When the tourists flew in: strategic implications of foreign direct investment in Vietnam’s tourism industry

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Emphasizes that tourism forms the largest industry in the world and the Vietnamese Government has targeted it for strategic foreign direct investment (FDI). Notes that although researchers and policy makers comprehend particular aspects of tourism, they often misperceive how the variables interact within economic and political systems. Elaborates on experiences in similar and related Asian markets that indicate policies necessary to develop a sustainable, socially and ecologically-desirable tourism industry through appropriate balancing of key stakeholders’ goals. First, defines sustainable development in the context of tourism and indicates its relevance for Vietnam. Next, analyses some economic and social costs and benefits associated with tourism; also interprets recent governmental policies’ influences. Finally, provides policy recommendations for the future of sustainable and economically-viable national tourism development in Vietnam.

The Finance Minister said “It will boost the Economy, the dollars will flow in.”

The Minister of Interior said “It will provide full and varied employment for all the indigenes.”

The Minister of Culture said “It will enrich our life... contact with other cultures must surely improve the texture of living.”

Themam from the Hilton said “We will make you a second Paradise for you it is the threshold of a glorious new beginning!”

When the tourists flew in our island people metamorphosed into a grotesque carnival – a two-week sideshow.

When the tourists flew in our men put aside their fishing nets to become waiters. Our women became whores.

When the tourists flew in what culture we had went out the window. We traded our customs for sunglasses and pop, we turned sacred ceremonies into ten-cent peep shows.

When the tourists flew in local food became scarce, prices went up, but our wages stayed low.

When the tourists flew in we could no longer go down to our beaches. The hotel manager said “Natives defile the sea-shore.”

When the tourists flew in the hunger and the shooting were preserved as a passing pageant for clicking cameras – a chic eyesore.

When the tourists flew in we were asked to be “sidewalk ambassadors” to stay smiling and polite to always guide the “lost” visitor...

Hell, if we could only tell them where we really want them to go!”

(Cecil Rajendra, quoted in Richter, 1989, pp. 190-91)

When the tourists flew in

Governments no longer ask should we encourage tourism – but, rather, how fast can the tourism industry grow? Yet, traditional policies of growth have proved unable to curtail the concurrent growth of socially undesirable industries and environmental degradation in most high-tourist destinations. The Vietnamese Government has targeted the tourism sector in its economy for strategic foreign direct investment (FDI). We provide some suggestions on how a centrally directed economy can maintain sustainable tourism – and, what kinds of FDI should try to attract to do so. Experiences in similar and related markets and industries in Asia provide indications of the policies necessary to develop a sustainable, socially and ecologically-desirable tourism industry through appropriate balancing of key stakeholders’ goals. First, we define sustainable development in the context of tourism and indicate its relevance for Vietnam. Next, we analyse some economic and social costs and benefits associated with tourism; we also interpret recent governmental policy’s influence. Finally, we provide policy recommendations for the future of sustainable and economically viable tourism development in Vietnam.

Sustainable development of Vietnam and tourism

Tourism forms the largest industry in the world contributing approximately 11 per cent to global GDP, employing about 11 per cent of

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the world’s population, having a current, average turnover of US$2,500 billion, and growing at about 12 per cent per annum (Stoessel, 1997; World Travel and Tourism Council). In 1995, East Asia and the Pacific, including Vietnam, contributed 35 per cent to the total, worldwide increase of tourists’ arrivals (World Tourism Organization).

In this section, we define sustainable economic and social development in Vietnam in the context of tourism. As Butler (1993, p. 29) indicated, sustainable tourism is tourism in a form which can maintain its viability in an area for an indefinite period of time; however, sustainable development in the context of tourism is tourism “which is developed and maintained in an area (community, environment) in such a manner and at such a scale that it remains viable over an indefinite period and does not degrade or alter the environment (human and physical) in which it exists to such a degree that it prohibits the successful development and wellbeing of other activities and processes” (Butler, 1993, p. 29). The latter definition explicitly acknowledges tourism as an integral component of national development.

