find references and sources to accomplish the explanation of the problem
2. Library research, this method was used to study the relevant sources in order to discuss the problem and by using qualitative research, the writer will get secondary data
3. Data analysis, the data gained from the internet and library were checked for the relevancy in order to be used as the sources in the final paper arrangement.
4. Providing hypothesis, it was derived from the meaning of the title, the discussion of the problem, and data analysis.

F. Purpose of Research

This research aims:

1. To study and understand the situation of the tourism industry in Vietnam
2. To know about the influence of Doi Moi on the tourism industry in Vietnam
3. To study the strategy of Vietnam to develop the tourism industry.

G. Scope of Research

This research focuses more on the topic of research, and to make this research more specific, the writer limits the time in which the research is conducted. The scope of discussion started from the beginning of Vietnam economic revolution reform (Doi Moi) issues in 1986 until 2018.

H. Systematical Writing

Chapter I: Explains Introduction that consists of Background, Research Question, Purpose of Research, Theoretical Framework, Hypothesis, Research Methodology, Range of Research, and System of Writing.

Chapter II: Is to elaborate economic situation before and after economic revolution reform (Doi Moi Policy) implemented in 1986 by communist Party.

Chapter III: Is to answer the research question of Economic revolution reform (Doi Moi) influence the development of Vietnam's tourism industry by increasing the role of private sector and liberalization investment in tourism business.

Chapter IV: Wraps up the whole research and explanations that have been analyzed in the previous chapters.