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The materials contained in this document were assembled in January 2016 and were based on the law enforceable and information available at the time.

Doing business in Vietnam

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Executive Summary

Welcome to our guide for Doing business in Vietnam. In this guide, we hope to provide you with an overview of the key aspects of undertaking business and investing in Vietnam and answer many of the questions that foreign businesses and entrepreneurs have when making their first venture into the Vietnamese market.

Since the early 1990s, Vietnam has moved to a more market oriented economy from a centrally planned one and brought rapid growth. In the last decade, Vietnam was a rapidly developing country with a dynamic and emerging market economy.

Whilst Vietnam's macro-economic troubles took some shine off its appeal, broad based growth, low wages and strong economic outlook continue to make it an attractive place for investment and a favorite solution to rising manufacturing costs elsewhere. In recent years, Vietnam has controlled well its inflation, foreign exchange rate and trade balance and has become the destination for many large multinational companies to transfer their operations from other countries.

Vietnam is dynamic environment, reflected in a young population, growing wealth, changing consumer attitudes, greater mobility and urbanization – are pushing the country through a period of great change.

Regardless of the reasons for entry, identifying the right path in to the market can be challenging. Success in other markets cannot necessarily be easily replicated in Vietnam.

The message for those entering the market or expanding their presence in Vietnam is clear: make sure that you are fully prepared and committed before investing. The key to success is to carefully assess your markets and risks and ensure that you take time to invest in knowing your customers and partners, your government touch points and stakeholders.

This document contains references to some common issues that investors should be aware of when operating in Vietnam, but each case is different and specific advice should always be sought.



WHY VIETNAM?



Vietnam has one of the fastest-growing, most vibrant economies in Asia. In recent years, Vietnam has been rising as a leading agricultural exporter and attracted many multinational corporations, including those that seek ways to diversify their operations away from other countries. From 2000 to 2007, Vietnam's GDP saw a healthy growth of averagely 7.6% per year. The economy experienced difficulties from 2008 to 2012 which has led to decreasing GDP growth during this period (average 6% year by year). However, Vietnam economy is forecast to recover gradually from 2013 to 2016 which average year by year growth of around 6.5%.

Vietnam borders China to the north, Laos and Cambodia to the west and South China to the east. Vietnam is the 14th most populous country in the world and the third-largest population in South-East Asia, over half of which is below the age of 30. It may be a late bloomer compared to other South-East Asia such as Singapore, Thailand or Malaysia, but the country seems destined for a positive future.

Starting from a low economic base in the early 1990s, Vietnam's economy grew strongly and rapidly before it slowed down during the current global financial crisis. Vietnam's economy is already bouncing back to pre-crisis growth trends in 2011, and is expected to continue on this path. In January 2007, after 12 years of negotiations, Vietnam became a member of the World

Trade Organization (WTO). This has helped to cement domestic reforms and precipitate Vietnam's progress towards becoming a full market-orientated economy. Vietnam is also a member of the Trans-Pacific Partnership ("TPP") and the ASEAN Economic Community has just been operated in Dec 2015. This will help Vietnam integrate more into the global economy and also open up a huge market for Vietnam's export as well as have more benefits in terms of foreign investment flows and closer ties with international production chains. Sectors which are welcoming foreign investments include infrastructure, tourism development, and related real estate and retail sector development in urban areas.

Other factors that make Vietnam an attractive country for investors include:

- tax incentives: preferential tax rates of 10% and 20% for 15 and 10 years respectively, are available for the corporation engaged in encouraged investment projector encouraged areas;
- low labor costs;
- a growing consumer market;
- a gradual move from a centralized to a market- oriented economy; and
- introduction and amendments of legislation by the Government to make foreign direct investment more attractive.

