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**Opening up to International Investment and
Diversification – a case study of Vietnam**

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Opening up to International Investment and Diversification – a case study of Vietnam

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One of the first pre-requisites for a country trying to attract foreign investment – especially one closed to international trade for many years – is to encourage entrepreneurship. An entrepreneur is often described as a person who can not only organize and manage an enterprise, especially a business, but who usually shows initiative and risk. In most places this would indeed be true. People hoping to succeed in business will have to use their initiative to seek out markets and offer attractive products, and bear the risk of wasting their time, effort and a large amount of money should their venture go awry.

In Vietnam, however, the entrepreneurship success formula or paradigm has an interesting twist to it. As a developing country with a high level of technical competency and a young population, entrepreneurs will need to take the initiative to survive in a highly competitive and constantly evolving business environment, where trends can change quickly and their prospective customers or clients will be constantly looking for the next big thing. The risk, however, is offset by the low barriers to entry and starting up, the availability of cheap labor, and the low cost of living. So whilst entrepreneurs need to be quick and take advantage of every opportunity that comes their way, they need not necessarily risk everything to launch their dream company.

The Vietnamese economy and the start-up environment

Vietnam, for the last few years, has seen continuous growth, averaging 6.15 % per year since the year 2000 (www.tradingeconomics.com). Called the Tiger of South East Asia, the country has maintained a level of economic expansion in recent times, even during the global recession of 2008. The signing of the Trans-Pacific Partnership [TPP] with several neighbouring nations has also increased Vietnam's Foreign Direct Investment flows, as it made the country more attractive for new investors whilst helping existing companies to increase their vertical integration by taking advantage of TPP rules on sourcing materials.

The population of Vietnam is also another factor in the country's economic growth: 70% of the population is under 30 and the members of the younger generations are highly ambitious and internationally minded. They take ideas from anywhere and try to implement them in a way more suited to the Vietnamese market. Furthermore, Vietnamese college and university students have been scoring very highly in internationally ranked tests in recent years, offering a pool of skilled labour for prospective entrepreneurs.

Vietnam also has a very strong software industry, and is poised and hoping to become the Silicon Valley of Asia, especially through the aptly named \$1.5 billion project Silicon City, just outside of Ho Chi Minh City, formerly known as Saigon.

When taken together in concert, these factors make Vietnam a very attractive proposition for outside investors and domestic entrepreneurs alike.

Starting a business

Starting a company in Vietnam is relatively simple; the savvy entrepreneur (especially a foreigner) hires someone else to do it. As regulations in the country are somewhat murky and subject to constant change, it is much easier to find an expert or small agency that specializes in starting up and serving small and medium-sized enterprises [SMEs], than it is for prospective business people to go through the process by themselves. There are numerous consultancies and individuals who are able to take new business founders through the stages of getting their business license and arranging their tax details ("tax number") for a comparatively small fee. A new business can acquire a license for under US \$500, and in less than two weeks.

Any acquisition of a business in Vietnam is inevitably accompanied with a request for the "hoa don do" ("a red invoice"), a receipt for the product which is exclusive to the company selling the product and which lists the company's tax number and full details. This enables the buyer to claim 10% of the value of the invoice back as a tax deduction, and so any company which cannot provide these government-issued slips will be at a significant disadvantage. It is widely seen by the agencies as preferable for a new company to be fully licensed and to be able to offer these "red invoices" as a sign of its legitimacy, and is therefore suggest a benefit to clients.

Not every small business needs a license to function, however: street stalls are rarely on any books, as they usually deal directly to consumers with mostly low-value one-off sales. Exceptions include those street stalls which move into becoming permanent properties later, or those which expand

beyond single stalls into a chain and require official status to sign contracts. At this stage there might be some awkward questions as to how such a business has reached this size without official recognition (although known by business rivals and in the newspapers). The government department which issues these “red invoice” slips, along with business licenses, does not always look into new applications to see if the company has already been operating previously. This means that many Vietnamese, especially those wanting to open small retail or food and beverage businesses, may not bother applying for a license until they think the company will be profitable (and hence draw official attention anyway).

Not a local? Not a problem

Vietnam is not just an attractive market for local businessmen either; more and more Viet Kieu (foreign-born Vietnamese) and foreign entrepreneurs are coming to Vietnam to take advantage of the opportunities offered here. Foreigners looking to invest in Vietnam or start their own company in the country should be aware that the Vietnamese government’s desire to ensure that most enterprises are locally-controlled means that the regulations are a lot less restrictive for companies that are majority Vietnamese-owned. Foreign nationals wishing to start a company in Vietnam may find it easiest to go into business with a Vietnamese partner in a Joint Stock Company (“cong ty co phan”), with the maximum possible ownership ratio for foreigners being 51% Vietnamese, 49% foreign. These restrictions have not stopped a large number of foreign investors and entrepreneurs from coming to Vietnam to launch their companies. Many of them, especially in the software industry, will ‘leverage locally and market globally’, taking advantage of cheap and skilled labour and marketing to high end global clients.

