Vietnam: Market Profile

1. Overview

Vietnam's shift from a centrally planned economy to a market economy has transformed it into a lower-middle-income country. Vietnam’s economy continues to show fundamental strength, supported by robust domestic demand and export-oriented manufacturing. Vietnam is now one of the most dynamic and fastest-growing emerging markets globally. In 2018, a continued stellar expansion in manufacturing output, propelled by buoyant export demand for electronics and supported by robust FDI inflows,
primarily fuelled solid growth. 2018's robust growth is expected to spill over into 2019 and 2020, thanks to healthy private consumption supported by strong private credit growth and rising incomes. The industrial sector also continues to expand at a stellar pace, supported by strong FDI inflows. Vietnam's 2011-2020 Socio-Economic Development Strategy – a 10-year strategy – highlights the need for structural reforms, environmental sustainability, social equity and macroeconomic stability. The Socio-Economic Development Plan for 2016-2020, approved in April 2016, looks to accelerate reforms.

Sources: World Bank, Fitch Solutions

2. Major Economic/Political Events and Upcoming Elections

September 2016
India announced half a billion dollars' worth of credit for Vietnam for defence spending.

July 2018
Doosan Heavy Industries & Construction started the construction of a 1.33GW thermal power project in Vietnam. The project, known as Nghi Son 2, involves construction of two 665MW thermal power generation plants in Thanh Hóa. Construction is scheduled to be completed by July 2022.

August 2018
Thai firm Siam Cement Group Public Company Limited has signed loan agreements, worth more than USD3.2 billion, with 6 financial institutions for the Long Son Petrochemicals complex in Vietnam. The project, which would require an investment of around USD5.4 billion and would be located in Bà Ria-Vung Tàu Province. Commercial operations are expected to begin in 2023.

October 2018
The Communist Party of Vietnam agreed to nominate General Secretary, Nguyen Phu Trong as president. This took place almost two weeks after the death of former president Tran Dai Quang on September 21, 2018.

December 2018
Construction was scheduled to start on Hà Noi’s mega smart city in Vietnam in December, subject to timely approvals and land availability. The 2.72sq km Nhat Tân-Noi Bãi project was estimated to cost USD4.2 billion and works are scheduled to be completed in 2030.

January 2019
In 2018, the Vietnamese government passed several new and amended laws which would come into effect in 2019. The laws primarily focus on wages, environmental projects, the food industry, rural development, cybersecurity and administrative procedures.

Sources: BBC country profile - Timeline, Fitch Solutions

3. Major Economic Indicators
4. External Trade

4.1 Merchandise Trade

Sources: IMF, World Bank, Fitch Solutions
Date last reviewed: July 10, 2019
4.2 Trade in Services

e = estimate
Source: WTO
Date last reviewed: July 10, 2019

5. Trade Policies

- Vietnam joined the World Trade Organization (WTO) in January 11, 2007, following more than a decade-long negotiation process. WTO membership has provided Vietnam an anchor to the global market and reinforced the domestic economic reform process.
- Vietnam is a member of the Association of South East Asian Nations (ASEAN) and a signatory to the ASEAN Free Trade Agreement (FTA), which aims to reduce tariff and
non-tariff barriers to trade between member states. ASEAN has also negotiated FTAs with Australia, New Zealand, China, India, South Korea and Japan.

- Vietnam shares the top spot in South East Asia with Singapore for having the most number of bilateral and multilateral FTAs, being a signatory to 16 of them. As Vietnam continues to live up to its commitments to further reduce import tariffs, this will lead to deeper economic integration with the world, boost foreign investments, and enhance productivity.

- Some reductions in import tariffs have already come into effect since January 2018 (such as 0% import tariff for car, motorbike, vehicle components under the ASEAN FTA) and there are further commitments to progressively reduce tariffs to 0% by 2022 for a range of other commodities. For instance, under the Vietnam – South Korea FTA, a range of commodities with import tax rates ranging from 10-20% will also see a gradual reduction to 0% by 2022.

- Import duty rates are classified into three categories: Ordinary rates, preferential rates, and special preferential rates. Preferential rates are applicable to imported goods from countries that have most-favoured-nation status with Vietnam. The MFN rates are in accordance with Vietnam’s WTO commitments and are applicable to goods imported from other member countries of the WTO. Special preferential rates are applicable to imported goods from countries that have a special preferential trade agreement with Vietnam.

- Vietnam has concluded three important agreements in recent quarters: The ASEAN-Hong Kong FTA, the European Union (EU) FTA, and the Comprehensive and Progressive Trans-Pacific Partnership (CPTPP). In addition, Vietnam is negotiating other agreements, including the Regional Comprehensive Economic Partnership (RCEP), the FTAs with the European Free Trade Association (EFTA) (Iceland, Liechtenstein, Norway and Switzerland), and with Israel.

- Import duty exemptions are provided for encouraged projects and goods imported in certain circumstances.

- Export duties are charged only on a few items, mainly certain natural resources and these rates range from 0% to 40%.

