Perceptions and behaviours of Vietnamese firms towards deeper regional economic integration in ASEAN under the ASEAN Economic Community: Case studies from the food processing industry

Ha Thanh Nhan Nguyen

MBus

2015

Perceptions and behaviours of Vietnamese firms towards deeper regional economic integration in ASEAN under the ASEAN Economic Community: Case studies from the food processing industry

Ha Thanh Nhan Nguyen

A dissertation submitted to
Auckland University of Technology
in partial fulfilment of the requirements for the degree of
Master of Business (MBus)

2015

Faculty of Business and Law

TABLE OF CONTENTS

LIST OF FIGURES

LIST OF TABLES

ATTESTATION OF AUTHORSHIP

I hereby declare that this submission is my own work and that, to the best of my knowledge and belief, it contains no material previously published or written by another person (except where explicitly defined in the acknowledgments), nor material which to a substantial extent has been submitted for the award of any other degree or diploma of a university or other institution of higher learning.

January 29th, 2015

Ha Thanh Nhan Nguyen

ACKNOWLEDGEMENTS

I would like to express my deepest gratitude to my supervisor, Professor Peter Enderwick, for his valuable guidance, support and feedback since I started developing my research topic until I embarked on carrying out the research and completed the dissertation. I have benefited a lot from his academic advice.

I would also like to express my sincere thanks to New Zealand Ministry of Foreign Affairs and Trade (MFAT) - the New Zealand Aid Programme, and New Zealand Embassy in Vietnam for giving me the scholarship to study at an advanced level in New Zealand. Thanks to MFAT and AUT Scholarship Office for funding and supporting my field trip to collect data in Vietnam.

Special thanks to the case companies and participants for their willingness to take part in my research and share their views with me, contributing to the completion of the dissertation. All of the participants have been very enthusiastic and supportive.

Thanks to my colleague at Da Nang Department of Industry and Trade, Ms. Phuong Vo for her advice that helped me overcome challenges of the research process.

I would also like to thank Peter McGhee for giving me advice on ethics application processes and AUT Ethics Committee for assessing and approving my ethics application (Ethics application number 14/239, date of approval 20th August 2014).

Furthermore, I would like to thank AUT Business Postgraduate Research Office staff for all their support during my research period.

Grateful thanks to all of my lecturers at AUT for sharing their useful academic knowledge and experiences with me during the last two years.

Last, but not least, I would like to thank my family and friends for their endless love, encouragement and support over the past two years in New Zealand. Without their love and persistence, I would not have been able to complete this research. No words can express how thankful I am to have them in my life.

ABSTRACT

ASEAN - the Association of Southeast Asian Nations - is a model of regional integration. Economic integration is an important component within the ASEAN region. Economic cooperation among countries within a region or countries that share borders can create opportunities for member countries to create larger markets through reducing barriers to trade, investment, capital or labour. It can also help member countries to enhance their competitiveness and integrate with the international market. ASEAN countries are now on the road to establish an ASEAN Economic Community (AEC) by 2015 aiming at deeper economic integration among member countries. The AEC as a single market and production base could provide larger opportunities for businesses within the region to expand and improve their competitiveness. However, regional economic integration (REI) also poses a number of challenges. Within an REI, firms need to position themselves to take advantage of the likely benefits and to stay competitive.

This research explores how some Vietnamese firms in the food processing industry perceive and react to the requirements and the likely impacts of deeper REI under the AEC. The study contributes to the literature on the behaviour of firms towards REI, provides the business community with an approach to business strategies under REI and policy makers in Vietnam with a better understanding of REI strategies.

1. INTRODUCTION

1.1. Significance and aims of the research

REI has become an increasing trend within the world economy given the benefits that it offers. The ASEAN was established in 1967. It is an example of regional integration that has been moving towards a deeper and more comprehensive regional linkage of which economic integration is an important component and has culminated in the establishment of the AEC in 2015. There have been many research papers addressing different aspects of REI, e.g. Cuervo-Cazurra and Un (2007), Kim (2007), Chen (2009), de la Torre, Esperança, and Martínez (2011), etc., and especially economic integration in ASEAN, e.g. Mirza and Giroud (2004), Plummer (2006), Ismail, Smith, and Kugler (2009), Austria (2012), Petri, Plummer, and Zhai (2012), Pomfret (2013), etc. The general theme of this work confirms the potential benefits that deeper economic integration within a region can bring to its member countries. It also sets out the challenges that member country firms may face and the differences in benefits between member countries, as well as the need for members, especially CLMV countries (Cambodia, Laos, Myanmar and Vietnam), to adopt appropriate strategies towards REI. Vietnam can be considered as an emerging economy among the laggard CLMV group, but it still has a long way ahead to catch up with more developed members.

Most previous studies on REI approached the problems at a regional and national level. Many of those examining REI in ASEAN, especially REI under the upcoming AEC, discussed REI with regard to the whole region in general. There were also several studies about Vietnam but they were mainly quantitative and predictive in approach. Some literature has addressed the behaviour of firms towards REI such as Eden (2002), Cuervo-Cazurra and Un (2007), Cavusgil, Knight, and Riesenberger (2008), Dunning and Lundan (2008), de la Torre et al. (2011). These studies were also general and quantitative. Firms' strategies or behaviours may vary in different contexts. There has been no study on this issue of REI for the ASEAN region, or ASEAN members towards the AEC, particularly study at the organisational level providing in-depth and practical interpretations of the perceptions and behaviours of Vietnamese firms towards deeper REI under the AEC to find ways to address these problems in practice. In addition, although ASEAN is on the way to developing an economic community in 2015 and the impacts of the AEC are still not clear, if firms wait for those impacts and conditions to occur before their reactions, it is likely that their responses will be too late and ineffective. From the implications of the literature and the research gap, the author develops key research questions for this dissertation to investigate Vietnamese firms' perception and reactions to the AEC as follows:

- How do Vietnamese firms perceive the likely impacts of deeper regional economic integration under the ASEAN Economic Community?

- What are the responses Vietnamese firms have undertaken to prepare for the ASEAN Economic Community and the responses they will take in the future?

The study will contribute to current literature on the behaviour of firms towards REI. It will also provide the business community with an approach to business strategies under REI, enhancing their awareness about the REI process and motivating them to adopt more positive responses to improve their capabilities and deal with the increasing global and regional competition. Policy makers in Vietnam will also be provided with a better understanding of REI strategies to help domestic economic entities integrate better into the AEC.

Because the behaviours of firms in an economy may vary depending on the industry and the market they are in, this research focuses on Vietnam and uses case studies of Vietnamese companies in the food processing industry as a specific illustration. Vietnam offers an example case country as it is one of the CLMV countries – the less developed countries in ASEAN, but is also considered as an emerging economy given its active reforms and participation in international economic integration and its position as one of the three most attractive FDI (foreign direct investment) destinations in ASEAN (Pomfret, 2013).

The food processing industry is chosen for several reasons. It is a downstream industry, part of the supply chain which processes the outputs of agriculture – an advantageous sector of Vietnam and many other ASEAN countries. A number of ASEAN countries are very competitive in this industry. Serving the domestic market with a large population of 90 million people, the food processing industry in Vietnam is an example of a more domestically focused industry (Balmer, 2009). Being a growing industry in Vietnam's economy, Vietnamese enterprises in the food processing industry will have more opportunities to expand their business with the establishment of the AEC; however, they also have to face considerable competitive pressure in both domestic and foreign markets.

1.2. Context of the research

1.2.1. ASEAN and the regional economic integration

ASEAN was established in 1967 by five initial members – Indonesia, Malaysia, the Philippines, Singapore and Thailand. The regional bloc was joined by Brunei in 1984, Vietnam in 1995, Laos and Myanmar in 1997, and Cambodia in 1999. ASEAN was formed with the aims of promoting regional peace and stability as well as cooperation in economic, social, cultural and other fields (Association of Southeast Asian Nations, n.d.-e).

ASEAN is a model of regional integration. Since its establishment, it has completed many REI initiatives. After ASEAN's formation, the Preferential Trading Agreement was adopted in 1977. Then the most important initiative of economic integration in ASEAN – the ASEAN Free Trade Area (AFTA) was established in 1992 and was implemented over 10 years later (Plummer, 2006). The main aim of AFTA was to reduce tariff rates to 0-5% among ASEAN members through a Common Effective Preferential Tariff (CEPT). In October 1998, ASEAN Investment Area (AIA) (which was amended in 2001) was signed with a more liberal investment environment to promote ASEAN as a single and competitive investment area. In services, the ASEAN Framework Agreement in Services (AFAS) was signed in 1995 to eliminate restrictions on trade in services within the region (Austria, 2012). At the 2003 ASEAN Summit, the AEC was proposed to be established by 2020. Later, at the 2007 ASEAN Summit, the AEC initiative was brought forward to be implemented by 2015 (Association of Southeast Asian Nations, n.d.-a). The initiative is designed to unify and extend earlier regional integration initiatives by incorporating multiple policy measures towards a single ASEAN market.

With the establishment of the AEC, ASEAN has become a more deeply integrated region. At the same time, it also formed new economic arrangements with external partners such as the ASEAN+3 Initiative signed between the ASEAN members and China, Japan, and Korea; the ASEAN-China Free Trade Area – ACFTA (formerly known as a framework agreement signed in 2002); the Framework Agreement on Comprehensive Economic Cooperation between ASEAN and South Korea; the ASEAN-Japan Comprehensive Economic Partnership – AJCEP; ASEAN-Australia-New Zealand Free Trade Agreement; or ASEAN-India Trade in Goods Agreement (Association of Southeast Asian Nations, n.d.-b).

With the population of nearly 600 million people, abundant natural resources, cheap and skilled workers, ASEAN is an attractive destination for FDI inflows (Mirza & Giroud, 2004). In addition, the unilateral trade and investment liberalisation policies which have boosted domestic efficiency, also contribute to increasing the attractiveness of member countries to MNCs (Austria, 2012).

FDI inflows into ASEAN dramatically increased over the last decade, up from over US$ 23 billion in 2000 to over US$ 40 billion in 2005 and over US$ 122 billion in 2013. Intra-ASEAN FDI inflows accounted, on average, for 15% of total FDI inflows into the region during the period 2000-2013. During this period, the share of intra-regional FDI inflows to total FDI inflows was quite limited but gradually increased to 17.4% in 2013 (see Table 1.1).

Table 1.1: Total and intra-ASEAN FDI flows into ASEAN

(Value in US$ million, share to total in per cent)

	Intra-ASEAN	Total inflow	Intra-ASEAN share to total
2000	762	23,541	3.2
2001	2,548	20,111	12.7
2002	3,815	17,224	22.1
2003	2,712	24,512	11.1
2004	2,963	36,315	8.2
2005	4,060	40,714	10
2006	7,876	56,648	13.9
2007	9,626	75,651	12.7
2008	9,449	47,075	20.1
2009	5,271	38,266	13.8
2010	12,279	75,908	16.2
2011	15,228.4	97,538.1	15.6
2012	20,657.6	114,285	18.1
2013	21,321.5	122,376.5	17.4
2000-2013	118,568.5	790,164.6	15

(Source: Association of Southeast Asian Nations, n.d.-c)

The total export and import values of member countries also increased at a high rate during the last decade, with extra-regional trade accounting for the majority of trade in the region (over 70%, see Table 1.2). However, intra-regional trade also increased considerably. Intra-regional exports were over 93 billion USD in 2000, rose to nearly 164 billion USD in 2005 and reached over 309 billion USD in 2011. Intra-regional imports increased from over 73 billion USD in 2000 to 141 billion USD in 2005 and over 274 billion USD in 2011.

Table 1.2: ASEAN's exports and imports

(Value in US$ million, share to total in per cent)

	Exports				Imports			
	Intra-ASEAN	Extra-ASEAN	Total	Share of intra-ASEAN to total	Intra-ASEAN	Extra-ASEAN	Total	Share of intra-ASEAN to total
2000	93,380	316,761	410,141	22.8	73,466	275,494	348,960	21.1
2001	82,681	287,675	370,356	22.3	67,640	252,995	320,635	21.1
2002	86,707	297,148	383,854	22.6	73,202	256,761	329,963	22.2
2003	115,601	336,956	452,557	25.5	91,131	280,851	371,982	24.5
2004	141,247	428,122	569,369	24.8	119,694	382,784	502,479	23.8
2005	163,863	484,284	648,147	25.3	141,031	435,712	576,742	24.5
2006	189,177	561,531	750,708	25.2	163,595	490,503	654,098	25.0
2007	217,334	642,470	859,804	25.3	184,586	566,398	750,984	24.6
2008	249,986	727,551	977,537	25.6	220,126	699,464	919,591	23.9
2009	199,545	610,928	810,473	24.6	176,633	549,772	726,405	24.3
2010	295,444	752,702	1,048,146	28.2	252,975	697,034	950,009	26.6
2011	309,661	928,062	1,237,723	25.0	274,590	874,271	1,148,861	23.9

(Source: Association of Southeast Asian Nations, n.d.-d)

ASEAN's member countries have different levels of development and are diversified in size, resources and technology, especially in the development gap between older member countries and others. As a result, their economic performance varies significantly. Nevertheless, these differences can provide stimulation for developing intra-regional trade and production networks (Chia, 2011). As outlined above, most of ASEAN's trade is extra-regional. However, regional markets are becoming more important for ASEAN member countries. Most ASEAN members now make at least one-fifth of their trade transactions intra-regionally, a much larger proportion than twenty years ago (Petri et al., 2012).

1.2.2. The ASEAN Economic Community

The AEC is a deep form of REI. Unlike widening which involves the incorporation of new members, deepening integration concerns the closer linkages and the adoption of more common policies across a range of issues among member countries (Wesley, 2003). The AEC initiative was considered for many reasons, including: The need to create a comprehensive agenda for the post-AFTA initiative; In view of the new economic environment with the growth of free-trade areas, there was the need for deepening the ASEAN regional economic integration; As members were increasingly following their own economic strategies, their bilateral FTAs could be detrimental to ASEAN integration (Plummer, 2006).

The road map for establishing the AEC was provided in the 2007 ASEAN Blueprint which aims at four main goals: creating a single market and production base with free flows of goods, services, investment, skilled labour and the freer flow of capital; developing a competitive area with clear competition policies; promoting equitable economic development; and developing a region fully integrated into the global network (Association of Southeast Asian Nations, n.d.-a). The main focus on creating a single market and production base is to satisfy consumers’ needs and provide manufacturers and businesses with a broader market without barriers in the region.

As mentioned above, the AEC was established to extend and integrate the earlier initiatives of AFTA, AIA, AFAS towards an ASEAN single market. Following AFTA which was established in 1992 to reduce tariff rates among member states through CEPT, in 2009 ASEAN Trade in Goods Agreement (ATIGA) was signed to reinforce and combine the CEPT-AFTA into one unified instrument in trade to serve the goal of establishing a single market and production base. ATIGA came into effect in 2010. In investment, after the signature and amendment of AIA, in 2009 AIA and ASEAN Agreement for the Promotion and Protection of Investments were revised and integrated into the ASEAN Comprehensive Investment Agreement (ACIA) with the aim of creating a free and open investment regime in ASEAN by 2015 and increasing the competitiveness of the region as an attractive investment destination. In services, AFAS has passed five rounds of negotiations to come to seven packages of commitments to the liberalisation of services within the region (Austria, 2012).

1.2.3. Vietnam with international economic integration and the regional economic integration in ASEAN

Vietnam is a country in Southeast Asia with a population of around 90 million people. In recent years, Vietnam has performed quite well in economic terms. The annual Gross Domestic Product (GDP) grew at the rate of 5-8% each year during the period of 2005-2013 (at constant 2010 prices). GDP per capita showed a considerable improvement from US$ 700 in 2005 to US$ 1,273 in 2010 and up to US$ 1,908 in 2013. Retail sales of goods and services increased enormously from about VND 480,000 billion (about US$ 30 billion) in 2005 to about VND 1,677,000 billion (about US$ 88 billion) in 2010 and about VND 2,668,000 billion (about US$ 126 billion) in 2013, which shows the strongly increasing purchasing power of a big and growing market (the conversion to US$ is based on the inter-bank average exchange rate announced by The State Bank of Vietnam each year) (The State Bank of Vietnam, n.d.; Vietnam General Statistics

Office, 2014b). In addition, the growth in foreign trade activities and the attractiveness to inward FDI flows into the country indicate the increasingly open and integrated economy of Vietnam. The total value of exports and imports of goods increased by nearly four times between 2005 and 2013 from about US$ 69.2 billion in 2005 to US$ 157 billion in 2010 and US$ 264 billion in 2013, in which exports saw an increase from US$ 32.4 billion in 2005 to US$ 72.2 billion in 2010 and US$ 132 billion in 2013 (see Table 1.3).

Table 1.3: Vietnam's exports and imports

(Value in US$ million)

Year	Total	Exports	Imports
2005	69,208.2	32,447.1	36,761.1
2006	84,717.3	39,826.2	44,891.1
2007	111,326.1	48,561.4	62,764.7
2008	143,398.9	62,685.1	80,713.8
2009	127,045.1	57,096.3	69,948.8
2010	157,075.3	72,236.7	84,838.6
2011	203,655.5	96,905.7	106,749.8
2012	228,309.6	114,529.2	113,780.4
Prel. 2013	264,065.5	132,032.9	132,032.6

(Source: Vietnam General Statistics Office, 2014b)

In investment, the country could only attract about US$ 1.6 billion of FDI during 1988-1990 but this increased with some fluctuations until 2000 when it began steadily increasing and was in the range of US$ 2.7 billion–6.8 billion per year during 2000-2005. From 2006, the value of FDI inflows began to increase significantly and reached US$ 71.7 billion in 2008 then decreased until 2012. However the value of annual FDI inflows during the period of 2009-2013 was stable at US$ 15 billion-23 billion. Accumulated to the end of 2013, total FDI capital inflows into Vietnam were US$ 234.1 billion taking into account all projects having effect to the end 2013 (see Table 1.4).

