

Franchising in Vietnam

FRANCHISING IN VIETNAM

Vietnam, a country which is going through big changes

Vietnam has begun a process of economic liberalisation and integration in world trade.

This country remains the third most populous country in Southeast Asia after Indochina and Philippines with an estimated population of over 85,262,000 people. It is bordered by the South China Sea, shares borders with China to the north and Cambodia and Laos to the west. The Khin (Viêt) ethnic represents 85% of the population. The Chinese ethnic is the largest minority. The literacy rate is 90.4% with an urbanisation rate of about 25.8%.

With a GDP estimated at 71 billion U.S dollars, the growth rate reached 8.4% in 2007, after a period of uninterrupted growth of around 7% per year during the past six years. Foreign investment continues to be very high and is increasing : \$ 10.2 billion in 2006 to an estimate of 29.7 billion in 2007.

If the Communist Party, the single party, still dominates the national political life, Vietnam has passed through two key stages of its opening to a market economy : the adoption of the New Commercial Law and its admission in January 2007 as a member of the World Organisation Trade (WTO) in 2005.

The main interest on the new legislation lies in creating a common system for foreign and Vietnamese companies.

Extensive efforts have been made by the Vietnamese regime to fill the uncertainties of the Vietnamese legal framework and give a decisive impetus to economic development.

The economy of Vietnam and the distribution sector

The distribution industry remained an area closed to foreign investment.

Today, Vietnam has committed to allow foreign commercial implantation in the area of brokerage services, wholesaling and retailing.

As from January 1st, 2008, there is no longer limitation to the parts of foreign partners in joint ventures between foreign and Vietnamese companies. In 2009, companies 100% owned by foreign investors may be created.

Some important retailers are already present in Vietnam such as the Big C Group bought in 1999 by the Casino French Group. Since its setting-up in Vietnam, Casino has already invested over 150 million dollars in 3 joint ventures with the Vietnamese part.

Other brands have begun a gradual implantation in the country such as the German bulk-buying Tradesign "Metro Cash and Carry" currently operating 8 points of sale in Vietnam and Kentucky Fried Chicken since 1994.

The entry into force of New Commercial Law on January 1st, 2006 and many changes in the Vietnamese law on intellectual property has radically changed the situation to carry out the establishment of foreign brands in Vietnam.

New Commercial Law offers new perspectives for the Franchise

If the franchise is still a new concept in Vietnam, franchise networking has multiplied during the past two years. Today, there are nearly 65 different franchises. Estimates suggest that the franchise industry will be fully

developed by 2012.

The new law makes provision of prior information of the coming franchisee such as the French Disclosure Information Document. The franchisor must communicate this document 15 days before signing the contract. The contract must be translated into Vietnamese and must be registered in the administration agency in charge, prior to the signature of the agreement.

Except for the latter conditions, the rule is freedom of contract. The parties are allowed to freely set the terms of the contract relating to the royalties, fees or termination clauses. The partners are free to choose the law of contract.

By introducing these new legal rules, Vietnam, while favouring the foreign investment influx in the coming years, is meeting the necessary and suitable conditions to the development of future franchise networks on its territory.

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