Although researchers and policy makers comprehend particular aspects of tourism, they often misperceive how the variables interact within economic and political systems (Hall and Jenkins, 1995, p.96). These variables, and their effects on strategic decision making, become even more murky in rapidly-developing and changing environments such as Vietnam (Haley, 1996; Haley and Haley, 1997a; Haley and Tan, 1996). Figure 1 indicates real-growth rates hovering around 10 per cent per annum in the Vietnamese economy.

We argue that tourism has multiple facets that involve providing a range of interrelated goods and services by public and private sectors. Tourism also constitutes a dynamic, changing industry that requires medium and long-range planning (Rajotte, 1978); it involves many levels of inter-relationships and co-ordination – at local, state, national, regional and international levels (Shaw and Williams, 1994). Unfortunately, researchers and policy makers have concentrated generally on what markets to tap and what resources to develop for tourism – and have ignored frequently who is developing tourism resources and how they are doing so (Richter, 1988). As Figure 2 indicates, the tourism industry includes several stakeholders – investors (private and governmental), tourists (business and social), indigenous populations and host governments – all with diverse, sometimes-conflicting goals. A full understanding of development and policy instruments, including those in the context of tourism (Aislabie, 1988; Pearce, 1995; Rajotte, 1978) must include some understanding of these diverse stakeholders’ goals (Haley, 1991; Haley and Haley, 1997b; Haley, Low and Toh 1996). Allied industries with high stakes run the gamut from airlines to infrastructural development, and from accommodation to shopping and entertainment. For example, the growing tourism industry in Vietnam supports many allied industries in neighbouring countries such as Thailand and Singapore; consequently, these countries have interests in sustaining tourism in Vietnam.

In 1986, the Communist Government of Vietnam launched Doi Moi, or Renovation, as a policy to reform the economy; from the early 1990s, tourism expanded dramatically in Vietnam with the government gradually opening its command economy to market forces and inviting FDI. In 1990, about 25,000 foreign tourists visited Vietnam; in 1995, about 1.35 million foreign tourists visited Vietnam – a rise of about 33 per cent from the previous year – and brought in around US$818 million (Ihlwan, 1996). The Vietnamese Government aims to attract 3.5 million foreign and about 11 million domestic tourists by the turn of this century. As Figure 3 indicates, from 1991-1995, about 24 per cent of the FDI into Vietnam flowed into tourism. In 1996, the government planned to attract US$6 billion of FDI, of which US$1.6 billion was targeted for the tourism sector (Xinhua News Agency, 1996). The Vietnam National Administration of Tourism estimates that revenues from tourism will reach US$2.6 billion in the year 2000 and about US$11.8
billion in 2010. In 1994, tourism represented 3.5 per cent of Vietnam’s GDP; the government estimates that this proportion will grow to 9.6 per cent by the year 2000 and 12 per cent by 2010 (Vu, 1997).

In 1995, Hong Kong, Taiwan, Singapore and Japan ranked generally as the biggest investors in Vietnam and in tourism specifically (Asia Pacific Profiles, 1996; Figure 4 shows the major investors in Vietnam in 1995. By April 1997, preliminary statistics revealed that Singapore formed the biggest investor in Vietnam with US$4.7 billion of cumulative FDI; Taiwan with US$4.6 billion and Japan with US$2.6 billion of FDI also ranked among the biggest investors in Vietnam (Business Times, 1997). As Figure 5 shows, from 1988-1995, cumulative FDI in the tourism sector exceeded US$4 billion.

The Vietnamese Government has recognized the importance of planning for and understanding tourism; indicators include the government’s six-point strategy for tourism (Vu, 1997) and the first, international, policy conference on sustainable tourism in Vietnam held in Huế in May 1997. In the next section, we will examine some of the drivers behind the Vietnamese tourism industry and their positive and negative effects on development.

