

Location and costs of setting up in Vietnam

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Q1. Which city should I choose to locate my business in? Hanoi or Ho Chi Minh City (HCMC)?

Vietnam is a developing Asian country with more than 60 per cent of its population under the age of 40. It is fast becoming a favourite investment destination for global multinational companies and foreign investors.

Consistent legal and tax legislation are generally applied throughout the country although most of the cities and provinces have their own set of investment policies and other competitive advantages such as land ownership rights and labour force.

Among all the big cities and provinces, foreign investors should try to set up their businesses in either Hanoi or HCMC first. Both cities are fast becoming a favourite destination for FDI in manufacturing and land-labour intensive sectors.

Adjacent provinces such as Vinh Phuc, Hai Phong (in the North) and Ba Ria-Vung Tau, Binh Duong, Dong Nai (in the South) are also becoming choice destinations for foreign investors due to recent strong infrastructure developments and attractive investment policies there.

These initiatives are also being supported by the central government's master plans to build more industrial parks and economic cities, and to develop other big cities.

Hanoi is the country's capital and its political centre and is home to most of Vietnam's legislative and government bodies. Over the past few years, it has been increasingly attracting more FDI in the core manufacturing sector and commercial businesses.

On the other hand, HCMC is Vietnam's dynamic economic, cultural and social hub. It is traditionally the destination for FDI in manufacturing, services, high-tech and the hospitality businesses.

Below is an overview on Hanoi and HCMC:

Ho Chi Minh City

Vietnam's economic centre, HCMC attracts the most FDI into the country, both in terms of number of projects and registered investment capital. Since 1988, over 3,500 projects across all sectors with more than US\$30 billion in registered FDI have flowed into HCMC.

An international geographical exciting destination

Low cost and fast access to foreign investors:

- Within a 2,500 km radius from HCMC, you can reach the Southeast Asian regional market of 600 million people, and have access to the vast Chinese and Indian markets of 2.3 billion people.
- Within 3,500 km radius from HCMC, you can reach the market of three billion people (50 per cent of global population) as customers, labour pool and knowledge ocean.

A unique location

An economic hub of Vietnam:

- 300 year history.
- HCMC, Dong Nai, Binh Duong & Ba Ria-Vung Tau, which together are known as the Southern Key Economic Zone, represent more than 50 per cent of national economic capacity.
- HCMC contributes more than 20 per cent of the country's GDP.
- More than 100,000 companies (30 per cent of Vietnam) are registered in HCMC.
- Tan Son Nhat Airport: the biggest airport of the country.

- Saigon Port: the biggest sea port of the country.
- More than 3,000 foreign representative offices from 60 countries and territories are located in the city.

Booming local market

Vietnam, especially HCMC, has enormous market potential to make an investment lucrative.

- The population is young and growing, with over 50 per cent under the age of 35. They are increasingly perceptive and trendy due to 21st century communication and are susceptible to foreign influence.
- Both disposable income and expenditure are growing.
- A mall culture is now prevalent. Shopping is about pleasure and no longer just to satisfy basic needs.
- Vietnamese spending patterns are ripe for foreign prospects.
- Consumers are quality conscious. They want the newest and the latest, but they are not brand-loyal yet. Thus, there are a lot of opportunities to build brands and businesses.

Labour and education

The Vietnamese people are:

- Educated, skilled and have high communication skills.
- Willing to learn and work hard.
- Disciplined with strong work ethics.
- Open-minded.

- About 30 per cent of all Vietnamese holding postgraduate degrees are living in the city.
- High scores at international contests (Music, Mathematics, Informatics, Robotics)

Human resource development program:

- Modernisation and development of general education.
- Modernisation and development of vocational training.
- Modernisation and development of higher education.
- On-the-job training program for young business managers.
- 500 young Ph.D. and Master Programmes students in the period of 2005 – 2010.
- Programs for identifying, cultivating and supporting sports, culture and the arts.

Education

- Education is highly valued in the Vietnamese society, and has resulted in a 94 per cent literacy rate. About 30 per cent of the public are proficient in English. Even then, education continues to increase in quality and quantity.
- More than 80 universities & colleges, vocational schools with over 400,000 students, including numerous business schools and programs. Courses in business management and marketing are also very prevalent.
- English language schools can be found throughout the city. It is common to see business employees going for night classes.

- Education abroad is also popular, with an increasing amount of students studying in Australia, US, England, Canada and Singapore every year.

