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## Analysis of the advantages and obstacles of Vietnamese business in Russia

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### Abstract

Globalization in the modern world is expressed in the strong economic interaction between different countries. This trend clearly reveals in the manifestation of Russian-Vietnamese cooperation in several spheres at the present stage of its development. Due to the fact that one of the most important factors, tightening bilateral relationship between Vietnam and Russia is contribution of Vietnamese businessmen and enterprisers in Russia, this article demonstrates the formation of Vietnamese business in Russia and shows its evolution in the Russian market. This paper also studies the interaction of Vietnamese business communities, analyzes favorable conditions in the business environment of Russia and points out difficulties and restrictions on businessmen’s activity there.

*Keywords: analysis, advantages, obstacles, Vietnamese, businessmen, Russia*

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### 1. Introduction

Relationship between Russia and Vietnam had started early when first Vietnamese students set foot on the Russian land to learn the way for national liberation in 1930-s. However, active cooperation between these two countries formally started in early 1950-s after the Union of Soviet Socialist Republics established an embassy in the North of Vietnam. During the time of Resistance War against America, Vietnam tended to develop stronger ties to the communist world. In 1978, Vietnam joined the Council for Mutual Economic Assistance (COMECON), which was an economic organization led by the Soviet Union comprising several socialist nations. Cooperating with the members of COMECON, Vietnamese students had an opportunity to go abroad to more developed communist nations in order to obtain skills and training that would benefit the Vietnamese economy upon their return. Moreover, according to some bilateral agreements, Vietnam sent its citizens to other COMECON countries to work at very low wages as a form of loan repayment that led to mass migration flows from Vietnam to socialist nations, particularly the USSR [3]. This is considered the beginning of Vietnamese community foundation in Russia, where they have achieved success in business.

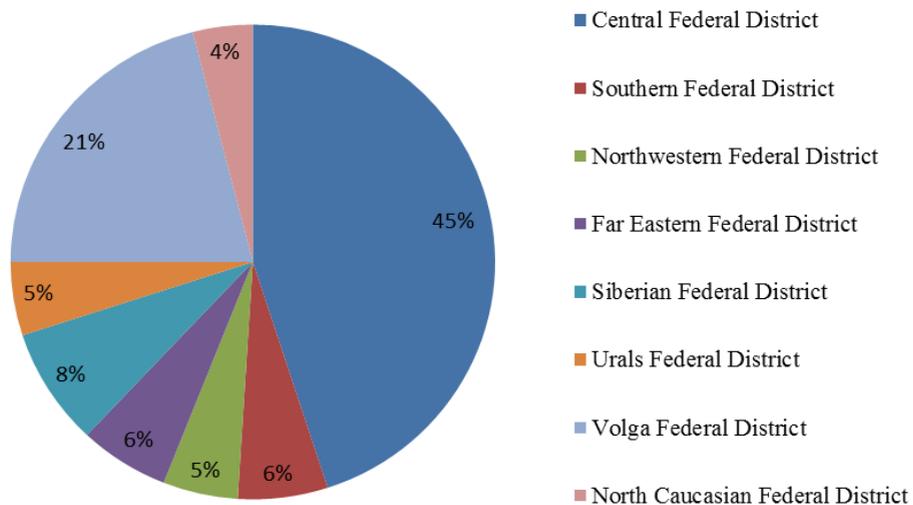
### 2. Materials and methods

Materials used for researching the topic mainly include statistical reports, journals and newspaper articles written about the Vietnamese diaspora in Russia and business relationship between Vietnam and Russia.

In this research, we have used the following methods: firstly, statistical method to analyze of statistical data of various documents; secondly, historiographical method, in order to get information about the Vietnamese community in Russia, and to get the basic knowledge of the history of its formation; thirdly, analytical method, which allowed to explain the advantages and disadvantages of the Russian business environment, which Vietnamese businessmen and entrepreneurs are encountering.