A SNAP-SHOT OF VIETNAM

Full name	The Socialist Republic of Vietnam
Capital	Hanoi City
Area	329,560 sq kilometres
Language	Vietnamese
Population	91,9 million (2015)
GDP	US\$ 204 billion (2015)
Inflation rate	0,63% (2015, lowest for 15 years)
Unemployment	2.31% (2015)
External debt	41,5% of GDP (2015)
Monetary unit	Vietnamese Dong (VND)
USD/VND	22,350 (2016)
Stock markets	Ho Chi Minh Stock Exchange & Ha Noi Stock Exchange
Export value	US\$ 162,11 billion (2015)
Export commodities	Textiles, crude oil, seafood, footwear, electronics and computers, wooden products, agricultural commodities
Major export partners	The U.S., EU, Japan, China, Australia, Taiwan, South Korea
Import value	US\$ 165,65 billion (2015)
Import commodities	Machinery and spare parts, petroleum, steel, fabric, electronics and computers, plastic in primary forms
Major import partners	China, Japan, South Korea, Thailand, Singapore, Taiwan
Political situation	Vietnam is a single-party socialist republic. All Vietnamese political organizations are under Vietnamese Communist Party control.





CHALLENGES OF DOING BUSINESS IN VIETNAM

Vietnam has kept its sustained and strong growth for 2016, although it was still below its historical average because of affecting from the world economic crisis in recent years. Infrastructure, tourism development, and related real estate and retail sector development in urban areas are all attracting large amounts of FDI, and overseas firms are increasingly attracted by the country's move from a centralized to a market-orientated economy.

Doing business with Vietnam may seem rather daunting for those new to the market, but taking a strategic approach is the key. The investors should conduct reliable research before venturing into business in any new territory and Vietnam is no exception. Good research saves money and improves efficiency and performance right from the start.

Despite the good news picture, the investors may be drawing to some challenges to doing business which are best navigated with local business partner to help on board.

There are some main risks and challenges when doing in business in Vietnam as follows:

- Vietnam has specialized too much on competitiveness of low value-added products.
- Shortcomings in business environment are persistent. The main shortcomings concern respect for the law and corruption, which, despite the reforms undertaken, remains widespread within political and economic circles as the Vishanin or Vinalines case shows. Meanwhile, the Communist Party still controls the country's entire political, economic and social life. Somewhere, the local authorities are more powerful than the central authorities and override the general regulations.
- Vietnam is still lack of infrastructure. Heavy investment over the last decade has led to improvements in infrastructure but many roads remain unpaved, bridges are weak and ports often inadequate. Besides, electricity extends to all urban areas, but takes new businesses time to obtain and wavering price controls. On other hand, communications infrastructure is reliable and good but may be unsecured.
- The laws and regulations are very complicated and revised usually. Sometimes, they are understood and treated actually on different way by different local authorities. A lot of new laws and regulations, especially in business and tax laws, have just been revised and released and would be applied from 2015.
- Vietnam has a young population and strong workforce but a shortage of skilled workers as well as middle & top managements. In addition, the Vietnamese customs and cultures are a bit different from the North to the South leading to some disputes in business environment.
- There are many procedures to undertake when starting a business in Vietnam, making it among a most complex start-up environment in the world, which means it is essential to seek local help when venturing in the country.

ESTABLISHING YOUR PRESENCE: CHOOSING A RIGHT LOCATION

Shaped like an elongated S, Vietnam borders different and unique characteristics:



Climate and geographical features of Vietnam



The North: home to the capital, Ha Noi City. The North is known for its alpine peaks, the Red River Delta and enchanting Ha Long Bay. It has a diversity of ethno-linguistic minorities.

The Northern Vietnam is the oldest of Vietnam, where the Vietnamese culture originated over 2,000 years ago.

The North of Vietnam has a sub-tropical climate, with four distinct seasons (spring, summer, autumn and winter) and great fluctuations in temperature between the warmest and coolest periods.

Geographical features of Vietnam (The North, the Central and the South)



The Central: includes the Central Highlands. The Central is known for the spread over 1,500km of coastline and the Central Highland where develop much industrial crops such as coffee, pepper, rubber and cashew. There are also so many beautiful places for visitors to experience and enjoy such as Hue, Phong Nha cavern, Hoi An ancient town, Da Lat, etc.

Da Nang is the commercial centre of this part of Vietnam. The region has a large population of ethnic minorities.

The Central Vietnam shares a climate between the north and the south, has two basic seasons (rainy and sunny) with many strong storms in rainy season.



The South: divided into coastal lowlands, the mountainous Central highlands, and the Mekong Delta River. The nation's commercial hub, Ho Chi Minh City, is located here, as well as the growing delta city of Can Tho and the major port of Vung Tau.

