

**ECONOMIST  
INTELLIGENCE**

**CORPORATE  
NETWORK**

# Succeeding in Vietnam

Understanding the market and achieving business goals

A report by Economist Intelligence Corporate Network



Commissioned by



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# Introduction

**V**ietnam has seen solid economic growth for years and that trend – along with the opportunities that accompany it – will continue at least through this decade. For various economic, political, cultural, and technological reasons, Vietnam has emerged as a hub of fast-paced activity that shows no signs of slowing down. As one of the few countries in the world to see GDP growth during the first year of the Covid-19 pandemic, Vietnam has demonstrated that it is a new land of opportunity.

This report offers an introduction to Vietnam’s future as a potential market for Singapore firms. It begins with an overview of the country’s business environment, then explores some opportunities and challenges in the market, before turning to some recommendations based on discussions with Singapore firms operating there now. The goal is to provide readers with a macro perspective as well as on-the-ground views, to complement your market research and any other preparatory studies you are doing before deciding whether to venture into Vietnam.

# Vietnam's outlook

**O**ur overview of Vietnam as a market uses the PESTLE model – Political, Economic, Social, Technological, Legal, Environmental – as a framework. This is a helpful way to look at multiple markets using a consistent structure. If you are considering Vietnam as well as other countries, this would be a useful approach to compare them. Much of this research comes from the analysts at Economist Intelligence Unit (EIU), supplemented with some additional research from government and intergovernmental organisations, aided by some insights from Singapore firms in Vietnam.

### Political

We expect Vietnam to remain politically stable as a one-party state. We do not expect the rapid domestic spread of Covid-19 since May 2021 to precipitate public backlash as it has in some other countries. The public does not generally consider the outbreaks to be a result of administrative and policy failings by the government. Confidence in the authorities' ability to tackle the outbreaks will remain strong, assured by a steady, though somewhat slow, flow of vaccine imports over the remainder of 2021 and 2022.

Government leaders are sensitive to public opinion on matters relating to national sovereignty. Authorities will face continued public pressure over disputes in the South China Sea, including occasional small protests. Many Vietnamese are critical of the government's reluctance to respond more forcefully to perceived Chinese provocation. Similarly, there will be occasional public outcry over major investments in the country by Chinese firms, owing to the perception of China's creeping influence over the economy. During protests against Chinese companies in 2014, some Taiwanese companies were mistaken for mainland China-owned firms and were damaged in violence.

### Economic

Following a slump in 2020-2021, the pace of real economic growth will return to earlier trends in 2022-2023, owing mainly to the rapid expansion of Vietnam's export-oriented manufacturing sector (Figure 1). Much of the workforce will be engaged in highly labour-intensive work (Figure 2 and Table 1); the average share of fixed capital in production will grow only modestly. Although still weaker than the medium-term trend anticipated to come later in the decade, Vietnam's exports of goods and services in 2022 will be stronger than those of the country's regional peers. Rapid growth in goods exports will be underpinned by the expansion of electronics, machinery and footwear shipments; garments and furniture will still contribute, but to a lesser extent. Services exports, as identified in the United Nations' Comtrade Database, are typically strongest in the areas of personal and business travel; air transport; sea transport; miscellaneous business, professional, and technical services; and, financial services.

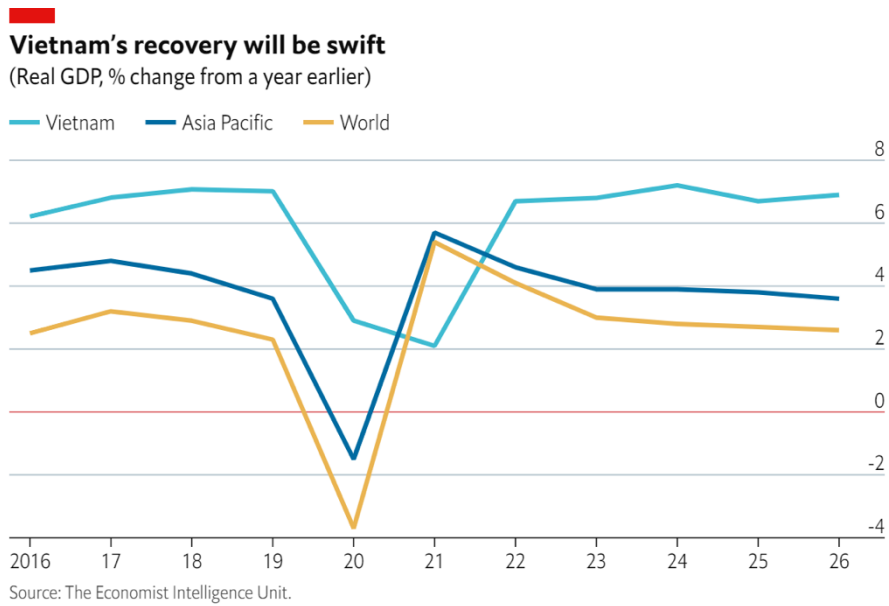


Figure 1

**Annual employed population at 15 years of age and above by occupation by Occupation and Year**  
Preliminary 2020 figures