Table 1.4: Vietnam's inward FDI projects licensed in period 1988-2013

(Value of projects in US$ million)

	Number of projects	Total registered capital
1988-1990	211	1,603.5
1991	152	1,284.4
1992	196	2,077.6
1993	274	2,829.8
1994	372	4,262.1
1995	415	7,925.2
1996	372	9,635.3

1997	349	5,955.6
1998	285	4,873.4
1999	327	2,282.5
2000	391	2,762.8
2001	555	3,265.7
2002	808	2,993.4
2003	791	3,172.7
2004	811	4,534.3
2005	970	6,840.0
2006	987	12,004.5
2007	1,544	21,348.8
2008	1,171	71,726.8
2009	1,208	23,107.5
2010	1,237	19,886.8
2011	1,191	15,618.7
2012	1,287	16,348.0
Prel. 2013	1,530	22,352.2
Accumulation as of the end 2013	15,932	234,121.0

(Source: Vietnam General Statistics Office, 2014b)

Since the 1990s Vietnam has been increasing its participation into the international market through international economic integration processes. Vietnam joined ASEAN in 1995, World Trade Organisation (WTO) in 2007. It also signed a number of trade agreements with trade and investment partners in the world including Bilateral Trade Agreement (BTA) with the US in 2000, became involved in free trade agreements (FTAs) under the ASEAN umbrella including FTAs with China, Japan, Korea, India, and Australia and New Zealand and signed other numerous trade and investment agreements with lower levels of commitment. It is now negotiating other bilateral and multilateral FTAs with the EU, Korea, Russia-Belarus-Kazakhstan customs union, and the Trans-Pacific Partnership agreement (TPP) (Vietnam Chamber of Commerce and Industry WTO Center, n.d.; Vo & Nguyen, 2011). Since joining ASEAN, Vietnam has been increasingly accelerating its integration into this region through AFTA, AIA, AFAS and other regional agreements to strengthen access to a large regional market and reach out to the world market taking advantage of this position. In foreign trade relations, intra-ASEAN exports contributed 14-18 per cent to annual total export value of the country during the period 2005-2013, while intra-ASEAN imports accounted for 16-25 per cent of annual total import value during the same period (see Table 1.5). In FDI attraction, intra-regional FDI inflows made up over one-fifth of total FDI inflows into the country, namely 22.3% of cumulative projects having effect as of the end 2013. Most of the intra-regional inflows came from Singapore, Malaysia and Thailand. In addition, the FDI outflows, though, just achieved a modest value of USD 16.6 billion (accumulating projects having effect as of the end 2013), the majority of these FDI outflows went to other ASEAN countries (54.6%) (see Table 1.6). Although Vietnam and the other CLMV countries – Cambodia, Laos, Myanmar – have been considered as lagging far behind other initial and more developed members of ASEAN, Vietnam had established its position as one of the three most attractive FDI destinations in ASEAN by 2008-2010 given its advantages and drastic economic reform as well as its greater participation in international economic integration (Pomfret, 2013).

Table 1.5: Vietnam's total and intra-ASEAN exports and imports of goods

(Value in US$ million, share to total in per cent)

	Exports			Imports		
	Total	To ASEAN	Share to total	Total	From ASEAN	Share to total
2005	32,447.1	5,743.5	17.7	36,761.1	9,326.3	25.4
2010	72,236.1	10,364.7	14.3	84,838.6	16,407.5	19.3
2011	96,905.7	13,656.0	14.1	106,749.8	20,910.2	19.6
2012	114,529.2	17,426.5	15.2	113,780.4	20,820.3	18.3
Prel. 2013	132,032.9	18,415.1	13.9	132,032.6	21,334.1	16.2

(Source: Vietnam General Statistics Office, 2014b)

Table 1.6: Vietnam's total and intra-ASEAN FDI flows (accumulation projects having effect as of the end 2013)

(Value in US$ million, share to total in per cent)

	FDI inflows			FDI outflows		
	Total	From ASEAN	Share to total	Total	To ASEAN	Share to total
As of the end 2013	234,121.0	52,207.1	22.3	16,624.0	9,072.4	54.6
2013	22,352.2	5,244.1	23.5			

(Source: Vietnam General Statistics Office, 2014b)

1.2.4. The food processing industry

Food processing is a downstream industry transforming agricultural outputs, and is the link between farmers and ultimate consumers. The food processing industry has some distinctive characteristics compared with other manufacturing sectors, mainly in terms of the raw material. The supply of raw material for this industry is highly seasonal and varies from year to year, which affects the operations of food processing plants and the profitability of companies. The characteristics of variable quality and perishability of the raw material are also important factors, so companies in the food processing industry are inclined to locate their processing plants near the source of materials. There are also a number of other notable factors in the industry such as hygiene and safety issues, product diversity, value chain, etc. which enterprises and the government seek to continuously improve, enhancing the value and competitiveness of products in the industry (Minot, 1998).

As agriculture is an important sector of Vietnam, as with many other ASEAN countries' economies, the food processing industry plays a significant role in the development of the economy. This is a large and growing industry in Vietnam, on average accounting for about 20% GDP and 20% of the gross output of industry during the period of 2001 to 2013. The export value of food and other processed products in the industry reached nearly USD 20 billion in 2012, increasing three-fold compared with 2005 and making up 16-20% of total exports. However, the most exported food products were fresh foods and preliminarily processed foods. Food processing is one of the top three manufacturing industries in terms of the number of enterprises, which represents the very intensive competition within the industry. There were 7,751 enterprises participating in this industry with over 550.000 employees at the end of 2012. Enterprises with less than 50 employees accounted for 78.8% of the total, the rest were enterprises with 50-5,000 employees; and the number of enterprises with less than VND 50 billion of capital (about US$ 2.4 million) made up 85.6% of the total, the rest were enterprises with capital of VND 50 billion-500 billion (about US$ 2.4-24 million) and over (the conversion to US$ is based on the inter-bank average exchange rate announced by The State Bank of Vietnam at the end of 2012 (The State Bank of Vietnam, n.d.)).

This shows that most of the enterprises in the food processing industry are small. The food processing industry is also one of the two most labour-intensive industries in manufacturing together with the garments and textiles industries. Competition within the food processing industry is also increased by the presence of foreign enterprises. While the food processing industry has quite high profit rate per capital (ratio between total profit before tax and total capital) (8.6% in 2011) compared with the average profit rate per capital of enterprises in all industries (2.5% in 2011), the profit rate per capital of FDI enterprises in this industry is even higher (11.7% for food processing and 13% for beverages production in 2011) although these enterprises' capital only accounts for about 28% of the total capital of all enterprises in this industry (Vietnam General Statistics Office, 2014a, 2014b).

With the establishment of the AEC in 2015, the opportunities for enterprises in the food processing industry to expand their business is potentially high. Vietnam's food processing industry is supported by a large agricultural sector and the orientation of Vietnamese government to promote it as one of the key industries in the economic development and one of the priority areas to apply high technology towards 2020, therefore it is growing rapidly and has high potential to expand and compete regionally and internationally, especially to take advantage of the AEC (Vietnam Ministry of Industy and Trade, 2008). However, many ASEAN countries are very competitive in this industry including Thailand, Indonesia, Malaysia, etc. who have developed large food processing sectors. Besides, Vietnam's big domestic market with a large population of 90 million people is also very attractive to outside businesses. Therefore, the challenges arising from the AEC's adoption are significant.

1.3. Structure of the dissertation

The dissertation is structured as follows. First, the literature review will examine REI including the general definition of REI, its motives and its impacts on the economy. Then, there will be further discussion on the likely impacts of REI under the AEC. These will provide a theoretical background to compare and evaluate how participants perceive the REI and the AEC. The roles of firms' behaviour in REI will then be discussed to confirm the importance of the research. Finally, the literature review will focus on the study of firms' behaviours towards REI. In this section, the researcher will give a review of the theoretical perspectives for firms' behaviours in REI e.g. the Investment Development Path theory, the institutional theory, the contingency theory or the structural forces and competitive factors perspectives which help explain why and how firms react to the integration. Some previous studies on how firms behave in REI will also be discussed to provide initial views on this issue. Next, the methodology part will explain the philosophical approach, research methodology and methods of data collection and analysis as the foundation for doing this research. The research adopts interpretivism as the philosophical position and uses a qualitative research method. Case study is the methodology. The interview method is mainly used to collect data from five Vietnamese companies in the food processing industry as five case studies to illustrate the perceptions and behaviours of Vietnamese firms in REI. This is followed by the presentation of findings and discussion on the research issues. These include the introduction to the case companies, the exploration of their perceptions on deeper REI under the AEC and their responses to this regional linkage, and lastly the implications of findings for government policies and firm strategies. Next, the conclusion part will review the main issues arising from the previous discussion. Some limitations of the research and suggestions for future research will be identified in the final section.

2. LITERATURE REVIEW

2.1. Regional economic integration and its impacts

What is regional economic integration?

There are many different definitions of REI that can be found in Baldwin and Venables (1995), Cuervo-Cazurra and Un (2007), El-Agraa (1999), etc. The common definition is that REI is an agreement among geographically closely located countries to facilitate trade and investment activities within the region and strengthen their economies. Cuervo-Cazurra and Un (2007) suggested that REI agreements have characteristics different from the multilateral system of trade liberalisation under the WTO, in particular that members are limited to a certain group of countries with geographical proximity. Rather than just reducing barriers to trade, an REI may also call for greater standardisation of policies and liberalisation of factors of production among members.

There are different forms of REI. Depending on certain levels of cooperation and coordination among participating countries, El-Agraa (1999) distinguished five types of REI including free trade area, customs union, common market, economic union, and political union with respectively increasing levels of integration. A free trade area such as NAFTA in North America or AFTA in Asia promotes free intra-regional trade through reducing or abolishing tariffs. A customs union e.g. Common Market for Eastern and Southern Africa (COMESA) is a higher level of free trade area with common external commercial policies among member countries. A common market involves the free mobility of factors of production. Free trade areas, customs unions and common markets are three traditional types of regional integration agreements (Baldwin & Venables, 1995). The level of integration is further increased with an economic union in which common monetary and fiscal policies are adopted. The European Union (EU) is considered this kind of integration. And lastly, a political union with a common government is considered as the most advanced form of integration.

REI has been increasingly spreading throughout the world. As of June 2014, counting only regional trade agreements notified to WTO, there were 585 agreements among WTO members of which 379 agreements were in force (World Trade Organisation, n.d.), compared with 176 in force by the end of 2002 (World Trade Organisation, 2003) and 69 in 1998 (World Trade Organisation, 1998). Most member countries are involved in several agreements.

Impacts of regional economic integration

REI has considerable effects on an economy. The extension of the market allows more opportunities for exchange within the region. It also leads to better use of resources in an integrated market. Due to better access to regional resources, firms have opportunities to rationalise their activities across the region. Taking advantage of the region-wide economies of scale from REI can reduce costs. Through cooperation, individual member and regional competitiveness is enhanced, leading to greater FDI inflows together with flows of knowledge and technology. Due to the removal of constraints, REI induces firms to improve to exploit new opportunities in a more open and competitive environment. In addition, greater economic interdependence between member countries not only boosts trade and investment activities within the region but also generates gains from the relationships between other members and economic linkages (Cuervo-Cazurra & Un, 2007; Eden, 2002; El-Agraa, 1999; Mirza & Giroud, 2004; Stal & Cuervo-Cazurra, 2011).

Trade and FDI are two main indicators of an economy's performance. The most significant benefit of REI may be the increase of trade activities and FDI inflows in member countries. Depending on the source and the type of FDI, the impacts of REI on trade and FDI flows are different. In the case of horizontal FDI from intra-regional firms (when firms produce the same goods in multiple production locations to take advantage of tariff jumping to serve markets where they put those production plants), REI discourages firms from undertaking this kind of FDI. Instead, they substitute FDI by exporting to countries within the regional group with lowest tariffs, increasing trade volume between participating countries. In this case, REI allows firms to rationalise their production activities due to easier access to the cheapest and most efficient production bases in the region, better taking advantage of regional resources (Chen, 2009; Ismail et al., 2009; Motta & Norman, 1996). In the case of intra-regional firms' vertical FDI (when firms produce differentiated products and allocate their production processes to different countries to take advantage of international differences in factors, serving both domestic and foreign markets), FDI flows tend to increase because it is easier to export the products back to the home country or other markets through free trade. In this case, intra-regional trade also increases (Ismail et al., 2009). For extra-regional FDI flows, REI induces outside firms to invest in the region, both horizontally and vertically (Chen, 2009; Ismail et al., 2009). In this case it is more likely to lead to export platform FDI from non-member countries' firms to serve the countries in the region through intra-regional exports (Chen, 2009; Motta & Norman, 1996).

Because of REI, FDI inflows can be generated or reallocated more efficiently in the region. FDI influences positively the development of host economies through "direct effects" on employment or training, or "multiplier effects" by stimulating other industries, or "spillover effects" (Mirza & Giroud, 2004). The presence of foreign investors can create spillover effects, thus stimulating the improvement of indigenous firms and industries (Bende-Nabende, Ford, & Slater, 2001; Cuervo-Cazurra & Un, 2007; Dunning & Lundan, 2008; Haskel, Pereira, & Slaughter, 2007; Hunya, 2001; Mirza & Giroud, 2004). Foreign firms bring and transfer knowledge, technology or skills to firms in the host countries through deliberate actions e.g. training of workers, suppliers and distributors control, technical support and cooperation, trade shows, or non-deliberate actions e.g. domestic firms seeing foreign firms as a model for best practices, reverse engineering or self-improving from domestic firms through competitive pressure etc. (Haskel et al., 2007; Mirza & Giroud, 2004). Haskel et al. (2007) when examining the relationship between the productivity of indigenous firms and FDI presence in UK found a significant positive causal relationship between a plant's total factor productivity and the share of employment of foreign companies in that industry (10% increase in the latter led to 0.5% increase of the former).

REI is also a chance for firms to expand their activities to other neighbouring countries and join the regional value chain. Through REI, multinational corporations (MNCs) integrate host country firms into their regional or international production networks, which is important for exports and technology learning, contributing to the development of indigenous firms (Stal & Cuervo-Cazurra, 2011). Mirza and Giroud (2004) argued that along the value chain, integration has a multiplier effect on firms in that it stimulates the employment and performance of these firms, resulting in increasing output.

As discussed above, REI brings a lot of positive effects for member countries and their firms. However, the degree of effects depends on the scope of the REI, and the degree of liberalisation on different regional groups, countries and industries (Eden, 2002; Ismail et al., 2009). For example, Ismail et al. (2009) cited a study on EU and NAFTA which showed that the REI or regional integration agreement did not determine the direction of bilateral FDI flows but economic characteristics such as population, income, market size or distance did. They also pointed out another study of NAFTA which showed a more modest influence of regional trade agreements on intra-regional trade and extra-regional FDI than that in the earlier stages of EU. Within a regional linkage, the inflows of FDI may not be distributed equally to all members, for example in Mercosur, Argentina and Brazil attracted more FDI flows. In ASEAN, foreign investors put their corporate centres in Singapore, research and development (R&D) in Thailand and Malaysia, and assembly activities in Vietnam or Cambodia (Ismail et al., 2009). Chen (2009) argued that countries integrated within larger markets tend to have a higher increase in FDI (to promote products to a large market), countries with more labour endowments are attractive to investors in labour-intensive industries.

Not every participating country or firm profits from REI. REI can generate both benefits and challenges. The more open environment stimulates trade and investment, increasing competition. Because regional integration attracts foreign firms to the country, some of whom are larger and stronger than local firms, or motivates mergers and acquisitions or alliances within the region, it can lead to the transfer of power to larger firms (Cavusgil et al., 2008). However, whether the country can attract FDI or not, from intra-bloc or extra-bloc countries, the barriers to trade are eliminated under REI agreements, which means the FDI inflows into the region still affect that country as products of FDI firms can move freely within the region and create competitive pressure on domestic firms (Ismail et al., 2009). Kim (2007) showed that after REI, extra-bloc firms tend to choose vertical FDI in a country with lower factor costs and horizontal FDI in a country with higher technology and factor costs when there is a big technological gap between member countries. This shows that when a country does not lead other member countries in technology, on the one hand, it loses FDI to the other countries; on the other hand, by taking advantage of the reductions in transaction costs, FDI firms can enhance the competitiveness of their products because they can now produce them with high technology at lower costs, which intensifies the competitive pressure on local firms.

The presence of foreign firms may threaten local firms especially those in developing countries. Foreign firms, particularly MNCs, are those who have developed advanced technology, management and marketing capability. Moreover, they have advantages in market positions and brand names to compete internationally (Hunya, 2001). In many developing countries, the government offers preferential investment policies to attract foreign investors. Even if the policies are the same for domestic and foreign investors, the ability of each group to take advantage of these incentives is not the same as small or medium-sized local firms tend not to be able to meet the requirements to receive the incentives compared with strong foreign firms. Smallbone, Cumbers, Syrett, and Leigh (1999) discussed consequences of regional integration, particularly of a single market, that it tends to be advantageous to large firms and exacerbate spatial inequalities as indigenous firms often supply local markets and lack international experience while large transnational firms have developed such capabilities.

2.2. The likely impacts of the ASEAN Economic Community

The AEC is a deep REI model, thus bringing with it the benefits and challenges discussed earlier including opportunities of an enlarged market, better resource allocation, enhancement of the region's competitiveness, improved efficiency and innovation, and also competition pressure which poses challenges but can also lead to improved capability of economic entities. Within AEC, the elimination of all remaining tariffs and reduction of non-tariff measures on goods are accelerated, the environment for investment is improved, trade in services is liberalised, trade facilitation is promoted, flows of skilled labour move more freely, and intra-regional capital flows are stimulated through the harmonisation of standards and the regulatory framework in the finance and monetary sector. All of these are supported under the creation of a single market and production base. In addition to these are provisions adopted to develop ASEAN into an economic area with highly competitive policies, equitable economic development and full integration into the global network. The single market and production base enjoy benefits from economies of scale and improved production network processes, while other aspects of the AEC help upgrade its competitiveness, enhance the institutions and improve its socioeconomic environment (Chia, 2011). For example, although new changes of the single market may present some challenges to firms, especially small firms, in terms of how to compete or to adjust to the new common set of standards and regulations, the AEC has also adopted some policies for developing the small and medium sized enterprises (SMEs) in the region under the pillar of creating an equitable economic development area (Association of Southeast Asian Nations, 2008).

Previous studies have quantified the economic gains of the AEC. AEC is likely to raise ASEAN incomes by US$ 69.4 billion or 5.3% over 2004 baseline income compared to US$ 10.1 billion and 0.8% of gains under AFTA alone (Plummer & Chia, 2009, as cited in Chia, 2011, 2013; Petri et al., 2012) (see Table 2.1). Most of the growth in incomes comes from other aspects beyond tariff reductions under AFTA, in which benefits from trade facilitation are estimated to be US$ 27.9 billion, and benefits from investment facilitation of US$ 31.4 billion (Petri et al., 2012). Other studies (Brooks, Roland-Holst,

& Zhai, 2005; Wilson & Shepherd, 2009) also confirmed that gains under improvements in trade facilitation could be far greater than those obtained from just tariff reform as under AFTA. Other figures from Petri et al. (2012)'s study showed that ASEAN exports and imports could increase by 42.6% and 35.4% respectively with the implementation of the AEC. As Table 2.1 shows, Vietnam's gain from AEC is likely to be more than from AFTA but not significantly different, while Vietnam's economic gains from AEC+ (i.e. AEC plus China, Japan, Korea, India, Australia and New Zealand) and AEC++ (i.e. AEC plus the US and EU) scenarios see considerable increases. This will be further discussed later in this section.