A learning and pro-reform city government

- Annual meetings with foreign business associations in HCMC.
- Investment and Trade Promotion Center (ITPC) and Department of Planning & Investment are designated to support foreign investors.
- The city's public administration is ISO 9000 certified.
- E-government: business registration on line; Dialog On-line: 24 government authorities responsible for answering any enquiries from businesses within five working days; customs clearance online.

Hanoi

According to Vietnam's 1 April 2009 general census, Hanoi, which covers a total area of 3,324 square kilometres, is home to 6.4 million people. It is made up of a town, ten districts and 18 suburban districts. It is Vietnam's biggest and second most populous city. Hanoi is currently among the 17 largest capital cities worldwide.

In 2007, the city's GDP per capital income reached VND31.8 million, much higher than the whole country's average of just VND13.4 million. It is one of the most attractive destinations for FDI in Vietnam, attracting 290 projects worth US\$1.68 billion that year.

The city is home to 1,600 representative offices, 14 industrial parks and 16,000 industrial production bases. Besides state-owned companies, private firms also play an important part in the city's economic development.

In 2003, with nearly 300,000 labourers, the private sector accounted for about 77 per cent of the local industrial production value. In addition, 15,500 industrial production bases created 500,000 jobs. Private enterprises made up 22 per cent of the city's total investment, 20 per cent of its GDP, 22 per cent of the state budget and 10 per cent of export revenue.

The census also showed that the whole city has 2.6 million urban residents, equivalent to 41.2 per cent of its total population and 3.82 million rural residents.

After being expanded, Hanoi now has more than six million people, including 3.2 million which are of working age.

However, the city is still in need of qualified labourers. Many graduates need retraining, while the labour quality and structure cannot meet the city's economic structure.

Hanoi also faces many other difficulties. The competitiveness of many products and services, as well as its ability to attract investment, remains low. The city's economic transition process is still slow, particularly industry and service sectors and key products. Quality economic planning remains limited.

Transportation

Located in the heart of Vietnam's northern region, transport conditions from Hanoi to other Vietnamese localities are quite favourable by way of air, road, waterway and railway.

In addition to Noi Bai International Airport, which is some 35 km from the heart of the city, Hanoi is also the transport centre of five domestic railways and one to Beijing, China, and many European countries.

The stations of Gia Lam, Luong Yen, Nuoc Ngam, My Dinh and the southern ones are the place to serve inter-province coaches running along National Highway 1A from the north to the south, National Highway 5A to Haiphong and Quang Ninh, and National Highway 6 to Hoa Binh, Son La and Lai Chau.

Hanoi also has many important ports like Pha Den for ships to Hung Yen, Nam Dinh, Thai Binh and Viet Tri and Ham Tu Quan to serve ships to Pha Lai.

However, in the inner city, the streets of Hanoi are often crowded. The urban infrastructure system there is in bad condition. The city residents' awareness of traffic rules remains limited.

In recent years, only about five to ten kilometres of road are added in Hanoi yearly. Even then, many of these roads are flawed in design. Even though the city has focused on developing the bus network in recent years, most residents still prefer to travel by personal vehicles, especially motorcycles.

Q2. What are some of the likely costs companies will incur when setting up in Vietnam?

There are several costs which companies planning to set up in Vietnam can expect to incur. They are:

- The administration fees

There are some administrative expenses incurred when companies apply to set up and register a business at the state authorities. These include fees to obtain the appropriate licenses, permits or certificates.

Normally, the Government's charges in relation to the enterprise establishment are the fixed payments set by the relevant authorities which may include:

- + License / certificate issuance fee;
- + Fee for making the RO's seal: VND420,000
- + Fee for putting an advertisement on the newspaper: VND210,000
- + Notarized Vietnamese translation fees for the required licensing documents: approximately VND110,000/page (if the investor arranges the notarized Vietnamese translation of the requested documents at notary offices in Vietnam).

(With the exchange rate of 6 April 2010 is approximately VND19,000/USD)

- The cost is incurred for using professional legal and tax services:

Normally, to save time and ensure all relevant administrative documents are in order, most foreign investors engage legal and tax consultants to provide licensing services to help them set up in Vietnam.

Upon receipt of the investment certificate, foreign investors would then usually engage a professional accounting firm to provide professional services such as

tax, legal advisory services, accounting and other outsourcing services. The cost of these professional services fees will vary.