### 3. Results

According to a survey of the Immigration Department of the Russian Federation, in the period from 1981 to 1991 years, about 80,000 Vietnamese worked in about 400 enterprises on the territory of the USSR [2]. After the collapse of the Soviet Union, large numbers of Vietnamese people still continued staying in Russia because of the more favorable socio-economic situation there. The main motivation for Vietnamese immigrants to stay in Russia was the opportunity to be employed and to run business. Due to this purpose, the majority of Vietnamese prefer living in Moscow or in other crowded places, such as the Central Federal District (45%) and the Volga Federal District (21%).



**Fig.1.** The geographic settlement of Vietnamese on the territory of Russia (2010),% [8].

Running business in Russia, Vietnamese businessmen and entrepreneurs have made significant contributions to the economy of Russia by creating a diverse commodity market with imported goods from the motherland. For instance, Nguyen Dang Quang having returned from the Soviet Union to Vietnam founded the company exporting instant noodles to Russian market [10]. At present, “Lion King” and “Rollton” are considered two of the prestigious brands of Vietnamese instant noodles, which are favored by the majority of Russian consumers.

Furthermore, over the last few years, investment flows of Vietnamese businessmen have been quickly growing. In 2008 their investment amounted about 100 million USD, but in June 2012 it

increased to 776 million USD [7]. In May 2013, Vietnamese carried out 16 investment projects in the Russian Federation with a total investment capital of 1.7 billion USD [5], but only at the beginning of 2014, accumulated volume of direct Vietnamese investment into Russia was estimated 2.47 billion USD with 19 investment projects [7]. Due to the fact that the Russian Federation pursues a strategy for the development of Siberia and Far East, recently, Vietnamese enterprises have been offered an additional opportunity to invest and develop in these territories. The Russian government has pledged to pursue stimulating policy and provide incentives to investors in these regions in such sectors as textiles, footwear, seafood release, furniture and so on. Therefore, it promises that Vietnamese businessmen will be more dynamic (active) in investing to the evolution of this area.

Obviously, Vietnamese's business in Russia has been quite favourable. Their business activities have played an important role in Russian-Vietnamese trade. Their success can be explained by the presence of the following factors:

Firstly, having lived for a long time in the territory of Russia from the Soviet era to modern times, most of them are fluent in Russian and understand local customs and habits: in other words, they are already familiar with Russia, which became their second home. Consequently, it is easier for them to estimate the characteristics of the Russian market, and clearly appreciate the possibility of Russian industrial enterprises in fulfilling orders and signing contracts with Vietnam. Moreover, thanks to the popularity of Russian language in CIS, they have opportunities to enter the markets of the Russian neighbouring countries, and expand the business circle there.

Secondly, there is no competition in the export and import of goods between Vietnam and Russia, since Vietnam takes advantage in food production, especially tropical fruits: on the other hand, Russia has an advantage in machinery, metallurgical equipment, fertilizers, oil and gas. It means that in this case, Vietnamese businessmen are able to gain benefit from mutual trade between two these countries. For example, Vietnamese businessmen usually import clothes, fruits from Vietnam into Russian market for wholesale and retail. Demand of Russian for imported goods, such as clothing, footwear, agricultural products and seafood, is high; so the ability to export products to Russia is considered fairly stable, and trade between these two countries is continuously increasing. System of stores selling light industry goods and agricultural products of Vietnam gradually occupies part of the Russian consumer market.

In addition, in Russia Vietnamese community is quite dense, so its demand for Vietnamese goods in the Russian market is rather large. Vietnamese cuisine is very different from Russian, that is why it is very difficult and uncomfortable for the Vietnamese to live without products from the motherland, such as rice, spices, fish sauce, and so on. This leads to an increase in the import to Russia and the production of "ethnic issues". What is more, a lot of people open restaurants, in which they serve only Vietnamese cuisine. It is an important mark down, that it gives Vietnamese exporters the opportunity to have a permanent niche in this segment. Additionally, Vietnamese retailers often work on large flea markets, which seem to be a Vietnamese community's special feature in Russia. So these flea markets are called as "Vietnamese markets".