- Vietnam has reserved the right of importation to state trading entities in the following product categories: Cigars and cigarettes, crude oil, newspapers, journals and periodicals, and recorded media for sound or pictures (with certain exclusions).

- Vietnam also prohibits importation of equipment and technologies which are more than 10 years old. However, there are exceptions in some special cases.

- Vietnam currently prohibits the importation of certain products, including weaponry, ammunition, explosive materials, military technical equipment, firecrackers, second-hand consumer goods, types of publications, and cultural products in the category prohibited from dissemination and circulation in Vietnam, right-hand-drive cars, materials and transport facilities, chemicals, plan protection agents prohibited from use in Vietnam, scrap and waste, refrigerating equipment using C.F.C., products, raw material containing asbestos of the group of amphibole, chemicals on the list of prohibited chemicals.

- Foreign investors are exempt from import duties on goods imported for their own use which cannot be procured locally, including: Machinery, vehicles, components and spare parts for machinery and equipment, raw materials, inputs for manufacturing, and construction materials that cannot be produced domestically.

- Valued added tax (VAT) of 10% applies to goods and services that are not specifically included in the list of goods and services subject to the 0% or 5% rates or the list of goods exempt from VAT. The 5% rate applies to the supply of essential goods and services (water supply, agricultural goods, medical goods and teaching aids).
• VAT refunds are now allowed for imported goods that are then exported (this was previously disallowed). In addition, the scope of items not subject to VAT was amended to include exported products being primarily processed from natural resources and mined minerals. Both these changes are effective from February 1, 2018.

Sources: WTO – Trade Policy Review, Fitch Solutions, National Sources

6. Trade Agreements

6.1 Trade Updates

• In March 2018, Vietnam and South Korea signed an agreement aimed at boosting their bilateral trade to USD100 billion by 2020.
• On October 17, 2018, the European Commission submitted an FTA with Vietnam for approval, the first comprehensive open market deal between the EU and a developing Asian country. Following years of negotiations, the EU-Vietnam FTA has been put in jeopardy following escalating tensions between palm oil exporting nations and Brussels with exporters of palm oil expressing displeasure at the EU’s decision to curb the use of palm oil in the region – a key export commodity for a number of ASEAN states. The trade deal would boost market access and eliminate 99% of all tariffs, although some staged over a time period and some limited by quotas.

6.2 Multinational Trade Agreements

Active

1. Vietnam has been a member of WTO (effective date: January 11, 2007).
2. ASEAN FTA (effective date: January 1993): The FTA reduces tariff and non-tariff barriers between member states. The 10 members of the ASEAN FTA are: Brunei, Indonesia, Malaysia, Philippines, Singapore, Vietnam, Laos, Myanmar, Indonesia and Cambodia. Vietnam benefits from increased regional integration and tariff liberalisation that includes the elimination of import duties in various sectors and classes of goods. These factors will help reduce input costs for businesses and will increase the country’s exporting capacity and industrial base in the long term. Being a member of ASEAN also opens the economy to other significant trade agreements with key regional markets.
3. ASEAN-China (effective date: January 2005 for goods and July 2007 for services): This is a comprehensive economic cooperation between ASEAN member states and China. The goal of the agreement is not just eliminating tariffs, it also seeks to address behind-the-border barriers that impede the flow of goods and services. Trade relations between Vietnam and China benefit from trade preference in terms of tariff exemption or reduction. China is an important market for Vietnam; as it is a key trade partner and an important source of investment.
4. ASEAN-South Korea FTA (AKFTA): The ASEAN and South Korea consolidated their partnership by signing the Framework Agreement on Comprehensive Economic Cooperation at the 9th ASEAN-South Korea Summit on December 13, 2005, which, among others, provides for the establishment of the AKFTA. Under this framework, three major agreements on trade in goods, trade in services and investment were subsequently signed on August 24, 2006, November 20, 2007 and June 2, 2009 respectively. The agreement provides for progressive reduction and elimination of
tariffs by each country on almost all products. Vietnam benefits from trade preference in terms of tariff exemption or reduction under this agreement. South Korea is a key trade partner, and removal of tariffs benefits both exporters and importers.

5. ASEAN-India FTA (AIFTA): The ASEAN-India Trade in Goods Agreement (TIG) was signed at the 7th ASEAN Economic Ministers (AEM) – India Consultations on August 13, 2009. The agreement entered into force on January 1, 2010 for India and some ASEAN member states. The ASEAN-India Trade in Services and Investment Agreements were signed in November 2014. Vietnam benefits from trade preference in terms of tariff exemption or reduction under the AIFTA, which is a trade bloc agreement between India and ASEAN; this will help Vietnam in terms of trade growth and diversification given the size and performance of the Indian economy and other ASEAN member states.