Table 2.1: Welfare gains of the AEC in 2015

	GDP (US$ billion, 2004 price)				Percentage of baseline GDP			
	AFTA	**AEC**	**AEC+**	**AEC++**	**AFTA**	**AEC**	**AEC+**	**AEC++**
ASEAN	***10.1***	***69.4***	***115.6***	***151.0***	***0.8***	***5.3***	***8.9***	***11.6***
Brunei	0.2	0.5	0.6	0.7	2.6	7.0	9.3	10.6
Cambodia	0.3	0.6	0.7	1.2	2.7	6.3	7.2	12.3
Indonesia	1.0	27.6	36.5	43.2	0.2	6.2	8.2	9.7
Laos	0.0	0.2	0.2	0.2	0.6	3.6	3.8	4.6
Malaysia	2.7	5.7	21.1	27.9	1.4	3.0	11.2	14.7
Myanmar	0.0	0.6	0.7	1.4	0.3	4.4	4.8	9.3
Philippines	0.9	4.5	4.4	5.9	0.6	3.2	3.2	4.3
Singapore	2.6	15.1	18.1	19.0	1.6	9.7	11.6	12.2
Thailand	1.6	12.2	19.5	25.8	0.6	4.9	7.8	10.4
Vietnam	***0.9***	***2.4***	***13.8***	***25.7***	***1.1***	***2.8***	***16.0***	***29.8***

(Source: Petri et al., 2012)

Within ASEAN, there exists a development gap between the old ASEAN members and CLMV, thus CLMV countries have to adopt appropriate policy reform and capacity building in order to catch up with more developed members (Pomfret, 2013). However, among ASEAN countries, those with formerly high barriers are expected to have the largest increases in trade. For example, CLMV countries are calculated to see 55.4-101.1% increase in trade (Petri et al., 2012). The greater diversity regarding economic development is a characteristic of the AEC different from the EU (a REI model that is often used to compare with the AEC) and suggests a more complicated consideration of the ability and speed of implementation of the AEC (Plummer, 2006). Being one of the CLMV countries, Vietnam has changed itself from a non-market and closed economy into a more market-oriented and outward-looking economy faster than other CLMV and even some initial ASEAN members. Being a large-sized economy passing other CLMV countries in foreign trade activities, outward orientation or FDI attractiveness, Vietnam has a strong opportunity to benefit from the AEC and catch up with other more developed members. With the opportunity and the trend to participate in the regional value chains under the AEC, Vietnam is considered to be doing quite well in improving its institutions, infrastructure and other economic aspects to meet the requirements to be a more attractive link in the chains, while the other three CLMV are less likely to do so (Pomfret, 2013).

By providing a large market and access to the pool of capabilities, the AEC is also considered as the tool for ASEAN members to stay competitive under the pressure of large developing competitor countries such as China or India (Austria, 2012; Mirza & Giroud, 2004). This can be linked to the establishment of the single market in Europe as the way to make EU firms competitive in relation to the US and Japan (Smallbone et al., 1999). The AEC tends to accelerate the improvements that are difficult for each member country to make alone. It also helps strengthen ASEAN and member countries' negotiation position to overcome discriminatory treatments from other linkages (Austria, 2012).

Our discussion suggests that AEC is a means for ASEAN countries to go further in the global market (Plummer, 2006). Different from EU, ASEAN countries are more integrated globally as its intra-regional trade accounts for only one-fifth of total trade. Besides, in today's more open world economic environment, taking advantage of the AEC to expand regional operations and simultaneously to go global is a good idea. This is consistent with AEC's pillar of developing a region fully integrated into the global economy with policies addressing a coherent approach towards external economic relations and enhanced participation in global supply networks (Association of Southeast Asian Nations, 2008). ASEAN is now becoming the centre point for FTA or economic partnership activities in East Asia (Austria, 2012). Petri et al. (2012) discussed the economic gains from the AEC could be much greater if it leads to new FTAs with major external partners, suggesting gains of US$ 151 billion or 11.6% of increase in ASEAN GDP. The benefits from this could be larger for member countries with stronger links with external countries, of which Vietnam is an example (see Table 2.1). In trade terms, Vietnam is expected to increase its exports to 334% above the AEC level if further external agreements are formed.

In terms of sectors, the most potentially positive impact of the integrated ASEAN is on manufacturing sectors where diminished barriers to trade and investment should generate greater interdependence, stronger production networks, larger economies of scale and wider access to product varieties. The basic ASEAN integration project under

AFTA and AEC is expected to stimulate all manufacturing sectors. Labour-intensive industries are those likely to benefit most from tariff cuts. For example, the food processing industry's output is likely to increase at the highest rate among manufacturing sectors - by 8.6% under the full implementation of tariff cuts, compared to 12.8% under the implementation of all AEC aspects (Petri et al., 2012).

2.3. The roles of firms' behaviours in regional economic integration

Studying firms' behaviours in REI is important for a number of reasons. According to Dunning's OLI theory, Ownership advantages, Locational advantages and Internalisation advantages determine FDI flows (Dunning, 2002; Dunning & Lundan, 2008). Ownership advantages and internalisation advantages belong to investing firms; locational advantages are what investment-receiving countries offer to attract investors and allow the countries to make use of the advantages given by investors. Locational characteristics include macroeconomic conditions, the stability and development of the economy, the skills of the labour force, and the regulatory framework. Enhancing the capacity of local firms may involve improving the skills of the labour force, increasing GDP, exports or other economic indicators, hence contributing to increasing locational advantages of the country. From then the country can attract more FDI inflows which, in turn, may stimulate the development of local firms.

As discussed earlier, foreign firms bring knowledge, technology or management skills to a country, helping to upgrade the capability of local firms through spillover effects. However, if domestic firms are too weak, the spillover effects cannot take place (Hunya, 2001). It is important that local firms have the ability to absorb the technology, knowledge or any skills that may spill over. Dunning and Lundan (2008) stated from much evidence found in empirical research that firms with sufficient absorptive capacity, particularly those linked to MNCs through equity linkages, may see more possibilities to experience positive spillovers. Haskel et al. (2007) when reviewing micro-level studies found little evidence of positive spillovers, many of them showed the result of negative spillovers which demonstrated the adverse effects of FDI in developing countries where firms do not have sufficient absorptive capacity. They also confirmed that spillovers take time to materialise, thus firms have to prepare their capacity as soon as possible to catch up with their foreign competitors.

In regional integration, local firms should participate more in MNCs' regional (and global) value chains to build a network of relationships and take advantage of the spillover effects of knowledge and technology along the chains. Enhancing the capability of domestic entities including human resources and competence of suppliers helps domestic firms participate better in the regional value chain (Mirza & Giroud, 2004). Mirza and Giroud (2004) studied the benefits from FDI together with regional integration in some ASEAN countries including Vietnam and found only 14% of the reasons for investing in Vietnam are efficiency seeking whereas 45% are market-seeking reasons. MNCs following efficiency-seeking FDI to serve regional or global markets have to make sure that the performance of their operations and the quality of their links with local companies are at a high and internationally acceptable level, therefore, through spillover effects their activities will create greater gains for the economy compared to gains from marker-seeking FDI. Given the evidence that efficiency-seeking FDI is more likely to have a positive long-term impact on the host economy, they suggested that Vietnam should focus on attracting efficiency-seeking FDI. This implies that Vietnam has to make considerable efforts to improve domestic capabilities including the competence of local firms in order to pursue regional integration.

Setting aside other benefits from REI, the more intensive competition in domestic and regional markets due to the integration is enough to urge firms to boost their competitiveness. As mentioned above, many of the reasons for investing in Vietnam according to Mirza and Giroud (2004) were market-seeking. The market size is stable while businesses increasingly join the market due to the open policy, market-oriented foreign firms with their strengths can challenge local firms with limited competence. Local firms have no choice but to improve themselves or they will lag behind in the new environment. During regional integration, the upgrading process of firms may put some of them in danger of becoming targets for acquisition if they do not obtain certain level of size and leadership in their sectors (Stal & Cuervo-Cazurra, 2011).

Vietnam is now considered an emerging economy in the ASEAN region and is an attractive location for international trade and investment activities. As a result, foreign firms bring more competitive pressure for local firms especially with the deeper REI. While foreign firms are those who possess considerable management capability and international experience, most Vietnamese firms, particularly in the food processing industry, are SMEs who may have a number of problems in adjusting to the new environment of the deeper REI due to their size and resources. Therefore, it is necessary that Vietnamese local firms act strongly and positively during this integration process.

2.4. Firms' behaviours in regional economic integration

2.4.1. Theoretical perspectives for firms' behaviours in regional economic integration

Investment Development Path (IDP) theory

Various spillover effects due to the presence of foreign firms in REI create competitive pressure. As the result of this, local firms may respond positively to improve their performance. This is reflected in their innovation, production, marketing and human resources capability; and in their organisational culture, attitudes and strategies in view of the presence of foreign firms. Positive behaviours towards the spillovers are consistent with the Investment Development Path (IDP) theory introduced by Dunning (Dunning, 2002). The basic idea of the IDP is that as economic development of a country increases, its inward and outward FDI pattern change, creating an expected path of five stages. In stage one, the country neither attracts nor produces FDI. In stage two, the country attracts FDI by improving locational advantages and may generate minimum FDI. In stage three, the country attracts impressive FDI and produces FDI based on its improvement in capabilities and international experience. In stage four, outward FDI exceeds inward FDI until the net outward investment position fluctuates around zero showing high levels of both inward and outward FDI in stage five. At each stage, the country has certain location advantages and its local firms gain specific ownership advantages. At the stage when countries can attract more FDI through their improved location advantages, inward FDI and the presence of foreign firms begins to impact on local firms and stimulates them to improve their ownership advantages through spillover effects (Stoian, 2013). As the country develops, domestic firms upgrade their capabilities, which possibly leads to their ability to internationalise (Durán & Ubeda, 2001; Stal & Cuervo-Cazurra, 2011).

With its present GDP per capita, Vietnam can be categorised into the second stage of the IDP (GDP per capita USD 1000-3000) (adapted from Dunning, Kim, & Lin, 2001). The country has increasingly attracted inward FDI flows during recent years (Table 1.4). Vietnam possesses specific locational advantages attractive to FDI flows including a large market size, political stability, availability of resources and diversified industrial base (Mirza & Giroud, 2004), cheap and relatively skilled workers and technicians which appeal to foreign investors in labour-intensive industries (Hsieh et al., 2004). The achievements of the economy also result from the considerable economic reform in the

Doi Moi (Renovation) period and the deepening international economic integration process. The Doi Moi programme, from 1986, marked a new era in economic development of Vietnam with an outward-looking and market-oriented economic development strategy. Vietnam has transformed from a state centrally controlled economy detached from the world market to a successful participant in international economic relations (Welle-Strand, Vlaicu, & Tjeldvoll, 2013). Some domestic reforms have been implemented to improve the capacity of enterprises and the economy including eliminating controls on domestic trade, state-owned-enterprise reform, banking reform, agricultural reform, price reform, private sector development, etc. The legal system for the market economy has been improved, facilitating activities of foreign firms in Vietnam. The freedom to do business was accelerated by the Enterprise Law 1999 and the updated version in 2005 that synchronised provisions governing enterprises of all ownership types into one Law. The investment environment has been improved and the rights of foreign investors have been increased through the adoption of the Foreign Investment Law and then the more comprehensive Investment Law in 2005 that created a more equal investment environment for all investors including simplified provisions for foreign investors in registration procedures, land access, trade policies, tax policies, etc. Other laws and regulations on labour, land, financial market and economic development policies have also been vigorously revised and implemented (Vo & Nguyen, 2011). Although Vietnam's infrastructure was considered as underdeveloped but there has been a wide range of infrastructure development programs that have contributed to its improvement (Hsieh et al., 2004; Nguen, 2007). The more open-economy and international economic integration policies during 1990s and 2000s such as the participation in regional and international organisations like ASEAN or WTO, the signing of economic agreements with other partners in the world have further supported trade and FDI in Vietnam (Vo & Nguyen, 2011). With deeper integration into the regional and the world economy, Vietnam is increasingly asserting its attractiveness, which helps it improve a lot of limiting factors within its economy, supporting Vietnamese enterprises in learning and developing their own advantages to be competitive in domestic markets as well as to go regionally and internationally. For example, according to Hsieh et al. (2004)'s research, although Vietnam achieves relatively low scores in different indicators of management capability, there have been opportunities for improvement as Vietnamese managers can learn the latest management techniques from foreign companies setting up in Vietnam.

Institutional theory

IDP theory addresses the economic development of a country through net FDI and changes in the conditions of domestic firms together with the country's development. However, it should be extended using institutional theory that helps explain to some extent factors influencing the behaviours of firms in an REI context. Institutional theory implies that firms' strategies are affected by the institutional context or the rules, norms and expectations in their home countries through regulative, normative or cognitive channels (DiMaggio & Powel, 1983, Meyer & Rowan, 1977, Scott, 2002, as cited in Stoian, 2013).

The institutional contexts could be the characteristics of the business environment of the country e.g. the quality of factor inputs (material or labour), infrastructure, the general research capability of the country, the nature of demand in the domestic market, sources and quality of external support, the common culture of businesses in the country, etc. (Smallbone et al., 1999), economic orientation of the government, enterprise restructuring reforms, institutional reforms, etc. In addition, with regard to the national environment, the support and policy orientation, enterprise restructuring reforms or institutional reforms of the government play important roles in firms' behaviours. The government has the key task of disseminating the information on the integration policies and agenda, the benefits and challenges of the integration process to businesses, consulting the businesses community to adopt appropriate policies, and providing assistance to improve the capabilities of local firms to help them integrate efficiently, etc. (Chia, 2013). The more advanced national institutional reforms from the government, for example, through improving the quality of law, adoption of market economy institutions, etc., could reduce uncertainties and improve the competitiveness and confidence of domestic companies (Stoian, 2013). For example, an export-oriented economy allows local firms to learn much about foreign markets, thus leading to them increasing their foreign operations (Stoian, 2013); government policies aimed at improving the capabilities of local firms allow firms to develop capabilities to meet the international or regional markets' demands, thus possibly leading to them engaging in more cross-border or internationalisation activities (Dunning, 2002).

Contingency theory

To explain firms' responses to changes, contingency theory states that "Organisational effectiveness results from fitting characteristics of the organisations, such as its structure, to contingencies that reflect the situation of the organisation" (Donaldson, 2001, pp. 1-2). In contingency theory, there is no best practice for organisational characteristics, but they should be appropriately adjusted from time to time to fit the changing contingencies, leading to high performance. Contingencies could be within the organisation (e.g. size, strategy, task) or outside the organisation (e.g. technical or environment conditions). For example, a mechanistic structure or hierarchical approach fits a stable environment, while an organic structure or participatory approach stimulates innovation and thus fits an unstable environment; when the environment changes, organisational strategies also change, leading to modification in organisational characteristics (Donaldson, 2001).

Adapting from contingency theory, companies facing increasing REI need to make adjustments to their strategies or their organisational characteristics to benefit from the enlarged market or to protect themselves from the likely threats (de la Torre et al., 2011). These adjustments to market integration could be the adoption of global strategies that require cross-national business linkages and closer coordination among them, or the greater participation in value chains across the region to seek efficiency, as well as associated managerial policies. The idea of contingency theory is that reactions and organisational responses should be consistent with the perceived intensity of market integration forces and other conditions. Dunning and Lundan (2008) argued that how firms adapt their activities to the impacts of REI partly depends on the characteristics of the industry they are in. These characteristics include: The number and size of firms in that industry, where they are from, outputs, the characteristics and prospects of markets served, the innovatory capability of firms, their economic performance, their business culture, the extent of protection in the industry. Within the industry, characteristics of individual firms, especially SMEs, affect their ability to perform in an REI context. SMEs may have a number of problems in adjusting to the new environment of the deeper REI due to their size-related characteristics such as the lower ability to identify and respond to opportunities and threats including an inability to acquire market information or develop a strategic and comprehensive plan to go regionally, limited finance and management capability, vulnerability to the threats from larger firms, and the ability and flexibility to comply with new legislative changes, etc. (Smallbone et al., 1999). de la Torre et al. (2011) confirmed that large firms also tend to respond more intensely to changes in the environment. In addition, the ownership advantages of foreign firms with regard to those of local firms as well as the characteristic of their operations in the country also influence how local firms learn from those foreign firms and improve their capabilities through spillover effects (Dunning & Lundan, 2008).

Structural forces and competitive factors perspectives

Birkinshaw, Morrison, and Hulland (1995) examined how the structural determinants and competitive factors affect firm's integration strategies. According to them, both structural and competitive forces shape firms' behaviours. Part of firms' strategies could be explained using structural drivers that theoretically result in normative or standard behaviours of businesses. Characteristics and potential benefits of REI are considered as structural forces determining firms' behaviours such as the potential for economies of scale due to the extended market, differences in comparative advantages across countries, standardised market demand across the region, etc. (adapted from Birkinshaw et al., 1995). The structural forces perspective is consistent with the contingency theory in that firms adopt particular strategies to fit certain requirements of the environment. In terms of competitive action perspective, the common responses or strategies of a group put pressure on individual firms and may urge them to initiate strategies compatible with the group practices. These firms naturally develop imitative behaviours to stay competitive even when those behaviours do not fit the structural forces. The competitive action perspective is partly consistent with the institutional theory in that there are social forces pushing firms to adopt behaviours appropriate to the common norms (the common strategies of a business group). Therefore, neither structural forces of the industry nor competitive norms alone are enough to explain firms' behaviours. However, because structural forces directly affect firms' activities and they are determined independently of firms' strategy, firms can obtain maximum performance only when they can accurately assess the structural forces of the industry and the environment rather than following the responses of other firms in the market (Barlett 1987, Houl et al. 1982, Stopford 1993, as cited in Birkinshaw et al., 1995).

2.4.2. Firms' behaviours

In an REI context, firms must have both the ability and readiness to improve their performance to take advantage of opportunities offered and stay competitive. Their ability to respond is based on their production, innovation, marketing, management and human resources capabilities. Their readiness to respond relies on their organisational institutions, their organisational culture, their attitudes and future visions in view of the presence of foreign firms (Dunning & Lundan, 2008).