Benefits and costs from tourism

As the previous section indicated, the Vietnamese Government plans to develop the tourism industry as part of a balanced economy, as a renewable resource, and in a manner that strengthens Vietnamese society (Publishing House TRE, 1991; Thanh, 1992). Consequently, the tourism industry must generate more employment than it destroys, complement local and domestic industries, and maintain the physical and cultural environments’ integrity. This section elaborates on some economic and social considerations that may influence sustainable development in Vietnam in the context of tourism.

Key economic considerations

As Figure 6 shows, Vietnam’s exports, and by implication its relative competitive strengths, emphasize primarily agriculturally-intensive products — although this proportion has reduced since 1986. Figure 7 shows Vietnam’s increasingly deteriorating trade balance as the country strives to develop. Among some economic benefits of
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Tourism include (Aislabie et al., 1988; Harris and Nelson, 1993) obtaining more foreign exchange for Vietnam; extending existing infrastructure within Vietnam; developing other, inter-related, local products and resources; spreading development geographically and across industrial sectors; complementing other economic activities’ products; and increasing full-time, part-time and seasonal employment, thereby helping Vietnam to achieve its goal of 5 per cent unemployment in cities and not more than 20 per cent underemployment in rural areas (Asia Pacific Profiles 1996).

Conversely, through dynamic, ripple effects, tourism may also increase inflation (which, as Figure 8 shows, the government has increasingly controlled since 1988); increase unemployment; increase susceptibility to political changes, rumours, spread of diseases and economic fluctuations as it assumes more importance in the economy; increase unbalanced, economic development; and, increase visual pollution and destruction of resources. Astute, policy measures need to acknowledge and to shape tourism’s relationships, especially with employment, renewability of resources and foreign exchange.

Employment

According to the General Statistical Office of Vietnam (GSO), in 1995, Vietnam’s total, active, labour force constituted 33 million people; approximately 1.1 million Vietnamese annually enter the labour force. In 1995, the GSO classified about 20 per cent of the labour force as unemployed and about 40 per cent as underemployed; approximately 72 per cent of the labour force worked in agriculture, and approximately 1 per cent in tourism (General Statistical Office of Vietnam).

For Vietnam, the tourism industry can create jobs in two ways (Aislabie et al., 1988; Forsyth and Dwyer, 1994). First, tourism can create jobs immediately through employing local citizens in hotels, restaurants, and entertainment and tourist services that cater directly to tourists. Second, tourism can create jobs through multiplier effects. For example, by creating demand for local products supplied to establishments that would not have existed without tourists, tourism can create employment in related, service industries; tourism also can create jobs to serve the additional demand from otherwise-unemployed, local citizens working in the industry. The tourism industry, however, also can destroy jobs, or reduce job creation, and to the extent it does, policy makers have to adjust the multiplier effects (Cohen, 1995).

First, tourism can destroy jobs when tourists visit sites primarily for their pristine beauty. These tourists usually prefer seeing old forests to logged forests, meadows to cultivated fields, and coral reefs to fishing fleets. If tourism displaces farmers, loggers, fishermen or other productively-employed individuals, it destroys these individuals’ jobs and those of individuals in related service and support industries.

Second, underemployment often dampens tourism’s multiplier effects in developing economies such as Vietnam (Ecologically Sustainable Development Working Groups, 1991). To the extent that underemployed people in Vietnam can extend their efforts and increase their productivity within their...
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jobs, the tourism industry’s growth will fail to employ additional people in related, service industries, or in those industries and businesses indirectly affected by tourism.

Third, tourism can destroy jobs through currency-exchange value effects. If tourism increases demand for the local currency, and drives up the local currency’s value in foreign-exchange markets, it will drive up the price of the country’s exports. The more-expensive exports will encounter decreased demand in foreign markets, thereby affecting jobs in the country’s export industries.