6. The CPTPP: The agreement – comprising Australia, Brunei, Canada, Chile, Japan, Malaysia, Mexico, New Zealand, Peru, Singapore and Vietnam – is in effect. The agreement was ratified in Q418, with the deal representing 13.4% of global GDP, making it the third-largest trade agreement after the United States-Mexico-Canada Agreement and the EU. The agreement aims to cut tariffs, improve access to markets and set common ground on labour and environmental standards and intellectual property protections.

7. ASEAN-Japan FTA (AJFTA): The framework for Comprehensive Economic Partnership between ASEAN and Japan was signed by leaders at the ASEAN-Japan Summit on October 8, 2003 and was aimed at establishing a Comprehensive Economic Partnership agreement between ASEAN and Japan. The agreement on Comprehensive Economic Partnership among member states of the Association of Southeast Asian Nations (AJCEP) and Japan was concluded in November 2007 and signing was completed by April 14, 2008. The AJCEP is comprehensive in scope, with chapters on trade in goods; sanitary and phytosanitary measures; standards, technical regulations and conformity assessment procedures; investment; services; and economic cooperation. The agreement aims at liberalising and facilitating trade in goods between ASEAN and Japan and promoting cooperation in fields such as Information and Communications Technology, Intellectual Property, and SMEs development. The parties will also continue to discuss and negotiate improvements to the chapters on Trade in Services and Investment. Trade relations between Vietnam and Japan benefit from trade preference in terms of tariff exemption or reduction under the AJFTA. Japan provides a large market for exports, with tariff-free trade therefore benefiting the manufacturing sector in particular. The agreement is partly superseded by the CPTPP.

8. The ASEAN-Australia-New Zealand FTA (AANZFTA): The AANZFTA signed on February 27, 2009 is ASEAN's first FTA with two developed countries simultaneously, and the first ASEAN FTA done in a single undertaking. AANZFTA represents ASEAN's most ambitious FTA to date, covering 18 chapters including new areas that ASEAN had previously never negotiated on, such as competition policy and intellectual property. The AANZFTA also includes an AANZFTA Economic Cooperation Support Programme, which will provide technical assistance and capacity building to the Parties of the AANZFTA with the aim of supporting the implementation of the agreement as well as to support the overall regional economic integration process. As of 2012, the agreement has entered into force for all parties and work is currently underway to resolve and implement the built-in agenda as stipulated under the agreement. The agreement aims to eliminate tariffs on 99% of exports to key ASEAN markets by 2020. The agreement is partly superseded by the CPTPP.

9. Chile-Vietnam FTA (effective date: March 2012): As part of the FTA, 73% of Chilean
exports will be granted tariff-free access to Vietnam, while the remaining products will benefit from the FTA in terms ranging from 3 to 15 years. Only 4% of products will be on exception lists. 75% of Vietnamese exports will be granted tariff-free access to Chile and the rest of the products will benefit from tax relief in a period ranging from 6 to 11 years. The agreement is partly superseded by the CPTPP.

10. **Japan-Vietnam Economic Partnership Agreement (effective date: October 2009):** The agreement boosts cooperation between the two countries in many areas such as: Goods, services, investment, business climate improvement, human resource transfer, technical transfer, etc. Under this agreement, 92% of goods exchanged between the two countries will enjoy tax exemption and reduction within 10 years from the date of validity of the agreement. Vietnam's agricultural, garment, and aquatic products will gain tax exemptions when entering the Japanese market, and Japanese industrial products, including car components and electronic products, will gain tax exemptions or see a decrease to the corresponding import taxes. The agreement is partly superseded by the CPTPP.

11. **Vietnam-Eurasian Economic Union (EAEU) FTA (effective date: October 2016):** commits Vietnam to open the market for about 90% of total tariff lines within a 10-year tariff reduction schedule. Tariffs will be eliminated from the entry into force (EIF) of the FTA for products in the priority list of the EAEU (which consists of Russia, Armenia, Belarus, Kazakhstan and Kyrgyzstan), including agricultural commodities such as beef, dairy products and wheat flour. Tariffs will be eliminated within three to five years after EIF on processed meat and fish, electrical machinery and machinery used in agriculture. Five years after EIF, tariffs will be eliminated on pork and chicken. 10 years after EIF, tariffs will be eliminated on alcoholic beverages and cars. Tariff elimination will not be earlier than 2027 for petroleum, and not longer than 10 years for iron and steel. EAEU will eliminate the tariff rate for approximately 90% of all tariff lines. Groups of products for which the import tariff will be eliminated are agricultural, forestry and fishery products of Vietnam (majority of fishery items, certain kinds of fresh and processed vegetable and fruits, processed meat and fish, cereals and rice (with a tariff quota of 10,000 tonnes). Also included will be some industrial goods that Vietnam has an advantage in exporting, such as textile (in quota) and raw textile materials, footwear (especially athletic shoes), machinery, electronic components, some pharmaceutical products, iron and steel, rubber products, and wood and furniture.