Deeper integration within a region leads to the modification of firms' internationalisation strategies. Eden (2002) argued that the likely reactions of firms to regional integration depend on the type of firm and its activities before the formation of the preferential trading area. The three types of firms are: Insiders (Multinationals headquartered inside the region with significant investments across the region); Outsiders (Foreign firms headquartered outside the region, may be traders or investors into the region); Domestics (Local firms that primarily focus on their local market, may be exporting to or importing from other member countries but do not have any foreign investments across the region). Insiders tend to rationalise their activities throughout the region for efficiency seeking by reducing numbers of product lines in various plants, increasing horizontal trade across plants, or slicing their production processes across the region and conducting vertical intra-firm trade. Outsiders may respond by investing in the region for market seeking motives or rationalise their existing activities in the region for efficiency seeking like insiders. For local firms, REI is both an opportunity (easier markets and input access) and a challenge (more competition). Through REI, they may start or increase their exports within the region and open distribution channels or offshore plants. However, they may face the difficulty of entering established distribution networks in other countries. Some may initiate FDI strategies for market seeking, resource seeking or strategic asset seeking across the region.

As part of firms' responses to REI, firms rearrange their supply chains to ensure efficiency of their production networks thanks to easier access to resources. They can invest abroad to search for natural resources (UNCTAD, 2011, as cited in Stoian, 2013), or access foreign suppliers across the region using the advantage of free trade. Local firms tend to seek higher integration into regional value chains to not only increase efficiency but also improve their capability through the spillover effect of knowledge and technology along the chain (Mirza & Giroud, 2004).

With the presence of large and strong foreign firms, some local firms choose to set up some kinds of cooperation with their competitors. The cooperation could be equity collaborative arrangements, e.g. joint ventures or mergers, to exploit the larger scale and market shares obtained through the cooperation (Buigues & Jacquemin, 1989; Dunning & Lundan, 2008). It could be non-equity collaboration, e.g. strategic alliances (to gain access to foreign markets or assets), or international subcontracting relationships (to cooperate in production and business processes) (Dunning, 2002). The cooperation with foreign firms is also the channel for firms to better exploit spillover effects. In some countries, the government encourages the privatisation of state-owned firms to promote higher performance in those firms. Especially, through the participation of foreign firms in privatisation, local firms can be integrated into multinational networks (Rugraff, 2010, Stoian & Filippaios, 2008, as cited in Stoian, 2013), thus having opportunities to learn and expand their activities across multinationals' geographical markets. However, firms should consider the risk of being acquired by or power being transferred to larger firms. Besides, due to their size-related limitations, the cooperation between SMEs will help them gain more advantageous conditions for market entry (Buigues & Jacquemin, 1989).

Under the impacts of economic liberalisation, domestic firms increase their internationalisation strategies such as exports or FDI. In order to internationalise efficiently, they increase their competitiveness by improving their products and manufacturing activities (Stal & Cuervo-Cazurra, 2011). Technology, knowledge or skills transfer through FDI can be seen as vehicles for the innovation, adaptation and learning processes to improve firms' production. In many cases, under competitive pressures from rivals' products and due to patent protection, firms use reverse engineering (reproducing their competitors' products following detailed examination of their composition) or improve their own R&D to develop new products and market segments. However, domestic firms with limited absorptive and technical capacity may choose to make cooperative or technical agreements with their competitors. Some may try to seek support from their government or just simply accept a reduced market share. In these cases, they have to try to reduce production costs or look for more efficient production and marketing methods to stay competitive (Dunning & Lundan, 2008). Cuervo-Cazurra and Un (2007) also examined the behaviour of firms within the regional bloc and found that REI induces firms to invest more in internal R&D activities as well as purchase more external R&D (due to easier access to region-wide supplier markets) to improve their technological capabilities, for which more intensive competition in the market and higher demand from clients are the main reasons. In addition, if local firms possess some distinct competitive advantage, or advantages hold by foreign affiliates are not so unique, or local firms' market segments and market needs require idiosyncrasy, local firms will have more opportunities to innovate and compete effectively (Dunning & Lundan, 2008).

As the result of the competition from foreign (or other domestic) competitors after REI, firms whether accepting a reduced market share or developing new segments must invest more aggressively in their marketing and distribution strategies. One of the most important strategies is to increase the brand image. Firms may also tend to select the strategy to concentrate on marketing their main products and diversifying its geographical coverage across the region rather than product diversification because firms' profits from main activities are usually greater than from other activities. Distribution networks may also be rearranged by opening selling centres in the region while centralising some regional distribution activities to distribute to more destinations taking advantage of the facilitation in trade and transportation (Buigues & Jacquemin, 1989).

To follow their strategies to deal with dramatic changes in the environment, firms may also have to adapt their organisation to implement these strategies, especially for those who have an established cross-border presence or plan to adjust their internationalisation activities. Some potential modifications could be: Structural adaptation and responses; modification of managerial processes towards a more complicated and formal system (on planning, budgeting, controlling, reporting, etc.); coordination mechanisms through supporting instruments such as task forces, regional brand teams, planning seminars to foster cross-border activities; development of a shared organisational culture with respect to a regional integration view aiming at setting up common beliefs and values, or decision-making style, etc.; linking their network of subsidiaries tightly; or copying other firms' moves, etc. (de la Torre et al., 2011).

In summary, the above discussion on the impacts of REI and the AEC provides the basis to explore how managers of Vietnamese firms perceive the impacts of the AEC, evaluate the degree of their perceptions and compare their perceptions with theoretical impacts and with one another. The review of theoretical perspectives on firms' behaviours gives the initial approach to look into the responses of Vietnamese firms to REI under the AEC. The IDP theory explains the influence of the development stage of the economy on how domestic firms take actions to develop their ownership characteristics and examines whether their behaviours are consistent with the country's development stage. The institutional theory further develops the investigation into objective factors from the business environment affecting firms' behaviours. The contingency theory gives a reasonable explanation of firms' adjustments in their strategies or organisational characteristics to fit the potential impacts of the deeper REI under the AEC. The theory also implies the cohesion between firms' actions and their perceptions on the AEC. Both institutional theory and contingency theory address firms' behaviours with respect to the environment. However, there are both structural forces and competitive factors determining their actions. Structural forces perspective is more consistent with the contingency theory in the way that firms adopt expectedly normative actions with regard to their internal conditions to suit the new environment. Competitive actions perspective more favours the institutional theory in the way that firms are affected by social forces such as a business group in taking their actions. Finally, the discussion on previous studies about the likely firms' behaviours provides initial suggestions on exploring Vietnamese firms' behaviours towards the AEC establishment.

3. METHODOLOGY

3.1. Philosophical approach

This research adopts interpretivism as the research paradigm because of the desire to examine the opinions of Vietnamese managers on their perceptions and behaviours towards the AEC and make the interpretation from their stories (Grant & Giddings, 2002). Within the interpretive perspective realities are not objectively given but inseparable from the human mind or socially and experientially constructed (Myers, 2009; Weber, 2004). So, the nature of realities is not absolutely true or false but it is how the constructions are reasonably informed, and hence realities can be modifiable (Guba & Lincoln, 1994). In the interpretive paradigm, the researcher is the listener and interpreter of the data from the researched (Grant & Giddings, 2002). Contrary to data which are considered objective and used to test theories by positivists, this research uses data within specific contexts of each participant firm and manager to give deep understanding on how they perceive and behave towards the AEC (Myers, 2009).

Given the research questions and the research paradigm, a qualitative research method is used. A qualitative approach is the most appropriate strategy of inquiry because it helps explore and understand what people attribute to a certain issue by collecting in-depth data from participants, making interpretations inductively from the particular information (Creswell, 2009). Using a qualitative approach, namely by talking to participants, the researcher can understand their perceptions and behaviours towards the AEC, their reasons and the contexts within which those perceptions and actions are made. Therefore, many social aspects and deeper thoughts are not lost as in quantitative research (Myers, 2009). One disadvantage of qualitative research is the difficulty in generalising to a larger population, but it is possible to generalise from qualitative research to theory, extending the literature and calling for action (Creswell, 2013; Myers, 2009).

3.2. Research methodology

To answer the research questions, the research uses case study as the strategy of inquiry and analysis. There are a number of reasons for choosing this methodology. The case study strategy helps the researcher focus on the issue of managers' perceptions and behaviours towards REI under the AEC in the real contexts and complex conditions of the cases. The case study is also used to answer descriptive or explanatory research questions (how do Vietnamese firms' managers perceive…?, what are their responses…?) to provide the rich descriptions or the insightful explanations for the issue (Yin, 2012). The case study strategy is used in many situations to let the researcher learn the deep and meaningful knowledge of real-life events such as a group's behaviours, organisational processes, etc. (Yin, 2009). Moreover, the case study strategy is appropriate in terms of the scope of a dissertation. This research is a multiple case study which focuses on the perceptions and behaviours of Vietnamese firms' managers towards the AEC and uses cases of five Vietnamese firms in the food processing industry as the specific illustration (adapted from Creswell, 2013). These five cases serve as the units of analysis in this research. In case study research, multiple sources of evidence are used, mainly from interviews and documents (Myers, 2009). Within each case, qualitative data are collected through a semi-structured interview with a senior manager of the company and some of the company' documents are also gathered with participant's permission. The generalisation from data is possible through analytic generalisations (Yin, 2009, 2012). In other words, by investigating cases in-depth, the case studies are generalisable to other situations on the basis of reasonable analyses, not to a large population with statistical generalisations.

3.3. Method of data collection

In order to collect the primary data, the interview method was adopted. This method is the most widely used in qualitative data collection and can help satisfy researchers' demand to listen to participants and find the way into their worldviews (Bryman & Bell, 2011; Myers, 2009). The method helps the researcher focus directly on what need to be addressed and obtain insightful understandings on these issues (Yin, 2009). Five semi-structured, face-to-face interviews were conducted with participants who hold leading positions in the five case companies and understand the production and business activities and the management practices of the companies well. Each interview lasted 60-90 minutes. The participating companies include both large and small and medium sized businesses and also diversified ownership types (state-owned company, joint-stock company, joint-stock companies privatised from state-owned companies, limited company), as well as companies in different subsectors (meat processing, seafood processing, confectionery manufacturing, beverage manufacturing). Semi-structured interview was chosen as the main method of data collection in which a list of specific categories that needed to be addressed including relevant questions for each category was created and all the questions were asked in the interviews but unprepared questions might be asked to follow what the participants would say (Bryman & Bell, 2011). The list of categories to be discussed at the interview includes background of the company, operational history of the company, perceptions on deeper REI under the AEC, firms' behaviours towards the AEC and participants' views and suggestions on government's support in this regional integration. During the data collection process, the researcher faced challenges looking for firms willing to participate in this research. Some Vietnamese firms were still not familiar with the case study methodology and the in-depth interview method. They were more accustomed and willing to answering questionnaires or surveys that take them less time. Despite this challenge, the data collected from the five case companies are worth studying.

Apart from interviews, secondary data were also collected to support the analysis, verify interview data and develop possible new interpretations. These include statistical figures and government documents obtained from websites of government agencies such as Ministry of Industry and Trade, Ministry of Planning and Investment, General Statistics Office or international organisations such as the WTO, the ASEAN; documents on production or business activities obtained from the case companies; information from websites of the case companies; and news on the Internet. However, the interview data were still the main sources for analysis and account for the majority of the data collected. In addition, the researcher also faced the challenge in gaining access to some companies' documents because of confidentiality.

3.4. Method of data analysis

The data collected from interviews is subject to thematic analysis in which patterns of meaning are identified from the collected data through the process of familiarising with the data, coding the data, developing, revising and naming themes, and putting all these themes together combined with referring to existing literature for contextualising. This method is compatible with the interpretivist paradigm and qualitative research as it helps identify, analyse and report themes within a detailed set of data without any specific preconception and sometimes thematic analysis can help generate unanticipated findings (Braun & Clarke, 2006).

For case study analysis, particularly multiple cases as in this research, the data analysis strategy mainly includes within-case analysis providing the description of each case and its themes and cross-case analysis combining themes across cases. The data analysis consisted of many procedures from managing or organising data through files; reading data through texts, memo-ing data through notes and forming initial codes; describing the case and its contexts; developing more codes and classifying them into themes; making interpretation and generalisation of data; to representing the cases analysis (Creswell, 2013). This process is consistent with thematic analysis.

4. FINDINGS AND DISCUSSION

4.1. Profile of the case companies

This research examines five cases of five Vietnamese companies in the food processing industry including a state-owned company in the meat processing industry (Company A), an export-oriented company in frozen food processing (Company B), a coconut jelly and fruit juice manufacturer (Company C), a canned seafood processing company (Company D) and a confectionery company (Company E). Among these five companies, Company A is the largest and has the longest history. Table 4.1 provides a summary of the companies' profile.

Table 4.1: Case companies' profile

Company	Date of establishment	Ownership	Size	Products
A	1970	State-owned company	Large (VND 250 billion-about US$12 million of capital, 4.000 employees)	Processed food from meat
B	2009	Joint-stock company	Medium-large (US$ 5 million-about VND 100 billion of capital, 1.500 employees)	Instant food products from seafood
C	2008	Limited liability company	Small-medium	Coconut jelly and fruit juice
D	2011 Parent company: 1957	Joint-stock company	Small-medium (VND 15 billion-about US$ 700 thousand of capital, all assets VND 50 billion-about US$ 2.4 million, 250 employees)	Canned food products from fish
E	1994	Joint-stock company	Small-medium (VND 87 billion-about US$ 4 million of capital, 600 employees) (Parent company: VND 1.100 billion-about US$ 52 million of capital, 5.700 employees)	Confectionery

Company A was founded in 1970. It is a member of a state-owned trading group which is one of the leading business corporations in Vietnam. Company A has a long history of development, from being a slaughterhouse to becoming a nationally recognised food manufacturer. Its profit rate per capital in 2013 was 54.2 per cent. The company's scope of business includes fresh meat (accounting for 48 per cent of turnover in 2013), processed food (mainly from meat) comprising high-end processed food using European technology, Vietnamese style frozen processed food and sterilised food using Japanese technology (41% of turnover) and vegetables (11 per cent of turnover). The company has been providing its products to both domestic and foreign markets. In the domestic market, it is the segment leader for average and above-average income customers, and is also increasingly penetrating new segments outside the urban areas (with 70 per cent market share). The company has a system of farming, slaughtering and processing plants and trading branches and its own distribution channel with 85 showrooms across the country. It covers the whole country with hundreds of distributors and agencies and over 130,000 points of sale. Its products are available at almost every supermarkets and convenience store in the country. The company also has its own supermarket-style store which opened recently. In foreign markets, the company has exported its products to Singapore, Cambodia, Laos, Korea, Taiwan, Hong Kong, Japan, North America, Germany, Russia, Australia. It has representative offices in Cambodia and Russia. To service its production activities, the company uses its farming plant combined with livestock-supply contracts with farmers. It also imports machines, equipment, materials and food additives. The company is now competing with about 100 food processing companies in Vietnam. Recently, the company has also competed with foreign companies who have formed joint ventures with Vietnamese companies. However, the company has no major concerns about the domestic market as it holds the leading position. The challenges it is now facing come mainly from export activities due to material (meat) standards related issues caused by the general planning of the national agriculture in which material sources have not been tightly controlled and unified with traceability requirements, as the result, products made from these materials might face origin-related issues, technical barriers or sanitary and phytosanitary barriers when being exported. Besides, the cost of livestock farming and processing in Vietnam is quite high due to limitations in productivity and scientific and technical applications.

Company B was established in 2009. It is a joint stock company that can be categorised as falling between medium-sized and large-sized companies (according to provisions of the Decree on development support for small and medium sized enterprises of Vietnamese Government (The Government of Vietnam, 2009)). The company is specialised in processing instant food products from seafood, particularly diversified kinds of hand-made shumai, dim sum, spring roll, etc. Although it has been established recently, the company has performed strongly. Its profit rate per capital in 2013 was 34.1 per cent. Company B is an export-oriented company with exports accounting for over 90 per cent of total turnover. In the domestic market, the company mainly supplies its products to modern distribution channels including supermarkets, convenience stores and restaurants and hotels. In foreign markets, the company has exported its products to Japan, Europe, the US, Australia, Singapore, Korea, Hong Kong, etc. The company's main competitors are from Thailand and China. The company purchases 70 per cent of its materials from domestic sources and some others from outside suppliers including Europe, South America, Thailand, Singapore, China, India, and imports machinery from Japan, the US, and Europe to serve its production activities. The company is also facing some challenges regarding technical barriers in export activities.

Company C is a recently established SME. Its main activity is manufacturing different kinds of coconut jelly and fruit juice. In addition, it is also involved in trading activities with other companies and providing services regarding setting up and training for quality management systems within food processing companies. The company's products have been distributed across the country through GT (general trade) channels, MT (modern trade) channels and HORECA (hotel, restaurants and catering) channels. It has also exported its products to the UK, France, Sweden, Canada, Australia, and a very small amount to Korea and Laos. The company purchases the majority of its materials from domestic suppliers and just some additives, flavourings and preservatives from foreign sources. Company C has been facing very intensive competition with domestic competitors and other regional competitors from Thailand, the Philippines, Malaysia who have similar natural conditions favourable for producing the same kinds of products (This is also why the company still has not been able to enter these markets). In addition, the company faces price competition penetrating some regional markets such as Laos, Cambodia, and challenges regarding production technology and fluctuations in price and quality of materials.

Company D was established in 2011. It is an affiliated company of a long-standing corporation that was founded in 1957 and formerly a state-owned enterprise privatised in 1997. At present, the company is a joint stock company with state capital accounting for just 3 per cent of the total capital. Company D is specialised in processing canned food and other foodstuffs from seafood (mainly fish). Despite being an SME, the company has an advantage of being the affiliate of one of the oldest and best known brands in Vietnam. Its profit rate per capital in 2013 was about 26 per cent. The company is based in one of the largest coastal cities in Vietnam, so its raw materials are mainly from local sources. Most of the machines and technology used in production are imported from Thailand, Europe and Japan. Its current markets include all provinces and cities in Vietnam and export markets such as the EU (Germany, Romania), Korea and Hong Kong. It is now competing with domestic and foreign rivals especially those from Thailand. The company is facing some difficulties in technology and international marketing and challenges of losing its brand identity and loyalty in spite of its long established brand in the Vietnamese market.

