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Essay

# Conducting business in Vietnam: a contemporary commentary in local perspective

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**Abstract:** This paper offers local perspectives on how to do business in Vietnam, economic landscape of which has emerged as one of the fastest-growing economies globally following the 1986 Doi Moi reforms. It highlights the recent substantial influx of foreign capital across predominant sectors. It then scrutinizes the cultural aspects for business practices in Vietnam, focusing on interpersonal relationships, communication styles, and social norms. It concludes that a comprehensive understanding of both the economic environment and cultural nuances is essential for global entrepreneurs striving for success in the Vietnamese market. It offers managerial implications for effective business strategies in the region.

**Keywords:** business; culture; foreign direct investment; localization; practice; Vietnam

## Introduction

Ever since the economic reform conducted through *Doi Moi* (renovation), which was proposed and implemented in the 6<sup>th</sup> National Party Congress in December 1986 of the Communist Party of Vietnam (TG, 2021), the state has experienced a miraculous beneficial transformation in economic development over the past few decades (Revilla Diez, 2016). More specifically, this change in policy turned Vietnam from a command economy into a market economy, thus openness to foreign investments and business activities within the country. As a result of such a sagacious choice of economic reform, Vietnam, once positioned among the world's poorest nations, has continuously been projected to be among the fastest growing economies across the globe. According to the updated growth projections in The Atlas of Economic Complexity conducted by the Growth Lab at Harvard University (2022), Vietnam has been forecasted to be one of the fastest-growing economies to the year of 2030 with 5.56% projected annual growth. More specifically, their findings reveal that as a result of having diversified its production into more complex business sectors, Vietnam will presumably grasp a rapid growth in the forthcoming decade, i.e., 2020 to 2030. Therefore, doing business in Vietnam has been considered a wise investment by many, both Vietnamese and foreign, entrepreneurs as it carries a lot of potential for sustainable growth and high profitability.

In today's world of business, instead of limiting themselves to mere operations in domestic markets, enterprises, especially large corporations, proactively pursue methods to expand their operating activities to foreign states. As regards recent economic circumstances, Vietnam was among the few nations that reported positive economic growth during the formidable periods of COVID-19. Particularly, according to the International Monetary Fund (IMF; 2021) as well as the General Statistics Office (GSO; 2021) of Vietnam, in 2020, the economy of Vietnam enlarged by 2.91% in general domestic product (GDP), one of the highest growth rates on earth at that time. Therefore, doing business in Vietnam seems like a shrewd judgment. Ultimately, a lot of firms and entrepreneurs have left China to open a business in Vietnam primarily due to the US-China trade war as well as presumably lower operating costs (Lam & Nguyen, 2019). For these reasons, the related aspects of doing business in Vietnam will be the primary focus of this paper. This study will briefly examine the macro-economy through recent foreign direct investment (FDI) trends to assess the

increasing attractiveness of investing in Vietnam, and then the cultural aspects that entrepreneurs and firms should pay close attention to if they wish to successfully conduct business in Vietnam.

## Background information and interpretation

### *Foreign direct investment in Vietnam*

FDI plays a major role in macroeconomic advancement, economic alteration, international economic integration, and business liberalization of Vietnam (Meyer et al., 2006). Recent data indicates that FDI inflow in Vietnam carries on with its advancement whilst captivating substantial volumes of investment from overseas. According to the Ministry of Planning and Investment (2024), from January 1 to November 30, 2024, the aggregate newly registered, modified, and paid-in capital for share acquisition by overseas investors amounted to USD 31.4 billion, which was 1% greater than the same period in 2023 (see supplementary file “FDI Nov.2024\_E.xlsx”). Moreover, USD 21.68 billion of capital was realized by FDI projects, which increased by 7.1% compared to the same period in the 2023. During the same period, the sector of processing and manufacturing attracted the most FDI with approximately USD 20.2 billion (down 8.7% year-on-year) of total registered capital, followed by real estate (USD 5.63 billion; up 89.1% year-on-year), wholesale and retail (USD 1.37 billion), and electricity production and distribution (USD 1.12 billion). In terms of FDI attraction by business counterpart in the first 11 months of 2024, Singapore took the lead with USD 9.14 billion of total registered capital, succeeded by Republic of Korea (USD 3.89 billion), China (USD 3.88 billion), Hong Kong (USD 3.64 billion; China), Japan (USD 3.61), and so forth.