Recently, the Vietnamese Central Bank has loosened restrictions on the trading of the Vietnamese Dong, indicating a possible, planned move to a managed-float system. A floating Dong may help Vietnam’s trade balances, and by expanding money supply, stimulate local demand and increase employment; however, it may also adversely affect employment. According to the new measures, the Dong will trade for as much as 5 per cent above or below the government’s guideline rate (Asian Business Review, 1997). Under a floating-exchange rate (which Vietnam does not yet have) and with a successful tourism industry, tourists purchasing the Dong can drive up its demand, thereby increasing its price. This appreciation may make Vietnamese exports more expensive in foreign markets, and imports cheaper in Vietnam. Fewer exports could reduce employment in traditional, export industries which may offset employment gains created by tourism. The fixed-currency system restricts the Dong’s appreciation; consequently, Vietnamese exports did not become more expensive in foreign markets and its imports did not become cheaper at home. In the short term, with a fixed-exchange rate, jobs otherwise lost in export industries due to the Dong’s appreciation will remain and not offset jobs created by tourism. However, given Vietnam’s large trade deficits, a successful tourism industry will probably not result in the Dong’s significant appreciation, even if the government allows the currency to float.

Figure 7
Vietnam’s trade balance, 1988-95

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<tbody>
<tr>
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<td>-500</td>
<td>-1,000</td>
<td>-1,500</td>
<td>-2,000</td>
<td>-2,500</td>
<td>-2,000</td>
<td>-1,500</td>
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Source: Asia Pacific Profiles, 1996

Figure 8
Inflation in Vietnam, 1988-95

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<td>400</td>
<td>300</td>
<td>200</td>
<td>100</td>
<td>0</td>
<td>0</td>
</tr>
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</table>

Source: Asia Pacific Profiles, 1996

Resources’ renewability
Managing environmentally oriented tourism facilities as renewable, rather than finite, resources poses unique challenges (Hunter and Green, 1995). In Vietnam, with some of the most verdant, natural spots in the region, the tourism boom is fuelling fears of ecological damage. As Vietnam’s Ministry of Agriculture and Rural Development revealed, forest areas have already reduced from 14,325,000 hectares, or 43.7 per cent of the country, in 1943 to 8,631,000 hectares, or 26.1 per cent of the country, in 1994; resort developments must surely reduce this proportion further (Pham, 1997). Consequently, environmentalists have protested against resort developments and the attendant proliferation of water and chemical-intensive golf courses in the subregion (Gill, 1996).

Other challenges revolve around coordinating the industry’s profits with the industry’s seasonality and cycles. Seasonality makes imperative a situation where tourists’ facilities must earn crucial portions of revenues and profits during limited periods in the year. During peak seasons, seasonal facilities may frequently operate at or near full capacities even though they raise prices. However, during the balance of the year, seasonal
facilities must continue to cover fixed costs, such as maintenance and repairs, while revenues significantly fall through reduced volume, reduced prices, or both. Consequently, managers must build seasonal facilities that can generate sufficient revenues during peak seasons to carry the facilities’ debt burdens through slack seasons.

Additionally, as tourist areas achieve success, property values rise. More expensive land has to attain greater returns per square metre to achieve profitability; hence, usually, the facilities’ carrying capacities become denser. The resulting difficulties appear readily visible in popular, beach resorts such as Pattaya in Thailand and Bali in Indonesia. In these tourist areas emerge large, glossy hotels and heavily-degraded environments; relative slums also arise as inflated land prices force local residents from old neighbourhoods, within reasonable distances of tourist areas where they work, into densely-packed residential ghettos.

Table I shows the environmental degradation that can typically arise at beach resorts; the kinds of pollution vary through each zone of tourists’ activities. Table II shows tourists’ waste-water production in Pattaya, a beach resort near Bangkok, Thailand; it also reflects the peak seasons’ relative effects on commercial and residential waste-water production. Waste-water production during Pattaya’s peak seasons ranged from 1.65 to 2.29 times the average over the entire year (Manopimoke, 1992). Comparisons for the averages of the non-peak with the peak seasons would appear more dramatic. Despite developing countries’ scarce resources, policy makers have to incorporate seasonal, cost considerations in tourists’ facilities. Typical decisions include trade-offs between inevitable environmental degradation and absorbing waste-water or solid-waste treatment facilities’ excess capacities and maintenance costs during off-peak seasons.