Finally, Company E is also an affiliated company of a formerly state-owned corporation established in 1994 and privatised in 2006. The parent company is a multi-sector, multi-brand company, in which Company E is responsible for manufacturing and selling confectionery. The company is now doing business in both the domestic market and foreign markets. In the domestic market, the company's market share is about 4-5 per cent, concentrated in the Northern and Central region. Products are distributed through both GT and MT channels, mainly GT channels. Regarding foreign markets, the company has exported its products to a number of countries including Russia, Thailand, Taiwan, Mongolia, Korea, North Korea, India, Laos, Cambodia, Myanmar, and is planning to enter Japan. Export turnover makes up about 16 per cent of the total turnover. It is also outsourcing to foreign companies and supermarkets to produce goods under these companies' own brands. The company uses materials mainly from domestic suppliers or Vietnam-located distributors of foreign companies, and machines from foreign suppliers. Company E is facing very high competition in the domestic market with some major domestic competitors and foreign competitors from Malaysia, Indonesia (competing in terms of price), Thailand (competing in high-end segment) and Korea. Despite being one of very few Vietnamese confectionery brands, the company is having difficulties in terms of domestic competition and limitations in international marketing.

4.2. Their perceptions on deeper regional economic integration under the ASEAN Economic Community

This section looks into how participants from the case companies perceive the impacts of the AEC on businesses in general as well as their own activities. The discussion gives the reasons for their behaviour towards regional integration. Table 4.2 shows the summary of the participants' perceptions on the establishment of the AEC.

Table 4.2: Summary of the participants' perceptions on the AEC

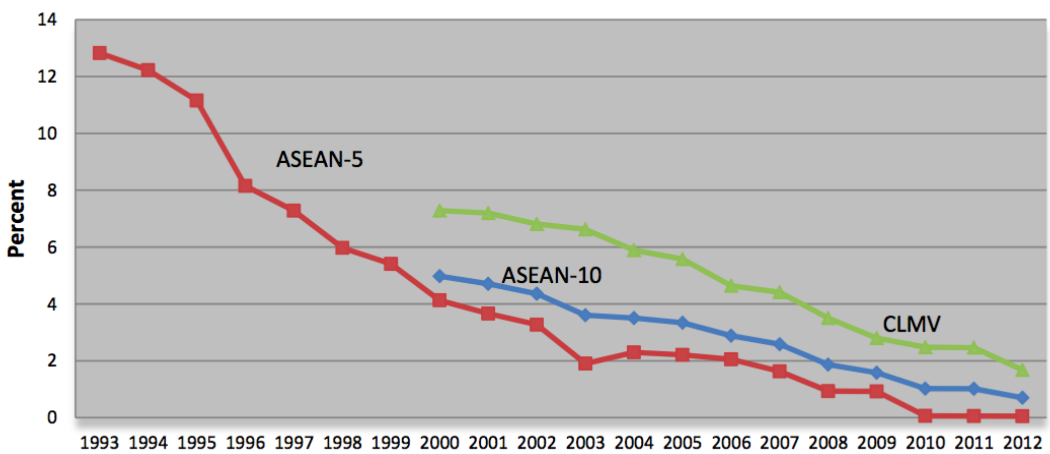
Findings on the perceptions	Participant A	Participant B	Participant C	Participant D	Participant E
Awareness/understanding of the AEC	Broad	General and limited	General and limited	General and limited	General and limited
Opportunity to access new markets and increase regional exports	Agreed	Agreed	Agreed	Agreed	Agreed
Reasons: + AEC's highest level of tariff cuts and more trade facilitation	Agreed	Agreed	Agreed	Agreed	Agreed
+ The closeness in geographical distance and practices of ASEAN countries	Agreed	Agreed	The closeness can cause some challenges	Agreed	
Opportunity to exploit high-quality but cheaper materials across the region	Agreed	Agreed	Agreed	Agreed	Agreed
Opportunity to increase extra-regional activities and attract extra-regional FDI	Agreed	Agreed	Agreed	Agreed	Agreed
	An important impact of the AEC	Not really an important impact	Not really an important impact	Not really an important impact	Not really an important impact
Opportunity to take part in the regional and global value chains	Clearly perceiving of this opportunity	Vague about the regional value chains	Vague about the regional value chains	Vague about the regional value chains	Vague about the regional value chains
Higher competitive pressure	Agreed	Agreed	Agreed	Agreed	Agreed
		Afraid of the possibility of ASEAN companies to invest in Vietnam and compete with the company	Have faced real competitive pressure from ASEAN companies	Have faced real competitive pressure from ASEAN companies	Have faced real competitive pressure from ASEAN companies
			High competition due to the closeness of member countries		
		Competition in HR		Competition in HR	
	Consider competition as the matter of course that creates a positive business environment			Consider competition as the matter of course that creates a positive business environment	Consider competition as the matter of course that creates a positive business environment
+ Capability differences between local and foreign firms		The high financial capability of foreign companies as one of their main advantage	The high financial capability of foreign companies as one of their main advantage	The high financial capability of foreign companies as one of their main advantage	The high financial capability of foreign companies as one of their main advantage
	The management ability as the main strength of foreign competitors				
	Foreign companies have the high international experience	Foreign companies have the high international experience	Foreign companies have the high international experience		
				Foreign companies have well-	Foreign companies have well-

				known brand names	known brand names
					Sales and marketing technology is a great strength of foreign companies
	Small or medium-sized local companies have their own strengths and opportunities		Small or medium-sized local companies have their own strengths and opportunities		Small or medium-sized local companies have their own strengths and opportunities
Industry-related factors affecting firms' perceptions and behaviours	Characteristics of materials and products	Characteristics of materials and products	Characteristics of materials and products		
		Market segment	Market segment		
			Characteristics of sub-sectors		Characteristics of sub-sectors
Institutional contexts / business environment of the country affecting firms' perceptions and behaviours	Agreed	Agreed	Agreed	Agreed	Agreed
			Administrative procedures and working style of governmental organisations	Administrative procedures and working style of governmental organisations	Administrative procedures and working style of governmental organisations
					Ineffective legal system
	The existence of state-owned enterprises and the control of the government			The existence of state-owned enterprises and the control of the government	The existence of state-owned enterprises and the control of the government
	Inefficient support from the government	Inefficient support from the government	Inefficient support from the government	Inefficient support from the government	Inefficient support from the government
	Limited perceptions of most of Vietnamese businesses	Limited perceptions of most of Vietnamese businesses	Limited perceptions of most of Vietnamese businesses	Limited perceptions of most of Vietnamese businesses	Limited perceptions of most of Vietnamese businesses
		Cautious actions of foreign companies			
			The role of the national retail system		
Spillover effects	Competitive pressure as the motivation for development	Competitive pressure as the motivation for development	Competitive pressure as the motivation for development	Competitive pressure as the motivation for development	Competitive pressure as the motivation for development
	Knowledge and skills absorption from foreign companies		Knowledge and skills absorption from foreign companies	Knowledge and skills absorption from foreign companies	Knowledge and skills absorption from foreign companies, especially management and marketing skills

In general, all participants are aware of the AEC and its likely overall impacts on the economy and their activities. However, most of them know about the AEC and acquire information on it in a passive manner, mainly through the media, some disseminating activities of state organisations, and word-of-mouth communication. As the result, their understanding is both general and limited. The respondent from Company B shared that "what I thought of the AEC are mainly based on what I know about the EU", a similar model of integration in her view, although the EU to some extent is different from the AEC such as in terms of the economic development of member countries, regional and global economic relations, the level of integration (e.g. the mobility of capital and labour, policy harmonisation) (Chia, 2011; Plummer, 2006). However, the vague awareness of participants is not unusual. Chia (2013) stated that a large number of ASEAN firms do not see clearly how they will be affected by deeper REI. According to a recent survey of Vietnam National University of Ha Noi, nearly 30 per cent of Vietnamese firms are not aware of the AEC's impacts on their business (Nguyen, 2014). During discussions with the participants, only participant from Company A showed relatively broad understanding about the AEC and had spent much time researching economic agreements including the AEC. This is understandable as being the head of a large state-owned company he has favourable access to information resources and economic policies on integration from the government. This respondent also played a role as a speaker for a number of seminars and conferences on economic integration.

With regard to the benefits of the AEC, all participants agreed that the AEC creates opportunities for their companies to access new markets and increase exports within the region, increasing business performance. The respondent from Company E confirmed "the more integrated the market is, the more opportunities the company has" and cited an increase of 17-18 per cent in the company's sales in the past 2-3 years as evidence of this. The key reason for their beliefs in this opportunity is that ASEAN is now developing into a single market with the highest level of tariff cuts and more trade facilitation. Under the implementation of AFTA and ATIGA, as of May 2012, 99.11 per cent of tariff lines for ASEAN-6 members (Brunei, Indonesia, Malaysia, the Philippines, Singapore and Thailand) and 67.58 per cent of tariff lines for CLMV countries have been eliminated. The average tariff rate has also been reduced considerably (see Figure 1) (Association of Southeast Asian Nations & The World Bank, 2013). A number of trade facilitation measures have also been launched such as the Self-Origin-Certification System, the ASEAN Single Window pilot project, mutual recognition arrangements and the harmonisation of standards and regulatory regimes in some sectors, (Association of Southeast Asian Nations, 2013, 2014). Some participants (A, B and D) addressed the closeness in geographical distance and practices of ASEAN countries that make regional trade easier and less challenging than trade under other economic agreements. “There is a “sympathy” between the regional markets”, said participant A. For example, Company A and B respondents think the technical barriers to trade for their products within the region would be less intense than with other markets such as Europe or the US. Just because of the market opportunity does not mean every company can take advantage of the AEC. The participant from Company A is aware that they have to solve the problem of traceability and quality of materials and products for their products to be accepted by the harmonised standards of the Community, only then are they likely to get benefits from the Community. This is challenging especially for SMEs. Participant C pointed out some challenges caused by the closeness of ASEAN members. For example, countries such as Thailand, Philippines or Malaysia have similar natural conditions to produce the same kinds of products to compete with the company. Due to geographical proximity, a number of companies have entered neighbouring markets such as Laos or Cambodia through quota (small-volume) exports at the borders at very low tariff rates, therefore those goods, despite their lower quality, could be sold at very low prices there, making the company’s products less competitive in such low-end markets. He hopes that with the free and more favourable trade conditions of the AEC, the company’s products can compete better in those markets.

Figure 4.1: Intra-ASEAN tariff rates, 1993-2012



(Source: Association of Southeast Asian Nations & The World Bank, 2013)

Also due to tariff cuts and trade facilitation, all the participants claimed that purchasing materials and machines from the region is now easier, helping companies exploit high-quality but cheaper sources of materials across the region, reducing production costs and increasing efficiency. Company B stated that because more people will increase imports from ASEAN countries as the result of the AEC, there will be more shipments, making importing more convenient. For Company C, the establishment of the AEC is favourable for the company to import some kinds of products to distribute in Vietnamese market. For Company D, it is the opportunity to access more modern machines and equipment from Thailand.

As Plummer (2006) claimed, the AEC is a means of going global, all participants agreed that the AEC creates significant opportunities for increasing extra-regional activities and attracting FDI due to the synergy of a single market. The respondent from Company D said that the AEC could be the "intermediate means" to access external markets. Participant E described how an ASEAN country could take advantage of the relationship with another ASEAN country in a single market to do business with an external country that has an FTA with that latter ASEAN country. Company A emphasised the possibility to attract FDI and work with external partners. Indeed, one of the important successful stories of the AEC is ASEAN's integration into the global economy through a number of "ASEAN+" economic agreements (Association of Southeast Asian Nations, 2014). However, the level of participants' perceptions on this differs significantly. Company A puts much importance on the role of the AEC towards relations with external partners. The participant explained that almost all of ASEAN countries, including Vietnam, are interested in and competing for foreign investments into their countries to make use of the financial resources, technology or opportunities in new export markets, which means that "the AEC works more towards the rest of the world". He cited the example of the recent shift in investment flows of Japanese and Korean investors from China to Vietnam as the illustration for the attractiveness of being an AEC member. Therefore, under the AEC, ASEAN members could become more competitive with larger developing competitor countries like China or India (Austria, 2012; Mirza & Giroud, 2004). Other participants agreed on the role of the AEC in going global, however they did not consider it as an extremely important impact.

As the result of more favourable conditions under a single market, firms have more opportunities to take part in the regional value chains, or further, global value chains, to increase their efficiency (Mirza & Giroud, 2004; Stal & Cuervo-Cazurra, 2011). Joining regional value chains provides firms the opportunity to benefit from the specialisation and support of other companies in the chains (Association of Southeast Asian Nations & United Nations Conference on Trade and Development, 2014). However, only the participant from Company A clearly perceives of the importance of the value chain and the opportunity of a single market to establish regional value chains. This participant also emphasised that creating, joining and managing value chains successfully could help them and other companies solve the problem of traceability and quality of materials and products. The participant added "current economic linkages require the cooperation between companies of member countries in value chains, those who want to do it all will not be able to achieve the best results". Other participants are still vague about how a value chain, particularly a regional value chain, works. They pay much attention to specific segments of the value chain separately; for example, Company B looks at the distribution segment, Company C focuses on the production segment, Company D and E only emphasize the raw materials segment. They do not see clearly how all the segments combine and how participants of the value chains could benefit along the chain.

In addition to benefits, all the participants agreed that deeper integration under the AEC means higher competitive pressure. They gave different reasons for the increased competition. The five participants saw intensive competition among ASEAN members due to the free movement of factors in a single market. No participant addressed the competition from extra-ASEAN companies. ASEAN companies, especially those from Thailand and Malaysia, are considered the main competitors for most of the case companies in this deeper regional integration process apart from Company A. Besides, Vietnamese competitors also have the chance to become stronger and more competitive due to easier access to higher quality machinery and modern technology, according to Company D. The respondent from Company C showed great concern about the increasing appearance of Thai companies in the retail market. Indeed, Thai products have penetrated the Vietnamese market in supermarkets, convenient stores, traditional markets and individual traders for a long time through official or unofficial channels (Hồng Châu, 2014). Recently, large corporations from Thailand have increasingly appeared in Vietnamese market including retail market and food industry. For example, the Berli Jucker Corporation of Thailand acquired Metro Cash & Carry Vietnam – the largest wholesale brand of consumer goods in Vietnam, which is an important step for Thai products to increase their presence in the Vietnamese market (Hà Thu & Thi Hà, 2014; Hồng Châu, 2014; Mai Khanh, 2014; Tường Vi, 2014). Previously, the group also acquired the FamilyMart retail system in Vietnam. Another retail group of Thailand – Central Group – also opened its first department store in Vietnam and planned for the second one specialising in Thai products at the end of 2014 (Mai Khanh, 2014). Thai companies also showed interest in the food industry of Vietnam, namely Thai Beverage recently expressing the desire to buy a large amount of the shares of Saigon Beer Company and F&N Dairy Investments acquiring 11.04 per cent of share capital of Vietnam's largest milk company Vinamilk (Hà Thu & Thi Hà, 2014; Thi Hà, 2014b; Tường Vi, 2014). As goods are moved freely within the region, participants from case companies such as Company C, D and E shared they have faced real competitive pressure in the domestic market with products from other ASEAN countries. Participant B is afraid that firms from other member countries, particularly Thai companies – their main competitors in their current markets, might invest more in Vietnam to build factories, accessing their labour and material sources and becoming more competitive not only to their domestic clients but also to their foreign ones e.g. in Japan. It can be inferred from this participant's comments that the opportunity for going global of ASEAN firms (Plummer, 2006) can also generate higher competition among these firms. Moreover, as ASEAN firms have equal opportunity to exploit regional resources, they are just like firms in the same "country" exploiting the most efficient resources of their own "country" and competing with one another. In addition, the closeness in geographical position and customs and the similarity in natural conditions leading to the advantages of agriculture of ASEAN countries make them become causes for competition, according to Company C. Along with the higher competition in products, "there could be the competition in human resources", said representatives from Company B and Company D. For Company B, the participant shared that as their products are specially hand-made and quite distinctive, it takes time and effort for the company to train the workers to make these products, therefore it will be a big challenge if foreign companies are able to attract their workers.

Concerning the competitive pressure from foreign companies, all the participants are aware of the differences in capability between local firms, particularly SMEs (over 95 per cent of all Vietnamese firms are SMEs (Vietnam General Statistics Office, 2014b)), and foreign ones which limit the ability to compete of local firms. Smallbone et al. (1999) addressed a number of weaknesses of SMEs such as limited finance and management ability, low ability to obtain market information and plan strategically, vulnerability and inflexibility to new changes in business environment. Participants from smaller-size companies - B, C, D and E claimed the high financial capability as one of the main advantages of foreign companies compared to them. Limited financial capacity creates difficulties in production, innovation, and marketing, for example. For a leading company like Company A, they consider the management ability as the main strength of foreign companies that makes them competitive. Additionally, Company A, B and C stated the high international experience, Company D and E addressed the well-known brand names of foreign companies. Representative from Company E further confirmed that local firms are inferior to foreign competitors in many aspects, however "production technology or machines are available and can be purchased easily (with sufficient funds), sales and marketing technology are what disadvantage local firms" when compared to their foreign competitors. In spite of disadvantages, some participants such as A, C and E stated that small and medium sized local companies still have their own opportunities and market segments to develop and their own strengths such as the ability to organise their production and business activities quickly due to smaller size and simple structure. In addition, participants from Company A, D and E consider "competition as the matter of course". They think deeper economic integration will create a very positive business environment that stimulates competition, leading to development. Through competition, there will be a process of selection which companies continuously undergo, and which eliminates weaker competitors. According to participants A and E, there will certainly be a trend that numerous small businesses are dissolved or acquired by competent foreign companies. Their only chance is to "understand themselves" to know what their strengths and weaknesses are so that they can restructure themselves appropriately. These participants believe small or medium local businesses should consider the possibility to cooperate with one another or with foreign partners and if possible, according to A, to join the value chains.

