

How to do business in Vietnam

What companies should consider when doing business in Vietnam

Day to day communications Following initial contact with a Vietnamese company, it is likely that your day-to-day phone and email communication will be in English with one of the company's English-speaking members of staff.

If you do not think the standard of English in the Vietnamese company is up to scratch, you might wish to ask for parallel Vietnamese texts and get them translated; this could form a valuable investment. As obvious as this may appear, make sure that before signing any documentation etc. that you employ an independent translator to interpret and translate the text into English. It is not advisable to rely on the translation provided by your supplier and do not feel pressured into signing something that you do not understand. Fractured communications and mutual misunderstandings are the most common reasons for breakdowns in overseas business relations.

If Vietnam is likely to become a significant part of your business you may wish to consider hiring a Vietnamese-speaking member of staff, and/or consider taking up the challenge of learning Vietnamese yourself. However, even if you do achieve a level of fluency, an interpreter or Vietnamese-speaking member of staff is still essential for business meetings. (*Source – UKTI*)

Getting your good to the market

Vietnam's infrastructure has not kept pace with the country's development which can present some challenges to overseas investors.

Freight forwarding: Sea and air freight services to Vietnam can be provided by a range of companies, including GBS Freight Services (www.gbsfreight.co.uk) and Dynamic International (www.dynamic-freight-shipping.co.uk). Freight forwarding companies like these can provide advice on the best way to ship goods to Vietnam.

Sea freight: It takes approximately six to eight weeks to ship goods from the UK to Vietnam by sea. Vietnam has a total of 114 seaports, 14 of which are relatively large and identified as important to economic development. The three largest ports in the country are Saigon (south), Hai Phong (north), and Da Nang (central). However, major seaports in neighbouring countries have the capacity to handle significantly larger vessels and provide more storage capacity than Vietnam's ports, placing the country at a disadvantage despite its cheaper labour costs. A programme of redevelopment is under way, including relocating Saigon Port to Cat Lai and Hiep Phuoc. A deep-sea port is also under development in Vung Tau, southern Vietnam. Once completed, these new seaports should make sea freight to Vietnam easier and more cost-effective for overseas companies.

Air freight: Tan Son Nhat International Airport is Vietnam's largest international airport. Serving Ho Chi Minh City and Dong Nam Bo in southern Vietnam, it handles 15-17 million passengers a year and 444,223 tonnes of air freight. There are also international airports at Noi Bai near Hanoi and Da Nang in central Vietnam.

Vietnam plans to build a new \$16bn airport, Long Thanh International Airport in Long Thanh county, Dong Nai province, about 50 km north-east of Ho Chi Minh City. Long Thanh is to be built in three phases over three decades, to reach a targeted annual capacity of 100 million passengers and five billion tonnes of goods. Stage one, running from 2018 to 2025, will cost \$5.4 billion, and on completion, will handle 25 million passengers and 1.2 billion tonnes of goods a year.

Courier: There are many companies providing courier services to Vietnam. UKTI in Vietnam can give you further details: www.gov.uk/government/world/organisations/uk-trade-investment-vietnam

Postal parcel/express mail service: The Vietnamese postal service provider is VNPT – www.vnpt.com.vn (Source – UKTI)
Due diligence

Carrying out due diligence at the beginning of any venture, can help to avoid encountering many of the problems that foreign companies have faced when doing business in Vietnam.

There are different levels of due diligence, appropriate for different situations. If your single interest is in exporting, the most reliable proof of a Vietnamese company's ability to pay is a letter of credit from the bank. If a company can produce this, you do not need to check its financial standing as the bank will have already done this.

Another simple form of due diligence is to obtain a copy of a company's business licence. This will tell you:

- the legal representative of the company
- the name and address of the company
- the amount of registered capital, which is also its limited liability
- the type of company
- the business scope
- the date the company was established and the period covered by the licence

You should check that the information contained in the business licence matches what you already know and, if there are any discrepancies, find out why. If you want to

verify the information externally, seek the advice of lawyers, advisory firms or consultants who can carry out due diligence on your behalf. You will have more security if you know who the legally responsible person is, so find out who you are dealing with.

