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## Doing Business in Vietnam

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## **Doing Business in Vietnam**

### **Abstract**

Over the last thirty years, Vietnam evolved from “war after war” to an emerging economy with an attractive foreign investment policy and commitment to a liberalized economy. Although the GDP per capita is still considerably lower than in the Asian Tiger economies, and the institutional framework still reflects inheritances from the central plan system, Vietnam today has a vibrant economy with small businesses springing up at every street corner. Foreign investors have been flocking to Vietnam since the early 1990s, with a new peak of FDI inflow in 2004. This paper reviews the Vietnamese economy, society, culture, and policies towards foreign investment to inform those considering to invest in Vietnam, and to provide some practical advice.

### **Introduction**

Vietnam is rapidly emerging as a new center of economic growth in South-east Asia. Foreign investors seek business opportunities in both the domestic market of over 80 million potential consumers, and in low cost production sites. North American and European investors are in particular eyeing the domestic markets while investors from neighboring countries such as Taiwan are to a higher degree using Vietnam as an export base.

Vietnam’s young population – 95% are younger than 65 – is eager to explore Western consumer goods, and present a huge potential market for foreign investors. The high economic growth of the 1990’s, on average 7.3% annually, is expected to continue, suggesting an even larger market in the future. (Statistics Publishing House, 2004). International integration, notably the membership in the ASEAN Free Trade Area (AFTA), and the anticipated membership in the WTO facilitate access to this attractive market.

At the same time, Vietnam is emerging as a major export platform. The country is gaining competitive advantages for labor-intensive production processes on the basis of low general wage levels. Productivity of the workforce is high as Vietnamese employees have a reputation for being hard working and ambitious. On this basis, Vietnam has build major export-oriented operations based on labor-intensive manufacturing, notably in the garment, footwear and furniture industries. Moreover, Vietnamese are typically strong in natural sciences, relative to others in the ASEAN region, which provides a solid basis for future expansion into high technology industries. It is also endowed with favorable conditions for certain agricultural commodities, such as rice, coffee, spices, seafood and fruits that have

developed into major export crops in recent years. In recent years, Vietnam has moved to realize its competitive advantages to generate exports by lowering or removing both self-imposed and externally levied tariff and other trade barriers, and by joining bilateral and multilateral trade agreements.

This paper is structured as follows. The next section outlines the recent developments of institutions and the macro-economy of Vietnam. Section 3 focuses on foreign direct investment (FDI) outlining recent trends and investment strategies, illustrated by short case studies. Section 4 reviews operational challenges arising from cultural differences. Section 5 briefly comments on US-Vietnamese relations, and section 5 concludes.

### **From Central Plan to Quasi-market Economy**

The Vietnamese economy was until recently dominated by traditional rice-based agriculture. Under French colonial rule, agriculture was the backbone of the economy, with new export crops being introduced such as coffee, tea, and rubber. After the French colonial and re-invasion period in 1954, Vietnam's national economy developed in two separated regions. The socialist North became a centralized plan-economy based on collective ownership, while the South developed a fairly free-market economy with little government involvement. When Vietnam was reunited in 1975, the central plan-economy was extended throughout the country. Industrial development focused on heavy industry and import-substitution policies, while poor management of the economy led to stagnation rather than growth.

From the late 1970s until 1990, Vietnam was integrated in the trading system of the Soviet Union and its allies, with few other linkages. In the 1980's, Vietnam experienced severe shortages of food and basic consumer goods, a high budget deficit, three-digit inflation, chronic trade imbalances and deteriorating living standards. Therefore, in 1986 the Vietnamese government initiated an overall economic renewal policy - popularly known as "Doi Moi". Since then, the Vietnamese economy has gradually from a command- economy toward a market economy (van Arkadie and Mallon, 2003).

#### *Liberalization and Stabilization*

Liberalization has been a gradual process that is still ongoing. Prices and domestic trade have been liberalized, the double price system has been abolished, and import and export restrictions have been greatly reduced. Gradually, Vietnam has moved from state monopoly on foreign trade to free trade, and from import-substitution to export-oriented

policies. Domestic businesses obtained the right to export and import within their registered scope of business, and foreign trading companies have been allowed to set up branches and representative offices in the country.

Both tariffs and non-tariff barriers to trade have been reduced and/or eliminated. Import duties have been substantially reduced while most export products are exempt from export taxes. Most commodities and goods can now be freely imported into and exported. The number of products subject to export or import prohibition or restriction has been reduced. Government approvals of contracts and prices as well as licenses for lot shipments are no longer required.

The banking system has been reformed into a two-tier system by separating the central bank from commercial banks, and by opened for the entry of private banks. Multiple exchange rates have been replaced with a single floating rate. Interest rate and foreign exchange controls have been relaxed, while tight monetary policy has kept inflation low. Rather than printing money to cover budget deficits, as done previously, the government has issued bonds and treasury bills to finance the public sector deficit. Moreover, a stock market was established in late 2000 to mobilize private savings for investment.

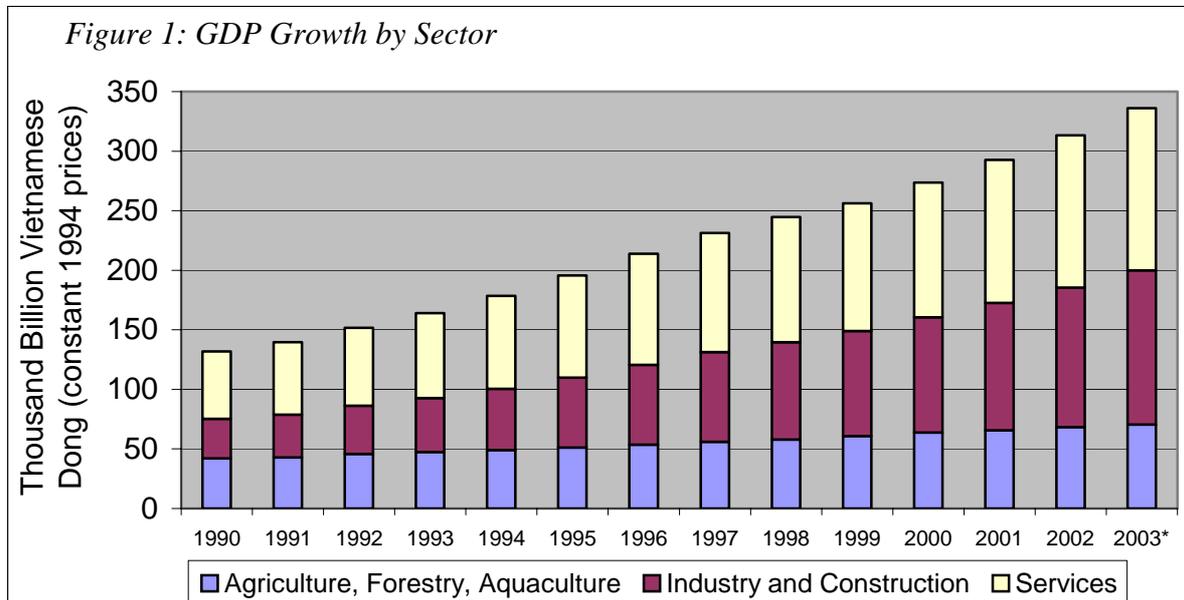
The state budget has been decentralized, encouraging responsibility of local authorities, and restructured to remove state subsidies. The tax system has been reformed with the broadening of the tax base and the introduction of new taxes such as a VAT and a business income tax to replace the turnover tax and profit tax respectively.