In 1995, approximately 72 per cent of FDI in tourism in Vietnam flowed into the construction of hotels (Erramilli et al., 1997). In 1996, Vietnam had 51,000 hotel rooms with more than half of them up to international standards; the number of hotel rooms should rise to 76,000 by the year 2000 (Xinhua News Agency, 1996). To prevent a glut, Vietnam has begun to limit FDI in hotels. The government encourages FDI in the construction of entertainment sites, large tourist villages and ecological resorts, but not large hotels. For example, the Vietnam National Administration of Tourism announced that the country needs 10 or 15 large tourist areas, each with an investment of US$200 to 300 million. However, the government still invites construction of hotels in targeted areas such as Hanoi, Ho Chi Minh City, Hai Phong and some others (Xinhua News Agency, 1996). Policy lessons from Bali in Indonesia indicate that by limiting hotels’ and tourist resorts’ sizes (though not their quality), Vietnam should expend fewer scarce resources, increase beneficial multiplier effects and retain greater control of development: small guest houses need less capital, create greater backward linkages, increase multiplier effects, and increase informal employment more than large, five-star hotels do (Wall, 1993).

As tourism develops, the government also needs to maintain well-used infrastructure, such as roads and telephone lines. Recently, Prime Minister Vo Van Kiet of Vietnam called for mass mobilization of the country’s workforce to modernize crumbling infrastructure. In an interview with the official Vietnam News Agency, the Prime Minister gave few details but analysts believe that all citizens of working age will toil for a fixed number of days each year (Asian Business Review, 1997). Failing, inadequate infrastructure can prove a major impediment to the tourism industry’s expansion in Vietnam. However, one wonders if a non-specialized, mobilized workforce can expand and renovate to acceptable, international standards, rail lines, ports, airpo
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Socio-cultural values
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must have at least 30 per cent of Vietnamese
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have local ownership and management; and,
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A trip by us, in May 1997, to Tu Duc's tomb,
constructed between 1864-1867 in Hué,
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tomb overflows with stories on its construc-
tion, its symbolic resonance and historical
significance: for example, extinct animals' tracks, made on then-setting concrete in the
now-overgrown paths, speak eloquently of the whirlwind construction that almost led to a
labour revolt. Yet, no signs or guidebooks tell
these stories. Most of Vietnam's major tombs,
including another Nguyen king's, Minh
Mang's, majestic and architecturally-superb
tomb in Hué, appear overgrown and in dire
disarray: many seem to have experienced
recent plundering, and all manifest grave
needs of renovation. Such degradation of
physical, cultural and social environments
will hasten tourism development's fall and
disrepute. The industry will also suffer if the
degradation continues to destroy the areas' physical and cultural attractions; it will spir-
ral into disrepute if the local authorities,
desperate to maintain the industry's jobs and
tax revenues, allow the markets to turn
towards the more undesirable niches. The long-
term social and economic effects could have enormously detrimental consequences for
host nations (Rajotte, 1978).
Some socio-cultural issues involve policies emphasizing different types of tourist develop-
ments. As we indicated earlier, the Vietnamese Government is encouraging the development of
large, resort areas (Xinhua News Agency, 1996) that often include large, hotel complexes.
Large resorts offer many quality and price
levels to accommodate several budgets and
frequently include their own commercial
complexes. Their hotels' high-business vol-
umes, and tendencies to collect in close prox-
imity, also ensure that the large resorts will
generate a significant amount of solid and
liquid wastes, as well as social and cultural
pollution. Alternatively, the Vietnamese
Government could emphasize building
smaller resorts, aimed at niche markets: at the
lower end, these smaller resorts will generally
have local ownership and management; and,
at the higher end, will tend to emphasize
smaller hotels at the super-premium level

Foreign exchange
Tourism can either bring foreign exchange
into Vietnam or leak it out of the Vietnamese
economy. Ultimately, policy should encourage
foreigners to spend more in Vietnam than
Vietnamese spend in the foreign countries
(either as tourists or to purchase essential
resources and skills or to augment infrastruc-
ture). One driver behind the tourist explosion
in ASEAN countries seems to revolve around the vast amounts of surplus capital generated
every year from illegal activities such as
prostitution and drug trafficking. For many
illegal activities, laundering cash in real
cash in real estate, hotels, casinos and golf courses seems to offer lucrative and safe solutions; although
these illegal activities create an underground economy, they do not generate foreign exchange for Vietnam and the government
must adequately regulate them.