- Other expenses:

Apart from the above mentioned costs, below are other relevant operational costs that a foreign enterprise should to be aware of:

1. Labour Costs

1.1. Entry-level salaries for selected job positions

	Position	US\$/month
1	Workers (General Industry)	69.8 – 125.6
2	Engineers (Mid-level engineers)	88.3 – 208.5
3	Mid-level managers	335.5 – 736.1
4	Legal minimum wage	70/month
5	Bonus payments (fixed bonuses + variable bonuses)	Basic wage x 1 - 3 months
6	Social security burden ratio (①Employer,②Employee)	① 17% (social insurance: 15%, health insurance: 2%, unemployment insurance 1%) ② 6% (social insurance: 5%, health insurance: 1%, unemployment

		insurance: 1%)
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1.2. Overtime Regulations

Overtime working payment is compared to basic salary rate

1	Overtime on weekdays	150%
2	Overtime on weekend	200%
3	Overtime on holidays	300%
4	Working time (night shift) from 10pm to 6am or from 09pm to 5am	130%

2. Telecommunication Expenses

		US\$	Remarks
1	Telephone installation fee	33.87-45.16	
2	Telephone charge ①Monthly basic charge ②Call charge per min.	①1.68 ② 0.002 - 0.007	②Up to 200 min. a month: US\$0.007, from 201 to 1,000 min.: US\$0.005, 1,001 min. or more: US\$0.002
3	International call charge (per min.)	①1.21-1.44	①Mon. – Sat.: 7:00 - 23:00

		②0.85-1.0	②Otherwise
4	Mobile phone subscription fee	7.45	
5	Mobile phone charge ①Monthly basic charge ②Call charge per min.	①4.10 ②0.075	120 dong for the first 6 sec. then 20 dong per sec.
6	Internet connection fee ①Initial installation fee ②Monthly basic charge	①149.04 ②186.30	Maximum speed download 3072kbps, upload 640kbps Including 10% VAT

3. Transportation Costs

		US\$	Remarks
1	Container transport (40 feet container) ①Export to Japan: Nearest port → Yokohama Port ②Export to U.S.: Nearest port → Los Angeles Port	①853.5 ②3,027	Nearest port: Saigon Port
2	Taxi fare (per km)	0.74	
3	Regular gasoline price (1 liter)	0.81	US\$0.03 traffic tax included

4	Diesel oil price (1 liter)	0.64	US\$0.03 traffic tax included
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4. Public Utilities Cost

		US\$	Remarks
1	Electricity rate for business use ①Manufacturing industry ②Service industry	Rate per kWh ①0.049-0.056 ②0.088-0.098	
2	Electricity rate for general use ①Monthly basic charge ②Rate per kWh	①N/A ②0.034 – 0.011	
3	Water rate for business use ①Manufacturing industry ②Service industry	Rate per cu. m ①0.28 ②0.47	
4	Water rate for general use ①Monthly basic charge ②Rate per cu. m	①N/A ②0.17 – 0.47	

5	Gas rate for business use	1.18/kg	
6	Gas rate for general use	1.31/kg	

5. Land and Office Space Rental

		US\$	Remarks
1	Industrial estate rents (monthly) (per sq. m)	0.24	Hiep Phuoc Industrial Park: US\$105/40 years
2	Office rent (monthly) (per sq. m) ① Level A ② Level B ③ Level C	① 45 - 75 ② 35 - 40 ③ 15 - 20	10% tax, maintenance fee included
3	Housing rent for foreigners (monthly)	2,600	Sky Garden Serviced apartment with furniture, 2LDK, 96 sq. m, swimming pool, tennis court, tax and other expenses included

About the author:

Le Quang Phi is a Partner, Tax & Business Advisory of Mazars STT Vietnam. Phi has over 13 years of professional advisory and accounting experience, including nine years working experience with BIG 4 accounting firms in Vietnam.

Phi specialises in wide range of areas including advisory, consultancy on all tax laws, regulatory frameworks for foreign investment market entry in Vietnam, enterprise accounting related issues.

Phi serves clients including multinational corporations, foreign invested enterprises, foreign banks and large local companies.

Phi is a member of ACCA (the Association of Chartered Certified Accountant – UK) and a member of Vietnam Tax Consultants' Association (VTCA). Phi is also a lecturer of the Taxation Paper of ACCA (UK) in Vietnam.