### *Economic Performance*

As a consequence of these comprehensive reforms, Vietnam pulled itself out of the deep social and economic crisis of the late 1980's. Inflation was reduced from 3 digit numbers in the late 80s to single digit numbers in the 90s, and has been kept low. The GDP has doubled in the decade of 1990s and is showing further rapid growth in the 21st Century.

Most of the economic growth has been generated in the industrial sector, but also services have expanded rapidly (Figure 1). The industrial sector (including construction) has been growing by an annual average of 10.4% since 1990 and contributed 39% of Vietnam's GDP in 2003. A large part of this growth can be attributed to foreign investment, and more recently, the development of the local private sector. The service sector constitutes almost 39% of GDP, and has been growing by an annual average of 7.3% since 1990. The primary sector has been growing by 4% annually over the 1990s (Statistics Publishing House, 2004). With agricultural modernization, Vietnam has turned from a food-importing nation into the

second largest exporter of rice in the world. However, agriculture still accounts for 22% of Vietnam's economic output, and over two-thirds of employment, primarily on small family farms.



*Data source: Statistics Publishing House, 2004*

Throughout the 1990's, exports expanded significantly, growing by over 20% in some years. At the end of the decade, exports accounted for 40% of GDP, an impressive performance in a recovering Asia. However, exports and imports are closely related as a large part of Vietnamese manufacturing is processing imported materials for exports; in other words, Vietnam is contributing the labor-intensive stages within complex global supply chains. Policy-initiatives aimed to limit control Vietnam's import growth, and in 1999, the balance-of-payments even generated a surplus, as robust trade performance combined with official development assistance and remittances from overseas Vietnamese.

The Asian crisis of 1997 had only a moderate effect on Vietnam because the economy, and financial markets in particular, were less internationally integrated, and businesses were not as highly leveraged as in the crisis economies. The impact was more indirect, for instance FDI inflows slowed down due to scarcity of capital in key source countries such as Korea. Government control of the economy and a nonconvertible currency have protected Vietnam from a more severe impact. However, the crisis, coupled with the loss of momentum from the first round of economic reforms has exposed structural inefficiencies in Vietnam's economy that had to be addressed in a new wave of reforms.

At the onset of the new millennium, the Vietnamese economy keeps developing at an rapid pace, despite major economic and environmental challenges such as SARS and Avian Flu. Economic growth accelerated from 6.7% in 2000 to 6.9% in 2001, 7.0% in 2002 and 7.2% in 2003. The target for 2004 has been 8.0%, which would be one of the highest GDP growth rates in Asia and thus the world. In consequence, the World Bank, IMF, Asian Development Bank and other international institutions have praised Vietnam for its successes in poverty reduction and alleviation (World Bank, 2004a).

Exports continued to increase at a high growth rate of 21% in 2003. helped by the strong performance of exports to the USA, which grew by over 60 percent from a low base. Especially garments exports are fast growing, contributing over 50% of exports to the USA, with further growth expected with Vietnam's WTO membership. Seafood has been developed into a new export success and account for 11 percent of non-oil exports (Ministry of Trade of Vietnam, 2004). Moreover, high world market prices for agricultural commodities such as coffee and rubber also help the recent surge in export values.

Despite strong exports, the trade deficit rose to nearly 7 % of GDP in 2003 as imports were rising due to robust domestic investment and for inputs for exports production. Investment rose more than one percentage point to reach 35.6 % of GDP in 2003, with imports of capital goods growing by 41 %. Meanwhile, international reserves increased to US\$ 5.6 billion on the back of rising ODA and FDI flows. Increasing reserves combined with investment driven imports ensure that the current account deficit should not be a major concern (World Bank, 2004b).

Inflation has come down steadily in 2003, averaging about 3 percent for the year, but rose to 9.5% in 2004 as a result of rising import prices following the depreciation of the US Dollar, to which the Vietnamese Dong is closely aligned. While the increase in food prices may be temporary, the rise in oil prices may have knock-on effects. Expectations of rising inflation forced the government to cut the tariff on steel in a bid to bring down prices, and the public utilities delayed increases tariffs for power and water.

#### *State sector and privatization*

A key element in Vietnam's economic renewal has been the reduction of the state intervention in business and the reform the state sector. state-owned enterprises (SOEs) have been stripped of most subsidies and other privileges, while individual firms have been given greater autonomy and operate as one-owner limited liability companies. SOEs have been

reorganized and their number dropped from 12,297 units in 1989 to around 5,300 units in 2001 through mergers and dissolution (VCCI, 2004).

Throughout the reform period, SOEs have been growing almost as rapidly as other sectors of the economy – quite in contrast to SOEs in other transition economies. Thus, the contribution of SOEs to GDP remained fairly stable (Table 1), and the state sector continues to be the largest sector of the economy. Similarly, household businesses have remained strong especially in agriculture, trading and other services, while foreign owned businesses rapidly increased their contribution to Vietnamese GDP.

*Table 1: GDP structure from 1994 to 2003, by ownership of firms, in percent.*

	1994	1995	2000	2001	2002	2003
State-owned enterprises	40.1	40.2	38.5	38.4	38.3	38.0
Collective enterprises	10.2	10.1	8.6	8.1	8.0	7.8
Private enterprises	3.1	3.1	3.4	3.7	3.9	4.0
Household business	35.9	36.0	32.3	31.8	31.4	33.0
Mixed domestic enterprises	4.4	4.3	3.9	4.2	4.5	3.1
Foreign invested enterprises	8.4	6.3	13.3	13.8	13.9	14.1
Total	100	100	100	100	100	100

*Source: Statistics Publishing House, various years*

Vietnam has no large-scale privatization program comparable to those in Central and Eastern Europe. Rather, ownership in state enterprises is gradually being transferred to private owners in a process called ‘equitization’. In most cases, the new owners are insiders of the firm and acquired their equity stake in a process resembling a management-employee buyout, with favorable conditions for employees. Concentration of ownership in the hands of outside private owners is not encouraged, especially with regard to foreign investors. This is a common phenomenon at early stages of privatization processes, yet as a consequence the reforms fail to generate powerful new incentives that would induce managers to pursue deep restructuring strategies.

Acceleration of the privatization process is official government policy, and in the 2001 – 2005 period more than two thousand SOE are scheduled for equitization. This is expected to include electricity, post and telecommunications, chemicals, metallurgy, and banking and insurance sectors. Yet, whether the equitization of these larger SOEs and banks will actually lead to efficient governance with protection of outside investors depends on the

legal and regulatory framework that is being developed at the same time. Varying policies have been issued to enhance transparency and financial accountability, and to achieve effective corporate governance. Equitization will be undertaken openly and valuation of enterprises' assets shall be based on market values, and foreign investors are encouraged to buy shares up to 30% individually (VCCI, 2005). This may lead to opportunities for the private sector, and foreign investors, to participate in the process.