According to some participants, the level of competition also depends on other industry-related factors including sub-sector characteristics, technical barriers, customer habits, materials, products, number of firms in the sector or market characteristics. These factors together with the requirements of deeper REI formed structural forces determining firms' behaviour to fit the changing situations of the organisation as contingency theory and structural forces perspectives suggest (Birkinshaw et al., 1995; de la Torre et al., 2011; Donaldson, 2001). Participant A shared that the food processing industry, especially livestock processing, which depends considerably on agriculture, is the most "vulnerable" sector. As participant A stated, Vietnam's agricultural products, specifically meat, have been facing issues related to traceability requirements, which raises questions on the quality of materials and processed food when they are exported. Company B is also facing this challenge when they plan to develop new products using meat filling. Food processing is a very distinctive industry as it depends a lot on materials (Minot, 1998). The respondent from Company A shared the story of the role of materials in determining firms' strategy and competition in the market: "For fresh food, Vietnamese companies have conditions to develop because of Vietnamese's traditional habit of using unfrozen fresh meat. For processed food using frozen materials, foreign companies with more advantages on products' industrial characteristics, quality and price have the opportunity to penetrate, which creates pressure on other companies to reduce product prices. As the price of processed food tends to fall, customers will transfer to using more processed food, thus paving the way for more foreign companies to enter the market". Also concerning materials issues, representative of Company C shared differences in materials determine the quality and price of products, therefore they have been facing challenges in competing in price with other companies who use cheap and lower-quality materials for production, especially when entering "low-end" but potential markets such as Laos or Cambodia. In addition, for Company B, because of the niche market that they are participating in, they do not feel too much competitive pressure except for the pressure that foreign companies could attract the workers that the company has made a lot of efforts to train to make their specialised and differentiated products. Representatives from Company C and E also commented that the competitive pressure varies depending on different sub-sectors, for example, the very high pressure in confectionery sector. Participant E shared that the intensive competition and the decrease in profits in the sector have influenced the company's strategy a lot. Indeed, some experts judged that the growth rate of the Vietnam confectionery sector is now reducing and the sector's chance for development is low (Thi Hà, 2014a).

Referring to institutional theory, firms' perceptions and behaviours also depend on the institutional contexts or the business environment of the country (Stoian, 2013). Consistent with this, all participants claimed that the institution and business environment of the country strongly influence the level of competition and how local firms behave under economic integration. Participants from Company C, D and E complained that "complicated administrative procedures" and the "authoritative working style" of state organisations have prevented firms from capturing opportunities of the economic integration process and enhancing their competitiveness. According to participant E, the ineffective legal system is another influencing factor. For example, the government has still not been able to control foreign enterprises establishing affiliated companies in Vietnam and doing transfer pricing activities to divert revenues back to parent companies, thus foreign competitors could save a large amount of taxes to be spent on e.g. marketing or advertising activities. Local firms therefore could face more challenges in competition. The business environment in Vietnam is also considered complicated when there still exist strong state-owned enterprises and remnants of a central planning economy despite numerous economic reforms and achievements in the past years (Meyer, Tran, & Nguyen, 2006; Scheela & Van Dinh, 2001). In this research, two out of five case companies (D, E) were formerly state-owned and one case company (A) is still state-owned, and they all confirmed that this ownership type undermines incentives for development. Participant A shared that although the company is leading in the domestic market in its sector, the control of the government poses some limitations on its activities such as pricing, decision making, etc., restraining the development of an active and effective management system. Besides, the assistance of the government in increasing firms' perceptions and competitiveness in this regional integration is very important (Chia, 2013), however, all participants agreed that the government still has not done this well. As a result, enterprises need to deal with their problems themselves. All participants commented that the common perceptions of Vietnamese business are quite limited. Competitive action perspectives states how the common behaviours of a group of firms affect and push a firm to adopt similar actions (Birkinshaw et al., 1995). The participants stated that with the starting point as individual household businesses, "most of Vietnamese businesses possess a short-term vision, lacking strategic plans and positive reactions" to the requirements of REI, which therefore negatively impacts the behaviours of other firms in the market. The respondent from Company B thinks that "companies from other countries might be cautious in expanding their markets because they also want to ensure stability and safety for their current activities first", thus competitive pressure might still not be significant in her view. Apart from above factors, participant C also emphasised the importance of the national retail system to local firms' performance.

Through competitive pressure, the presence of foreign firms can create spillover effects on Vietnamese firms by bringing and transferring knowledge, technology and skills to indigenous firms, stimulating the development of indigenous firms (Bende-Nabende et al., 2001; Cuervo-Cazurra & Un, 2007; Dunning & Lundan, 2008; Haskel et al., 2007; Hunya, 2001; Mirza & Giroud, 2004). All five participants all agreed that the competitive pressure in the integration process encourages their companies to improve in order to survive and develop. “Self-improving is compulsory, otherwise, we are likely to be eliminated”, said participant A. Apart from Company B, other respondents believe there is the chance to learn from foreign companies through spillover effects. These participants think foreign companies when entering the country bring new things including new knowledge, advanced technology or good management skills that their companies can learn from to increase productivity, improve their products and innovate management processes. The representative of Company E stressed that the production proficiency of Vietnamese companies, namely companies in the confectionery sector like Company E, is not inferior to other ASEAN countries. Therefore, he thinks “there are not much spillover effects in technology absorption, but these may be considerable in management and marketing skills”. For Company B, the participant does not have much expectation of technology absorption from foreign companies because of the specialised segment of the market that the company is exploiting.

4.3. Their responses/behaviours towards the ASEAN Economic Community

As contingency theory and the perspective of structural forces state, how firms perceive changes in the new situation under deeper REI lead to them adjusting their behaviours to fit the new requirements (Birkinshaw et al., 1995; de la Torre et al., 2011; Donaldson, 2001). Other social forces such as institutional contexts or competitive actions also contribute to the adjustment process (Birkinshaw et al., 1995; Stoian, 2013). This section examines what the case companies have done and plan to do in response to the establishment of the AEC. Table 4.3 shows the summary of the case companies’ actions towards the AEC.

Table 4.3: Summary of the case companies' actions

Findings on the behaviours	Company A	Company B	Company C	Company D	Company E
Developing a comprehensive strategic plan towards the REI	Yes	No	No	No	No
Looking for new export markets or increasing export within the region	Yes	Yes	Yes	Yes	Yes
Changing international investment strategies	No. But is thinking of initiating FDI in the region in the future after privatisation	No. But willing to cooperate with foreign partners in overseas production if necessary for developing new products	No	No. But is thinking of initiating FDI in the region in the future for material seeking but facing financial constraint	No
Joining the regional value chains	Integrating into its operating principle	Seeking the opportunity to integrate into the regional chains through the AEC but has not been able to determine what to do	Seeking the opportunity to integrate into the regional chains through the AEC but has not been able to determine what to do	Seeking the opportunity to integrate into the regional chains through the AEC but has not been able to determine what to do	Seeking the opportunity to integrate into the regional chains through the AEC but has not been able to determine what to do
Making adjustments to the capital	Planning for privatisation	No	Planning for expanding	Planning for expanding	No
Cooperating with other partners including foreign partners or competitors	Planning for equity cooperation with foreign partners (to look for new management technology)		Planning for equity cooperation with foreign partners (to look for financial resources)	Planning for equity cooperation with foreign partners (to look for financial resources)	No
	Concerning cooperation in production and technology development	Concerning cooperation in production and technology development	Concerning cooperation in production and technology development	Concerning cooperation in production and technology development	No
Enhancing manufacturing activities	Yes	Yes	Yes	Yes	Yes
	Opening new plants and increasing capacity			Opening new plants and increasing capacity	
			Modernising and automating production lines	Modernising and automating production lines	Modernising and automating production lines
		Focusing on specialisation			
				Applying the formalisation and standardisation for production activities	
Improving products	Establishing the R&D function	Establishing the R&D function	Establishing the R&D function	Establishing the R&D function	Establishing the R&D function
	Diversifying product lines while concentrating on main products	Diversifying product lines while concentrating on main products	Diversifying product lines while concentrating on main products	Diversifying product lines while concentrating on main products	Diversifying product lines while concentrating on main products
		Creating differentiated products			
				Reverse engineering	Reverse engineering

			Importing products from another ASEAN country to sell in domestic market		
					Doing outsourcing for foreign companies or supermarkets
			Following strategy to reduce product price	Following strategy to reduce product price	Following strategy to reduce product price
Adopting more competitive marketing strategies and distribution plans	Yes	Yes	Yes	Yes	Yes
Organisational changes	Yes. But mainly aiming at enhancing the capability of human resources to help the companies stay competitive	Yes. But mainly aiming at enhancing the capability of human resources to help the companies stay competitive	Yes. But mainly aiming at enhancing the capability of human resources to help the companies stay competitive	Yes. But mainly aiming at enhancing the capability of human resources to help the companies stay competitive	Yes. But mainly aiming at enhancing the capability of human resources to help the companies stay competitive

Among the five case companies, only Company A is adopting an intense and long-term plan for adjustment. Other companies have certain actions towards the deeper REI but these actions are not planned strategically and are not clearly part of the companies' vision. de la Torre et al. (2011) claimed that large firms are inclined to react more strongly to changes. As a large and leading food manufacturer in Vietnam, having a leader who has clear perceptions and broad understanding about the AEC, Company A always attaches the economic integration, specifically the ASEAN integration, to its business plans. In its strategic vision to 2020, the company aims at becoming "Vietnam's largest food manufacturer and distributor with diversified and high-quality food products based on a complete value chain, targeting the domestic and regional market". Accordingly, in 2010 the company adopted a comprehensive restructuring program including reorganising the structure, training human resources, establishing new functional divisions such as R&D, laboratories, increasing production innovation, reorganising the distribution channels, announcing new set of identity, etc. For other case companies, maybe because of their general and limited understanding of the AEC, they have not actively prepared a real action plan. Besides, as discussed above, the participants perceive most Vietnamese businesses as short-term oriented, passive and almost having no considerable actions towards this regional integration, therefore the case companies might feel little pressure to develop a comprehensive strategic plan. This could be considered as the reflection of competitive actions perspective (Birkinshaw et al., 1995). A recent survey of Vietnam National University of Ha Noi on Vietnamese firms about the AEC shows that 25.6 per cent of participating firms do not adjust their business plans, only 13.6 per cent have made considerable modifications, and 40.4 per cent have slightly adjusted their activities (Nguyen, 2014).

All participants admitted that the establishment of the AEC brings a great market opportunity and all five companies take advantage of this opportunity to look for new export markets or increase export within the region. Adapting from Eden (2002), all the companies are considered "domestics" type of firms that may export to or import from member countries but do not have investments in the region. Therefore, their behaviour to initiate or increase export across the region is theoretically consistent. Company A has been strongly expanding their business to potential markets including Cambodia, Laos and Myanmar by establishing a representative office in Cambodia (also managing the Lao market) and joining with their parent company in a representative office in Myanmar. However, participant A shared that "as a state-owned company, our business strategies are limited by government control to some extent". Company B is planning to start exports to other ASEAN markets due to close proximity and practices, large population, high market demand, fewer technical barriers than Europe or the US, possibly to Malaysia, Indonesia, or later the Philippines or Thailand on the basis of strengthening relationships with its current clients. According to the respondent from Company B, because the company is following a niche market strategy, it aims at "strengthening the stable relationship with its current clients first, and then gradually expanding to other markets". For example, through its Singapore customers, its products are currently sold to other customers in other ASEAN markets. Company C plans to expand to countries such as Myanmar, Laos and Cambodia that do not have appropriate natural conditions to produce the same products as the company. Although the company used to face challenges related to competition in price in these "low-end" markets, they believe that more favourable and fair conditions under the AEC could help the company's products enter these potential markets to increase sales while competing in the domestic market. The company's problem is how to improve its production capability, increase productivity and reduce prices to compete. Company D is looking for opportunities to initiate exports to ASEAN countries such as Singapore, Indonesia and Philippines. Company E is trying to strengthen its presence in current ASEAN markets (Thailand, Laos, Cambodia, Myanmar), and also look for opportunities in other regional markets but it is not easy because of high price competitiveness of Malaysian, Indonesian and Filipino confectionery companies. It can be inferred from these cases that there are both structural forces such as product, market segment and sector characteristics and institutional factors such as state control affecting firms' responses to regional integration (Birkinshaw et al., 1995; Stoian, 2013). In addition, these five companies also plan to increase exports to extra-ASEAN countries. Although all the case companies chose to start or increase exports within the region, there is a question of whether their recognition and decision to increase exports result from the AEC or they are due to trends within the market (Cumbers et al., 1995, as cited in Smallbone et al., 1999) because the understanding of most of the case companies about the AEC are still quite limited.

All the case companies are penetrating foreign markets through exporting, no companies appear to be changing their international investment strategies at the moment. This is consistent with the IDP theory on the relation between the economic development of a country and its inward and outward FDI (Dunning, 2002). As Vietnam is classified in the second stage of the development path, it attracts more inward FDI than its local firms generate in outward FDI. However, there are two out of five companies (Company A and D) who are thinking of initiating FDI strategies in the region. Because Company A is going to privatise the company at the end of 2014 and in 2015, it needs to "ensure its stability before planning for foreign investment in the future". Its current step could be the presence in regional markets through representative offices (one for Cambodia and Laos, one for Myanmar). For Company D, the company manager indicated that they are thinking of an offshore plant in Malaysia for material seeking, however financial constraints have not yet allowed them to do so. If possible, they would do it through a joint-venture. Other companies also give reasons of limited financial capability, besides, the complexity of investment and not recognising the demand for foreign investment. Although having no plans for foreign investment at the moment, Company B is also willing to cooperate with partners in a foreign market to make products that the company is still facing challenges to export such as products with meat filling.

Regional integration enables firms to exploit regional value chains, expanding the involvement of more member countries in production and business processes thanks to regional opportunities and benefits and a more efficient production environment. ASEAN is integrating more strongly through the AEC. This regional integration development is influencing significantly the regional value chains in ASEAN, according to The ASEAN Secretariat and UNCTAD's report (Association of Southeast Asian Nations & United Nations Conference on Trade and Development, 2014). However, as most of the participants from the case companies except for Company A are still vague about regional value chains, they just hope that their companies could seek the opportunity to integrate into the regional chains through the closer connection between member countries under the AEC but they have not been able to determine what to do next. For Company A, the company has adopted its operating principle of "carrying out a strategy of developing the thorough value chain "from farm to meal" that strictly applies food safety, hygiene and quality policy" as well as its vision until 2020 to develop "a comprehensive system from farming to slaughterhouse, processing and distribution", in which it will take advantage of the AEC opportunity to achieve its vision. In addition to setting up its value chains in Vietnam, the company is also showing initial signs of tapping the opportunities of the regional value chains through the AEC. Recently, the company has negotiated with partners from Laos about the possibility of building slaughterhouses in Laos to supply beef for production in Vietnam.

Along with the economic development stage of the country and through deeper REI, the presence of foreign firms generates changes in the capabilities of local firms e.g. higher capital availability, higher productivity, specialised know-how, etc. that they can exploit for internationalisation activities such as export and FDI (Durán & Ubeda, 2005; Stoian, 2013). With regard to capital resources, three out of five case companies including Company A, C and D have plans to adjust their capital. For Company A, as stated earlier, it is planning to be privatised in 2014-2015. According to the company manager, the change of ownership is an opportunity to obtain more efficient management system, eliminating the old backward thinking of the previous central planning system. The participant shared "this is the most important aim of our privatisation". However, it is noted that Vietnam's privatisation process of state enterprises rather looks like an "equitisation" process in which new owners are insiders and acquire the shares through a buyout process and outside private owners, especially foreign investors, are not encouraged. As the result, so-called privatisation does not create real inducements for restructuring and developing (Meyer et al., 2006). But, participant A stated that "the company also welcomes and has specific regulations on the participation of foreign investors especially ASEAN investors as long as the company can obtain new and efficient management technology". Company C and Company D also desire to have the opportunity to expand their capital through many channels including applying for loans from the government, banks, financial institutions, raising capital from shareholders and even foreign partners in order to serve their future plans. Yet because C is a limited liability company, raising capital will not be as fast and flexible as joint-stock companies. Company B and Company E have no plans to expand their share capital. Participant E said that because the confectionery sector is not as profitable as other sectors, their parent company does not have policy to raise more capital for the company, but is investing more in depth to increase productivity and products' quality.

Also relating to capital issues, cooperating with other partners including foreign partners or competitors (with regard to cooperation in finance, production and technology and distribution) is one behaviour of firms towards the AEC. Apart from Company E which does not have any intention to cooperate with foreign partners (except in distribution), other case companies consider this possibility particularly with ASEAN partners. Companies may make cooperation arrangements to take advantage of the synergies created, the technology and knowledge transfer through the partnership, the favourable opportunity to launch a new product in a market and to reduce the risks that are distributed among the partners. The partnership may also pose obstacles in seeking a suitable partner, establishing an appropriate management structure and communication mechanism as well as harmonising regulatory differences. The completion of a single market could remove a number of obstacles to cooperation (Buigues & Jacquemin, 1989). The cooperation could be equity or non-equity based (Dunning, 2002; Dunning & Lundan, 2008). Three companies (A, C and D) are looking for equity cooperation with foreign partners especially those in the region, probably through joint-ventures. For SMEs like C and D, looking for financial resources is the main purpose of foreign cooperation. Besides, the reputation of foreign partners could also help them enhance their brand names. For Company A, the purpose is to look for new management technology, creating incentives for competition and development. Companies A, B, C and D also expressed their concerns on cooperation in production and technology development with foreign and local partners. As B shared above, the company is willing to cooperate with foreign partners to produce new products that face technical barriers to launch in foreign markets. All five companies will continue to maintain and develop overseas relationships in distribution to implement their strategies to expand to other ASEAN and outside markets. Company A states in its vision until 2020 that: "Exploiting capital sources, resources of technology and experiences from all local and foreign economic sectors in the form of cooperation, joint venture, association to develop a synchronous, closed food chain from production of raw material to processing and production of safe and high quality food, which can be monitored and traced". Despite being privatised years ago, company E completely obstructs the entry of outsiders, especially foreign companies through forms of cooperation. Maybe on the one hand, the company is still able to afford its operation; on the other hand, the company leaders fear the risk of losing the company to foreign investors (Buigues & Jacquemin, 1989). Indeed, the recent reality of Vietnam confectionery sector shows the increase in the percentage of share holdings of foreign companies in Vietnamese large confectionery companies (Thi Hà, 2014a), which may be the reason why Company E is so afraid of foreigners. With a mainly management-employee buyout oriented "equitisation" process (Meyer et al., 2006) and a strictly closed policy, how will the company be able to develop with its long-time but gradually faded-out brand in front of the more intense penetration of competent foreign competitors in such a highly competitive sector?