12. **ASEAN-Hong Kong FTA (AHKFTA):** Hong Kong and ASEAN commenced negotiations of an FTA and an Investment Agreement in July 2014. After 10 rounds of negotiations, Hong Kong and ASEAN announced the conclusion of the negotiations in September 2017 and forged the agreements on November 12, 2017. The agreements are comprehensive in scope, encompassing trade in goods, trade in services, investment, economic and technical co-operation, dispute settlement mechanism and other related areas. The agreements will bring legal certainty, better market access and fair and equitable treatment in trade and investment, thus creating new business opportunities and further enhancing trade and investment flows between Hong Kong and ASEAN. The agreements will also extend Hong Kong’s FTA and Investment Agreement network to cover all major economies in South East Asia. Hong Kong is a key export market and the reduction of tariffs will ease the trading process; Hong Kong’s potential as a key export market increases the importance of AHKFTA.

**Signed**

1. EU-Vietnam FTA: The EU and Vietnam have finished negotiating a trade agreement
and an investment protection agreement and the agreement now awaits ratification. Once in force, the agreement will provide opportunities to increase trade and support jobs and growth on both sides, through eliminating 99% of all tariffs, reducing regulatory barriers and overlapping red tape, ensuring protection of geographical indications, opening up services and public procurement markets and making sure that the agreed rules are enforceable.

Under Negotiation

1. Vietnam-Israel: Vietnam and Israel are negotiating an FTA. Israel is one of Vietnam's important partners in the Middle East, with two-way trade reaching USD2.3 billion in 2015. Prospects for co-operation have been seen in fields such as investment, finance, services, science, technology and labour.

2. Vietnam-EFTA: Vietnam and EFTA (consisting of Iceland, Liechtenstein, Norway and Switzerland) are negotiating an FTA. EFTA's leading exports to Vietnam included fish, pharmaceutical products, and machinery and mechanical appliances, while electrical machinery, footwear and precious stones and metals were leading imports.

3. RCEP: There are also ongoing negotiations about the RCEP, which is a regional economic agreement being negotiated between the ASEAN governments and their 6 FTA partners: Australia, China, India, Japan, New Zealand and South Korea. This totals to a population of over 3 billion people that contributes around a third of the world's GDP. The RCEP is envisioned to be a modern, comprehensive, high-quality and mutually beneficial economic partnership agreement that aims to advance economic cooperation, and broaden and deepen integration in the region which builds upon existing economic linkages. The RCEP would lower tariffs and other barriers to the trade of goods among the 16 countries that are in, or have, existing trade deals with the ASEAN.

7. Investment Policy

7.1 Foreign Direct Investment

Source: UNCTAD
Date last reviewed: July 31, 2019

7.2 Foreign Direct Investment Policy

1. The Ministry of Planning and Investment (MPI) oversees an Investment Promotion Department to facilitate all foreign investments, and most of the provinces and cities also have investment promotion agencies. The agencies provide information, explain
regulations, and offer support to investors when requested.

2. Foreign and domestic private entities can establish and own a business except in prohibited business lines, such as illicit drugs, wildlife trafficking and 243 conditional sectors. Foreign investors must negotiate on a case-by-case basis with the government on market access to sectors that are not explicitly open through a trade or investment agreement. The government occasionally issues investment licenses with time limits to specifically targeted investors.

3. Vietnam has made steady progress in improving its business environment. This can be seen by its higher scores in the World Economic Forum's Competitiveness Index, where it improved by five places to 55th (out of 137) in the 2017-18 edition, and in the 2019 World Bank's Ease of Doing Business Index, where it ranks 69th among 190 economies. The Vietnamese government has also invested heavily in power and transport infrastructure to meet rapidly rising demand from the burgeoning manufacturing sector, resulting in a positive feedback loop.

4. Foreign owners are permitted to acquire full ownership of local companies except when mentioned otherwise in Vietnam's international and bilateral commitments.

5. There is a 25% cap on foreign investment in local banks from one foreign entity, and a 30% cap on overall foreign investment in local banks. The government can waive these caps on a case-by-case basis.

6. In June 2018, the government passed a new Competition Law, replacing the 2004 version of the law. The new law which focuses on competition restraining agreements, market dominance, economic concentration and unfair practices will be in effect from July 1, 2019. The new law has expanded its scope and now includes both Vietnamese and foreign companies and individuals in case their actions have or potentially have a competition restriction impact on the domestic market. Competition restriction impact is the impact which will exclude, reduce or hinder competition in the market. The Vietnamese government will also have authority over offshore activities if there is an impact on the domestic market. The law will apply to foreign entities' part in competition-restricting agreements, economic concentration, or other unfair activities even if they do not have a subsidiary in Vietnam.

7. The government revised the anti-corruption law in November 2018, to deal with corruption in the private sector. In addition to the private sector, the revised law also includes the duties of the agencies and organisations involved in controlling corruption. The law will be in effect from July 1, 2019.

8. Vietnam permits foreign participation in the telecommunications sector, with varying equity limitations depending on the sub-sector (there are five basic and eight value added sub-sectors). Foreign ownership in private networks is permitted up to 70%, while foreign ownership in facility-based basic services (eg, public voice service where the supplier owns its transmission facilities) is generally capped at 49%.