Finance/loans

Bank loans for starts ups and new businesses are fairly challenging to obtain in Vietnam. Most banks prefer to lend to established businesses which offer more security and collateral. Therefore, the majority of SMEs are either self-funded or rely on family and friends for financing. This not only gives them access to funds but also a lot more flexibility in terms of interest and repayment schedules, so they are more likely to survive the early years. Given the inevitably high failure rate of new businesses, this also makes Vietnamese entrepreneurs bolder. If their business does not succeed, then they may be able to renegotiate terms with their family and friends. This would avoid their banks giving them a negative credit rating or seizing their assets – common practice among banks in Vietnam.

For those entrepreneurs who dream bigger, Venture Capital [VC] funding is also an option, albeit a more limited one. During 2016, three major VC

firms have been active in Vietnam, investing over US \$120 million in launching and funding several brands which have become household names across the country (www.Fgate.com.vn).

IDG Ventures Vietnam, operating for nine years, have provided capital and business support to companies such as Apollo (a major language school), FBNC (Vietnamese equivalent of Bloomberg TV channel), Dia Diem (Vietnamese Google Maps), Vietnamworks (the largest employment website in the country), VinaGame (owner of the most popular music, game and news website in the country), for a total portfolio of 42 companies and an investment in 2016 of \$100 million.

Other VC firms like CyberAgent and DFJ Vinacapital have also heavily invested in Vietnam, mostly in the tech startup and online commerce scene. The most popular restaurant listings and review website in the country was launched in 2011, and received its first round of funding the following year from CyberAgent. Today, Foody.vn has completed three major rounds of funding, and is the dominant player in the online service and food review market. Although the start-up scene in Vietnam is not as developed as in many other countries, a canny entrepreneur can still secure significant funding with the right idea which appeals to the techno-savvy young population.

Labour

Although Vietnam has minimum wage laws and strict social security policies in place, labour is still cheap here and hiring new staff is fairly easy. As we have seen, the Vietnamese population is also overwhelmingly young, and their education system (whilst flawed in many ways) is under constant improvement. The government has a very specific agenda to improve the academic and business capabilities of its workforce, and has instigated many educational programs to push this through; for example, in 2010 a full 20% of all government spending was dedicated to education. In 2015 Vietnamese high school students scored higher in maths and science than their American and British counterparts, and a Google engineer commented that there were grade 11 students in Vietnam who could solve Google's notoriously difficult interview questions (thenextweb.com). Many observers see the potential of the Vietnam workforce as impressive, but there are problems. Approximately 37% of 15 year olds are not in school, and the government is struggling to broaden the educational programs it has already launched, whilst trying to maintain quality.

Once out of education and into the workforce, the young Vietnamese are not necessarily the best staff members for a start-up. Despite the laws on

minimum wages and social security, as well as commissions, incentives and bonuses, most Vietnamese companies have a high staff turnover rate.

One factor in this could be the Vietnamese bonus system: by law every Vietnamese company has to pay their staff an extra month's pay just before the Lunar New Year or "Tet" holiday (usually in late January), and having this extra money in their pocket, many do not return to work afterwards. According to data gathered by www.jobstreet.vn, 67.8% of young local Vietnamese staff reported wanting to quit their jobs after "Tet".

Given this job-hopping culture, talent retention and a good incentive scheme is absolutely critical for start-up businesses needing stability and trying to prevent staff turnover from crippling new projects. This is especially true in Vietnam's growing software industry, where hiring new staff mid-project can add months to the completion date.

The key man

Out of all the staff members needed by an entrepreneur, the accountant is by far the most important. Even if a firm has the best sales, marketing and production teams in the country, if the accountant is not performing then the whole enterprise could soon be drowning in a sea of paperwork. The majority of small companies cannot afford an in-house accountant, and with government regulations and forms being constantly changed and amended they will usually outsource this function to a freelancer who will have an understanding of the system. This enables the company to spend more time focussing on product and marketing, but they must also keep their own lines open to the local authorities to ensure that their freelancer is submitting all their paperwork on time. Owing to the frequent changes in laws and regulations it can be very easy for new business owners to be defrauded, and so finding the right accountant whether in-house or freelance can be a key determinant in a company's initial success and subsequent survival.

Location, Location, Location

Most retail SMEs in a city in Vietnam tend to operate from ground floor premises in residential buildings, as commercial space can be both prohibitively expensive and tie them up in long-term contract commitments. For entrepreneurs who need only office space there are a lot more options, from spare rooms in the family house to cheap office space outside a city centre to specially-designed co-operative work hubs.