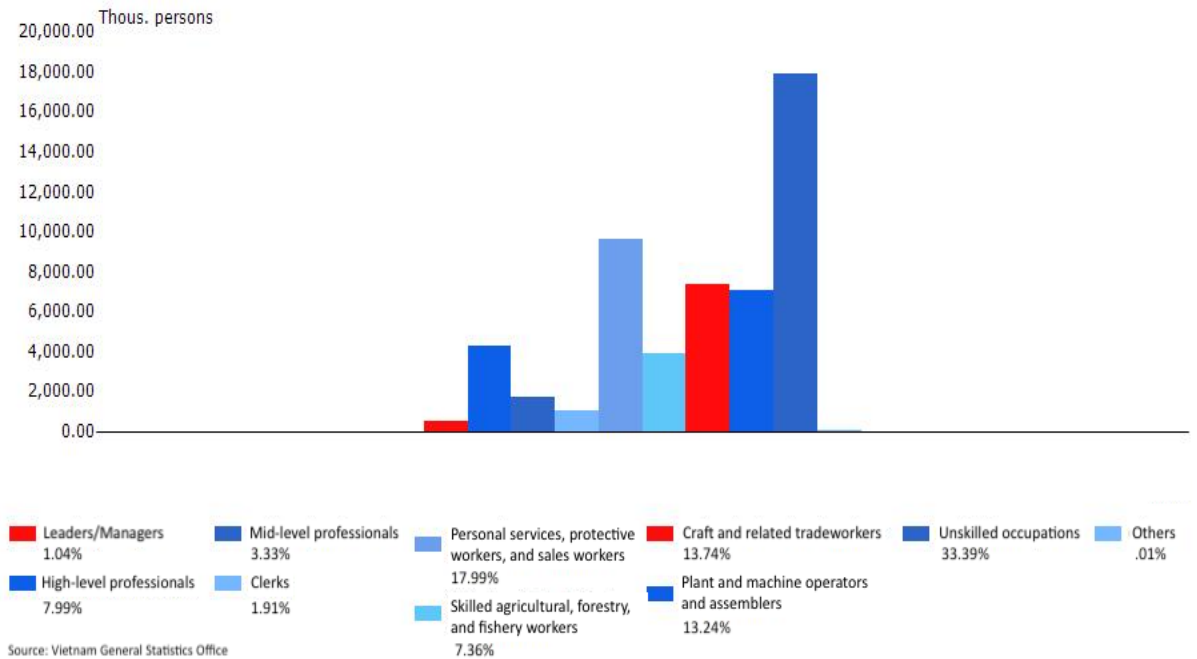


Figure 2

Percentage of employed population by economic sector

Economic sector	% of workforce, preliminary 2022
Agriculture, forestry, and fishing	33.06
Mining and quarrying	0.32
Manufacturing	21.08
Electricity, gas, steam and air conditioning supply	0.32
Water supply, sewerage, waste management and remediation activities	0.31
Construction	8.76
Wholesale and retail trade; repair of motor vehicles and motorcycles	13.6
Transportation and storage	3.67
Accommodation and food service activities	5.11
Information and communication	0.63
Financial, banking, and insurance activities	0.85
Real estate activities	0.6
Professional, scientific, and technical activities	0.65
Administrative and support service activities	0.67
Activities of Communist Party, socio-political organizations; public administration and defence; compulsory security	2.7
Education and training	3.74
Human health and social work activities	1.13
Arts, entertainment, and recreation	0.49
Other service activities	1.9
Activities of households as employers; undifferentiated goods and services producing activities of households for own use	0.4
Activities of extraterritorial organizations and bodies	0.01

Table 1

As Vietnam emerges from the Covid-19 pandemic, household income is forecast to rise at a compound annual growth rate (CAGR) of 8.2% per year through 2030, putting it second only to China in terms of income growth in the region (Figure 3). When it comes to private consumption, the CAGR is forecast to be an annual rate of 10.3% through the end of the decade, the fastest growth in Asia (Figure 4). These income and consumption trends reflect the emergence of the middle class in Vietnam, which will see more consumers entering the marketplace, and new buying patterns within the market. Simply looking between 2020 and 2025, the EIU forecasts that:

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- healthcare spending per person will rise from an average of US\$214 to US\$325
- average annual meat consumption will go from 73.8kg/person to 92.2kg/person
- consumption of milk will increase from 21.9 liters/person to 27 liters/person
- mobile phone subscriptions per 1,000 people will expand from 1,420 to 1,670
- the prevalence of passenger cars will grow from 31 per 1,000 people to 40 per 1,000
- the number of television sets per 1,000 people will climb from 296 to 361

EIU expects that a growing middle class that likes to shop online will lure foreign direct investment into the retail and logistics sectors.