Thirdly, although the Vietnamese arrived in Russia from different cities of Vietnam, they are very well organized. Some associations were set up to allow the Vietnamese government to impose its influence, and give assistance on the citizens living far from homeland. One of the effective Vietnamese organizations in Russia playing a significant role in business development of Vietnamese is the Association of Vietnamese businessmen, whose purpose is to unify all Vietnamese businessmen and entrepreneurs, and to protect their rights and interests. In particular, thank to existence of this organization, the Vietnamese received a lot of assistance in business activities. For instance, the Association of Vietnamese businessmen usually holds a variety of

economic conferences and business forums to share and exchange experience in business and production.

One of the most important factors contributing to the success of Vietnamese businessmen is assumed timely support from the two governments. October 19, 2015, according to Russian government's initiative, multifunctional complex "Hanoi-Moscow" was created in Moscow [6]. This is the first project in Russia with absolute participation of the Vietnamese capital, which embodies the cultural and economic cooperation between these countries. Currently, there are several famous Vietnamese companies such as retail chain "Magnit", the center of martial arts, beauty salon, fitness center and spa-complex "VietSpa", restaurant "Viet Soul", etc. At the inauguration ceremony of the multifunctional complex "Hanoi-Moscow", CEO of INCENTRA Le Truong Son said: "The multifunctional complex "Hanoi-Moscow" opens a new period in the history of economic and cultural cooperation between Russia and Vietnam. Of course, it will demonstrate the diversity of Vietnamese goods and the best traditions of Asian hospitality, which Muscovites will be able to meet without leaving Moscow" [6]. Thus, the governments of Russia and Vietnam facilitate for Vietnamese businessmen to stabilize and grow their business in Russia. On the other hand, Vietnamese businessmen in Russia are regarded as a bridge connecting Vietnam and Russia, as an important factor boosting bilateral trade between these two countries.

However, many challenges for Vietnamese to run business in this diverse and notoriously tricky economy still remain. Primarily, extreme weather in Russia, language barriers and cultural differences between these two countries is a major obstacle for Vietnamese entrepreneurs and businessmen, who have just started their business in recent years. Besides, Vietnamese goods have lower competitive ability than goods from others countries, in particular, tropical products from China. So it is not easy for Vietnamese businessmen to take part in such a fiercely competitive marketplace.

Moreover, the legalization of business activities in Russia is quite complicated. According to a report by the World Bank and International Finance Corporation (IFC), it takes an average of nine procedures and over 23 days to start a business in Russia. What's more, it costs on average 2.3% of income per capita, with Surgut found to be the hardest place to start a business and St Petersburg ranked the easiest [1].

In addition, economy of Russia has great potential. However, it is not stable, and contains the danger of crises and inflation. One of the most typical examples of the impact of crisis on Vietnamese business activities is economic and political crises since 2014, which led to shrink quantity of Vietnamese businessmen in Russia. In September 2014, the World Bank lowered baseline forecast of economic growth in Russia from 1.1% expected in March to 0.5%. It is the level of stagnation[4]. As a result, in 2012, according to ROSSTAT, there were 62 961 Vietnamese in Russia, but in late 2014 early 2015, they numbered about 12 thousand people [9]. It can be explained by the following reasons: firstly, Vietnamese businessmen basically import "ethnic goods" from their homeland, using dollar in transactions. Besides, they have to save money and send it to their families and relatives in Vietnam, also transferring through USD. Therefore, after USA and European countries imposed sanctions on Russia, the business of Vietnamese people was damaged by the devaluation of the ruble and strengthening the dollar.

#### **4. Conclusion**

In conclusion, nowadays Vietnam is entering a new strategic period, increasingly integrating into international life. So more and more Vietnamese go abroad to look for new opportunities to upgrade their career. One of the most popular destinations for them is the Russian Federation, due to the existence of potential and advantages for business development there. However, many problems and obstacles still exist in the business environment of Russia. So it really needs the

support from the government of Russia and Vietnam, in order to grow and expand business activities of Vietnamese people in Russia.

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