Key social considerations
At its most sublime, tourism has the potential
to broaden education; increase international
peace and understanding; dissolve language,
social, class, religious and racial barriers;
and increase appreciation of one's own and
extraneous socio-cultural elements (Cohen,
1995; Harris and Nelson, 1993). However,
tourism may equally increase misunder-
standing, stereotyping, xenophobia, demon-
stration effects and social pollution; fuel the
commercialization of culture and religion;
and, contribute to prostitution, conflicts and
crime (Pearce, 1995). Although most foreign
investors in Vietnam maintain majority con-
trol (Erramilli et al., 1997), the government
has begun to limit foreign ownership of
hotels: all three-star, joint-venture hotels
must have at least 30 per cent of Vietnamese
investment (Xinhua News Agency, 1996). In
addition, alarmed by the growth of the sex
industry along with growing tourism, the
government has launched a campaign to
eradicate "social evils" (Gill, 1996). Effective,
policy measures need to acknowledge and to
shape tourism's relationships, especially
with socio-cultural values.

Socio-cultural values
Excessive and uncontrolled development of
Tourism tends to create cultural degradation
(Hall and Jenkins, 1995; Pearce, 1995). Local
populations may exhibit severe resentment
towards tourists as rising property values
force locals into ghettos. The local communi-
ties' cultural values may also weaken:

a portion may identify with the tourists'
cultural values and wish to possess the same
luxuries; concentrations of tourists and
wealth may tempt some locals into undesir-
able professions; or too many tourists may
erode well-respected cultural and historical
shrines. As island developments indicate, the
Cumulative effects of tourists' contributions
to cultural degradation may assume signifi-
cant proportions.

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FDI in tourism in Vietnam is resulting in large tourist developments with large-scale economies and long time horizons; these patterns reflect investors’ goals to maximize and to repatriate profits, as well as to achieve political and cultural influence (Haley et al., 1996). Yet, other stakeholders, such as Vietnam’s indigenous people and government, may not obtain commensurate benefits and may shoulder unforeseen costs. For effective, balanced growth, the Vietnamese government has to question who is developing the tourism industry and how they are doing so. Some economic questions that need routine answers include: which stakeholders (governmental and private) receive income from tourists? Which stakeholders pay costs from tourism? How have indigenous populations benefited from the industry? What patterns of business initiation, bankruptcies and profits permeate the Vietnamese tourism industry? Some social questions also need routine answers: what kinds of jobs (quantity and quality) is tourism creating? Who is migrating in and out of the communities? What complaints do major stakeholders voice about tourism? Who are the tourists (numbers, proportion of repeat visitors, lengths of stay)?

From our analysis, we recommend that to promote sustainable development in the context of tourism, the Vietnamese Government should:

- develop and implement new economic and social indicators that define national well-being as sustainable development;
- design and implement public consultation techniques and processes to involve all major stakeholders in making decisions on the tourism industry;
- create tourism advisory boards that involve all stakeholders;
- identify support industries for tourism in which Vietnam can have a conceivable advantage – and encourage their development to ensure increased employment;
- include tourism in land-use planning, especially vis-à-vis agricultural uses;
- develop standards and regulations for economic and social impact assessments, and monitoring and auditing of existing and proposed tourist developments;
- ensure that the carrying capacities of tourists’ facilities reflect sustainable levels of development and are monitored and adjusted appropriately;

<table>
<thead>
<tr>
<th>Year</th>
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<th>Tourism projects as per cent of total FDI projects</th>
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<td>1995</td>
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Table III

FDI projects in tourism in Vietnam

Source: Adapted from Erramilli, Luu, Gilbert and Hooi (1997)
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