Inflation will rise well above the 3% mark in the first half of 2022 as household demand recovers, amid the ongoing disruption of supply conditions and high global commodity prices. However, it is forecast to fall back again in the second half of that year. We expect the disruption of domestic supply chains to ease and commodity prices to start leveling off in 2022. This disinflationary trend will continue into 2023, when average inflation will decelerate to 1.9%. An annual average of 2.9% in 2024-2026 will still be modest by historical standards, reflecting mild global inflation, declining import tariff rates, and increasing domestic agricultural output.

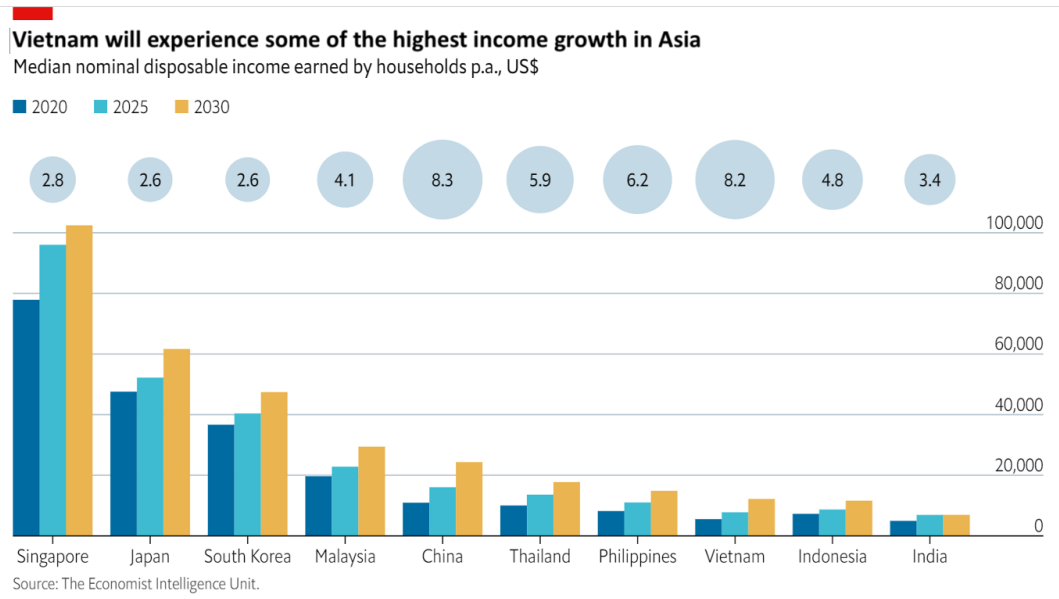


Figure 3



Figure 4

**Social**

Birth rates in Vietnam started falling sharply after 1975, and by 2000 the number of births per woman hovered around 2.0, a little bit below the typical replacement rate of 2.1. This will have a long-term impact on the availability of employees. While companies attempt to grow in Vietnam, the size of the labor force is not keeping pace. According to the World Bank, the growth of Vietnam’s labor force slowed from 2014 onward, and in 2020, it shrank by about 800,000 people from the previous year. Women accounted for 47.9% of the labor force in 2019, while comprising 50.1% of the population, suggesting there may be more opportunities to bring women into the workforce.

The United Nations Educational, Scientific and Cultural Organization (UNESCO) reported a literacy rate of 95% in 2018, up from 90% at the start of the millennium. While that is an encouraging trend, Vietnam has fallen in recent years on the EF English Proficiency Index, from #52 out of 100 countries in 2019 to #65 in 2020. Post-secondary education has increased somewhat in recent years, from 24.9% of the population in 2011 to a peak of 30.7% in 2014, before falling back to 28.6% by 2019. The combination of lower English proficiency and declining post-secondary schooling suggest that, while a more literate general workforce is available, the local leadership pipeline for foreign firms may be more limited.

The main weakness that investors will find in Vietnam’s labour market will continue to be its lack of skilled labour. The number of holders of relevant vocational college or degree-level qualifications continues to fall short of employer demand. A report by the Vietnamese government and the International Labour Organization showed that, as of the second quarter of 2021, skilled workers made up only 26.1% of the workforce. This is due mostly to the lack of advanced education that is



directly relevant to the needs of foreign-invested manufacturing and services firms. Among those who are considered higher-qualified labour, with business and managerial skills, close to half are concentrated in public sector professions such as education and government administration – partly a result of the legacy of state-dominated central planning – and this creates a relative shortage of employees with the necessary business skills for the growing private sector. In October 2021 the Ministry of Labor, War Invalids and Social Affairs reported that it has implemented a vocational education communication plan that promotes enrollment and training using online platforms, which will run through 2025.