### *Entrepreneurs*

Private business development was not a priority during the early stages of *Doi Moi*. In the mid 1990's, market institutions were still inadequate for entrepreneurship: banks almost exclusively served state-owned enterprises; there were no credit reporting bureaus; and courts able to enforce contracts between private businesses were just being created. Among entrepreneurs interviewed by McMillan and Woodruff (1999), less than 10% said that courts or the government could enforce contracts, and just 10% said that they received credit to start businesses. In consequence, entrepreneurs relied to a very high extent on building relationships with specific suppliers and customers (McMillan and Woodruff, 1999).

Regardless of the above difficulties, the early reforms of *doi moi* triggered a boom in entrepreneurship. The new market opportunities have encouraged many people, including the poor and former state employees, to challenge their fate, and to develop various kinds of business. While many of them may have failed, there are many success stories of this early generation of entrepreneurs. The small entrepreneurship of the 1990's has also been important for capital and skill accumulation, and thus created an important foundation for later development.

Since 1999, government policy has shifted toward developing and supporting private businesses, and entrepreneurship in particular. The Company Law of 2000 has created a more conducive environment for entrepreneurs to run their business as a formally registered enterprise. Thus, entry by new firms has surged and within three years after the law came into effect; 55,793 new private enterprises were registered, a significant number compared to the 45,000 enterprises registered between 1990 and 1999. These new firms mobilized capital of about 6.7 billions US\$, more than the recorded FDI in the same period (CIEM 2004). The emergence of a large number of private firms has greatly contributed to the dynamism of the new market economy.

### *International Integration*

The enhanced integration of Vietnam in the international economy through membership international organizations and bilateral agreements greatly facilitates both trade and investment. In 1995, Vietnam became a member of ASEAN (Association of the South East Asian Nations), which has created a free trade area known AFTA (ASEAN Free Trade Area). This membership permits the free flow of goods within the economic area without substantial tariffs, and has thus created a larger market for products manufactured in Vietnam. Moreover, the ASEAN countries are negotiating with China, Japan and other countries about new free trade zones. Vietnam may thus serve as a gateway to a free trade region of more than 500 million people and a bridge to a massive market of 1.3 billion Chinese consumers.

Relations with multilateral financial organizations such as the World Bank, IMF, Asia Development Bank and other multinational and national donor organizations have resumed or expanded. During the 1996-2001 period, the international community committed to provide Vietnam with Official Development Aid (ODA) of nearly US\$ 20 billion, of which 35% has been disbursed (Ministry of Planning and Investment, 2002). This ODA provides direct business opportunities for foreign investors contracting with multilateral and national aid organizations, e.g. for consultancy and construction projects, as a large share of ODA is provided for technical assistance and training.

Vietnam is negotiating the accession into World Trade Organization (WTO), and expects to be accepted as full member at the general assembly at the end of 2005. Membership in the WTO will further enhance the institutional development of Vietnam, and create more stable and transparent trade and investment relationships with countries worldwide. Membership in the WTO would facilitate both exporting from Vietnam production facilities and entry to the Vietnamese market. At the same time, competition is likely to get tougher as more foreign importers and investors enter the market.

### *Infrastructure*

The quality of infrastructure in major cities such as Hanoi and Ho Chi Minh City has vastly improved. Power outages still occur but the privations of life ten years ago are largely gone. Cranes dominate the skylines of Vietnam's major cities, and roads and ports are being upgraded or newly built all across the country. Telecom infrastructure is improving and prices are coming down. Also secondary aspects of infrastructure that are of concern to

expatriates, such as good restaurants, well stocked supermarkets, and international schools are generally available in the larger cities.

However, infrastructure development has been very unequal. In the rural areas, the infrastructure still leaves much to be improved and investors need to be aware of this. Power outages and water stoppages are common, which may greatly reduce productivity. Industrial parks are, however, now more widely dispersed and although some may exist primarily on paper, as the infrastructure has not been completed yet. However, foreign investors have a rapidly expanding choice of alternative investment sites across the country.

## **Foreign Direct Investment**

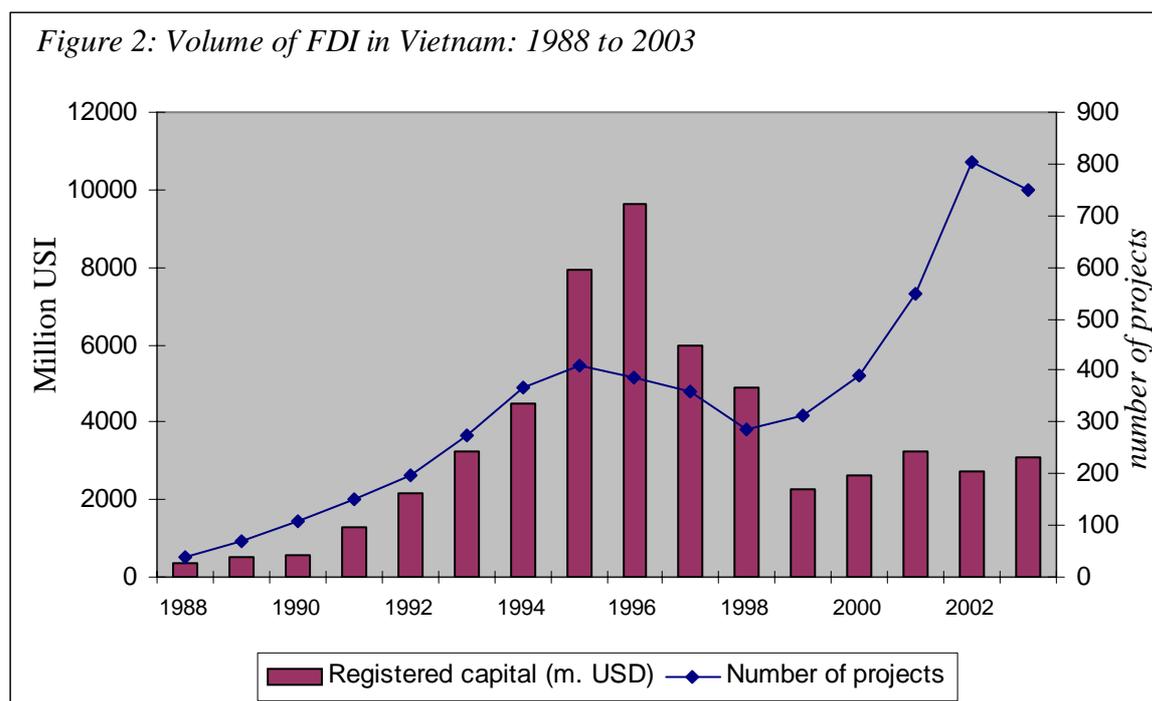
### *Recent Trends*

Since 1987, Vietnam has been very successful in attracting FDI . Indeed, FDI has been an important contributor to economic transition, business liberalization and macro-economic growth over the past decade. It is hard to envisage *doi moi* without FDI activity. Foreign investors created an imported ‘private sector’ for a country that only had a fledgling private sector of its own at the beginning of the 1990s. With advantages of low distance and cultural similarity, neighboring countries such as Singapore, South Korea, Taiwan and Japan set their footholds in Vietnam early after its open door policy. These countries alternatively top rankings of FDI in Vietnam.

