cutting through complexity

Vietnam

High Growth Markets country profile

Vietnam is a densely populated, developing country that has been transitioning from the rigidities of a centrally-planned economy since 1986. In recent years the authorities have reaffirmed their commitment to economic modernization. Vietnam joined the World Trade Organization (WTO) in January 2007, which has promoted more competitive, export-driven industries. Real gross domestic product (GDP) growth is expected to accelerate to an annual average of 6.4 percent between 2014–2018, supported by impressive growth in exports and faster increases in investment.

Country overview

Geography and climate

- **Location:** southeastern Asia, bordering the Gulf of Thailand, Gulf of Tonkin and South China Sea, as well as China, Laos and Cambodia
- **Climate:** tropical in south; monsoonal in north with hot, rainy season (May to September) and warm, dry season (October to March)
- **Regions:** 58 provinces and 5 municipalities
- **Major cities:** Ho Chi Minh City (5.9 million); Hanoi (2.6 million); Haiphong (1.9 million); Da Nang (0.8 million) (2009)

Political system

- **Type of government:** communist state
- **Capital:** Hanoi

Population, language and religion

- **Population:** 90.4 million
- **Urban population:** 31%
- **Demographics:** 0–14 years: 24.3%; 15–64 years: 68.3%; 65 years and over: 5.6%
- **Median annual household income:** 3,069 US dollars (US$)
- **Official language:** Vietnamese
- **Prominant religions:** Buddhist, Catholic, Hoa Hao Buddhist, Caodaist, Protestant, Muslim

Currency and central banking

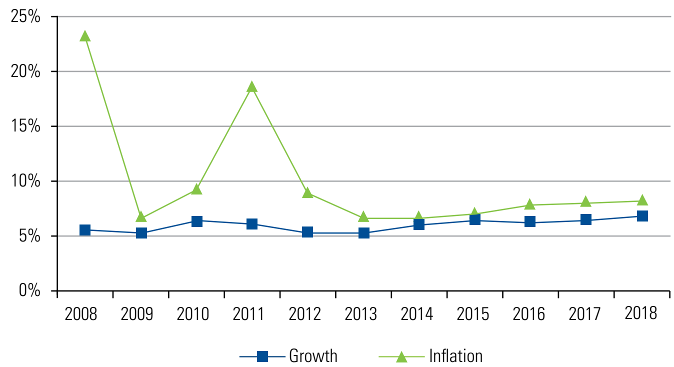
- **Local currency:** Vietnamese Dong (VND)
- **Exchange rate:** 1 VND = US$0.000047 (1 May 2014)
- **Interest rate (average annual rate):** 7.0% (2013); 9.0% (2012); 15.0% (2011); 9.0% (2010); 8.0% (2009)
- **Foreign exchange reserves:** US$32.49 billion
- **Total debt (2013):** external: US$68.38 billion; internal public debt: 48.2% of GDP (2013 estimate)

Business environment

Economic environment

- **GDP in 2013 was US$342.1 billion.** Real GDP growth is expected to accelerate to an annual average of 6.4% in the years 2014–2018, supported by impressive growth in exports and faster increases in investment. The median household income is forecast to increase to US$4,542 by 2017.
- **Foreign direct investment (FDI) (billions):** inbound: US$9.6 (2008); US$10.5 (2013); US$15.7 billion (2018 forecast); outbound: US$0.3 (2008); US$1.4 (2013); US$2.0 (2018 forecast)
- **Exports free on board (FOB) (billions):** US$114.6 (2012); US$135.4 (2013); US$283.8 (2018 forecast)
- **Imports FOB (billions):** US$104.7 (2012); US$126.5 (2013); US$283 (2018 forecast)
- **Sector breakdown:** service: 42.2%; industrial: 38.5%; agriculture: 19.3%
- **Trade balance (billions):** surplus of US$9.9 (2012); US$8.9 (2013); US$0.8 (2018 forecast)
- **Stock exchanges:** Vietnam Ho Chi Minh Stock Index/ VN-Index, HNX

GDP growth and inflation (average consumer price index (CPI))



