**Doing Business in Vietnam**

**Noah Asaria**

Overview of Vietnamese Economy

Since 1986 economic reforms transitioning from communism to a “socialist-oriented market economy”[[1]](#endnote-1), Vietnam has experienced consistent high growth rates (around 7% real GDP growth recently) and has gone from one of the poorest countries to a lower middle-income country. Vietnam’s current population is around 100 million, with about 70% under 35 years old, a particularly young labor force. (*The World Bank in Vietnam*). Vietnam also has a trade surplus of $7.4 billion, with a trade turnover of $480 billion, in part due to recent trade deals with the EU, USA, and other Southeast Asian countries including the EVFTA and CPTPP (*Doing Business in Vietnam 2019)*. In the wake of the US-China trade war, Vietnam’s exports to the United States have grown significantly, rising 36.4% from January-May 2019 as it becomes a more attractive alternative to China[[2]](#endnote-2).

Investment Opportunities in Vietnam

Vietnam is currently perceived as a top country for Foreign Direct Investment (FDI). According to *Doing Business in Vietnam 2019*, Vietnam was named the #1 investment hotspot by the 2018 APEC CEO survey, with 56% of foreign firms planning to expand into Vietnam. Currently, FDI has focused on natural resources and low labor costs ($3/hr vs. $6/hr in China for manufacturing workers), but there are opportunities for expansion in high-tech industries, financial services, tourism, and sustainable agriculture. The Vietnamese government also encourages and subsidizes “green” investment and worker training. Other reasons for investing in Vietnam include its strategic location near China allowing investors to diversify their supply chain from China, a stable, consistently growing economy, and Vietnamese government’s active improvement of infrastructure and transparent legal and regulatory framework. Specific sectors with strong investment potential include sustainable energy, retail banking, sustainable agriculture and food, tourism, and manufacturing. Total energy demand is anticipated to be 2.5x higher in 2035 than 2015, and government policy includes pro-sustainability incentives. Retail banking is a particularly viable area for growth, with 90% of transactions done in cash and a young population open to using fintech. The large, growing middle class results in increased demand for consumer goods, and Vietnam is an alternative to China for manufacturing given lower labor costs and China’s trade war (*Doing Business in Vietnam 2019)*.

Risks in Investing in Vietnam

According to *Doing Business in Vietnam – 5 opportunities and 5 risks*, risks involved with Vietnamese FDI include well-known government corruption, a low unemployment rate indicating labor shortage for new ventures, and remnants of a poor (yet improving) infrastructure from French colonization and the Vietnam-US war, particularly in the energy and transportation sector. Furthermore, not all parts of Vietnam are created equal in terms of economic potential. Northern Vietnam, where the capital Hanoi is located, remains closer to its communist origins, while Southern Vietnam, particularly Ho Chi Minh City is much more economically prosperous. This is reflected by the Vietnam stock exchange’s Ho Chi Minh index rising about 50% in the past five years, while the comprehensive VanEck Vectors Vietnam ETF is down 20% in the same period. Selecting viable regions and companies is crucial.[[3]](#endnote-3) Also, while fintech and local banking has growing demand, with less than 60% of the population connected to financial services, FDI in local banking has limited potential as total foreign ownership in local banks are capped at 30% (*Doing Business in Vietnam 2019*). While more companies are moving operations to Vietnam from China amidst trade war, Vietnam’s labor shortages and under-developed supply chains pose risks to quickly ramping up production.[[4]](#endnote-4)

Starting a Business in Vietnam

According to *Doing Business Vietnam* 2020, Vietnam is the second highest ranked country in Southeast Asia, and ranked 115th in the world for starting a business, and has particularly favorable conditions for gaining construction permits (25th ranked) and getting credit (25th ranked). However, there are several administrative challenges to be mindful of. While Vietnamese employees are young and considered to be hard-working and able to be trained, domestic skilled labor is limited and foreign contractors can work a maximum of 24 months with tentative renewal. Furthermore, an internal audit system and annual external audits are required, and union formation is mandated if at least five workers request one. Dealing with poor performers can be burdensome as well (*Doing Business in Vietnam 2019*).

1. Karadjis, Michael. “International Journal of Socialist Renewal.” *Socialism and the market: China and Vietnam compared.* http://links.org.au/node/14 [↑](#endnote-ref-1)
2. https://www.wsj.com/articles/why-vietnam-loves-donald-trump-11562800058 [↑](#endnote-ref-2)
3. https://www.wsj.com/articles/vietnams-moment-is-here-11561712772 [↑](#endnote-ref-3)
4. https://www.wsj.com/articles/for-manufacturers-in-china-breaking-up-is-hard-to-do-11566397989 [↑](#endnote-ref-4)