Although foreign-invested companies employed less than 1% of the total workforce in Vietnam, they cumulatively accounted for around 27% of the country’s (non-oil) exports, 35% of the country’s total industrial output, they constituted almost 13% of Vietnam’s GDP, and contributed around 25% of total tax revenues (Vietnam Investment Review, 2001).

In 2003, FDI reached 3.1 billion USD, an increase of 11% over 2002, and further increases were reported in 2004. As of mid-November 2004, the country recorded already US\$3.5 billion, which brings Vietnam onto the third rank in attracting FDI in South-East Asia, substantially behind Singapore and Malaysia, but running neck and neck with Thailand. Thus FDI is turning to Vietnam despite the global downturn in FDI and fierce competition for FDI worldwide.

**Figure 2: FDI trends**



Source: FDI Department, Ministry of Planning and Investment

**Table 2: cumulative FDI by sector, 1988-2004**

Sector	Number projects	Implemented capital Million US\$	Sector	Number projects	Implemented capital Million US\$
<i>Oil &amp; gas (offshore)</i>	27	4,435	<i>Services</i>	993	6,614
<i>Aquaculture</i>	105	150	Transportation, post & telecommunication	144	918
<i>Agro-forestry</i>	595	1,549	Hotel and tourism	166	2,199
<i>Construction</i>	293	2,038	Finance and banking	56	632
<i>Manufacturing</i>	3,041	11,878	Culture, education and health	179	342
Food & beverage	230	2,038	Office-apartment building	104	1,612
Light industry	1,411	3,362	IZ&EPZ development	20	521
Heavy industry	1,476	6,588	Other services	321	337

Source: FDI Department, Ministry of Planning and Investment

Over US\$ 10 billion, or 40% of FDI capital, and 60% of FDI projects are in manufacturing sectors (Table 2), which is considerably higher than in other emerging economies (Estrin & Meyer 2004). Service industries attracted US\$ 6.5 billion or a quarter of FDI capital, with hotel and tourism and office building management attractive the largest shares among services. In addition, the construction sector attracted US\$ 1.9 billion,

indicative of the building boom in Vietnam. US\$ 4.4 billion went into offshore oil and gas extraction projects.

FDI projects are registered in 4 different forms. The largest share in the FDI stock by the end of 2004 are 100% foreign owned projects, with implemented capital of US\$ 9 billion and 3609 projects. JV accounts for US\$ 10.4 billion and 1229 project. Minor share go into business contracts (US\$ 5.1 billion) or in build-operate-transfer contracts (US\$ 0.9 billion.

Leading source countries are Japan (by capital invested) and Taiwan (by number of projects) followed by Korea and Singapore (Table 3). Thus, FDI in Vietnam is so far primarily and intra-Asian phenomenon. Within Vietnam, FDI is concentrated in the two main urban centers of Hanoi and Ho-Chi-Minh City (HCMC), followed by provinces near NCMC that took early leads in creating attractive local investment environments with investment in infrastructure, predictable local authorities and the creation of SEZs (Meyer & Nguyen, 2005).

**Table 3: FDI by Source country and destination province, 1988-2004**

No.	Source countries or Territories	Number projects	Implemented capital Million US\$	No.	Destination	Number projects	Implemented capital Million US\$
1	Japan	493	4253	1	HCMC	1,595	6078
2	Singapore	335	3381	2	(Oil sector)	27	4435
3	Taiwan	1,262	3146	3	Ha Noi	549	3702
4	South Korea	847	2889	4	Dong Nai	609	3613
5	Netherlands	53	1975	5	Binh Duong	913	1767
6	Hong Kong	326	1942	6	Ba ría - Vung tau	110	1398
7	BritishVirginIsl.	212	1141	7	Hai phong	165	1252
8	France	142	1061	8	Vinh Phuc	73	443
9	Malaysia	164	811	9	Thanh Hoa	15	411
10	Thailand	116	757	10	Kien Giang	9	394
11	United States	215	730	11	Hai Duong	66	368
12	Mauritius	13	627	12	Quang Ninh	69	308
13	United Kingdom	62	600	13	Long An	85	306
14	Switzerland	28	519	14	Khanh Hoa	54	292
15	Cayman Islands	11	399	15	Ha Tay	36	261
16	Australia	103	360	16	Phu Tho	40	195
17	Sweden	10	239	17	Tay Ninh	71	180
18	Bermuda	5	213	18	Da Nang	61	166
19	Russia	45	187	19	Bac Ninh	29	145
20	China	316	175	20	Thua Thien - Hue	25	142
	Others	359	1,240		Other	528	917
	<b>Total</b>	<b>5,129</b>	<b>26,773</b>		<b>Total</b>	<b>5,129</b>	<b>26,773</b>

*Source: FDI Department, Ministry of Planning and Investment*

*Government Policies toward FDI*

The Vietnamese government still pursues more interventionist industrial policy than most other emerging markets. This includes indicative five-year plans and yearly priorities for industrial development and investment. At the time of writing, government policy is in particular concerned with promoting sectors such as telecommunications, software development, and shipbuilding. For instance, the government launched in 2000 and grand plans to invest in IT infrastructure, which should lead to vastly enhance **telecommunication** services. **Software development** is targeted as new sector that may utilize Vietnam's human capital in technical fields, and is supported by an ambitious e-government initiative. Influential circles in the government promote the shipping industry as Vietnam aims to compete with South Korea in the labor-intensive segments of **shipbuilding**. Foreign investors serving these industries may thus find particularly fast growing markets, attractive incentives, and easier access to business licenses. For instance, several small Danish niche producers of ship components are said to be touring Vietnam in view of expected business opportunities.

In the wake of increasing competition for foreign investment in South-East Asia, the Vietnamese government provides many investment incentives. Corporate income tax is low compared to other countries in the region (Since January 2004, the standard rate is 28 % and preferential rates range from 10% to 20%). Foreign investors can be exempted from import duties to create fixed assets, such as machinery, means of transport, and construction materials that are not produced locally. Further exemptions are available for raw materials, spare parts, parts and materials imported for production of goods for export. Moreover, foreign investors may carry their losses forward for up to five years.

The legal framework still provides for different treatment of enterprises in some respect, giving more favorable conditions to domestic rather than foreign-owned firms, and to state-owned rather than private firms. This is, however, recognized as an obstacle to business development and to attracting further FDI. Thus, various initiatives are under way to harmonize the legal framework. For instance, the company laws for foreign and domestic firms are to be merged, land rental fees are to be leveled, a new competition law shall remove distinctions between types of firms, while new laws on technology transfer and intellectual property shall provide for better protection of the interests of foreign investors. Overall, this broad agenda for legal development can be expected to create a more level playing field.

However, the development and implementation of new laws is a time consuming process will take some time to complete.