### **Technological**

Recognising that Vietnam's future growth will depend largely on high-tech manufacturing and services sectors, the government has been ensuring the digital infrastructure is in place. One interview participant noted that when he arrived in Vietnam ten years ago, his apartment was outfitted with fiber-optic internet, with speed faster than what he had at his flat back in Singapore. Internet usage is rising rapidly, helping to boost both availability and reliability. According to the World Bank, 69% of the population were regular internet users in 2019, up significantly from 41% five years earlier and well above the levels in the Philippines (43%), Thailand (67%) and Indonesia (48%).

Vietnam will attract many high-tech device assembly and testing operations. In 2018, South Korea's Samsung, which has been operating in Vietnam since 2012, announced plans to build a global research and development (R&D) centre in Hanoi. Construction of the US\$220m project began in March 2020 and is scheduled for completion in December 2022. It will play a role in the development of Samsung's 5G telecommunications technology. In 2019, Grab announced plans to invest US\$500m in Vietnam over a five-year period. Expansions by such companies are likely to facilitate complementary investments this decade, which will broaden Vietnam's digital infrastructure landscape. The continued growth in tech manufacturing will facilitate further opportunities for small and medium enterprises (SMEs) that, according to a 2021 report by the Asian Development Bank Institute (ADBI), comprise roughly 96% of Vietnam's economic structure. This has the potential to boost innovation among SMEs as they contribute to the global value chain through their engagement with multinational firms. One challenge for SMEs is that they will be competing with large multinationals for employees with essential skills, so their employer value proposition becomes even more important when they have trouble competing in terms of wages. Another concern raised by ADBI is that there are few formal channels through which to learn about opportunities to link with larger firms, so SME leaders should take advantage of the formal networks that do exist while also expanding their informal networks.

The Ministry of Planning and Investment has a goal of creating five so-called unicorns (technology start-ups with a market capitalisation of US\$1bn) by 2025 and ten by 2030. A related goal is for 20% of all firms operating in the country to adopt next-generation technologies—including 5G, big data and artificial intelligence—by 2025, and for 40% of firms to do so by 2030. Progress in this area will be boosted by the 2020 Law on Investment, which offers tax incentives and priority land access for high-technology companies, R&D firms, and technology start-ups.

### Legal

The Vietnamese legal system is based primarily on individual decrees, and disputes are often addressed on a case-by-case basis that depends on the particular circumstances, as opposed to Singapore legal decisions that are based on the common law and accepted precedent cases. It is important to note that, while contractual texts may be translated into other languages, only the Vietnamese-language text is considered to be the legal document that outlines an agreement.

The aforementioned Law on Investment does offer certain financial incentives to businesses in particular sectors. Article 15 of the law highlights three forms of incentives, including:

- application of a lower rate of corporate income tax for a certain period of time or throughout the project execution; exemption, reduction of corporate income tax;
- exemption or reduction of import tax on goods imported as fixed assets; raw materials, supplies, and parts used for the project;
- exemption, reduction of land rents, land levy.

Article 16 goes on to describe the business lines eligible for incentives, which include:

- high-tech activities, high-tech ancillary products; research and development;
- production of new materials, new energy, clean energy, renewable energy; productions of products with at least 30% value added; energysaving products;
- production of key electronic, mechanical products, agricultural machinery, cars, car parts; shipbuilding;
- production of ancillary products serving textile and garment industry, leather and footwear industry, and the products in Point C;
- production of IT products, software products, digital contents;
- cultivation, processing of agriculture products, forestry products, aquaculture products; afforestation and forest protection; salt production; fishing and ancillary fishing services; production of plant varieties, animal breeds, and biotechnology products;
- collection, treatment, recycling of waste;
- investment in development, operation, management of infrastructural works; development of public passenger transportation in urban areas;
- preschool education, compulsory education, vocational education;
- medical examination and treatment; production of medicines, medicine ingredients, essential medicines, medicines for prevention and treatment of sexually transmitted diseases, vaccines, biologicals, herbal medicines, orient medicines; scientific research into preparation technology and/or biotechnology serving creation of new medicines;
- investment in sport facilities for the disabled or professional athletes; protection and development of cultural heritage;
- investment in geriatric centres, mental health centres, treatment for agent orange patients; care centres for the elderly, the disabled, orphans, street children;
- people's credit funds, microfinance institutions.

Other forms of investment support in the law include some support for training and development, relocation of facilities, market development, information provision, and R&D.

Most publicly listed firms have been able to decide their own amount of shareholding by foreign investors after a mandatory 49% cap was removed in 2021. However, caps will apply for the foreseeable future in industries with national security implications, such as petroleum extraction and air transport, and those considered important to indigenous industrial development, mostly in energy, high technology, and shipbuilding sectors. The government had aimed to privatise 128 State-Owned Enterprises (SOEs) by 2020 (from a total of more than 500 in 2016), but deep-rooted structural issues meant that it fell far short of this ambitious target; by the end of 2020, it had privatised fewer than half of this figure. This initiative will continue to proceed slowly in 2022-2026.