9. There are no local, state or provincial income taxes in Vietnam.

10. Vietnam plans to remove restrictions on foreign ownership of state-owned and listed companies by the end of 2019, as Hanoi looks to open its economy further in order to sustain rapid growth. The move would broadly remove the existing foreign ownership cap of 49%, but would exclude companies operating in 'sensitive and important' sectors. The draft law is expected to be submitted to lawmakers for approval in 2019 and would take effect in January 2020. However, the limit for banks will remain at 30%, while insurance will be kept at 49%. The new law would pave the way for Vietnamese companies to be included in the MSCI Emerging Markets Index. The move is also expected to breathe new life into the privatisation of state-owned companies. Vietnam has around 1,500 public companies, including about 740 listed on the two main stock exchanges in Hanoi and Ho Chi Minh City. More than 780 public companies are listed on a second-tier market or remained
unlisted.

11. Tax incentives are granted based on regulated encouraged sectors, encouraged locations and size of the projects. The sectors that are encouraged by the Vietnamese government include education, healthcare, sport, culture, high technology, environmental protection, scientific research and technology development, infrastructural development, processing of agricultural and aquatic products, software production and renewable energy.

12. The encouraged locations include qualifying economic and high-tech zones, certain industrial zones and difficult socioeconomic areas. Large manufacturing projects with investment capital of more than VND6 trillion disbursed within three years of being licensed can also qualify for corporate income tax (CIT) incentives if:

- The minimum revenue is VND10 trillion per annum by the fourth year of operations at the latest,
- The minimum headcount is 3,000 by the fourth year of operations at the latest.

13. The preferential incentive rate applied for large manufacturing projects can be extended for a maximum additional 15 years if the project manufactures goods having 'international competitiveness' whose revenue exceeds VND20 trillion per annum within five years from the first year of revenue generation, or whose average head count exceeds 6,000.

14. Further, new investment projects engaging in manufacturing industrial products prioritised for development will be entitled to income tax incentives if the products support:

- The high technology sector;
- The garment, textile and footwear, information technology, automobiles assembly or mechanics sector and were not produced domestically as of January 1, 2015, or, if produced domestically, they meet the quality standards of the EU or equivalent.

15. Business expansion projects are now entitled to corporate income tax incentives if any of the following criteria are met:

- Additional fixed assets costing at least VND20 billion (or VND10 billion if the projects are in certain specified regions with difficult socioeconomic conditions) are invested.
- There is at least a 20% increase in the value of fixed assets compared with the period before expansion.
- There is at least a 20% increase in the designed capacity compared with the period before expansion.

16. Additional tax reductions may be available for engaging in manufacturing, construction and transportation activities that employ several female staff or ethnic minorities.

17. Business entities in Vietnam are allowed to set up a tax-deductible research and development fund. Enterprises can appropriate up to 10% of annual profits before tax to the fund. Various conditions apply.

18. Foreign investors generally pay rental fees for land use rights. The range of rates is wide depending on the location, infrastructure and the industrial sector in which the business is operating. In addition, owners of houses and apartments have to pay land tax under the law on non-agricultural land use. The tax is charged on the specific land area used, based on the prescribed price per square metre at progressive tax rates ranging from 0.03% to 0.15%.

19. Natural resources tax (NRT) is payable by industries exploiting Vietnam's natural
resources, including petroleum, minerals, natural gas, forest products, natural seafood, natural bird’s nests and natural water. Natural water used for agriculture, forestry, fisheries, salt industries and sea water for cooling purposes may be exempt from NRT, provided that certain conditions are satisfied. The tax rates vary depending on the natural resource being exploited, ranging from 1% to 40%, and are applied to the production output at a specified taxable value per unit. Various methods are available for the calculation of the taxable value of the resources, including cases where the commercial value of the resources cannot be determined. Crude oil, natural gas and coal gas are taxed at progressive tax rates depending on the daily average production output.

20. Environment protection tax is an indirect tax that is applicable to the production and importation of certain goods deemed detrimental to the environment, the most significant of which are petroleum and coal. The tax is calculated as an absolute amount on the quantity of the goods.

21. At the end of September 2018, the government announced the imposition of higher taxes on petroleum products, aimed at boosting revenue collection and environmental protection. The policy came into effect on January 1, 2019.