The development of the institutional framework is also pushed forward by the commitments that Vietnam made under international agreements, in particular bilateral agreements made in the run up to WTO membership. The central ministry responsible for foreign investors – MPI – is generally committed to implementing these legal obligations, but other function ministries of local authorities may be unaware or unwilling to smoothly implement new regulations. The departmentalization of responsibilities between ministries can at time lead to contradictory requirements from different regulations. Foreign investors and their local partners may thus need to communicate to multiple authorities to make their case. In the words of one expatriate managing director, “*if you know your ways around, you can get things done*”. While legislative issues may be cumbersome, they are much improved in recent years, and this trends is generally expected to continue.

Yet rules and regulation are set not only at the national level. Many responsibilities have been decentralized including approval control of investment licenses. This decentralization is a big step towards reducing bureaucracy and saving time for investors. The foreign investment law of 1996 provides provinces the authority to grant investment licenses for some FDI projects. Moreover, many regulatory functions, for instance concerning land lease, import and export licenses, and employment have been delegated (Nguyen et al. 2004a).

However, decentralization may also complicate institutional development. New legislation and regulation may be issued in Hanoi, but the communication and dissemination to the provinces is often not very effective. Thus, the implementation of laws and decrees at local level may not meet the intentions of the legislator, and be slow and inconsistent. In consequence, legal practices vary within the country and depend on for instance local tax authorities or customs offices (Meyer and Nguyen, 2005). This causes particular challenges for businesses operating across the country, such as trading houses.

Foreign investors generally have to negotiate with both local authorities as well as, for larger projects, with national authorities. Their treatment varies greatly across provinces, as some provinces have adapted policies and administrative procedures to attract foreign investors to the specific location. Thus, FDI is distributed very unequally with Ho-Chi-Minh City and neighboring provinces to the North attracting the bulk of greenfield FDI to newly established industrial zones, based on an institutional framework that is more favorable to FDI (Meyer & Nguyen 2005).

### *Case Study: Ford*

Ford Vietnam is one of the largest FDI projects in Vietnam. It has been established in 1995 as a 102m USD joint-venture between Ford Motor Company of the USA (75%) and Song Cong Diesel Company of Vietnam (25%). The main factory is located in an industrial zone in Hai Duong, 50 km north of Hanoi, and came into operation in 1997. It was expanded twice, and became one of the most successful business in the emerging automobile sector, turning profitable after only three years of operation. In 2002, Ford sold 3,685 vehicles worth about \$95 million, in 2003 the sale increased to 5243 and for 11 months of 2004, the company sold 4601 vehicles which corresponds to a market share of 14%. In Nov 2004, Ford passed Toyota as the best selling vehicles of the month for the first time (Vnexpress news, 2004).

This success has been achieved in a tightly regulated market. On the one hand, demand has been kept low due to low incomes, high vehicle taxes and lack of space on Vietnam's roads. Thus automotive assembly for the Vietnamese market cannot achieve the scale economies common elsewhere in the car industry. On the other hand, Ford benefits from import protection<sup>1</sup> and various tax privileges.<sup>2</sup> Its success thus builds on Ford's ability to assemble a wide range of models with reasonable productivity, low cost and good quality using relatively unspecialized assembly lines. Marketing and good services are believed to be key to win the customers. Doing business with uncertain policy is also a skill for success. According to Ford Vietnam's general director, Tim Tucker, despite situation an essentially frozen market for cars since the new tax law came into effect at the beginning of 2004, Ford Vietnam is maintaining production and business through intensive marketing and improve after sale services. Ford has launched new models, Ford Transit Limited and Ford Escape, to widen the choice for customers (Vneconomy, 2004). However, import liberalization in the context of the ASEAN Free Trade Zone and WTO membership will create competitive challenges for the by international standards relatively small plant in Hai Duong.

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<sup>1</sup> A tariff of 100% plus 80% of special sale tax are applied to the range of vehicles that Ford Vietnam is assembling while imported components are subject to only 6% to 26% tariff and special sale tax applied to local assembling vehicles is only up to 25%.

<sup>2</sup> Ford received a tax holiday for the first 4 years making profit and 50% reduction of tax in next four years. The corporate income tax is only 15% for the first 12 years of operation (1997) and 25% thereafter. These rates contracted have been contractually agreed before the new corporate tax law came in to effect, and still apply.

### *Partnering with Vietnamese companies*

The foreign investment law has been stepwise liberalized such as to permit majority foreign ownership, and opening up more sectors of industry to 100% foreign owned greenfield operations. However foreign investors often partner with a local firm, either because it is a legal requirement in the sector, or because local firms control crucial resources, such as distribution networks, relationships with government authorities, or land use rights, i.e. control over real estate (Meyer and Nguyen, 2005). Usually this collaboration is in form of a joint venture as acquisitions of local firms are still the exception. Yet joint ventures can be designed such that the local partner transfers its existing operations, and the foreign partner may over time buy out the local partner to attain 100% equity.

Often, the local partner would be a state-owned firm because *de novo* private firms are only recently emerging as substantive players in the Vietnamese economy. Partnering with an SOE, however, creates special challenges for foreign investors (Nguyen and Meyer, 2004). SOEs pursue a broader set of objectives and are subject to direct interferences from their governing authority, such as the pertinent ministry or provincial government. At the same time, management often has a high degree of *de facto* autonomy and may pursue personal as well as social objectives, while not being familiar with the governance structures and decision-making processes common in mature market economies. Thus, the internal decision processes of SOE partners often appear opaque to foreign investors. They may thus be well advised to draw up clear contracts concerning the roles and responsibilities of both partners.

After establishing a joint venture, foreign investors face considerable challenges for knowledge sharing and organizational change in the local entity. Similar challenges would apply to foreign investors taking over local firms if and when restrictions on the acquisition of local firms are removed. Many Vietnamese SOE managers have an engineering education, and thus require modern management and leadership skills to lead change processes and implement new work processes and delegate decision-making and responsibilities. Foreign investors report good experiences with combining formal education with on the job training such as shadowing or rotating staff through other operations in South-East Asia, such as to provide practical experiences on how concepts and processes of the multinational firm can be implemented in an Asian context (Nguyen and Meyer, 2004).

The rapid growth of the private sector in Vietnam has made the economy much more dynamic and market-oriented. This dynamics creates more investment opportunities and, at the same time, speeds up the process of implementing new business ideas. Some local private

firms can become attractive partners for foreign investors since they do not face the restructuring challenges of SOEs. However, a partnership with a private firm may not to same extent provide of local resources, which are often controlled SOEs. Moreover, the majority of private firms in Vietnam is small and has not developed transparent governance mechanisms. Many are managed in informal manner, with family control and following unwritten rules. Disputes are often resolved by informal means.

The informal management style of private firms may enhance flexibility and reduce many transaction costs. This makes them quite attractive partners, especially in service sectors like restaurant business. In 1990s, many small businesses in food and beverage sector are owned and run by foreign investors under the legal base of Vietnamese businessperson. This form of partnership allows starting the business quickly with little investment and avoiding complex bureaucratic procedures faced by foreign investors. However, this is an uncertain type of partnership and might be easily broken down when things go wrong. Reform of FDI regulations can be expected to reduce transaction costs incurred by foreign investors and thus make informal partnerships less attractive.