Ever since 1988, 147 nations and territories have budgeted investments in Vietnam with a total of 41,720 projects and USD 496.7 billion registered capital (accumulated as of November 30, 2024). The top five largest and most significant foreign investors as regards projects and registered investment capital in Vietnam, in descending order, are: Republic of Korea (10,085 projects; USD 89.1 billion), Singapore (3,861 projects; USD 82.3 billion), Japan (5,473 projects; USD 77.64 billion), Taiwan (China; 3,252 projects; USD 40.87 billion), and Hong Kong (China; 2,765 projects; USD 37.85 billion). In terms of accumulated realized capital of FDI projects, the figure was approximated to be USD 318.9 billion, amounting to 64.2% of aggregate valid registered investment capital. Manufacturing, processing (17,754 projects; USD 303.87 billion), real estate (1,204 projects; USD 72.55 billion), production and distribution of electricity, gas, steam and air conditioning supply (196 projects; USD 41.67 billion), accommodation and food service activities (1,003 projects; USD 13.84 billion), and wholesale and retail trade & repair of motor vehicles and motorcycles (7,987 projects; USD 12.02 billion) are regarded as the most attractive business sectors to foreign investors.

By the end of November 2024, both imports and exports as regards foreign investment rose. More specifically, exports (including crude oil) amounted to USD 265.6 billion, which was 12.2% higher than that of 2023. If the value excludes crude oil, it would reach USD 263.9 billion, which was a year-over-year increase of 12.3%. Meanwhile, imports extended to USD 220.4 billion, a 15.6% rise compared to the same period of the previous year. According to the MPI (2024), “in the first eleven months of 2024, the FDI sector saw a trade surplus of about 45.2 billion USD including crude oil and over 43.5 billion USD excluding crude oil, while the domestic sector had a trade deficit of 22.4 billion USD.” This trade surplus could facilitate more opportunities for employment in and economic growth of Vietnam. Nonetheless, too much of a good thing is harmful; trade surplus could bring about higher prices and interest rates within Vietnam and may lead to a more expensive currency.

These statistical figures imply that more and more foreign investors regard Vietnam as a sagacious investment opportunity. Even though the world has been severely impacted with COVID-19, international entrepreneurs still consider Vietnam a wise choice for business endeavors. Grant Thornton Vietnam (2024, p. 17) stated that “in recent years, Vietnam has solidified its position as a *rising star* in the global supply chain” and that “the ‘China Plus One’ strategy, driven by the US-China trade tensions, positions Vietnam as a leading alternative manufacturing hub.” Vietnam is anticipated to intensify efforts to enhance its business environment through initiatives aimed at

improving infrastructure, labor productivity, skills development, and administrative processes. These efforts are particularly driven by the adoption of the Organization for Economic Co-operation and Development (OECD)'s global minimum tax rate of 15% in January 2024, which encourages Vietnam to shift away from tax incentives and prioritize strengthening domestic capabilities. Vietnam has also actively carried out its commitments in free trade agreements such as the locally well-known Comprehensive and Progressive Agreement for Trans-Pacific Partnership (CPTPP; effective on January 14, 2019; Viet Nam National Trade Repository of Ministry of Industry and Trade, n.d.-a), Regional Comprehensive Economic Partnership (RCEP; effective on January 1, 2022; Viet Nam National Trade Repository of Ministry of Industry and Trade, n.d.-b), and the latest Vietnam - Israel Free Trade Agreement (VIFTA; effective on July 25, 2023; Center for WTO and International Trade of Vietnam Chamber of Commerce and Industry, 2023). This will counterbalance global economic losses resulting from the US-China trade tensions and improve productivity, efficiency, and effectiveness of operations in Vietnam. Second, Vietnam has a young, abundant, and well-qualified workforce that is comparatively competitive in the region. Third, the market of Vietnam is immense and full of potential, which is further supported by a politically stable background. Finally, government policies, regulations, and administrative procedures have been adjusted and simplified to encourage the foreign investment.