### **Environmental**

Environmental protection is emerging as an important issue in Vietnam. Shortly after widespread protests erupted in 2016 over the accidental toxic leak from a steel plant operated by Taiwan's Formosa Plastics Group in Ninh Thuan province, then prime minister Nguyen Xuan Phuc, ordered the government to step up environmental protection, including undertaking more thorough inspections of investment projects. The discharge of wastewater by factories and households into river systems is the main environmental problem, and factors such as urbanisation, rapid industrialisation and intensive farming are contributing to severe pollution, so the government will watch business expansion carefully.

Enforcement of regulations is an important issue. The Ministry of Natural Resources and Environment has central responsibility for environmental issues, land-use planning, integrated water management and implementation of the Law on Environmental Protection. Vietnam enacted new legislation to replace this law in November 2020, which is scheduled to come into force in January 2022. Both laws require environmental impact assessment reports for various types of projects.

The 2020 Law on Environmental Protection incorporates climate change adaptation in long-term strategies of the government and aligns the legislation with the country's commitments under the Paris Climate Agreement and the 2030 Agenda on Sustainable Development. New companies opening up in Vietnam will need to be very careful about environmental requirements for their industry, as a series of decrees imposes regulations on a wide-ranging set of sectors.

## What is the outlook for the business environment?

In evaluating Vietnam as a potential market, using a SWOT analysis – Strengths, Weaknesses, Opportunities, Threats – suggests some current conditions providing pros and cons of operating in Vietnam, while also identifying some new and emerging conditions that will affect the business environment positively and negatively.

### Vietnam’s strengths as a market

One of the key reasons that manufacturers originally started shifting some of their operations to Vietnam was the allure of low wages, especially compared to rising salaries in China. Vietnam continues to be a relatively low-wage country compared to others in the region, and despite expectations of a small minimum wage hike in 2022-2023, the country is forecast to be wage competitive in the coming years (Figure 5).

Despite the low wages, companies operating there are upbeat about the quality of the workforce. They report that employees largely want to learn and are eager to make the transition from agricultural work to manufacturing, services, and knowledge roles. They suggest that the post-secondary schools are not really focused on developing skills for the workforce, so employees come to a job looking to build their skills and create opportunities for themselves. This suggests that even if a company’s desired skills are not readily available in the labour force, employees are motivated to learn.

### Some key weaknesses of the Vietnamese business environment

Despite the increase in foreign businesses in Vietnam, and the greater openness to Western culture and social media, English language proficiency is still not as strong as many business leaders would hope. Companies in Vietnam report that language skills are stronger in the cities, but firms operating in rural areas or bringing in workers from outside the urban hubs can expect more challenges. Language differences that exist between people from different regions of Vietnam, particularly differences between northern and southern vocabulary and pronunciation, present an additional challenge. Even a team consisting entirely of Vietnamese may face communication difficulties between employees from different parts of the country.

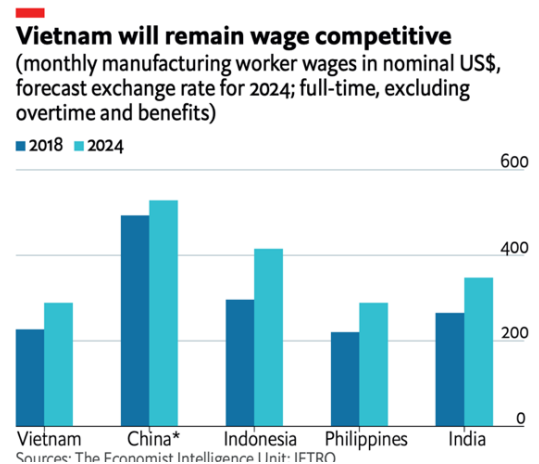


Figure 5

The legal system and regulatory framework can be very difficult to navigate. EIU's Business Environment Rankings place Vietnam at #54 out of 82 countries evaluated globally, and #11 out of 17 markets assessed in Asia-Pacific countries (APAC). One of the problems businesses reported was that it is often difficult to understand the regulatory requirements for starting and operating a business, and it was not uncommon to overlook something critical. One restaurant operator said they discovered only three months before opening that they needed a particular permit that would typically take a year to obtain and had to pay a high price for the legal expertise required to process the permit more quickly.