#### *Marketing and Distribution*

With 80 million inhabitants, high population growth and fast rising *per capita* incomes, Vietnam offers a large potential market for consumer goods. Yet, accessing these potential customers still presents considerable challenges as the marketing and distribution infrastructure is not well developed.

Sales potential exist both in price-competitive mass market, where economies of scale and efficiency of production and distribution are essential, and in the fast growing premium market of middle class consumers. The latter segment is particular attractive for foreign investors with global brands as Vietnamese consumers have a high appreciation of Western brands. Like for other Asian consumers, conspicuous consumption is important, that is consumers buy prestigious brands as status symbols and to impress their peers rather than purely due to their functional value. Many consumers associate quality of live with the consumption of branded products, and are willing to pay considerable premiums (Nguyen, 2004). This creates low price sensitivity and high profit potential for well-positioned brands in the premium segment.

However, to realize the earning potential in both mass markets and premium segments, foreign investors need to reach the local consumers, and thus make best use of an often weak marketing and distribution infrastructure. The sales and distribution channels used

to be a fragmented patchwork of state-owned import-export companies, private and state-owned wholesalers, independent Vietnamese agents and distributors, small retail outlets, and kiosks. The formal distribution channels often overlap with parallel channels for smuggled and gray market goods. Independent stores still remain the most important distribution channel accounting for 75% of total volume sales in 2003, yet shopping malls and supermarkets such as *Big C* and German *Metro* are expanding in the major cities and account for an increasing share of sales, especially in premium segments.

Marketing techniques have to be adapted to the needs and opportunities of the emerging market context (Dawar and Chattopadhyaj, 2002). Opportunities for advertising on billboards, TV or print media are limited and expensive, and rarely allow targeting specific consumer segments like in industrialized economies. Thus, mass advertising and direct marketing techniques such as telemarketing and catalogue order business is still an alien concept to Vietnamese consumers. However, people-intensive sales techniques such as distributing samples, sales promotion or delivering even small volumes to small sales outlets and street vendors may be cost effective. For instance, leading brands of beer employ charming ladies dressed in skirts with brand logo who are based on-site in restaurants and pubs to encourage revelers to try their particular brand of beer. Similarly, some cosmetic and lingerie companies are experimenting with door-to-door sales. Thus, with low costs of sales staff, people-intensive marketing methods may be more efficient than capital-intensive techniques such as TV advertising.

Importers would typically collaborate with local partners as foreigners legally cannot normally own independent stores without production in the country. Thus, franchising contracts have become popular for foreign consumer products and fast food eateries such as Swatch, Revlon, Baskin-Robbins, Kentucky Fried Chicken, Carvel Ice Cream and Texas Chicken. (Icon Group International, Inc., 2001). Also local franchising operators are emerging, such as Trung Nguyen coffee shops.

#### *Case Study: Carlsberg*

Carlsberg Breweries has been an early mover in the Vietnamese market, establishing two joint ventures in 1993. Both joint ventures have created new local brands that became very popular with Vietnamese consumers. At the same time, the global brand Carlsberg has been produced in Hanoi and targeted at the premium segment. These investments positioned Carlsberg well to take advantage of the growing beer market driven by increased *per capita*

beer consumption and population growth. Eventually, the JVs turned highly profitable, thus making up for losses in the early years (Nguyen et al. 2004b).

The existing JV agreements, which impose more restrictions on Carlsberg than new investors in 2005 would have to accept, might occasionally constrain reorganization or growth of the business. Yet, with established business networks and high brand recognition, Carlsberg is well positioned to take on new challenges in a rapidly changing environment, including expanding production capacity and the anticipated entry of US brewer Anheuser-Busch. In September 2004, a new marketing campaign was launched on the back of a global emerging-economies marketing-strategy that sharpens the positioning of the Carlsberg brand. In addition, the local brands are positioned to serve the high volume market, Halida flourishes in Hanoi, while Huda and Festival dominate the market in the old imperial town of Hue (Meyer & Tran 2004).

#### *Production for Export*

Vietnam has a comparative advantage for labor-intensive production processes that require a low or semi-skilled labor force. The minimum wage is set at US\$45 in HCMC and Hanoi, and lower in other provinces, though foreign investors typically pay more than this minimum. As global supply chains are increasingly disaggregating, and transportation costs are declining, multinational firms are locating each stage of the production process wherever conditions are most favorable. Vietnam is taking a specific position in these global supply chains, namely the manufacture labor-intensive products or parts. Typical industries for such export-oriented manufacture include textiles, footwear, furniture, and toys. In consequence, foreign investment contributed to the growth of exports of 'unskilled labor intensive' products, and created in particular employment for female production workers (Jenkins 2004).

Foreign investors whom we interviewed for this research appreciate the Vietnamese workforce, relative to other in SE Asia because of high productivity and ability and willingness to learn, attention to detail and, related to this, design capabilities. In the words of a Vietnamese consultant, "*Vietnamese are more creative, but not so disciplined as the Chinese – which has major implications for managing work forces*".

An early mover utilizing Vietnam's low labor costs has been sports-shoe maker Nike. In 1995, Nike began to shift production to Vietnam, where wages are around \$50 a month, to lessen its dependence on China and Indonesia where they previously had their main production bases. In 1999, Nike products were manufactured in 12 factories partly under Nike's ownership and partly under subcontracts. Directly or indirectly, Nike employed

43,000 workers that produced 22 million shoes annually and exported shoes and clothing for US\$450 million 8% of Vietnam's manufacturing exports (Hartmann & Wokutch, 2004). In 2004, Nike reported 34 contract manufacturers in Vietnam, making Vietnam the sixth largest production base for the brand. These firms cluster in the South of Vietnam: 17 were in HCMC and 10 in neighboring Dong Nai province.

Utilizing low labor costs in Vietnam does not require setting up an equity investment into a new production plant. Specialist subcontractors have developed that manufacture labor-intensive products under European or North American brands brand names. This includes foreign-owned companies, especially from Taiwan and Korea, where raising labor costs have undermined the competitiveness of certain segments of industry.

The policy framework encourages this type of export-oriented ventures. Exporters face fewer restrictions on foreign ownership and benefit from tariff exemption for imported materials. Moreover, industrial zones are developed with the specific needs of export oriented manufacturing in mind, notably in the provinces Dong Nai and Binh Duong, north of Ho-Chi-Minh City. Government policy is however shifting towards attracting foreign investment that utilizes not only low-skilled labor but also makes use of technical skills available in Vietnam.

However, the manufacture of labor-intensive products in Vietnam has also attracted the attention of NGOs concerned with the labor practices in so-called sweatshops. Following some scandals in the late 1990s, major global brands manufacturers have taken major initiatives to raise labor standards not only in their own factories but throughout their supply chain (Hartman & Wokutch, 2004). The Vietnamese labor law reflects basic workers rights – true to the socialist roots. However, enforcement has at times been a major concern, though foreign investment companies tend to be monitored more regularly. Beyond legal standards, foreign business community in Vietnam is contributing to initiative to raise awareness and understanding for broader health, safety and environmental issues, for instance via the 'business links initiative' (Hartman & Woktuch, 2004).