As to the consequences of REI, firms reply by appropriate business strategies and improvements in their performance. Firms may increase their capabilities and resources including improving their products, developing more efficient production and management methods (Dunning & Lundan, 2008). Improving manufacturing activities is one of the most important missions set out by the case companies. Company A and Company D are planning to open new plants and increase capacity to serve its business strategies. As part of the comprehensive restructuring programme of the company, Company A is building a high-tech industrial cluster which is "the country's largest meat processing cluster and the first one built in the closed-loop model" to replace the current main plant in order to modernise and innovate its production processes. Company D also intends to open a new plant in Malaysia to exploit the material sources in the future when possible while planning for importing in the short term first. For Company B, it is focusing on specialisation by "dividing one unique factory into different production units specialised in certain stages of production to increase productivity and reduce costs". Three companies - C, D and E are also looking for many ways to modernise and automate their production lines at the highest level, improving technology capability and applying savings in manufacturing with the aim of producing lower-cost but higher-quality products. Particularly, participant D said that the company will take advantage of more favourable conditions of the AEC to import more machines from Thailand to serve production. In addition to increasing innovation, Company D also applies the formalisation and standardisation for production activities.

Closely relating to the production process is its output – products. All the case companies' representatives confirmed that developing new products, diversifying product lines and increasing the quality of products are indispensable in their strategies. All the companies have established the R&D function within the company. Particularly, Company A has even developed "a bank of product formula" to release when needed. Although the companies still concentrate on their main products that usually bring greater profits than others (Buigues & Jacquemin, 1989), diversifying product lines might bring the freshness to the companies' image, support the development of main product lines and meet the needs of developing suitable products for new markets. Another strategy is to create differentiated products as in the case of Company B. Its representative shared that "from its establishment in 2009, the company has adopted the strategy to differentiate themselves by making specially hand-made products", by which they could reduce the challenges of competition from potential rivals. It is pointed out that local firms have more opportunities to compete if they have distinct competitive advantages or their market segments need distinctive products (Dunning & Lundan, 2008). Company D and Company E used to do reverse engineering to reproduce some kinds of products as a way to stay competitive to their competitors. Additionally, Company C with reference to its current capability also chooses to import some kinds of products from Malaysia that the company still cannot produce to sell in domestic market, by which avoiding competition. Company E, in addition to focusing on selling their own products, also combines with doing outsourcing for other foreign companies (from Russia and Thailand) and supermarkets to produce goods under these companies' own brands. This may be an appropriate option at the moment to exploit the maximum capacity of plants, generate more sales, facilitate new market entry and be able to receive incentives or support of outsourcing agreements such as the right to bring the company's own products to partners' supermarket systems. Company C, D and E are also following the strategy to reduce the price of their products to be more competitive in their market segment and in "low-end" market countries like Laos or Cambodia. However, representative from Company E shared that implementing the price-competitive strategy while maintaining and increasing products' quality is not possible at the moment because of the company's current production capability. Therefore, "the company is paying high attention to modernising and innovating its production processes so that it could produce high-quality products at reasonable price".

As firms face higher competition due to the establishment of a freer market, they also respond by adopting more competitive marketing strategies and distribution plans (Dunning & Lundan, 2008). The case companies claim to pay more attention to marketing and trade promotion activities but the actual results are quite disappointing in most companies. The key point here belongs to financial issues. Most of the case companies as well as other Vietnamese companies are SMEs who do not have abundant financial resources for these activities. Company E can only spend 3-4% of its revenue for marketing to achieve acceptable profits while its expected investment amount for marketing should account for 16-18% of the revenue. Although all of them place much importance on enhancing their brand images, they have not yet made a lot of efforts to achieve their goals. Only Company A which during its comprehensive restructuring programme has managed to set up and announce its new set of identity as well as has been quite successful in other marketing activities. Company B, despite setting up a specific indicator for the level of brand recognition every year, still could not be able to measure and evaluate this indicator. The improvement of brand images in other companies is still not very satisfactory. Additionally, Company C, D and E possess the websites with very poor information and boring interface. International trade promotion activities still face challenges related to complicated procedures and limited supports from state trade promotion organisations. In terms of distribution, there are Company A and Company D adopting the same strategy to restructure their distribution systems. Accordingly, their distribution channels were reorganised to be simpler but more logical and easily manageable. For example, in Company A, "the GT channel has been transferred from the company's 1000 agents to over 100 outside independent distributors who then develop the network into hundreds of sale points across the country". By which, it could be easier for the companies to manage the distribution network and obtain market information. Other companies do not have any adjustment to their distribution systems. For international distribution systems, the case companies will continue to look for foreign intermediate companies to cooperate in distributing their products in those markets. Particularly, in ASEAN markets, Company A together with its parent company has also established representative offices in Cambodia and Myanmar to look for partners and promote their products there.

Last but not least, as contingency theory says, firms tend to fit characteristics of their organisation such as structure, leadership, human resource management or decision-making process to changing contingencies (Donaldson, 2001). Because the case companies have not had much cross-border presence, they do not have many changes in organisation really reflecting the consequences of forming a single regional market. Therefore, the changes mainly aim at enhancing the capability of human resources to help the companies stay competitive in the integration process. Company A and D have had programmes to restructure the human resource systems while other companies do not have any changes. For Company A, considering the human resource affected by the old economic regime as the most important challenge, it has implemented an intense restructuring campaign by "partly replacing some of the old positions with qualified candidates while recruiting new talented people to work as "deputies" to push the "heads" to change their working style". Company D has modified the organisational structure to become simpler but more effective and applied the formalisation and standardisation in management processes. Forms of recruitment are improved in state-owned or formerly state-owned companies from relationship-based mechanism to ability-based mechanism. Internal and external training programmes are also organised more frequently and effectively. In terms of organisational culture, how the participating firms set up their organisational culture does not seem to depend on the establishment of a single market but on the economic integration process in general. There is the only evidence from Company A showing the high regard to the role of the ASEAN region in its vision: "… to become the largest food producer in the country… and has significant role in the region".

4.4. Implications for government policy and firm strategy

Table 4.4: The key themes emerged and how they were addressed by the participants

Key themes	Number of participants/companies agreeing
Perceptions of participants on the establishment of the AEC	
Limited understanding on the AEC	4/5 participants
Market opportunities: + Due to trade liberalisation and facilitation + Due to closeness of members	5/5 participants 5/5 participants 3/5 participants
Opportunities to increase efficiency by exploiting materials across the region	5/5 participants
Opportunities to go regionally and internationally	5/5 participants (4/5 do not see this as an important impact)
Vague awareness of the opportunities to join regional value chains	4/5 participants
Higher competitive pressure	5/5 participants
The differences in capability between local and foreign firms	5/5 participants
There are industry-related factors affecting firms' perceptions and behaviours	4/5 participants
There are influences of institutional contexts and business environment on firms' perceptions and behaviours	5/5 participants
The spillover effect	5/5 participants (4/5 believe there are knowledge and skills absorption)
Behaviours of firms towards the AEC	
Comprehensive strategic plan	1/5 companies
Looking for new export markets or increasing export within the region	5/5 companies
Changing international investment strategies	0/5 companies (2/5 will plan in the future)
Joining the regional value chains	1/5 companies (The other 4 are thinking about this but have not decided what to do)
Making adjustments to the capital	3/5 companies
Cooperating with other partners including foreign partners or competitors	4/5 companies (3 planning for equity cooperation, 4 planning for cooperation in production and technology)
Enhancing manufacturing activities: + New plants and capacity increase	5/5 companies 2/5 companies

+ Modernisation and automation + Specialisation + Formalisation and standardisation	3/5 companies 1/5 companies 1/5 companies
Improving products: + Investing in R&D + Diversifying product lines while concentrating on main products + Differentiated products + Reverse engineering + Import + Doing outsourcing + Reducing product prices	5/5 companies 5/5 companies 5/5 companies 1/5 companies 2/5 companies 1/5 companies 1/5 companies 3/5 companies
Adopting more competitive marketing strategies and distribution plans	5/5 companies (but not aggressive)
Organisational changes	5/5 companies (but not really reflecting changes towards REI)

According to the discussion and from Table 4.4 above, the perceptions and actions of the case companies in general share some similarities, however, there are differences on the level of perception and how firms take actions depending on the situation of each company. For example, different companies have different reasons for their perceptions on the competitive pressure and how it affects their companies. Depending on their situation, they perceive different strengths of foreign firms, different spillover effects on their companies or different industry-related and institutional factors, etc. determining their actions. With regard to the behaviours of firms, although firms may choose to cooperate with other firms, enhancing their manufacturing activities or improving their products, how they implement these strategies depends on their characteristics and situations. The establishment of a single market could create diversified opportunities for firms to seek their own appropriate strategies to follow. Larger companies like Company A might think of more complex strategies such as foreign investment across the region. Smaller companies could participate in the value chains of large companies or form join-ventures to create the synergy and to earn benefits spilled over through the cooperation. Setting up partnership is lower risk but needs careful considerations on power distribution. Smaller firms should be flexible in choosing a market entry mode. For example, instead of investing in producing a new kind of product to launch into a potential market, they could cooperate with a regional partner to import that product taking advantage of the free market like Company C. Or firms could choose doing outsourcing for other companies to get benefits from the outsourcing agreements like Company E. Or smaller firms could create their own market segment by producing differentiated products like Company B.

The case companies in particular as well as many other Vietnamese companies have not had much foreign presence. Therefore their actions to react to the establishment of a single market are mainly in market penetration. The adaptations in their capabilities and organisations still have not reflected the impacts of the regional integration. In the future, when firms expand more cross-border activities especially activities across the region and become insiders (Eden, 2002), they should pay attention to strategies to rationalise their activities within the region for examples centralising their regional plants and distribution systems, adopting coordination mechanisms among their plants and offices within the region, etc. (de la Torre et al., 2011; Eden, 2002).

Most of the case companies have not developed a comprehensive strategic plan for themselves with regard to the establishment of the AEC. They should carefully assess the likely impacts of the AEC and the relevant structural factors to determine the appropriate strategies for themselves rather than waiting for other companies to act or following the common trends in the market. Furthermore, firms should also develop a shared organisational culture with specific values and visions in view of a regional single market so that all the activities of the companies are planned logically and systematically.

For the food processing industry which is an industry depending much on agricultural materials, companies should be aware of setting up a traceable supply chain so that the origin and quality of the products could be accepted by the regional and outside markets. To do so, there should be the support from the government to have a general planning for developing the national agriculture that meets the traceability requirement of material sources, helping export activities go smoothly. This is also one of the suggestions from representative of Company A to the government.

In addition, the role of the government in helping enterprises integrate into the AEC is very important. Chia (2013) confirmed the role of the government and policy makers in the regional integration process and emphasised that the integration process must go along with the government's attempt to improve the law and increase the capabilities of local firms to help them compete regionally and internationally. However, as the participants commented, the dissemination of the government about the AEC has been not efficient. The content of seminars held by the government agencies are too theoretical, mostly about the general impacts of the AEC, lacking the detailed instructions for businesses to go. Supports from the government such as in finance, trade promotion activities, etc. are considered to be impractical and unequal across enterprises. Some practical supports do not make sense to enterprises. The performance of business support centres is not highly commended.

In the upcoming time, the government should invest more intensely in providing high-quality disseminating campaigns to enterprises. Seminars and training programmes should be about new issues such as the regional value chains and how to integrate local firms to the chains or the partnership between firms across the region in the AEC integration or feasible business strategies in the AEC integration, etc. rather than always concentrating on the likely impacts of the integration. The government should classify enterprises to offer appropriate forms of dissemination and support, particularly financial assistance to SMEs. Especially, branding-building supporting programmes and trade promotion activities need to be strengthened as firms are still not really aggressive in these activities. Additionally, the government should have institutional reforms, especially reorganising state-owned companies through privatisation to stimulate the development of these companies, reforming the administrative procedures to be simpler and changing working styles of the government agencies to be more active and less bureaucratic. There should also be the cooperation between different business support organisations to develop more useful activities for businesses to join rather than establishing many different organisations with small, fragmented and inefficient activities.

5. CONCLUSIONS

The purpose of this dissertation was to investigate how managers of Vietnamese companies perceive the likely impacts of deeper REI under the AEC and what the responses of their companies to the AEC are. The research used case studies of Vietnamese companies in the food processing industry as an illustration. By collecting in-depth data from five case companies, the study provides deep understanding of their perceptions and behaviours towards this deep REI.

In general, the research found out that there are a number of similarities in the perceptions and behaviours of the case companies. Most of the managers still have limited understanding on the AEC, which influences how they develop an action plan towards it. Most of the companies do not have a comprehensive plan to deal with the AEC. However, they are generally aware of the potential opportunities and the likely threats from the AEC's establishment including opportunities to expand markets or exploit resources across the region, opportunities to go internationally, opportunities to join regional value chains, spillover effects, challenges from higher competitive pressure. They also admitted the differences in capability between local firms and foreign firms that make the competitive pressure become more challenging to them. The participants also agreed and pointed out some industry-related factors and factors of the institutional context and business environment that affect the perceptions and behaviours of firms. However, firms are still quite unclear about some impacts such as the possibility to establish and join regional value chains or the prospect of "going global".

Regarding firms' behaviours, in general, there are some common actions that they tend to take to respond to the AEC including increasing intra-regional exports, making adjustments to their capital, seeking cooperation with other partners, improving products and manufacturing activities, revising marketing and distribution strategies, making organisational changes. In response to the AEC, most of the case companies do not develop a comprehensive strategic plan or do not know what to do to take advantage of some AEC opportunities such as regional value chains due to their limited understanding about this REI initiative. Their foreign presence is mainly through export, and international investment is still for future plans.

In addition to these similarities, the level of perception and actions also depends on certain characteristics and situations of each company. Therefore, firms subject to their situations can find out their own distinct strategies to pursue in the process of the AEC integration. Although the research found some certain behaviours of the case companies in the AEC integration process, a number of their actions do not really reflect responses to the impacts of single market integration such as organisational changes, marketing and distribution strategies. The research discussed some implications for firm strategies such as developing a comprehensive strategic plan based on carefully evaluating the possible impacts and relevant structural forces, being flexible in adopting their market entry mode, paying attention to rationalising firms' activities across the region once their cross-border activities have been extended, developing a shared organisational culture with regard to REI, increasing cooperation.

The study also emphasised the role of the government in the AEC integration. It pointed out that the government has not successfully performed its important role in the dissemination of the AEC and the support for the business community in this integration process. Through the research, the government was suggested to improve their disseminating and supporting activities, for example, by developing new interesting and practical contents for seminars and training programmes, classifying enterprises to offer appropriate assistance, providing stronger supports in brand building and trade promotion, as well as adopting institutional and administrative reforms in order to serve the best for the integration process.

6. LIMITATIONS AND IMPLICATIONS FOR FUTURE RESEARCH

Initially this research faced challenges in seeking firms' agreement to join the research. During the data collection phase, participating firms were also afraid of revealing some of their production and business plans, and access to company documents was limited. As a result, some questions were not answered in details. Besides, as there has been no previous study on firms' behaviours towards REI in ASEAN as well as in Vietnam, this research as a master dissertation cannot address the research questions thoroughly. The research would be better if being supported by a small quantitative survey on a larger number of firms from which some case companies would be selected. Thereby, the selection of case companies would be more reasonable and the results would be more meaningful.

As discussed above, this research is the first to examine the behaviours of Vietnamese firms in the REI process, further research could develop the results of this research by studying each kind of firms' behaviours in details, for example, the behaviour to make cooperative arrangements with other partners, the behaviour to form and join regional value chains, or studying foreign market entry modes, marketing strategies, organisational changes. Further research could also make more detailed examination on the importance of each action in firms' strategies towards this REI. There should also be comparative studies on the behaviours of firms of different economic sectors or between large firms and SMEs in Vietnam. And lastly, this research was carried out at the doorstep of AEC establishment; there should be more studies in the future after the AEC initiative has been in place for a longer period of time to examine how firms have responded to the growing integration.

APPENDIX

Interview questions

1. Background of the company

- When and where was your company established?

- Can you tell me the type and size of your company (in terms of assets and the number of regular employees)?

- What kinds of products are your company specialised in?

2. Operational history of the company

- Which markets has your company been operating in since established? What are your current target markets and customers? Do you have any difficulty in doing business in these markets and promoting your products to your target customers?

- Have you ever had any cooperation with any foreign partner? Tell me about your partner and the objectives of the cooperation.

- Can you tell me about your suppliers as well as your production network? Have you ever had any difficulty in procurement or in managing your production network?

- Has your company ever imported technologies or machines? From where? Do you have any difficulty regarding technologies used in production?

- Can you tell me about the performance of your company in general and in particular market?

- What are your major competitors? You can briefly describe them by their size, where they come from, in which market they compete with your company, what their strengths and advantages over your company are…

3. Perceptions on deeper regional economic integration under ASEAN Economic Community?

- Do you know about Vietnam's economic related agreements with other countries? If yes, please specify some that you know.

- Do you know about the economic integration among ASEAN countries? How about the agreements signed between member countries? Do you know about the ASEAN Economic Community (AEC) that is now on the way to be established in 2015?

- Can you tell me what benefits or opportunities and difficulties your company might have or used to have due to the preparation for the AEC and its upcoming establishment? What are your main benefits and constraints? (in terms of importing, exporting, foreign investment and cooperation, markets, customers, production and technology, competition, knowledge and technology absorption, legislation, technical barriers, etc.).

- How do you evaluate the competitive pressure on Vietnamese firms in the food processing industry in general and your company in particular due to the establishment of the AEC?

Have you experienced an increase in market integration pressures in the region in the recent time? How?

How do you evaluate the competitiveness of your competitors especially the foreign ones in the AEC integration? (regarding variables such as finance, products, specialised management capabilities, organisational systems, marketing systems, technology and innovation systems, human resources…) What is your company's competitiveness in comparison with them?

Do you think that deeper economic integration under the AEC will only favour and support the development of large enterprises especially large MNEs when these enterprises have sufficient capacity to compete successfully and to take advantage of opportunities from the AEC?

- Do you think that it is the opportunity for your company or other companies in the industry to improve your capability as the result of the knowledge and technology absorption from the foreign companies who are induced to enter the market?

- How do you think about the opportunity for Vietnamese firms in this industry in general and your company in particular to expand activities to other neighbouring countries and outside countries and join the regional value chain due to the establishment of the AEC?

- What do you think as the most important impact of the AEC on your company? And on other companies in this industry?

- Do you think when integrating more deeply into ASEAN, firms should pay more attention to companies from within the region or from outside the region? Is the opportunity for your company or other Vietnamese companies really to expand the activities to other member countries? Or is AEC more suitably the means for firms to enhance their competitiveness to penetrate extra-regional markets? (Because the intra-regional trade and investment are not as much as extra-regional transactions).

4. Firms' behaviours towards the AEC?

- Are you expanding or planning to expand your activities to other ASEAN countries as the result of AEC initiative? Or seeking higher integration into the value chain across the region? What else do you plan to do to take advantage of the opportunities of the AEC?

- What have you done or are you going to do to increase your competitiveness to operate your business better in other countries and/or compete with foreign competitors/products in domestic market?