### **Opportunities presented by Vietnam**

As noted earlier, the rapid growth of household income and personal consumption depicted in Figures 3 and 4 demonstrate the emergence of a stronger middle class in Vietnam. The World Bank forecasts that the middle class will grow from its current 13% of the population to 26% of the population by 2026, rising to 26.5 million people from the current 12.8 million. This offers great opportunities for current and new entrants to the market, as Vietnamese consumers will buy more, and their buying preferences will change. In particular:

- Retail growth is expected to recover from the COVID-19 pandemic and return to its historical pace by 2022, with nominal local-currency sales growing by a compound annual rate of 8.4% through at least 2025. The online retail market will be boosted by the government's efforts to improve infrastructure and incentivise local retailers to enter the online space. The government expects 55% of the population to adapt to e-commerce by 2025. State-driven initiatives are aimed at providing robust infrastructure support, removing entry barriers, and increasing the popularity of digital payments, especially in suburban and rural markets. EIU expects online retail to account for 9.9% of total retail sales by 2025, up from about 2.7% in 2019. Rising online penetration will open up further opportunities for digital payment and logistics companies.
- Food retail, the most important component of the consumer market in Vietnam, is expected to account for over 65% of total retail sales in 2021. The value of food sales will continue to rise rapidly in 2021-25, increasing at an annual compound growth rate of 8.2% in local-currency terms. Online grocery purchasing has surged amid the pandemic and will remain one of the fastest-growing segments in the forecast period. Traffic on online grocery websites increased by 13% in the first quarter of 2021, according to iPrice Group, an e-commerce aggregator. The pandemic has triggered a rise in at-home consumption at the cost of the fine dining and hospitality sectors. EIU expects this to affect the foodservice sector as restaurants invest in building delivery capabilities for the long term, and the dining-in sector is not expected to return to pre-pandemic levels until international tourism resumes.
- Sales of cosmetics have grown strongly in recent years, in line with rising disposable incomes. A leading firm in this sector is LG Vina Cosmetics, a joint venture between LG of South Korea and the locally-owned Vocarimex, which operates The Face Shop and O HUI brand stores. Mass-market brands such as Pond's of the United States and Nivea of Germany have a large

share of the market, but Asian brands such as Innisfree and 3CE – both of South Korea – and Shiseido of Japan are expanding. Mekong Capital has invested in a domestic cosmetics retailer, HSV, to accelerate its physical presence in the country.

- An expanding middle class will boost expenditure on apparel and footwear to a compounded annual growth rate of 7.1% in 2021-2025. Most apparel is purchased locally, and foreign brands have not proven popular among domestic consumers. Demand for apparel is expected to shift to discount channels even as purchases recover through 2022. Individual demand for baby and children's products may be boosted by higher household incomes, but the overall demand for such products could be offset by the continuing drop in the fertility rate.
- Healthcare expenditures had already risen in the last decade, from 5.2% of GDP to 5.9% of GDP by 2018, the highest level among ASEAN countries. While 90% of the country is expected to have health insurance by 2025, the treatments and services reimbursed via social health insurance will remain shallow, with heavy co-payments, so higher incomes may lead Vietnamese to look beyond their insurance to private healthcare services that are more comprehensive.
- Foreign-owned educational institutions (FOEIs), especially international schools, are likely to see increased demand as more parents can afford the fees. The enrollment of Vietnamese students in FOEIs is capped at 50% of the student body by Decree 86, the regulation governing such schools; as a result, meeting the demand will require a higher supply of institutions. Additional opportunities exist for educational technology (EdTech) firms to provide online learning that is currently not subject to caps under Decree 86. Finally, according to the CEO of one Singaporean FOEI in Vietnam, the existence of high-quality international schools is a key expectation of foreign firms looking to invest in the country, so as foreign direct investment continues to grow, we can expect increasing demand for such programs.

Industry will continue to diversify rapidly in 2021-25 as more manufacturers from various subsectors move into the country from China, where wages are higher and are still rising. At the same time, Vietnam's involvement in several free trade initiatives – including a free trade agreement with the European Union and the Regional Comprehensive Economic Partnership – will raise its attractiveness as a global manufacturing base. The country's export basket has already changed dramatically in recent years. Vietnam's top three exports are now phones (including smartphones), computers (and related electronics) and textiles, which represents a change from ten years ago, when the list consisted of textiles, footwear, and crude oil. EIU forecasts that the industrial sector will grow at an average annual rate of 7.5% in 2021-25.

Vietnam's electronics manufacturing sector in particular will reap the benefits of the US-China technology war, which has prompted several firms to move some operations out of China. The government will encourage such investments and has already offered tax and other incentives to

many foreign firms. The government's "Make in Vietnam" initiative, launched in 2019, has been encouraging domestic manufacturing, with a focus on affordable smartphones.

The government has encouraged provinces to compete for business, and the result is most obviously seen near the major urban areas of the southern, central, and northern parts of the country. Ho Chi Minh City has forged ahead with industrial parks in the areas surrounding the city; Da Nang has gone high-tech, most notably with the Da Nang Hi-tech Park and Industrial Zone; and, the north is scooping up manufacturers as they exit China and move across the border. The result is a diversified national economy able to withstand shocks, as seen during the COVID-19 outbreaks in the summer of 2021, which were concentrated around Ho Chi Minh City but which did not create a significant disruption to overall economic growth.