#### *Case Study: Asama Yuh Jiun*

Asama Yuh Jiun, a Taiwanese bicycle manufacturer, established a 15m USD, 100% foreign owned company in 1999. The factory has grown into Asama's largest production site and exports bicycles to Japan, the EU and Canada under its own brand or buyer's brands. Increasing production costs in Taiwan and Japan induced Asama to seek a lower cost site for its production facilities. Mr. Feng, the current General Manager of Asama Vietnam, toured a shortlist of countries in South-East Asia, including Indonesia, Malaysia, Thailand and

Vietnam. He choose Vietnam for a new production site because he concluded that Vietnam has many similarities with Taiwan 30 years ago, the culture is familiar, the infrastructure is fairly good and labor costs are relatively low. His decision to locate in Binh Duong, a Southern province near HCMC, was based on the welcoming and supporting attitude and actions of the province's leadership, which had won his trust.

In 2004, Asama Vietnam employed about 1000 workers with some Taiwanese and Chinese technicians. With these well-trained workers, ISO management and automatic machineries, the company aimed at producing one million bicycles annually in Vietnam. The factory accommodated four bicycle assembly lines, nine frame welding lines; automatic anti-rust treatment; automatic painting equipments which include electrostatic liquid painting and powder coating; electro-deposit equipments and three sets of automatic wheels building and spoke-adjusting machines. The company became the largest bicycle manufacturer in Vietnam, and in a process of localization of suppliers, it helped nine Taiwanese manufacturers of bicycle components to set up factories in Vietnam.

## **Managing Businesses in Vietnam**

### *Business Culture*

Vietnamese culture is in many ways similar to Chinese culture, and foreign businesspersons may as a first approximation act like they would in China. However, Vietnamese culture is in many subtle ways in different from Chinese culture, and repeat-visitors should develop an understanding of the specific traits of Vietnamese culture. Moreover, most Vietnamese do not appreciate to be reminded of the cultural affinity to their powerful and at times hostile neighbor.

Like other Asian countries, Vietnam has a 'high context' culture, which implies that words spoken may vary in their meaning depending on the context, and people maintain close relationships over a long period of time. Many aspects of behavior are not made explicit because most members know what to do and what to think from years of interaction with each other. Thus, situation, place, attitude, non-verbal behavior, and gestures moderate the meaning of spoken words.

A formal greeting in Vietnamese is quite complicated, as one has to address persons differently depending on their gender, relation with the speaker and the age difference. It is hard to remember this jungle of pronouns and easy to be embarrassed if one gets it wrong. Also, there is no need to say greetings in Vietnamese as most of business partners or

government officials meeting foreign visitors would speak English or have an interpreter. Therefore, foreign visitors may either make it precise or avoid it, unless they wanted to create some humor for a friendly start. A handshake with a friendly smile while bowing your head slightly to show respect would usually be enough.

Business cards are usually exchanged at the first meeting. Vietnamese names can be a little tricky for Westerners as it starts out with family name, then comes one or more middle name and lastly comes a given name. As only the given name is used in both formal and informal contexts, when given a business card, one should quickly look at the last name in the long row to identify the person's name. The family name will not ring any bell if used to address someone since thousands of people share the same name.<sup>3</sup>

While punctuality is not typical for casual meetings, it is very important for business meetings especially with government agencies. Traditionally, meetings were a series of long speeches rather than relaxed conversations, but this may be changing as more and more Vietnamese businesspeople and officials have exposure to Western business practices. The first meeting is always the most formal in this regard, with subsequent meetings taking on a much more relaxed tone. Hosts and guests take their seats on opposite sides of a long table. Opening the meeting, Vietnamese prefer with informal information: the impression about Vietnam, introduction of yourself and your firm. This introduction is important to the Vietnamese, who are often reluctant to commit to anything until they know a little their business partner. At this stage, patience is important. Requests for serious help are better saved for the second meeting.

It is common for a drink to be offered to the visitor. Usually, the hosts offer what they have instead of asking what the visitor likes, as is the practice in the west. The traditional drink is green tea but visitors may be offered mineral water or a soft drink instead. Do not feel obliged to finish your drink if you are not thirsty.

Meetings generally last about an hour, although there are many exceptions to this rule. It should not be surprising if Vietnamese party brings a number of additional people to a meeting, including perhaps one or two silent members who merely take notes.

It is common in Vietnam for gifts to be exchanged on certain occasions to express respect, appreciation or gratitude. Gifts are usually exchanged at the end of meetings or

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<sup>3</sup> However, beware that Vietnamese living abroad or writing for international audiences, like this paper, commonly invert their names. Taking the co-authors of this paper as an example, Danish resident Ms. Yen Thi Thu Tran would be Tran Thi Thu Yen in her country of origin. Nguyen Vo Hung would be addressed as 'Mr. Hung' in Vietnam, but in compiling a list of references in Western style with family name and initials, he becomes Nguyen, H.V. Note moreover that in our bibliography Nguyen, M.T.T., Nguyen, T.H. and Nguyen, H.V. are not related, nor are Tran, C.A., and Tran, Y.T.T.

parties. Only small gifts, such as a company tie, and handicraft item or a book on your country, are necessary.

Vietnamese officials meet a large number of foreign investors who never return. Foreign investor can ensure that their interests are kept in mind by repeat meetings and thus demonstrating the sincerity of their intentions. This would differentiate them from other foreigners who just come and talk without real investment plan.

Like other Asian cultures, Vietnamese are very hospitable and avoid to say 'no' or to indicate negative attitudes. Warmth and enthusiasm of the Vietnamese counterparts may not indicate their level of interest but merely be a polite courtesy to the visitor and should not be taken to indicate the level of interest. Vietnamese also place a great deal of importance on saving face. Thus, 'yes' may merely imply 'I am listening'. Compared to other Asian countries, Vietnamese are proud people and treating them with respect and courtesy will go a long way.

Contacting the right partner is essential for successful business in Vietnam. Traditionally, many foreign investors were advised to go through a well-connected local partner to contact the right person or and set up a meeting with influential people. However, according to Henrik Andersen, CEO of Carlsberg in Vietnam, this is not necessarily the case any more, many intermediates will just confuse the process especially those who either do not know the contact directly or complicate the issue to gain credit. Government officials are generally bureaucratic but friendly to foreigners, thus they are always willing to meet when one present a decent request. Moreover, as Vietnam is competing with its neighboring countries to lure foreign capital and aims to present an attractive investment climate, officials would generally be pleased to receive potential investors. Trade associations and embassies are generally very helpful and provide advice on business practices, including frank comments on the business culture (box 1).

### **Box 1: Managing cultural differences: Advice from the Danish Embassy**

Even though private businesses in Vietnam have dramatically increased in recent years, a great part of Vietnamese businesses are still owned and controlled by the government or local authorities. In the state owned enterprises conservatism is prevalent, and the top management often consist of political appointees with limited commercial experience. The private business community constitutes a broad range – from creative ‘amateurs’ to highly professional business managers.