### 7.3 Free Trade Zones And Investment Incentives

<table>
<thead>
<tr>
<th>Free Trade Zone/Incentive Programme</th>
<th>Main Incentives Available</th>
</tr>
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<tbody>
<tr>
<td>270 industrial zones and export processing zones across the country. Vietnam is divided into three key categories of economic zones (KEZs), each of which has its own economic development plan.</td>
<td>Foreign investors are exempt from import duties on goods imported for their own use and which cannot be procured locally, including: machinery, vehicles, components and spare parts for machinery and equipment, raw materials, inputs for manufacturing, and construction materials. Remote and mountainous provinces are allowed to provide additional tax breaks and other incentives to prospective investors. In addition, projects in high tech, research and development, new materials, energy, clean energy, renewable energy, energy saving products, automobile, software, waste treatment and management, primary or vocational education; or projects located in difficult areas or economic and projects in industrial zones are entitled to investment incentives such as lower corporate income tax, exemption of import tariffs, or land rental.</td>
</tr>
</tbody>
</table>
Tax holidays/Tax reductions

Investors may be considered for tax holidays and reductions. The holidays take the form of a complete exemption from CIT for a certain period beginning immediately after the enterprise first makes profits, followed by a further period where tax is charged at 50% of the applicable rate. However, where the enterprise has not derived profits within three years of the commencement of operations, the tax holidays/tax reduction will start from the fourth year of operation.

Criteria for eligibility to these holidays and reductions are set out in the CIT regulations as follows:

- Four years of tax exemption and nine subsequent years of 50% reduction shall be applied to:

  1. Income earned by enterprises carrying out new investment projects entitled to 10% CIT.

  2. Income earned by enterprises carrying out new investment projects in the socialised sectors and difficult socio-economic areas.

- Four years of tax exemption and 50% tax reduction for five subsequent years shall be given to income earned by enterprises carrying out new investment projects in the socialised sectors and in regions not included in the list of difficult socio-economic areas.

- Two years of tax exemption and four subsequent years of 50% reduction shall be applied to:

  1. Income earned by enterprises from carrying out new investment projects in regions with difficult socio-economic conditions.

  2. Income earned by enterprises from carrying out new investment projects, including production of high-grade steel, production of energy saving products, production of machinery or equipment used to serve agricultural, forestry, fishery, or salt production, production of irrigational equipment, production and refinement of foodstuff for cattle, poultry, or aquatic products, and development of traditional trades.

  3. Income earned by enterprises that carry out new investment projects in industrial zones (except for industrial zones located in regions with favourable socio-economic conditions).

- From January 1, 2018, certain incentives, including a lower CIT rate, will be granted to SMEs.

- Business entities in Vietnam are allowed to set up a tax deductible R&D Fund. Enterprises can appropriate up to 10% of annual profits before tax to the fund. Various conditions apply.

Sources: US Department of Commerce, Fitch Solutions, National Sources

8. Taxation – 2019
8.1 Important Updates to Taxation Information

- The environmental tax on petrol was increased from VND3,000 to VND4,000 per litre as of 2019.
- In 2018, the Vietnamese Ministry of Finance released a draft tax law amending the current laws on VAT, special sales tax, corporate income tax, personal income tax, natural resources tax and customs duty. In the draft tax law, there are proposals to increase VAT rates to 11% from January 1, 2020 and 12% from January 1, 2022, while the 5% VAT rate shall be increased to 6% from January 1, 2022.

8.2 Business Taxes

<table>
<thead>
<tr>
<th>Type of Tax</th>
<th>Tax Rate and Base</th>
</tr>
</thead>
<tbody>
<tr>
<td>CIT</td>
<td>20% is the standard rate (preferential rates of 10%, 15%, and 17% are available where certain criteria are met)</td>
</tr>
<tr>
<td>The rate of CIT applicable to firms operating in the oil and gas industry</td>
<td>Ranges from 32% to 50%, depending on the location and specific project conditions</td>
</tr>
<tr>
<td>CIT for firms engaging in prospecting, exploration and exploitation of mineral resources (e.g. gold and precious stones)</td>
<td>40% or 50%, depending on the project's location</td>
</tr>
<tr>
<td>Capital Gains Tax</td>
<td>0.20%</td>
</tr>
<tr>
<td>Branch Tax</td>
<td>Same as CIT rate</td>
</tr>
<tr>
<td>VAT</td>
<td>- Standard rate: 10% on goods and services</td>
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<tr>
<td></td>
<td>- A 5% rate applies generally to essential goods and services</td>
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<tr>
<td></td>
<td>- A 0% rate applies to exported goods/services</td>
</tr>
<tr>
<td>Special Sales Tax (SST)</td>
<td>Applies to the production or import of certain goods, including cigarettes, cigars, spirits, beer, autos, assorted types of petrol, air conditioners and the provision of certain services including casinos, golf clubs and lotteries. SST rates range from 10% to 150%. Exported goods are not subject to SST.</td>
</tr>
<tr>
<td>NRT</td>
<td>Rates vary depending on the natural resource being exploited, from 1% to 40%, and are applied to the production output at a specified taxable value per unit.</td>
</tr>
</tbody>
</table>
**Payroll Tax: Social insurance**  
Capped at VND27.8 million  
As a percent of an employee’s salary:  
- 17.5% by employer  
- 8% by the employee  
- 3.5% by employee if foreign

**Payroll Tax: Health insurance**  
Capped at VND27.8 million  
As a percent of an employee’s salary:  
- 3.0% by employer  
- 1.5% from the employee

**Payroll Tax: Unemployment insurance**  
Capped at VND79.6 million  
As a percent of an employee’s salary:  
- 1% by employer (for Vietnamese citizens only)  
- 1% by Vietnamese employees

**Foreign Contractor Tax (Withholding Tax)**  
0.1% to 10%, depending on type of business activity

Source: Vietnam General Department of Taxation – Ministry of Finance  
Date last reviewed: July 10, 2019

9. **Foreign Worker Requirements**

9.1 **Localisation Requirements**

Generally preference for all roles is given to Vietnamese nationals. In order to qualify for work permits, foreign workers must have a degree of specialised knowledge, or experience in management and technical roles that the domestic labour force cannot fill/carry out efficiently – as deemed apt by the Department of Labour.