### **Emerging threats to businesses in Vietnam**

One of the biggest threats to operating in Vietnam is the aging population and shrinking workforce. While the workforce is expected to grow by 0.4% annually on average through the rest of this decade, from 2031-2050 the working-age population is forecast to shrink by 0.09% each year on average, with a drop in the workforce of 0.12% on average per year as more people stay out of the labour market, perhaps to care for aging parents.

As a shrinking workforce makes it harder to hire, wages are likely to go up, negating some of Vietnam's cost advantage. Nonetheless, if competitor countries face the same challenge, the relative impact will be reduced. While firms are looking to automate, the skills necessary for such digital operations may be more difficult to find.

# Keys leadership practices for success

**A**s part of our research, we interviewed half a dozen Singapore companies operating in Vietnam. Among the industries represented here are logistics, education, food and beverage, lifestyle products, technology, and recruitment services. Some have been in the country for more than a decade, while others have a small operation that is only now expanding. Some are concentrated in a single city, while others operate across the country. These companies have had different experiences, and their diverse perspectives helped us identify some specific areas of focus to improve business performance.

We asked questions about working with government agencies, the digital infrastructure, logistical systems, and other business needs, but few of our interview subjects mentioned any unique challenges in these areas. Where we saw the greatest concern was in the area of leadership, and as a result, the recommendations focus on what it takes to lead people well and collaborate effectively in Vietnam.

### **Experience Vietnam before you make a business plan**

A recurring theme among the companies we spoke with was the importance of knowing Vietnam in order to operate successfully in the country. You should certainly do your market research in advance, but while that may tell you about potential revenue, it will not tell you what it takes to turn that potential into reality. According to the assistant general manager of a logistics firm, there is no substitute for having “eyes on the ground” as you ascertain who you will work with and how you will work with them. To have realistic expectations about what it takes to succeed, you must first understand the customers, employees, and partners you will have there.

Though the pandemic has made it difficult to travel, companies who have been there for some time reported spending time on the ground before developing their business plans. Spending time in Vietnam allowed them to start understanding the social culture, customer preferences, expectations for interacting with clients and employees, the nature of public holidays, and more. For example, one food & beverage company thought that Lunar New Year would be a busy season for their restaurant in Vietnam as it is in Singapore. However, they discovered that many people leave the big cities for a week or two to visit their families in their home provinces. The Christmas season turned out to be their busiest holiday time, as many Vietnamese enjoy the Christmas festivities even if they do not practice the religion, but during the Lunar New Year, Ho Chi Minh City was “a ghost town.” Be prepared to spend some time on understanding the social culture instead of rushing into setting up a business. You need to understand local customers’ tastes, find sources for the materials you need, and generally understand the environment if you are going to produce something that meets local demand within local constraints.



Whether you conduct your exploration on the ground or remotely, one useful outcome will be to begin building relationships with existing businesses. One of the most important benefits of this network is to get referrals for the local support partners you will need there. The most important partner will be a good law firm that will assist you in navigating the challenging regulatory framework, especially in light of the earlier point that the only valid contracts are those written in the Vietnamese language. Human resource (HR), accounting, or manufacturing partners could also provide valuable local assistance. A hospitality amenities firm, for example, has been serving customers in Vietnam for years, but is only ready to launch a collaboration with a manufacturing partner in-country to replace their imports now. You not only must ensure they do good work, you also must establish a trusting relationship with them, and that is easier if you know people with whom they have worked before and if you build your own relationship over time rather than rushing things.

### **Have a well-structured training plan**

To get your local workforce up to peak performance, companies whom we spoke with suggest you should be very intentional in your training, rather than conducting it on an ad hoc basis or doing it as you would do in Singapore. A food & beverage firm described how they brought the Vietnamese manager of their new restaurant to Singapore for a month of training, before sending trainers back with him, who then conducted a formal, 21-working day training program for their new staff. As you develop your business structure for Vietnam, perform a skills audit to determine what skills – both “hard skills” and “soft skills” – will be needed for each role, and develop your training accordingly. The leadership of one IT support company, found that their employees often needed training to upgrade their initial skill set.

In developing your training programmes, think about the life cycle of your firm so that you can provide training at the right level. Starting your business and setting the foundation requires a baseline set of skills to get started, but as your company matures, you will need to scale up that training to match new and more complicated needs. A senior leader from a recruiting and HR consulting firm suggested that you should also consider the life cycle of your workforce, perhaps by providing a foundational introduction to how the company works and what it takes to succeed as part of onboarding for new employees, focusing on upgrading functional skills for established employees, and emphasising soft skills later. Also, if possible, try to conduct training in the Vietnamese language. The CEO of an education company suggests that, while English-speaking employees might be able to understand training in English, they will retain more if trained in their own language.

When circumstances permit, bring some of the Vietnamese employees and managers to Singapore rather than always sending trainers and leaders to Vietnam. The team at an IT support firm did this and found it helps to build a more trusting relationship when a “two-way” element is introduced. It also allows the Vietnamese to appreciate the Singapore context more easily so they can better understand the perspectives of Singaporean leaders. Bringing employees to Singapore will often be more expensive than sending trainers to Vietnam, so companies will have to decide if it is worth

the expense. If so, then it is useful to have specific goals for their time in Singapore and have a well-planned agenda to meet those goals and make it worth the cost.