The Southern Vietnam has two main rivers: Dong Nai River and Mekong Delta River where grow some agricultural products such as rice, rubber and seafood.

The South of Vietnam has tropical climate, which is generally warm. The hottest months are March to May, with temperatures of 38-40°C.

ROADMAP TO START A BUSINESS IN VIETNAM

Step	Actions	Estimated cost	Estimated time
1	<p>Check the proposed company name; obtain an investment registration certificate (IRC applied to FDIIs) and an enterprise registration certificate (ERC) as well as a tax registration certificate from the local business registration office.</p> <p><i>Agency:</i> Department of Planning & Investment</p>	<p>VND200,000 (official fees)</p> <p>Check the laws, and then check your budget for a balance suitable to pay the officers “expediting” fees.</p>	14 – 21 days
2	<p>Make a company seal</p> <p><i>Agency:</i> Seal maker</p>	VND200,000 – 400,000	About 01 week
3	<p>Registration of the seal-sample</p> <p>From 01 July 2015, the Company does not need to register the seal-sample. Instead of, the Company must register its legal staffs’ signatures.</p> <p><i>Agency:</i> Local Police Office</p>	VND50,000	01 day
4	<p>Open a bank account</p> <p>Each bank requires a different minimum deposit to open an account, normally requires VND 1 million for a VND account and US 100 for a USD account. To open the account, the bank requires a bank-issued application form, the company seal, the company’s business registration certificate, and the resolution of the management board on the authorized signatures.</p>	No charge	01 day
5	<p>Pay business license tax and apply for business tax code</p> <p><i>Agency:</i> Tax office</p>	The cost of the business license tax varies based on the amount of registered capital of the Company, from VND 1 – 3 million	01 day



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Step	Actions	Estimated cost	Estimated time
6	<p>Announce the new company in a daily newspaper – must include pertinent details such as: company name, address of office, branches/rep. offices, line(s) of business charter capital for limited liability company, full name, home address, nationality, passport number and the number of establishment of the company owner(s)</p> <p><i>Agency:</i> Daily newspaper</p>	The costs vary depending in the newspaper chosen, size of announcement, etc, around VND300,000 – 1,000,000	About 01 weeks
7	<p>Buy VAT invoices or obtain and print your own self-printed VAT invoice</p> <p><i>Agency:</i> Tax office</p>	About VND200,000 per book	About 02 weeks
8	<p>Register with Department of Labor, Invalids and Social Affairs (DoLISA) office to declare use of labor</p> <p><i>Agency:</i> DoLISA</p>	No charge	01 days
9	<p>Register employees with the Social Insurance Fund for payment of health and social insurances for all employees</p> <p><i>Agency:</i> Social Insurance Fund</p>	No charge	01 days
10	<p>Register for trade union with Vietnam General Confederation of Labor</p> <p><i>Agency:</i> Confederation of Labour</p>	No charge	About 01 week



ESTABLISHING YOUR PRESENCE: AN OVERVIEW OF BUSINESS MATTERS

Vietnam is an attractive country for venturing but also is not an easy market to enter or exit. The decision to do business here should be made with full understanding of all of the differences and barriers in the Vietnamese business world. The structure of the business and the location need to be considered very carefully, with an insight into factors that are important in Vietnam, such as infrastructure, which is a “given” in a developed country. It also takes time and resources to discontinue operations, which can add insult to injury if the business was ill-conceived from the beginning. A good business plan should include a comprehensive study of the market, a solid plan for entry and a good understanding of what the process will entail if the company decides to conclude its business activities.

LEGAL STRUCTURE

Deciding how to structure the company’s legal presence in Vietnam is critical. There are five main classes of foreign Investment in Vietnam as follows:

- 100% foreign-owned company;
- joint venture;
- business cooperative contract;
- build-operate-transfer project;
- joint stock company.

WORK PERMIT

After obtain a company business license, the Company must get work permits for any foreign staff who will be working in Vietnam. The permit process can be very arduous, so it is very important to know what should be done and what documents should be prepared for the process. The maximum duration of a work permits 24 months.