As elsewhere a personal network is essential for doing business in Vietnam. Danish exporters and investors are advised to give high priority to establishing networks with Vietnamese counterparts. In the initial phase of market penetration it will in most cases be necessary with frequent visits to the partner (s). Apart from potential partners the network will in most cases include key persons in the public administration. Therefore, it is useful to pay courtesy calls and maintain contact to local authorities and business organisations from the very beginning.

English language is becoming more common among business people and public officials. Even if they fully understand English, at formal meetings they will prefer to speak Vietnamese.

In general the Vietnamese counterparts are informal and helpful towards foreigners. They are also tolerant towards visitors, who are not familiar with Vietnamese customs. However, a polite manner towards Vietnamese counterparts is strongly advised. It is considered rude and embarrassing to show anger or even impatience.

In situations where disagreements occur the Vietnamese will often present their views in an indirect non-confrontational manner. However, it is extremely important to ensure that contracts or other commercial agreements do not contain unclear wording that may be subject to interpretation. It is often very time consuming and expensive to resolve situations, if they merge into an open conflict, involving arbitration.

*Source:* website of the [Embassy of Denmark](#) (accessed Jan 1<sup>st</sup>, 2005).

#### *Informal business practices*

Despite strong macroeconomic performance, the business community is still concerned about shortcomings in the legal and institutional framework. State ownership is still dominant, and issues like informal business practices or land leasing still cause headaches to foreign investors. Informality creates administrative and financial burdens for firms, and moreover an uneven playing field for different business sectors. Businesses of different ownership types and sizes are treated unequally, which creates incentives to create sub-optimal contractual arrangements and encourages informality. In consequence, private and smaller enterprises face more difficulties in accessing bank financing, land, and other critical resources (Tenev, et al., 2003).

Like in other Asian countries, business practices such as networking, reverse commissions, and even bribes are still common. For instance, South Korea's Daewoo Group emerged as Vietnam's single biggest investor in early 90s after it tied up with electronics firm

Hanoi Electric. The latter's general director became the city's top official, which eased Daewoo's path through the bureaucratic maze (Asiaweek, 1995).

However, government policy recognizes corruption as a social evil and a threat to the investment environment. Thus, in July 2004, Vietnam endorsed the regional Anti-Corruption Action Plan initiated by Asian Development Bank and the Organization for Economic Co-operation and Development (OECD). The initiative gained even more importance in light of the signing of the UN Convention against Corruption and the international anti-corruption agenda that resulted from this. The ADB-OECD action plan is deemed the key instrument to assist Asia-Pacific countries in implementing the UN Convention against Corruption. Prime Minister Phan Van Khai promised that fighting corruption in the state apparatus would be his main focus before his retirement in 2007. *"Prevailing corruption is distorting and destroying the state machine"* (Vietnam Investment Review, 2004).

Informal business practices, such as corruption, tend to work against foreign investors who have less extensive local networks. Yet, foreign investors can also use local informal institutions to their advantage. Foreign investors establishing an amicable relationship with the local authorities find it easier to solve bureaucratic obstacles if and when they occur. Relations with local and central authorities can be developed as (potentially) cooperative relationships, and networking and building personal relationships is recommended. Gifts to the appropriate persons and their families may enhance the atmosphere and smooth the business process given that sending presents is part of traditional Vietnamese culture.

### **US-Vietnamese Economic Relationships**

US government policies have until recently inhibited trade and investment in Vietnam. Only in 1994 the US economic embargo against Vietnam was lifted, and diplomatic relations were re-established the following year. In recent years, US policy took a more positive attitude towards Vietnam, as war related issues – on the one hand persons 'missing in action', on the other hand compensation for long-term consequences of chemical warfare (napalm) – were tuned down in the official policy agendas. The US - Vietnam Bilateral Trade Agreement (BTA) that came into effect in December 2001 is the centerpiece of U.S. efforts to open Vietnam's market and promote reform of its trade and investment regime. The BTA required Vietnam to eliminate a broad array of non-tariff barriers to U.S. exports, significantly cut tariffs on many goods of special interest to the U.S., especially agricultural items. Moreover, the BTA should provide effective protection and enforcement of U.S.

intellectual property rights, open the Vietnamese market to U.S. services providers, and create fair and transparent rules and regulations for U.S. investors.

Following the BTA, trade between the two nations boomed. The first nine-months export volume increased from US\$ 736 million in 2001 to US\$ 3.8 billion in 2004, making the USA the biggest market for Vietnamese exports (Vietnam News, 2004). However, trade relations have repeatedly been clouded by the legal disputes over for instance catfish and shrimp. The main items of Vietnam exports to the US are garments, seafood, footwear, crude oil, furniture and handicraft items. The main items that the United States exports to Vietnam are aircraft and spare parts, machinery and industrial products. At the third anniversary of the BTA, direct flights between the two countries were resumed after nearly 30 years.

Some leading US brands moved in early to establish footholds in the Vietnamese market. For instance, Coca-Cola returned to Vietnam in 1994 within 24 hours after the lifting of the U.S. trade embargo. However, US investment in Vietnam remained low apart from some service multinationals, e.g. in the IT sector, and a few worldwide brands (Nguyen et al., 2004a). Only after the signing of BTA in 2001 did US FDI in Vietnam take off. In late 2004, US businesses invested in 209 projects, with a total capital of US\$1.3 billion, ranking them 11<sup>th</sup> amongst investor countries in Vietnam (Table 3). The invested capital may even be higher as some US investment projects are registered under an affiliate in Singapore or Hong Kong. The Vietnamese have an historical appreciation for American products and technology, and there is a huge yet-unrealized potential for American companies in sectors where quality or brand-recognition is the main driver for consumer behavior, notably the high-tech sector.

Business associations are working to enhance US-Vietnamese business relations, and to remove administrative and regulatory barriers that remain on both sides. For example, the US-ASEAN Business Council and the US-Vietnam Business Council are working closely with officials in both Washington, DC and Hanoi to help facilitate Vietnam's entry into the WTO. The types of associations and expatriate networks are moreover a useful source of practical information for new entrants.

## **Conclusions**

After almost two decades of gradual reform, Vietnam is a mixed economy with a vibrant private and foreign investment sector competing in fast growing markets, yet also with state-controlled enterprises and remnants of central planning. Opportunities for international business arise both in the fast growing local market driven by rising incomes

and population growth, and based on the inexpensive low to medium skilled workforce. Moreover, specific investment opportunities arise in sectors prioritized by government policy such as telecommunications, software development and shipbuilding.

For potential business partners in the USA, the BTA that came into effect in late 2001 created a basis for trade and investment, and business flourished since. The international integration will be further enhanced with Vietnam's WTO membership, which will create new business opportunities but also gradually erode the benefits for those that entered under earlier BTAs.

Companies considering engaging in business with Vietnam will encounter a business culture that shares many traditions with other East Asian nations, and a legal framework that is incomplete but rapidly evolving. Thus, building personal relationships with potential business partners and careful analysis of the institutional framework governing the targeted industry may be appropriate first steps to prepare the business.

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