You will need to carry out further research if you wish to establish a business relationship that goes beyond exporting. Company accounts may not necessarily be accurate; therefore it is not enough to simply obtain a copy of them. It is unlikely that most accounts in Vietnam will be audited to the standards routinely expected in the UK, and companies may have different sets of accounts for different audiences, so it is advisable to use such data in conjunction with information obtained from elsewhere.

Good-quality consultancy and assistance is available from resident firms in Vietnam and in the UK. These companies can carry out operational, financial, legal and technical due diligence checks, typically by looking at the actual operation of the business, and building up a more accurate picture by carefully interviewing people who work in and with the firm. UKTI has lists of consultancies based in the UK and Vietnam that can provide due diligence checks on Vietnamese companies. (*Source – UKTI*)

Exchange controls

Strict controls on foreign exchange transactions are imposed by the State Bank of Vietnam (SBV).

Foreign currency convertibility rights must be obtained from SBV as soon as possible. Convertibility rights are normally part of the investment licence so are given to companies operating in specific import substitute and other 'important' industries. Convertibility rights don't guarantee availability of foreign exchange.

Foreign currency is only allowed out of Vietnam when:

- needed for payment for goods and services by an importer with an import license and other supporting import documents (i.e. purchase contract, invoice, customs declaration form etc.)
- remittance of dividends has been cleared by Vietnamese tax authorities
- repaying foreign loans and interest
- paying salaries, bonuses and allowances to expatriate employees

(*Source – UKTI*)

Duties, taxes and customs

There is a double taxation agreement between Vietnam and the UK.

For more information visit:
www.gov.uk/government/publications/vietnam-tax-treaties-in-force

The General Department of Taxation in Vietnam takes responsibility for tax affairs.
Visit: www.gdt.gov.vn

Corporate Income Tax (CIT) Under Corporate Income Tax (CIT) Law, businesses are subject to tax rates. The standard CIT rate is 22% and from 2016 will be reduced to 20%. Operations in some sectors are subject to higher rates. There are tax incentives for companies investing in specific locations, certain priority sectors and/or large projects.

Value Added Tax (VAT) VAT applies on the duty paid value of imported goods. The importer must pay VAT to customs authorities at the same time they pay import duties. Different rates of VAT are applied to different goods and services. Generally, the rate is up to 10%.

Other taxes and fees Special Sales Tax (SST) is applied to the production and import of certain commodities including cigarettes, alcohol, most vehicles, golf clubs, and gambling-related services such as casinos and lotteries etc.

Other taxes and fees include:

- foreign contractor tax
- natural resources tax
- environment protection tax

Customs Vietnam's General Department of Customs has responsibility for customs matters and provides information on tariffs.

Import duties are subject to frequent changes. Rates are applied according to different trade agreements. Contact the UKTI team in Vietnam to find out the rates applicable to your products and services. Vietnam maintains a price reference database to avoid under-invoicing. This can impact customs valuation. More information on the reference price list can be found in Decision No.1114/Q -TCHQ dated 10 April 2014. There is no free English version available. Companies can look up their products by the 4 initial numbers of their Harmonised System (HS) codes.

You can find more about import tariffs in the Market Access Database:
www.madb.europa.eu/madb/indexPubli.htm

(Source – UKTI)

Certification, standards and documentation

Documentation Your local representative can assist with the documentation needed to import your goods into Vietnam.

Vietnam's General Department of Customs provides a comprehensive list of documents: www.customs.gov.vn/home.aspx?language=en

Contact the UKTI team in Vietnam for information on customs procedures: www.gov.uk/government/world/organisations/uk-trade-investment-vietnam#contact-us

(Source – UKTI)

Employing staff

Vietnam has a young, plentiful and well-educated labour force, with the average age of citizens being just 30.

Since admittance to the World Trade Organization (WTO), the need for more skilled workers is greater than ever, although average wages in Vietnam are still lower than in neighbouring countries such as Thailand and China. Remuneration packages are likely to rise over time due to competition.

Employing foreign workers There is an entitlement for employers to recruit foreign workers for jobs that require specialist expertise which cannot be fulfilled by Vietnamese workers. However, the employer must have a programme of training in place to enable a Vietnamese national to take over the job and replace the foreign worker at a point in the future. A work permit must be obtained by foreign workers from the local Labour Department. Permits can take a while to arrange, so ensure you allow ample time. There are certain circumstances in which foreigners do not have to apply for a work permit, such as when they are providing short-term technical assistance, but companies are advised to check this as other documentation may be required.

