

The benefits of Vietnam as an investment destination are widely known, and can be found in our previous [publication](#). However, besides the advantages, there are obstacles for foreign businesses that want to enter the local market.

This publication aims to draw a realistic picture of challenges that might threaten market entry and thus overall business success in Vietnam. We base this writing on the experience of one of BDG's international clients in the production set-up process. For your own investment in Vietnam, this publication provides an overview of which potential threats can occur.

The fact that Vietnam is a fast-growing economy is no longer a secret: Vietnam has turned from one of the poorest countries in the world into one of the most dynamic manufacturing hubs in Southeast Asia. With a young population, constant GDP growth rates of 6.4% on average since 2000, and a fast-paced development, the World Economic Forum ranked Vietnam above six countries of the European Union in the latest [Global Competitiveness Index](#). Forecasts for the Vietnamese economic development are optimistic, not only in the short-run.

Working on production setups for more than 10 years, **BDG** has been supporting international companies to smoothly set their foot into the Vietnamese market. For this publication, we chose to conduct two interviews - one with a BDG Consultant, and another one with the Operations Manager of one of our clients, which is a garment-printing company. The company's main customers are global sports-equipment leaders such as Nike, Puma and Under Armour, and companies from the fashion sector.

What attracts foreign investors to enter Vietnam?

According to our client's Operations Manager (OM), the main reason why his company started operating in Vietnam is the movement of garment production from China and Thailand to Vietnam. More brands move their production to Vietnam due to lower labor costs and opportunities for business growth, which makes garment production more economical compared to some other countries in the region.

According to both the OM and the BDG Consultant, the labor cost is one of the main reasons why foreign companies invest in Vietnam. While the salaries in

traditional manufacturing hubs in Asia (such as China and Thailand) became relatively high, Vietnam is an economical alternative with an outstanding age structure of its population. 65% of all Vietnamese are younger than 40 years which creates a high supply of young workers. While the education system is still not as competitive as it should be, the OM observes that young Vietnamese people are quick in adopting new technologies and the latest changes, which makes the onboarding and training process of new staff relatively easy. This trend has already been recognized by tech giants such as [Google](#).

Other benefits for setting up a business in Vietnam:

1. Political stability, especially compared to many neighboring countries;
2. Strategic position in the center of Southeast Asia;
3. Number of bilateral and multilateral [Free Trade Agreements](#) signed with countries / regions such as the EU, South Korea, ASEAN, China, etc.

Major challenges that can affect production setup

However, Vietnam is still an emerging country with obstacles that can negatively affect business operations in the country. Our Consultant sees the **administrative processes** in Vietnam as the main challenge for setting up a business, although bureaucracy has been facilitated gradually in the past years. The commercial law system in Vietnam is complex and hard to overview, even with Vietnamese expertise. Thus, the majority of investors require help from professional legal consultants to avoid delays in operations which otherwise can easily sum up to one year only due to administrative processes.

The OM also sees bureaucracy as the main obstacle. As an example for this, during the pre-operational steps, the company was struggling with licensing processes and was not able to handle them without help from external consultants. He mentioned the process of applying for an import license for their printing machines, which included going through dozens of different steps and obtaining various sublicenses. This made the process time-consuming, and delayed the start of operations.

The printing industry is especially complex and regulated as being a conditional industry in the threefold classification system of the Vietnamese business landscape.

Table 1: Government's industry classification system (a sample)

Unconditional	Conditional	Forbidden
<ul style="list-style-type: none"> - Exporting rice - Trading coal - Animal feed - Cosmetics - Festival org. - Environmental measurement - Seafood trading 	<ul style="list-style-type: none"> - Real estate - Advertising - Education - Paper manuf. - Audit - Insurance - Wine - Tobacco 	<ul style="list-style-type: none"> - Weapons - Petroleum trading - Pipeline transportation - Maritime security services - Producing gold

[Source](#)

Another obstacle seen by both interviewees is the infrastructure. The roads are oftentimes narrow and jammed with traffic, which causes delays and extra costs for operations. Companies who aim to get the cheapest available land prices have to choose industrial parks in rural areas with bad connection to main highways, airports and sea ports. Furthermore, it is hard to recruit skilled workers and management candidates in the rural areas. The majority of professionals live in urban centers and are often reluctant to move to rural provinces. Finally, another issue is corruption, which is still part of the Vietnamese (business-) world.

Overall outlook for garment sector

Nevertheless, both of our respondents highly recommend foreign companies to invest in Vietnam, especially in the garment sector. Our Consultant estimates that the peak in the Vietnamese garment industry may be reached in 10 to 15 years - an ideal timeline for companies to invest now.

Both interviewees agree that the opportunities and future development exceed the challenges, as Vietnam is battling to overcome many of its shortcomings. The country is continuously working on improving the infrastructure (we have seen significant improvements in the ICT in the previous few years), is collaborating with external partners to sign and implement FTAs, and is pushing [modernization](#) of the country as a whole.

Garment is one of the most important drivers of the Vietnamese economy, being the second largest [source of exports](#). Currently, companies aim to fully integrate the whole supply chain for the garment industry in Vietnam. All steps from sourcing of raw materials to the final stitches of the sewing machines are planned to be available in Vietnam. With the new developments, manufacturers will gain a great amount of independence

and cost saving, and the country will not have to depend on materials imported from China, Taiwan or Thailand. This will be especially important once the EU-Vietnam FTA comes into action, due to strict [rules of origin](#).

BDG Insights

New businesses entering Vietnam will face difficulties which do not occur in developed countries - an innate characteristic of emerging economies. Vietnam needs to improve several sectors of public life to keep up with the economic development, especially within education, job skills improvement, and further infrastructure development.

However, Vietnam offers opportunities that are hard to find in any other country. The dynamics of its development is enormous. Constant growth rates that are not expected to mitigate within the next years, political stability and integration into international trade agreements are just a few benefits that attract investors.

Especially in the garment sector, the development is remarkable. Current moves of garment manufacturers from China and Thailand to Vietnam make the industry blossom. The attempt to integrate the whole supply chain for garment fully into Vietnam will be an exceptional advantage for manufacturers once implemented. Based on the insights from both of our interviewees, cost savings through sourcing of raw material in Vietnam instead of China and Taiwan will be significant.

Regarding this overall positive outlook, we highly encourage foreign investors to take the chance now and set up your business in Vietnam. Contact us and benefit from our expertise to avoid throwbacks for your success.

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Interested in new opportunities in Vietnam?

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