OFFICE RENTAL

Finding space for the office is fairly straightforward in the big cities. There are several well-established property agents in Ho Chi Minh City and Ha Noi City, and there are English newspapers that have classified listings of office spent for rent. Service charges cover cleaning and other necessary maintenance. However, it is harder to find rental space outside the big cities, especially in more remote areas. There are usually no office buildings, so the company must choose private houses or villas that can be converted into office space. In general, Vietnam rental contracts are the same as in more industrial countries, but there are a few of peculiarities worth noting, such as a large deposit at beginning or 10%VAT excluding in the rental rate negotiation.

EXIT STRATEGY

Every good business plan must include a clear exit strategy, especially if sizable assets are moved into Vietnam. In Vietnam, liquidating a business can be more difficult and expensive than setting one up. In Vietnam, when close a business the company needs to have stamped letters from all of the interested authorities, providing that the company have honored all of its liabilities and commitments.

IMPORT AND EXPORT

Bringing goods into (and out of) Vietnam can be administratively challenging. To limit this, it is needed to obtain the necessary import/export permits and to detail the imports/exports that you plan to bring into (or out of) for the company business.

BUSINESS PROTOCOL

Meetings

Vietnam is just as hierarchical as other Asian cultures. The respect and deference should always be made those in authority. Handshakes are the form of greeting and the more senior people of a meeting should be introduced first. The exchange of business cards is popular. It is better if the business card has one side in English and another side in Vietnamese. Business cards are given and received by two hands and should leave them of all those attending a meeting out on the table in front of you.

Spend time on introductions and small talk, especially on topics such as family and sports. This will help your Vietnamese counterpart to relax and increase their confidence in you.

Business attire

A shirt/a suit and tie (or without tie) is acceptable business wear for “everyday”

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meeting. Women tend to wear formal business attire which covers the shoulders.

Business entertainment

When entertaining a business client, the expectation is that the person who has issued the invitation will pay for the meal. The Vietnamese love their karaoke and it is probably the most common pastime after a business dinner. This is also a chance for business associates to see each other in a less formal setting.



Gift giving

Gift giving is a common practice in Vietnam. Gifts do not need to be expensive and should be a simple token of appreciation. Common gifts include fruit and flowers.



Negotiation

Negotiations in Vietnam can be protracted as there is often a lot to go through. Don't be put off if there are very long silences during negotiations as Vietnamese people tend to wait a while before responding. Be aware, however, that if there is a disagreement the Vietnamese parties may remain silent in order to save face. You should immediately follow up in writing any agreement that may have been reached, to ensure there have not been any misunderstandings.



Cultural considerations

There are a number of key cultural differences which should be in mind when conducting business in Vietnam. The idea of saving face is important concept in Vietnamese society. To prevent loss of face Vietnamese people will avoid confrontation or will tell others what they want to hear rather than tackling issues head on. So it is important to act with integrity when doing business in Vietnam.

BANKING AND MONEY



Banking

Generally, after receiving the license, the company will need to open a bank account. The company may open accounts denominated in VND and also may be in USD and other foreign currencies. A capital account is also required, this is used to transfer the legal capital that the company has committed to invest into the country according to its license. The capital account cannot be used for payments or other banking activities. Funds must be transferred into the company's other accounts before using for those purposes.

Banks include domestic commercial banks, state-owned commercial banks, 100% foreign-owned subsidiary banks, foreign bank branches and cooperative banks.

The Law on Credit Institutions allows commercial banks to provide a wide range of products and services, from traditional financial products to fund

Repatriating profits

Profit can be repatriated and no tax on dividends paid to the investors. The only condition is that the legal capital requirements under its license need to be fulfilled. Of course, documentation must be provided to the bank in order to process the transfer.



Exchange rate

Vietnam maintains a managed floating exchange rate regime. The State Bank of Vietnam sets the official exchange rate, and the currency is allowed to move within a trading band (1% at current). After a sharp depreciation of VND in period of 2010 – 2011 (9%), VND has been more stable in recent years, only depreciated by 1%-2% per annum. VND is not freely convertible and cannot be remitted overseas. The Government has been implementing measures to gradually reduce the country's dependency on the US dollar. As a general rule, all transactions, contracts within Vietnam must be in VND.