#### *Cultural characteristics of Vietnamese people and business practice in Vietnam*

It is undeniable that cultural knowledge is an indispensable factor of business success. Mere knowledge of economics will not be much helpful if two business partners do not understand, or even misinterpret, each other in terms of verbal and non-verbal communication. Therefore, international businesspeople should always take into consideration the cultural characteristics of Vietnam in general, and the Vietnamese in particular; only by doing so could they succeed in *doing business in Vietnam*. Most of the following theoretical cultural guidance was provided by academic scholars and professional researchers; of course, some personal recommendations based on the theoretical cultural foundation are also offered by the author of this essay.

Propriety and courtesy have always been critical factors of personal relationships in Vietnam (Smith & Pham, 1996). Possibly due to Vietnam being a part of the Asian culture, the Vietnamese customarily pay profound attention to interpersonal formality. Such traditional decorum is perceived to carry a mitigating impact on the uncertainty revolving around interpersonal contacts in business. In other words, Vietnamese business-people usually try to make acquaintances with their partners before doing actual business. Vietnam has a high-context communication culture, thus non-verbal signals and information are implicitly observed, gathered, and evaluated carefully for business-related consideration. This circumstance, however, is not as stressful and strict as it may seem; the Vietnamese businesspeople are simply endeavoring to understand their business counterparts, especially foreign ones, better by getting to know the background, expertise, and character of each other. Nonetheless, foreigners expecting to conduct business in Vietnam should always be aware of the importance of the interconnected network of personal relationships. Mutual obligations play a critical role in the business relations, thus are taken into serious consideration by the Vietnamese. If foreign business-people want to gain and maintain trust or credibility, they need to be tactful and comprehend the seriousness of personal relationships in Vietnam's world of business.

In terms of establishing business relations in Vietnam, courteous conversations and small talks are crucial (Mai et al., 2009; Smith & Pham, 1996). Business cards are frequently exchanged in the first meeting since they provide a clear and definite depiction of an individual's position and status, which are substantially important in the hierarchical society of Vietnam. The first meeting usually revolves around topics that both sides, especially foreign counterparts, consider either productive or non-productive for future business collaboration. It should be taken into thorough consideration that although these conversations may seem trivial or excessively time-consuming, they actually are not; this could be considered how Vietnamese business-people assess their counterparts as a business partner and as an individual, which is quite impactful on the success or failure of businesses.



Through practical experience and realistic observations supported by some cultural guidance from Smith & Pham (1996) and Mai et al. (2009), a small yet critical personal recommendation could be provided as regards how to address others, both in formal or casual contexts, is that Vietnamese people should be addressed by their first (personal) name instead of their last (family) name, ideally preceded by a title (e.g., Mr/Ms). For example, upon meeting a Vietnamese business partner named *Nguyễn Văn A*—with *Nguyễn* being the family name, *Văn* being the middle name, and *A* being the first name—the foreign counterpart should greet the partner as *Mr/Ms A* rather than *Mr/Ms Nguyễn*. Addressing people by their family name is widely practiced in Western cultures for the purpose of politeness and professionalism, and thus is quite praiseworthy; yet is not particularly contextually appropriate in Vietnam. Fortunately, as Vietnam endeavors to advance toward international (economic) integration, it is acceptable to address the Vietnamese by their family name in international meetings, gatherings, conferences, and similar events. However, doing business in Vietnam practically means adapting to the socio-economic environment of Vietnam. Therefore, it is always better to adjust according to the local preferences, all for the sake of a successful business.