Recruitment channels Employers have the right to recruit labour directly or through employment service agencies. Companies must enter into labour contracts with employees, either for a definite or an indefinite term; however, definite term contracts can only be renewed three times before automatically becoming indefinite term.

There are several channels for recruiting staff in Vietnam, with web-based recruitment channels becoming increasingly popular, particularly for recruiting office staff:

- Online: Job online services such as: www.vietnamworks.com
- Classified adverts (in French): classified ads for jobs (in French) are available from local Vietnamese daily newspaper Le Courier du Vietnam and in Vietnamese from Nhan Dan (Communist Party daily) and Quan Doi Nhan Dan (Vietnam People's Army daily)

- Classified adverts: classified ads for jobs in English are available from the Vietnam Economic Times and Viet Nam News (state-run English language daily)
- Trade journals for key industry sectors: talk to UKTI Vietnam for more information.
- Recruitment services companies: there are several experienced domestic and international recruitment services operating in Hanoi and Ho Chi Minh City.

(Source – UKTI)

Recruitment process When recruiting in Vietnam, be certain to follow all the normal steps that you would do if recruiting in the UK. Employers and employees may agree a probationary period not exceeding 60 days for work requiring specialist skills, or 30 days for all other work. You must pay a probationary employee at least 70% of the normal wage for that job.

Carry out due diligence: this includes conducting personal background checks and checking all references before offering the position.

Offer appropriate remuneration You will need to provide sufficient remuneration to ensure that you recruit and retain the best employees. For example, currently the average wage for a mid-level manager in an office ranges from USD \$800 to USD \$1,200 per month in major cities like Ho Chi Minh City. Wages are rising in Vietnam; it is therefore advisable to consult UKTI in Vietnam for the most up-to-date wage figures.

The Vietnamese Prime Minister, Mr Nguyen Tan Dung, decreed a minimum salary increase for workers employed in foreign-invested enterprises (FIEs) across Vietnam. The decree raised minimum salaries for unskilled and manual labourers in FIEs across all three labour zones. Salaries have gone up from USD \$45 to USD \$55 monthly in urban Hanoi and Ho Chi Minh City, from USD \$40 to USD \$50 in suburbs of those cities and within many of Vietnam's major cities and ports, and from USD \$35 to USD \$45 in all other areas. Again, talk to UKTI representatives in Vietnam for advice on specific positions and locations.

Overseas training and career progression Offering employees the opportunity to train overseas is also very attractive on many levels, although make sure that in return for providing such training employees make a commitment to stay with your company for a specified period of time. Having a clearly defined career progression route is an attractive benefit that will help to recruit and retain staff. Vietnam does not have professional qualifications akin to UK National Vocational Qualifications, although some foreign firms offer international qualifications such as ACCA, ICAEW, City & Guilds or CIMA.

A word of caution Smaller companies setting up an office in Vietnam may just employ one person to deal with all aspects of running the company. Although this maybe convenient and cost-effective, it may not be the most advisable way to run your

operation. If your employee is not familiar with the rules and regulations pertaining to running an international office or business in Vietnam, then you may soon have to deal with issues of non-compliance, which could prove very costly. Moreover, it is obviously very risky having one person in control of all financial and legal aspects of the business.

Social security This is quite complex and businesses should double check the latest rate but, as a guide, rates are shown below.

Employer

Employee

Social Insurance:

18%

8%

(not applicable to expat employees)

Health Insurance:

3%

1.5%

(compulsory to expat employees)

Unemployment Insurance:

1%

1%

(not applicable to expat employees)

The current minimum salary and maximum salary for each type of insurance contribution is as follows:

Social Insurance: Min salary VND 3,100,000, max VND 23,000,000

Health Insurance: Min salary N/A, max VND 23,000,000

Unemployment Insurance: Min salary VND 3,100,000, max VND 62,000,000

Working hours Working hours in Vietnam vary but retail businesses generally open about 8am until 9pm or 10pm seven days a week. Offices open from about 8am until 5pm with an hour for lunch on weekdays. Banks are open from 7:30am or 8am to 11am and then from 1pm to 5pm on weekdays although some banks, such as HSBC, do not close for lunch.