9.2 **Work permits for skilled workers**

All foreign nationals seeking paid employment in Vietnam must be in possession of a valid work permit – The tenure of a work permit for a foreign worker is generally two years. In the first half of 2016, the Vietnamese government issued Decree No.11 which guide a number of articles of the Labour Code on foreigners working in Vietnam. The decree proposes developments including changes to the conditions, paperwork and timeline for work permit applications and exemptions, allowing the import of skilled and unskilled labour with less red tape. Decree No.11 also extends the time frame for lodging the re-issuance of work permits from 45 days prior to the expiry date, instead of the 15 days as per previous regulations.

9.3 **Employee Contributions Structure**

Social insurance (SI) and unemployment insurance (UI) contributions are applicable to Vietnamese individuals only. Health insurance (HI) contributions are required for Vietnamese and foreign individuals that are employed under Vietnam labour contracts. Effective from January 1, 2018, SI contribution is also applicable to foreign individuals...
working in Vietnam under a work permit or practising certificate or licence.

Accordingly, from January 2018, the salary subject to SI/HI/UI contributions is the salary, certain allowances, and other regular payments according to labour law, but this is capped at 20 times the minimum salary for SI/HI contributions and 20 times the minimum regional salary for UI contributions.

Sources: Government websites, Fitch Solutions, National Sources

10. Risks

10.1 Sovereign Credit Ratings

<table>
<thead>
<tr>
<th></th>
<th>Rating (Outlook)</th>
<th>Rating Date</th>
</tr>
</thead>
<tbody>
<tr>
<td>Moody's</td>
<td>Ba3 (Stable)</td>
<td>10/08/2018</td>
</tr>
<tr>
<td>Standard &amp; Poor's</td>
<td>BB (Stable)</td>
<td>05/04/2019</td>
</tr>
<tr>
<td>Fitch Ratings</td>
<td>BB (Positive)</td>
<td>09/05/2019</td>
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Sources: Moody's, Standard & Poor's, Fitch Ratings

10.2 Competitiveness and Efficiency Indicators

<table>
<thead>
<tr>
<th></th>
<th>World Ranking</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>2017</td>
</tr>
<tr>
<td>Ease of Doing Business Index</td>
<td>82/190</td>
</tr>
<tr>
<td>Ease of Paying Taxes Index</td>
<td>167/190</td>
</tr>
<tr>
<td>Logistics Performance Index</td>
<td>N/A</td>
</tr>
<tr>
<td>Corruption Perception Index</td>
<td>107/180</td>
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<tr>
<td>IMD World Competitiveness Index</td>
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</table>

Sources: World Bank, Transparency International

10.3 Fitch Solutions Risk Indices
10.4 Fitch Solutions Summary

ECONOMIC RISK
Vietnam has recorded important achievements in socioeconomic fields and has become one of the fastest-growing economies in the world. Though the manufacturing sector continues to outperform, growth is relatively broad-based, with domestic demand, exports, foreign investment and services, mainly travel and transportation, all contributing significantly. The country is emerging as a key manufacturing hub in the region, supported by economic liberalisation efforts and integration into the global supply chain, through trade agreements and membership to regional and international blocs. While structural factors underpinning Vietnam's potential for long-term growth (including favourable demographics, proximity to Mainland China, and low cost of labour relative to the region) remain largely unchanged, there are several developments that reinforce the country’s bright outlook. Momentum in the industrial sector will likely be carried through in the first half of 2019, as seen by companies' upbeat business confidence. In addition to an increasingly open trade and investment policy environment, there has been a decisive shift in the government's focus towards policies aimed at maintaining price stability, and ongoing efforts to further address macroeconomic imbalances and fiscal deficits.

OPERATIONAL RISK
Vietnam offers businesses a number of other strategic advantages, which include a large industrial base, open trade policies, a young and increasingly well-educated working-age population, low security risks and fairly adequate logistic infrastructure. Furthermore, Vietnam could stand to benefit from increased market share in the US and other developed markets. Vietnam is constrained by a fairly weak legal risk subcomponent and a shortage of advanced skills in the local labour market.