Although pride and “face” are important in business practice around the world, they are even critically more so in the context of Vietnam (Mai et al., 2009; Meyer et al., 2006; Smith & Pham, 1996). Belittling or publicly criticizing a subordinate, even with a justifiable cause, could be severely detrimental to personal relationships, which in turn damages business conduct and morale in the working environment. Thus, criticism should be carried out in private. Besides, Vietnamese people, more often than not, avoid saying “no” directly; they either try to “save face” on both sides or are afraid of damaging their personal relationships and social networking (Meyer et al., 2006; Smith & Pham, 1996). Furthermore, being irascible and choleric is widely regarded by the Vietnamese as a manifestation of immaturity in personality and amateurishness in business (Smith & Pham, 1996). Therefore, when international entrepreneurs want to do business successfully in Vietnam, they should be thoroughly aware of their implicit and explicit verbal and non-verbal communication, which comprise language, tone, hand gestures, posture, facial expression, and other similar behaviors.

An intriguing part of the Vietnamese culture of business is *kinh doanh trên bàn nhậu* (“conducting business on the drinking table”). Lincoln (2016) carried out an in-depth study on this debatable business practice. In some (or even most) cases, businessmen (mostly in the private sectors) would come to restaurants for luncheons or dinners to sign contracts or to conduct *áp-phe/áp-phê* – Vietnamese phonetic pronunciation for the French word of “affaire” (“affair” in English), which generally means a substantial—in size, value, and importance—business deal. Most of the time, in the beginning, the host will stand up and raise their glass to make a toast accompanied with a speech to explain the purpose of the gathering and possibly to envision a successful business venture. Then, during the meal, the participants would habitually exchange toasts around the table to perform small talk and preferably business conversations. There are many more variations of this business practice, but the scope of this essay only focuses on the surface, for objective reasons. Although various discussions and arguments have been provided for this issue, it is still quite difficult to actually conclude whether such practice is either beneficial or detrimental to business, and if it should be abolished or maintained. Nevertheless, it is recommended that businesspeople, especially foreign entrepreneurs, should keep this special practice in mind when they conduct business in Vietnam. It is, however, not to be mistaken that everyone is forced to actually drink beer and alcohol in order to conduct real business in Vietnam; genuinely professional Vietnamese entrepreneurs would and should never coerce their business counterparts into drinking if it is against their will. It should only be considered as a business entertainment/practice that can facilitate business dealings, not as a compulsory business procedure.

#### *Conclusion and managerial implications*

This essay is but a mere overview of the macro-economic trend of FDI in Vietnam as well as the cultural aspects that entrepreneurs should take into thorough consideration if they want to do

business in Vietnam. As we have discussed throughout the essay based on the FDI trends, Vietnam continues to be an emerging market with a lot of potential for investment opportunities. The country continues to actively participate in international trade activities. In terms of cultural particulars and business practice, personal connections, business relations, courteous conversation making, way of addressing, and similar aspects are crucial in doing business in Vietnam; *kinh doanh trên bàn nhậu* is also a business practice that entrepreneurs should acknowledge.

As international economic integration remains the modern trend, doing business in Vietnam has also become more attractive and challenging at the same time. More and more foreign business-people have taken Vietnam as a serious and wise option for investing activities. With a transparent and comprehensive grasp of the economic, cultural, and business elements of Vietnam, entrepreneurs can be more effective in terms of planning for and minimizing risks of doing business in Vietnam. In other words, a comprehension of the nation is essential for successfully conducting business in Vietnam. Understanding how Vietnam is culturally different from other countries, especially Western ones, is crucial since each market has its own respective demand and preferences. Therefore, both foreign and domestic entrepreneurs should be sagaciously aware of the cultural aspects when they consider *doing business in Vietnam*.

## Declarations

Ethical Approval and Consent to Participate

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Consent for Publication

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