Source: Economist Intelligence Unit, 2014

Investment climate

Key considerations

- **Fiscal and monetary policy:** The government is focused on supporting the economy, keeping inflationary pressures in check and shoring up confidence in Vietnam's currency, the dong. Economic reforms, along with WTO membership, should improve the operating environment for local and foreign investors. Although the government is keen to reform state enterprises, this is a long and difficult task. Rapid economic expansion has come at the expense of price stability, creating significant macroeconomic volatility in 2011–2012. The government is therefore easing back on its ambitious growth. Further progress has been made on reducing poverty, but tough challenges lie ahead, to achieve economic stability, improve monetary policy and strengthen the legal framework.
- **Competition policy:** Vietnam is gradually emerging from a centrally planned, socialist economy dominated by state-owned monopolies into an economy with a mix of public, private and foreign ownership. The Competition Law generally prohibits abuses of market power by companies, but does not forbid monopolistic or market-dominant entities. Nevertheless, this law is expected to be applied more forcefully in the future. Any merger has to undergo a regulatory examination. During 2014–2015, the government is attempting to reform hundreds of state-owned enterprises (SOEs), but the process may be slow and vulnerable to policy disagreements. In the period 2016–2018, more SOEs should undertake reforms and be privatized or part-privatized, while progress on ending market distortions is anticipated.
- **FDI policy:** Vietnam continues to attract large levels of foreign direct investment, despite increased competition from neighboring countries. Regulatory conditions and market access for foreign investors have steadily improved. One hundred percent foreign ownership of companies is permitted across a range of services such as law and engineering, and more sectors are set to open up, while restrictions on foreign ownership of local assets, including housing, should be liberalized. The only sectors expressly off-limits to foreign investors are projects that are: detrimental to national security, defense and public interest; detrimental to historical and cultural relics, customs and traditions of Vietnam; and prejudicial to the ecological environment. In 2014–2015, the government should further loosen restrictions on foreign investment and seek to promote investment in listed firms. It is uncertain when a unified legal system for foreign and domestic firms will be introduced. Bureaucratic red tape is likely to remain a hindrance in 2016–2018.
- **Foreign trade and exchange controls:** Vietnam has taken a number of measures to liberalize trading rights. It has abolished most quotas, bans and other quantitative import restrictions, and removed all subsidies for agricultural exports. The law allows foreign traders without a presence in Vietnam to import and export directly. The list of goods subject to export prohibition or restriction has been changed, and foreign-invested enterprises may engage in trading and/or distribution activities. Residents and non-residents can purchase, transfer and take foreign currency out of Vietnam for current transactions. 2014–2015 should see a further lowering of trade barriers and tariffs and progress made with negotiations towards a free trade agreement with the European Union (EU), which is likely to conclude successfully in 2016–2018. Negotiations for a new Trans-Pacific Partnership agreement are predicted to be ongoing in 2014–2015. In 2016–2018, trade barriers should be lowered, additional free trade agreements pursued and customs procedures streamlined, with a reduction in the regulatory burden for importers and exporters.
- **Financing policy:** The authorities plan to make some progress towards reducing bad debts in the banking sector during 2014–2015, and attempt to direct lending towards high-priority sectors. Limits on the activities of foreign banks are due to be relaxed further. Availability of financing should improve between 2016–2018, with the stock market emerging as an increasingly important source of finance.
- **Taxes:** The personal income tax system for Vietnamese and foreign residents has a top rate of 35 percent. The standard corporate tax rate for local and foreign enterprises declined from 25 percent to 22 percent from 1 January 2014, and is set to be lowered further. Certain preferential rates still apply. Gains by foreign companies on the transfer of interests in a foreign-invested or Vietnamese enterprise are subject to a 25 percent corporate income tax. The authorities plan to improve tax collection during 2014–2015, but inefficiencies will inevitably persist. The tax base should be broadened during 2016–2018. Faced with a persistently complex tax regime, the government may fail to meet some of the demands of foreign investors, particularly in relation to the foreign contractor withholding tax.

KPMG in Vietnam

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Sources: Economist Intelligence Unit, 2014; Central Intelligence Agency, 2014; Vietnam Stock Exchange, 2014

Designed by Evalueserve. Publication name: Vietnam: High Growth Markets country profile
Publication number: 130913y. Publication date: June 2014