Public holidays

- 1st January New Year's Day (one-day holiday)
- 30th April Reunification Day (one-day holiday)
- 1st May Labour Day (one-day holiday)
- 2nd September National Day of the Socialist Republic of Vietnam (one-day holiday)
- Vietnam Traditional Lunar New Year Festival – Tet Nguyen Dan: (four day holiday). Tet usually falls between mid-January to mid-February, according to the lunar calendar. The holiday begins on the last day of the last lunar month and lasts through the first three days of the Lunar New Year. However, be aware that businesses and government departments tend to close for longer than the statutory four days and, even though officially open, many businesses do not operate at full capacity for a week either side of Tet. This is not a good time to visit Vietnam for business purposes.
- King Hung's Anniversary – the 10th day of the third lunar month

(Source – UKTI)

Getting paid

Payment of exports to Vietnam A popular payment method for the import of goods is by a letter of credit. A word of caution however, Vietnamese banks do not always accept that a letter of credit constitutes an irrevocable commitment on their part. Therefore, exporters should seek a letter of credit opened by a foreign bank with a branch in Vietnam. Arrangements can sometimes be made between the beneficiary overseas and their banks ("silent confirmations") at a cost. **Exchange controls** Strict controls on foreign exchange transactions are imposed by the State Bank of Vietnam (SBV). State-owned enterprises and Vietnamese private companies are permitted to buy foreign currency from commercial banks, but foreign-invested enterprises are required to obtain convertibility rights from SBV.

Convertibility rights are generally given to companies operating in specific import substitutes and other “important” industries and are normally included in the investment licence. Please be aware that having a convertibility right does not guarantee availability.

Remittance of foreign currency out of Vietnam is only allowed under the following circumstances:

- Payment for goods and services, subject to the importer having an import licence, as well as other supporting import documents (i.e. purchase contract, invoice, customs declaration form, etc).
- Remittance of dividends, subject to clearance from Vietnamese tax authorities.
- Repayment of foreign currency loans.

In summary, companies are advised to obtain import licences and convertibility rights as soon as possible. You should always consult with your bank and/or your legal representatives in your country who will be able to provide further information on getting paid in Vietnam.

(Source – UKTI)

Banking The State Bank of Vietnam, formerly the National Bank of Vietnam, was reorganised in 1976 to become the country's central bank. As well as commercial bank duties, it has national financial responsibilities. The Foreign Trade Bank oversees every area of foreign payments. The Bank for Agricultural Development is able to provide loans towards agriculture and fishing.

Vietnam's banks suffer from low public confidence, regulatory and managerial weakness and the absence of international auditing. Since 1992 Vietnam's banking system has consisted of a combination of state-owned, joint-stock, joint-venture, and foreign banks, but the state-owned commercial banks predominate.

HSBC, Standard Chartered and Prudential are all British companies that are already active in the Vietnamese market, but overall a more expeditious rate of implementing WTO commitments would be beneficial in this sector.

Bank opening hours: Mon-Fri from 7.30am or 8am to 11.30am and from 1pm to 4pm. Closed Saturday and Sunday.

Currency information: Đồng (VND; symbol ,53). 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 in reality coins are not used.

Currency restrictions: Import and export of local currency is limited to VND 15,000,000. Import and export of foreign currency over USD \$7,000 should be declared at customs.

Travellers cheques: These are NOT recommended

ATMs: There is no problem in accessing ATM's in Hanoi and HCMC

(Source – UKTI)

Establishing a permanent presence

There are multiple benefits to having an in-market presence in Vietnam. These benefits include cutting out the “middleman”, showing your commitment, providing direct access to the end customer/supplier, enabling trade in the local currency, giving direct control over corporate strategy and activities, making the conduct of business transactions much easier, and relevant for some sectors and activities; fulfilling a legal requirement to have a permanent presence.

Standards and technical regulation

Vietnam has its own sets of standards and technical regulations (including labelling), which are in line with international ones. However, exemption/simplification only applies where there is a mutual agreement with the other country.

You must make sure that you have obtained necessary technical licences (if any) before exporting. The licencing process could take you some time.

The Information Centre of the Directorate for Standards and Quality (ISMQ) has responsibility for Vietnam's standards system. Visit: www.arc.ismq.org.vn/en/

(Source – UKTI)

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