Some more detailed questions:

+ Has your company had or planned to have any structural change in your company's activities towards the likely impacts of the AEC? (such as change in capital availability, product, market, or production network) Why? How you do this?

Have you had or planned to have any change in cooperation activities with foreign partners? If you do not have any cooperation at the moment, do you have any plan to form joint ventures or cooperate with foreign firms? Why?

(If you have not internationalised your activities yet), do you have any intention of internationalisation? (If you have already internationalised), do you plan to have any changes to your internationalisation strategy? Evaluate your internationalisation ability (strengths and weaknesses, opportunities and challenges, readiness for adjustment).

+ How about your change in innovation and production (e.g. R&D activities, production techniques…) towards the likely impacts of the AEC? Why?

+ How about changes in your marketing and distribution plans toward the likely impacts of the AEC? Why?

+ Are there any change in human resources and management capability, organisational structure or in organisational culture? Why?

+ Have you ever think of any special strategy to differentiate against your competitors especially competent foreign competitors? Do you think which is better for you to compete: by concentrating on price, quality, services, or differentiation, or anything else?

- Among all of the above, what do you think is the most important behaviour/reaction your company should do to take advantage of the opportunities and reduce the challenges to integrate better to the AEC? Why?

Is there any other factor besides requirement of the integration influencing your organisational changes? (For example, industry specific factors or company specific conditions…).

In your opinion, between greater opportunities of the REI context and the higher competition, which is more important in determining your behaviours in this deeper REI?

- What are the obstacles you might have or used to have to implement the above actions?

- How do the variations in the existing nature of national operating environments influence your company's ability to respond to this REI?

- What do you see as the reactions or behaviours of other Vietnamese firms and even foreign firms in this industry towards the AEC integration? Do they have any role in determining your behaviours?

- What are your recommendations for other Vietnamese firms in this industry with regards to the integration to the AEC?

5. Views and suggestions on government's support

- How do you know about the AEC? Do you think that Vietnamese government has widely and successfully disseminated the AEC to Vietnamese business community?

- Has your company got involved in any business consultation, surveys, projects or seminars from any government agency regarding REI issues under the AEC?

- During the integration process to the AEC, what do you see as supportive policies from the Vietnamese government? (e.g. supports in marketing, intellectual property right, trade promotion, training, technology, providing information on markets and legislation…). How is their effectiveness?

- What other kinds of help or policy changes do you want from Vietnamese government to help you efficiently integrate to the AEC?

REFERENCES

Association of Southeast Asian Nations. (2008). *ASEAN Economic Community Blueprint*. Jakarta: ASEAN Secretariat.

Association of Southeast Asian Nations. (2013). *ASEAN Economic Community Scorecard*. Jakarta: ASEAN Secretariat.

Association of Southeast Asian Nations. (2014). *Thinking globally, prospering regionally – ASEAN Economic Community 2015*. Jakarta: ASEAN Secretariat.

Association of Southeast Asian Nations. (n.d.-a). *ASEAN Economic Community*. Retrieved 23/10/2014, from http://www.asean.org/communities/asean-economic-community

Association of Southeast Asian Nations. (n.d.-b). *External relations*. Retrieved 13/10/2014, from http://www.asean.org/asean/external-relations

Association of Southeast Asian Nations. (n.d.-c). Foreign direct investments. Retrieved 8/9/2014 http://aseanstats.asean.org/Menu.aspx?rxid=6d983c33-1ff5-4eaa-9ad6-3259095c2e56&px_language=en&px_db=4-Foreign+Direct+Investments&px_type=PX

Association of Southeast Asian Nations. (n.d.-d). International merchandise trade. Retrieved 8/9/2014 http://aseanstats.asean.org/Menu.aspx?rxid=d5fa49c4-057b-4638-8778-e0fcc833ffc4&px_language=en&px_db=2-International+Merchandise+Trade+Statistics&px_type=PX

Association of Southeast Asian Nations. (n.d.-e). *Overview*. Retrieved 23/10/2014, from http://www.asean.org/asean/about-asean

Association of Southeast Asian Nations, & The World Bank. (2013). *ASEAN integration monitoring report*. Washington, DC: The World Bank.

Association of Southeast Asian Nations, & United Nations Conference on Trade and Development. (2014). *ASEAN investment report 2013-2014 - FDI development and regional value chains*. Jakarta: ASEAN Secretariat.

Austria, M. S. (2012). Moving towards an ASEAN Economic Community. *East Asia, 29*(2), 141-156. doi:10.1007/s12140-011-9169-5

Baldwin, R. E., & Venables, A. J. (1995). Regional economic integration. In G. Grossman & K. Rogoff (Eds.), *Handbook of international economics* (Vol. III, pp. 1597-1644): Elsevier Science B.V.

Balmer, B. (2009). *Analysis of the food sector in Vietnam - Opportunities for Victorian exporters*. Melbourne, Victoria: Victorian Government, Department of Primary Industries.

Bende-Nabende, A., Ford, J., & Slater, J. (2001). FDI, regional economic integration and endogenous growth: Some evidence from Southeast Asia. *Pacific Economic Review, 6*(3), 383-399.

Birkinshaw, J., Morrison, A., & Hulland, J. (1995). Structural and competitive determinants of a global integration strategy. *Strategic Management Journal, 16*(8), 637-655.

Braun, V., & Clarke, V. (2006). Using thematic analysis in psychology. *Qualitative Research in Psychology, 3*(2), 77-101. doi:10.1191/1478088706qp063oa

Brooks, D. H., Roland-Holst, D., & Zhai, F. (2005). Asia's long-term growth and integration: Reaching beyond trade policy barriers. *ADB ERD Policy Brief No. 38*.

Bryman, A., & Bell, E. (2011). *Business research methods*. Oxford: New York.

Buigues, P., & Jacquemin, A. (1989). Strategies of firms and structural environments in the large internal market. *Journal of Common Market Studies, XXVIII*(1), 53-67.

Cavusgil, S. T., Knight, G. A., & Riesenberger, J. R. (2008). *International business: Strategy, management, and the new realities*. Upper saddle River, N.J: Pearson Prentice Hall.

Chen, M. X. (2009). Regional economic integration and geographic concentration of multinational firms. *European economic review, 53*(3), 355-375. doi:10.1016/j.euroecorev.2008.05.002

Chia, S. Y. (2011). Association of Southeast Asian Nations economic integration: Developments and challenges. *Asian Economic Policy Review, 6*(1), 43-63. doi:10.1111/j.1748-3131.2011.01178.x

Chia, S. Y. (2013). The ASEAN Economic Community: Progress, challenges, and prospects. *ADBI Working Paper 440*. Tokyo: Asian Development Bank Institute.

Creswell, J. W. (2009). *Research design: Qualitative, quantitative, and mixed methods approaches*. Thousand Oaks, CA: Sage Publications.

Creswell, J. W. (2013). *Qualitative inquiry & research design: Choosing among five approaches*. Thousand Oaks, Calif: SAGE Publications.

Cuervo-Cazurra, A., & Un, C. A. (2007). Regional economic integration and R&D investment. *Research Policy, 36*(2), 227-246. doi:10.1016/j.respol.2006.11.003

de la Torre, J. R., Esperança, J. P., & Martínez, J. I. (2011). Organizational responses to regional integration among MNEs in Latin America. *Management International Review, 51*(2), 241-267. doi:10.1007/s11575-011-0073-4

Donaldson, L. (2001). *The contingency theory of organizations*. London: SAGE.

Dunning, J. H. (2002). *Theories and paradigms of international business activity: The selected essays of John H. Dunning* (Vol. I). Cheltenham, UK; Northampton, MA: Edward Elgar Publishing.

Dunning, J. H., Kim, C.-S., & Lin, J.-D. (2001). Incorporating Trade into the Investment Development Path: A Case Study of Korea and Taiwan. *Oxford Development Studies, 29*(2), 145-154. doi:10.1080/13600810123926

Dunning, J. H., & Lundan, S. M. (2008). *Multinational enterprises and the global economy*. Northampton, MA: Edward Elgar.

Durán, J. J., & Ubeda, F. (2005). The investment development path of newly developed countries. *International Journal of the Economics of Business, 12*(1), 123.

Durán, J. J., & Ubeda, F. (2001). The investment development path: A new empirical approach and some theoretical issues. *Transnational corporations, 10*(2), 1-34.

Eden, L. (2002). Regional integration and foreign direct investment: Theory and lessons from NAFTA. In M. Kotabe & P. S. Aulakh (Eds.), *Emerging Issues in International Business Research* (pp. 15-36). Cheltenham, UK; Northampton, MA, USA: E. Elgar.

El-Agraa, A. M. (1999). *Regional integration: Experience, theory and measurement*. Lanham, Md.: Barnes & Noble.

Grant, B. M., & Giddings, L. S. (2002). Making sense of methodologies: A paradigm framework for the novice researcher. *Contemporary nurse, 13*(1), 10-28.

Guba, E. G., & Lincoln, Y. S. (1994). Competing paradigms in qualitative research. In N. K. Denzin & Y. S. Lincoln (Eds.), *Handbook of qualitative research* (pp. 105-117). Thousand Oaks, CA: Sage.

Hà Thu, & Thi Hà. (2014, November 14). *Tỷ phú giàu thứ 3 Thái Lan muốn mua Bia Sài Gòn [3rd richest billionaire of Thailand wants to buy Saigon Beer]*. Retrieved 8/12/2014, from http://kinhdoanh.vnexpress.net/tin-tuc/doanh-nghiep/ty-phu-giau-thu-3-thai-lan-muon-mua-bia-sai-gon-3107382.html

Haskel, J. E., Pereira, S. C., & Slaughter, M. J. (2007). Does inward foreign direct investment boost the productivity of domestic firms? *The Review of Economics and Statistics, 89*(3), 482-496.

Hồng Châu. (2014, November 19). *Hàng Thái Lan, Nhật Bản tràn từ vỉa hè đến siêu thị [Thai and Japanese goods flood local market]*. Retrieved 8/12/2014, from http://kinhdoanh.vnexpress.net/tin-tuc/doanh-nghiep/hang-thai-lan-nhat-ban-tran-tu-via-he-den-sieu-thi-3108831.html

Hsieh, W.-j., Nguyen, Q. T., Dinh, P. H., Doan, T. H., Tran, K. D., Nguyen, H. L., . . . Hong, M.-C. (2004). An analysis of national competitiveness: The perspective from Vietnam. *Asia Pacific Management Review, 9*(20), 353-377.

Hunya, G. b. (2001). Uneven competitiveness of industries in the wake of foreign penetration of advanced economies in transition. *Transnational corporations, 10*(2), 35-66.

Ismail, N. W., Smith, P., & Kugler, M. (2009). The effect of ASEAN economic integration on foreign direct investment. *Journal of economic integration, 24*(3), 385-407.

Kim, Y.-H. (2007). Impacts of regional economic integration on industrial relocation through FDI in East Asia. *Journal of Policy Modeling, 29*(1), 165-180. doi:10.1016/j.jpolmod.2006.04.008

Mai Khanh. (2014, September 26). *Cuộc "xâm lăng" của người Thái [The "invasion" of Thai people]*. Retrieved 8/12/2014, from http://doanhnhanonline.com.vn/cuoc-xam-lang-cua-nguoi-thai/

Meyer, K. E., Tran, Y. T. T., & Nguyen, H. V. (2006). Doing business in...Vietnam. *Thunderbird International Business Review, 48*(2), 263-290. doi:10.1002/tie.20095

Minot, N. (1998). *Competitiveness of food processing in Vietnam: A study of rice, coffee, seafood, and fruit and vegetables subsectors*.

Mirza, H., & Giroud, A. (2004). Regional integration and benefits from foreign direct investment in ASEAN economies: The case of Viet Nam. *Asian development review, 21*(1), 66-98.

Motta, M., & Norman, G. (1996). Does economic integration cause foreign direct investment? *International Economic Review, 37*(4), 757-783.

Myers, M. D. (2009). *Qualitative research in business & management*. London: SAGE.

Nguen, T. K. T. (2007). Investment climate and foreign investment in Vietnam. *Studies on Russian Economic Development, 18*(2), 211-218. doi:10.1134/S1075700707020116

Nguyen, P. (2014, November 5). *AEC: Vì sao doanh nghiệp chưa mặn mà [AEC: Why enterprises not interested]*. Retrieved 26/11/2014, from http://baocongthuong.com.vn/hoi-nhap/71627/aec-vi-sao-doanh-nghiep-chua-man-ma.htm - .VHVd7L7gJSU

Petri, P. A., Plummer, M. G., & Zhai, F. (2012). ASEAN Economic Community: A general equilibrium analysis. *Asian economic journal, 26*(2), 93-118. doi:10.1111/j.1467-8381.2012.02079.x

Plummer, M. G. (2006). ASEAN-EU economic relationship: Integration and lessons for the ASEAN Economic Community. *Journal of Asian economics, 17*(3), 427-447. doi:10.1016/j.asieco.2006.04.004

Pomfret, R. (2013). ASEAN's new frontiers: Integrating the newest members into the ASEAN Economic Community. *Asian Economic Policy Review, 8*(1), 25-41. doi:10.1111/aepr.12000

Scheela, W., & Van Dinh, N. (2001). Doing business in Vietnam. *Thunderbird International Business Review, 43*(5), 669-687. doi:10.1002/tie.1021

Smallbone, D., Cumbers, A., Syrett, S., & Leigh, R. (1999). The single European market and SMEs: A comparison of its effects in the food and clothing sectors in the UK and Portugal. *Regional Studies, 33*(1), 51-62.

Stal, E., & Cuervo-Cazurra, A. (2011). The Investment Development Path and FDI from developing countries: The role of pro-market reforms and institutional voids. *Latin American Business Review, 12*(3), 209-231. doi:10.1080/10978526.2011.614174

Stoian, C. (2013). Extending Dunning's Investment Development Path: The role of home country institutional determinants in explaining outward foreign direct investment. *International Business Review, 22*(3), 615-637. doi:10.1016/j.ibusrev.2012.09.003

The Government of Vietnam. (2009). *Nghị định về trợ giúp phát triển doanh nghiệp nhỏ và vừa* [Decree on development support for small and medium sized enterprises] (Report No. 56/2009/NĐ-CP). Retrieved from http://vanban.chinhphu.vn/portal/page/portal/chinhphu/hethongvanban?_page=56&class_id=1&document_id=88612&mode=detail&org_group_id=0&org_id=0&type_group_id=0&type_id=0

The State Bank of Vietnam. (n.d.). Tỷ giá bình quân liên Ngân hàng [Inter-bank average exchange rate]. Retrieved 6/11/2014 http://www.sbv.gov.vn/portal/faces/vi/vim/vipages_trangchu/qlnh/tygia/tgbq?_adf.ctrl-state=rfilzgdm1_126&_afrLoop=8421531379131000

Thi Hà. (2014a, November 21). *'Bánh ngọt' đang dần vào tay doanh nghiệp ngoại ["Cake" gradually falling into the hands of foreign firms]*. Retrieved 8/12/2014, from http://kinhdoanh.vnexpress.net/tin-tuc/doanh-nghiep/banh-ngot-dang-dan-vao-tay-doanh-nghiep-ngoai-3108104.html

Thi Hà. (2014b, November 25). *Đại gia Thái Lan thèm khát thị trường đồ uống Việt Nam [Thai giants crave for Vietnam beverage market]*. Retrieved 8/12/2014, from http://kinhdoanh.vnexpress.net/tin-tuc/doanh-nghiep/dai-gia-thai-lan-them-khat-thi-truong-do-uong-viet-nam-3111392.html

Tường Vi. (2014, August 23). *Tỷ phú Thái mua xong cổ phiếu Vinamilk [Thai billionaire buys Vinamilk shares]*. Retrieved 8/12/2014, from http://kinhdoanh.vnexpress.net/tin-tuc/doanh-nghiep/ty-phu-thai-mua-xong-co-phieu-vinamilk-3035244.html

Vietnam Chamber of Commerce and Industry WTO Center. (n.d.). *Hiệp định thương mại tự do (FTA) [Free trade agreements (FTA)]*. Retrieved 17/11/2014, from http://www.trungtamwto.vn/fta

Vietnam General Statistics Office. (2014a). *Foreign direct investment enterprises in the period of 2006 - 2011*. Ha Noi: Statistical Publishing House.

Vietnam General Statistics Office. (2014b). *Statistical yearbook of Vietnam 2013*. Ha Noi: Statistical Publishing House.

Vietnam Ministry of Industy and Trade. (2008). *Quyết định phê duyệt chiến lược phát triển các ngành công nghiệp áp dụng công nghệ cao đến năm 2020* [Decision on the approval of the development strategy of the industries applied high technology towards 2020] (Report No. 53/2008/QĐ-BCT). Retrieved from http://www.moit.gov.vn/vn/Pages/ChiTietVanBan.aspx?vID=8988

Vo, T. T., & Nguyen, A. D. (2011). Revisiting exports and foreign direct investment in Vietnam. *Asian Economic Policy Review, 6*(1), 112-131. doi:10.1111/j.1748-3131.2011.01187.x

Weber, R. (2004). The rhetoric of positivism versus interpretivism: A personal view. *MIS Quarterly*, *28*(1), iii-xii.

Welle-Strand, A., Vlaicu, M., & Tjeldvoll, A. (2013). Vietnam – A new economic dragon in Southeast Asia? *Journal of Developing Societies, 29*(2), 155-187. doi:10.1177/0169796X13479705

Wesley, M. (2003). Membership expansion and change. In M. Wesley (Ed.), *The regional organisations of the Asia Pacific* (pp. 97-116). New York: Palgrave Macmillan: Houndmills, Basingstoke, Hampshire.

Wilson, J. S., & Shepherd, B. (2009). Trade facilitation in ASEAN member countries: Measuring progress and assessing priorities. *Journal of Asian economics, 20*(4), 367-383. doi:10.1016/j.asieco.2009.03.001

World Trade Organisation. (1998). *Inventory of non-tariff provisions in regional trade agreements, WT/REG/W/26*. Geneva: Committee on Regional Trade Agreements.

World Trade Organisation. (2003). *World trade report 2003*. Geneva: WTO Publications.

World Trade Organisation. (n.d.). *Regional trade agreements*. Retrieved 15/10/2014, from http://www.wto.org/english/tratop_e/region_e/region_e.htm

Yin, R. K. (2009). *Case study research: Design and methods* (Vol. 5.). Los Angeles: Sage Publications.

Yin, R. K. (2012). *Applications of case study research*. Thousand Oaks, Calif: SAGE.