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Interest rate

In Vietnam, interest rate decisions are taken by The State Bank of Vietnam. The official interest rate is the Refinancing Rate. After a fluctuation period of 2008 – 2011 because of high inflation, interest rate in Vietnam now is very cheap with around 7%-12% per annum for VND and 3%-4% per annum for USD.

Currency

Notes are in denominations of 500,000, 200,000, 100,000, 50,000, 20,000, 10,000, 5,000, 2,000, 1,000 and 500. Coins are in denominations of 5,000, 2,000, 1,000, 500 and 200. But so far, coins are not used much in the reality.

The number of ATMs is available in many cities/towns in Vietnam and is still on the increase.



LABOR

Vietnam's population is over 90 million and is expected to grow at an annual rate of 1.3%. Around 60% of the population is under 25 years of age. Approximately 15% of the population is considered to be trained or skilled (with elementary qualifications or higher).



In order to be successful on finding and keeping the right talent in Vietnam, the company will need to recruit constantly, offer a creative reward strategy, and know the regulations governing employment in Vietnam, which is the new Labor Code now. Vietnamese employees will be grateful for training opportunities, especially if it occurs overseas. Most young Vietnamese are excited to learn and to contribute to the company. Establishing a friendly, straight – forward and pleasant work environment is also important to keep the key staffs.

At present, after more than 20 years in a more market oriented economy, there are more and more middle and senior levels in multinational companies and to replace foreign expatriates and take care of high responsibilities.

The average wage for all Vietnamese in Vietnam is approximately US\$2,500 in 2016 according to International Labor Organization. Wages in foreign companies are often higher than in domestic ones operating in the same sectors.

There are considerable geographic differences in minimum monthly wages with in Vietnam, which is regulated by the government, effective from 01 Jan 2016, with a highest level of VND 3.5 million some big cities and lowest level of VND 2.4 million at other countryside areas.

Most of companies in Vietnam will provide a 13th salary, which is as a month salary for *Tet* bonus. Besides that, performance bonuses should be considered to keep the local staffs with the company.

The Labor Code provides for an eight-hour working day for 5 or 6 days a week, varied from business to business. An employee can work overtime but the total overtime does not exceed 200 hours per year.

An employee with one year of employment is entitled to an annual leave for 12 days and raised by one additional day for every five years of employments.

The public holidays include 10 days per year:

Solar New Year (1 day)	01 Jan
Lunar New Year (5 days)	Per Lunar calendar
Death Anniversary of Hung King (1 day)	10 Mar of Lunar calendar
Victory Day (1 day)	30 Apr
International Labor Day (1 day)	01 May
National Day (1 day)	02 Sep

FINDING A LOCAL BUSINESS PARTNER

Vietnam has recently joined to the WTO and on-going to negotiate to re-join TPP after the withdrawal of the USA. This means that the market must open many of the doors as well as many of its industries and create many opportunities to foreign investment. However, together with its opportunities, there are also many risks and challenges when you decide to venture to Vietnam. Getting advice from a local business partner, who can help you to enter the market easier and save your time, is an important part of doing business in Vietnam.

When specific problems occur in practice, it will often be necessary to refer to the laws and regulations of Vietnam and to obtain appropriate professional advice. Local experts can give a comprehensive picture about Vietnamese economic environment, laws and what things the company can face with its business plan in Vietnam. A local business partner also can help the company navigate the labyrinth of administrative requirements and connect with the different government organizations. In addition, a local is going to have market insights that no foreigner will ever have, no matter how long he/she's lived in Asia or especially in Vietnam.



On the other hand, certain industries in Vietnam remain restricted and the company must comply with certain requirements and special procedures. In this sense, Vietnam is like other countries in Asia that protect specific industries and require local partner ownership in the established business. In this case, the company has to find a local partnership for its venturing, especially in sensitive market segments, such as the mining, telecom, or tourism sectors. A partnership, if structured correctly and built upon a foundation of trust and mutual respect, can yield profound benefits.

However, there are countless failure partnerships in Vietnam due to a disagreement between partners. The perception of the average foreigners of how business should be conducted is very different from the average Vietnamese. And one cannot impose his or her expectations on the other. A good compromise must be achieved, and this is something the Vietnamese are adept at. Therefore, protected yourself need to be structured into the company's business plan.

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