These hubs offer up-and-coming entrepreneurs first-class business facilities such as computers, printers, scanners, fax machines, high-speed internet and conference rooms which they would otherwise be unable to afford in dedicated commercial space. These workspaces also enable entrepreneurs to

network with like-minded individuals; offer a professional environment to woo potential investors; and often run courses and business seminars, as well as competitions and tech events such as the “Angel Hackathon” held in Ho Chi Minh City this June (2016).

These workspaces are viewed as vital to the development of Vietnam as a high-technology-oriented emerging nation, and not only by the Vietnamese. When US President Barack Obama visited Vietnam in the first half of 2016, he attended a seminar at Vietnam’s Dreamplex, a typical tech hub, and confirmed that “entrepreneurship is the fuel for prosperity that puts rising economies on the path to success.....And that’s why Dreamplex is so important. It’s not only a home for digital entrepreneurs like you. It’s also a place where you can share ideas and work together to build a community that supports each other.”

When starting up a business in Vietnam, it is important to know the real needs and what is only window-dressing. Having a good product is more important than having that nice office. If the entrepreneur really needs that nice office, he or she can go to WORK Saigon or Dreamplex and look the part, but many successful firms in Vietnam have started up based on the understanding that their clients are more interested in quality product than the nice office. The most obvious examples of this are software firms and educational companies such as KTDC or VSL, both of which started out operating from small back-street rooms but used a solid product portfolio and good service to build up their brand and their client base.

Marketing

Marketing is all. There are many ways to go in Vietnam, depending on the product involved. In Vietnamese households, it is still the mothers who hold most of the domestic spending power, and given that they may be at home most of the day, daytime TV advertising plays heavily to this demographic. For the younger y-generation born in the 1980s and 1990s, the internet and social networks have a significant influence on spending decisions. Vietnam has a population of nearly 91 million as of 2015, and of these just under 40 million of them are online (www.GSO.vn). The early adaptors in the country are often the younger generations who will take up new ideas and trends with great enthusiasm. Young Vietnamese entrepreneurs are using Facebook, Whats App, and their own local social networks to advertise and get brand recognition. According to a survey carried out last year, approximately 21% of the country has a Facebook account, making this a very affordable and attractive option to increase market penetration and brand recognition when starting-up.

However, it should be noted that Vietnam ranks in the ten worst countries in the world for web freedom (www.freedomhouse.net), yet this relates primarily to political speech – and most businesses here tend to avoid becoming embroiled in politics. Despite government censorship in previous years, policy towards social networks and online communication has become a lot more relaxed, with ex-Prime Minister Nguyen Tan Dung saying that blocking networks like Facebook was impossible, and that the government would have to instead work towards making sure accurate information was distributed quickly along these channels. In the last year some government offices have embraced such social networks, even going so far as asking the population to use them to contact government departments and services and give feedback. This increased laxity towards online control has resulted in more investment in online advertising and online products. Any entrepreneur looking to open a business in Vietnam is advised to invest serious time and energy into online advertising and reach. The younger generation in Vietnam are good early adaptors, but they are also fickle. Building a brand name out there first and establishing this brand as the “original” is a distinct advantage in Vietnam.

Family support

For most Vietnamese entrepreneurs, having their family to back them is a huge advantage. Vietnamese family units will generally consist of three generations living in a single house. As they have not historically had any pension system, it has been the children that take care of parents in their old age and the grandparents will provide childcare and support whilst the parents are out working. This means that they are left at home all day, and many of them open small shops on the ground floor of their house both to make a profit and to occupy themselves. If a family needs money and has no particular use for the front room (other than to park motorbikes), it will be rented out to a small business.

There are a hundred little ways for families to increase their income, not least of all through mutual support. Most entrepreneurs in the West talk about the cost to their families of their entrepreneurial ventures, and there the price of childcare is prohibitive. Entrepreneurs in Vietnam can devote much more time and energy to the success of their company, secure in the knowledge that they do not need to worry about childcare or the prospect of financial ruin if things go wrong. In this respect, Vietnamese entrepreneurs with families are at a huge advantage over those in other countries, and even over expatriates living on their own in Vietnam.

Conclusions

Overall, whether as a foreign national, local, or returning “Viet Kieu”, Vietnam is a highly-recommended place to look into starting up a company,

although there are plusses and minuses. Thus a quick breakdown of the pros and cons includes the following:

Pros:

- Young population
- Cheap labour
- High standard of education
- Political stability
- Low living-costs
- Ease of opening a company

Cons:

- High staff turnover
- Rapidly-changing government regulations
- High level of bureaucracy
- High level of government corruption

In a nutshell: Vietnam is young, dynamic, cheap, and a land full of opportunity, but finding the right product and people is absolutely critical. Entrepreneurs may not lose their shirts, but they might lose their patience.