Source: Fitch Solutions
10.5 Fitch Solutions Political and Economic Risk Indices

100 = Lowest Risk; 0 = Highest Risk

Source: Fitch Solutions Political and Economic Risk Indices

Date last reviewed: July 10, 2019

10.6 Fitch Solutions Operational Risk Index
### Vietnam vs Global and Regional Averages

<table>
<thead>
<tr>
<th></th>
<th>Operational Risk</th>
<th>Labour Market Risk</th>
<th>Trade and Investment Risk</th>
<th>Logistics Risk</th>
<th>Crime and Security Risk</th>
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<td>Vietnam Score</td>
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<td>East and South East Asia Average</td>
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<td>55.9</td>
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<td>East and South East Asia Position (out of 18)</td>
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<td>10</td>
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<td>Asia Average</td>
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<td>Asia Position (out of 35)</td>
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<td>18</td>
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<td>Global Average</td>
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<td>Global Position (out of 201)</td>
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<td>116</td>
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<td>103</td>
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100 = Lowest risk; 0 = Highest risk

Source: Fitch Solutions Operational Risk Index
### Vietnam: Market Profile

<table>
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<td>Singapore</td>
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<td>Taiwan</td>
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<td>76.2</td>
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<td>Malaysia</td>
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<td>Macao</td>
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<td>69.1</td>
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<td>Brunei</td>
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<td>Thailand</td>
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<td>51.8</td>
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<td><strong>56.6</strong></td>
<td><strong>55.6</strong></td>
<td><strong>49.0</strong></td>
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<td>Philippines</td>
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<td>Laos</td>
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<td>34.1</td>
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<td>North Korea</td>
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<td>Myanmar</td>
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<td>Regional Averages</td>
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</tr>
</tbody>
</table>

100 = Lowest Risk; 0 = Highest Risk  
Source: Fitch Solutions Operational Risk Index  
Date last reviewed: July 10, 2019
11. Hong Kong Connection

11.1 Hong Kong’s Trade with Vietnam

Note: Graph shows the main Hong Kong exports to/imports from Vietnam (by consignment)
Date last reviewed: July 10, 2019

Note: Graph shows Hong Kong exports to/imports from Vietnam (by consignment)
Exchange Rate HK$/US$, average
7.75 (2014)
7.75 (2015)
7.76 (2016)
7.79 (2017)
7.83 (2018)
Source: Hong Kong Census and Statistics Department
Date last reviewed: July 10, 2019

<table>
<thead>
<tr>
<th>Year</th>
<th>Number of Vietnamese residents visiting Hong Kong</th>
<th>Growth rate (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>2018</td>
<td>56,807</td>
<td>2.1</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Year</th>
<th>Number of Vietnamese residing in Hong Kong</th>
<th>Growth rate (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>2017</td>
<td>11,100</td>
<td>1.6</td>
</tr>
</tbody>
</table>

Sources: Hong Kong Tourism Board, United Nations Department of Economic and Social Affairs – Population Division
### 11.2 Commercial Presence in Hong Kong

<table>
<thead>
<tr>
<th></th>
<th>Number of Vietnamese companies in Hong Kong</th>
<th>2018</th>
<th>Growth rate (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td>N/A</td>
<td>N/A</td>
</tr>
<tr>
<td>- Regional headquarters</td>
<td></td>
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<td></td>
</tr>
<tr>
<td>- Regional offices</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>- Local offices</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Source: Hong Kong Census and Statistics Department

### 11.3 Treaties and Agreements between Hong Kong and Vietnam

Hong Kong has concluded Comprehensive Double Taxation Agreements with Vietnam. This agreement was signed on December 16, 2008 and entered into force on August 12, 2009.

Source: Inland Revenue Department

### 11.4 Chamber of Commerce or Related Organisations

**Hong Kong-Vietnam Chamber of Commerce**
Address: Unit 1608, 16/F, Bank of America Tower, 12 Harcourt Road, Central, Hong Kong
Email: info@hkvcc.com
Tel: (852) 3188 6306
Fax: (852) 3188 1808

Source: Hong Kong-Vietnam Chamber of Commerce

**Hong Kong Business Association Vietnam**
Email: hcmc@hkbav.org / hanoi@hkbav.org / tracy.ly@hkbav.org
Tel: (84) 28 3925 2186 (HCMC) / (84) 24 3845 2270 (Hanoi)
Website: www.hkbav.org
Please click to view more information.

Source: Federation of Hong Kong Business Associations Worldwide
Vietnam Consulate in Hong Kong
Address: 15/F, Great Smart Tower, 230 Wan Chai Road, Wan Chai, Hong Kong
Email: vnconsul.hongkong@mofa.gov.vn
Tel: (852) 2591 4517 / 2591 4510
Fax: (852) 2591 4524

Source: Hong Kong Protocol Division of Government Secretariat

11.5 Visa Requirements for Hong Kong Residents

Vietnam is currently launching a pilot e-Visa system. An e-Visa is processed within 3 working days after the Vietnam Immigration Department has received the application and full e-Visa fee. Vietnam e-Visa is for single entry and valid for a maximum of 30 days.

Source: Visa on Demand
Date last reviewed: July 11, 2019