### **Reset your expectations about the workforce**

Several of our interview subjects pointed out that business leaders in Singapore need to recognise that their Vietnamese employees work differently from their Singaporean peers, and as such, will need to be led differently. For example, many employees in Vietnam prefer to draw a very clear line between work and their personal life, more so than is seen in Singapore. The project director for an IT support company noted that employees there tend to be more vocal when it comes to their preferences for work/life balance, professional development, and other workplace factors. They still respect their seniors, he said, but are not shy about sharing their own expectations.

While you may be used to having an English-speaking workforce in Singapore, it will be harder to have that single common language in Vietnam. English skills are often better once an employee has some experience in a foreign firm, so if you need English speakers, you might want to focus your hiring efforts on people with at least one job under their belt rather than always aiming for the fresh graduates. Bear in mind that employees with strong English skills are in high demand and can command higher wages as a result, so if keeping costs low is one of your reasons for being in Vietnam, perhaps consider the idea that not every employee needs to be an English speaker, and try to identify the roles where it really matters. Another point raised by the CEO of an education firm is that you should not require people to speak in English all the time in the workplace, but instead let them speak in their preferred language unless English is needed.

A point that was raised more than once in our interviews is that employees in Vietnam are very interested in continuous learning, and are likely to leave for another company if development opportunities are not available. Learning, though, does not necessarily have to lead to a leadership position. The leader of an IT firm pointed out that many technical experts in Vietnam have no interest in being people managers, but instead want to build expertise in their respective areas of specialty. This may be a surprise to employees in Singapore who might feel that the path to success lies along the leadership track, but priorities in the Vietnamese workforce are often different.

### **Develop a local leadership pipeline**

Despite that last point above, there are still plenty of people in Vietnam with leadership aspirations, and most of our interview subjects suggested developing local leaders rather than relying upon expatriates, for a variety of reasons that included cost and control. While not all of the companies we interviewed have local leaders at the top of their Vietnam operations, the number two person is typically Vietnamese if the top leader is an expat, and in some cases that person is being groomed for a top job as the company grows.

Since cost is often a key consideration for operating in Vietnam, keeping your leadership costs down is useful. There are large Vietnamese companies that are growing and are paying their leaders well, but it is still possible to pay more than they do and less than you would pay a Singaporean expat, in addition to all the costs of moving someone to Vietnam.

A real advantage of having local leaders is that it allows for greater decentralisation of control. It is important to have a vision and mission that are developed by the home office, but then delegate the authority to carry that out to people on the ground who understand the environment best. A Singaporean logistics group operating in Vietnam found that a local CEO was able to work more effectively with customers, not simply because of the language, but because they had an innate understanding of customer expectations, which an expat leader could need years to learn.

What should you look for in a leader from Vietnam? Some respondents suggested searching for potential leaders who have returned from living and working abroad, or who studied overseas. The sense is that they will be able to balance more easily between the Vietnamese and foreign aspects of the business. Just as cross-cultural communication skills are important for Singaporean leaders coming into Vietnam, they are equally important for Vietnamese leaders in Singaporean firms. Others suggested that hiring from the larger Vietnamese conglomerates could be valuable, as these leaders are likely to have local networks that are different, and more extensive, from those of foreign firms. There is, of course, the possibility that your rising local leader may be recruited away by another firm, but that is always a risk when developing future leaders, so efforts should be made to engage and retain those individuals and give them a reason to stay.

# Final thoughts

**V**ietnam has benefitted from being in the right place at the right time. As it strengthened its relationship with the United States, for example, it was well-positioned to benefit when US – China relations turned sour. Now, many firms around Asia are thinking Vietnam could be the right place for them at this time, and despite growing competition from Indonesia and Thailand, Vietnam remains a country with a lot of potential and the ability to realise it.

Realising that potential requires some forethought, and the experiences of firms on the ground there demonstrate the value of a few key practices:

- Educate yourself on the unique aspects of Vietnam’s social and professional culture
- Develop a network of trusted partners, including other Singaporean business leaders operating in the country, Vietnamese business leaders, and, very importantly, a high-quality law firm
- Identify the skills your employees will need and create a detailed training plan to make sure they can perform at the level you need, realising they may start from a low level of readiness
- Source locally if you can, import only if you must
- Include local managers in your workforce plan and start creating a local leadership pipeline for the future

Just as many Western firms that moved into Asian markets have been challenged by the differences, Singapore firms moving into Vietnam can find themselves with unrealistic expectations too. In addition to doing your research into the opportunities in your specific industry there, it is important to understand what the future of the country looks like, and what it takes to be successful once you arrive. With all of that in mind, you will be better positioned to do great things in Vietnam.