



# ASEAN Business Guide

**Vietnam**

2018 edition



## **ASEAN Business Guide**

This country report is extracted from *ASEAN Business Guide: The economies of ASEAN and the opportunities they present*.



# VIETNAM

Vietnam offers extreme opportunities and challenges. On one hand, it is one of the fastest growing economies in ASEAN, with rising urbanization, an emerging middle class, and a young, dynamic, English-speaking labor force. On the other hand, Vietnam still ranks low for ease of doing business because of its bureaucratic regulatory environment.

Recent participation in over 40 bilateral and multilateral trade agreements has attracted a large amount of foreign direct investment (FDI) into Vietnam and it is one of the main drivers of the economy. Besides the existing framework of tax incentives, an improving record on transparency, external commitments with international trading partners have been a powerful influencer in keeping Vietnam's domestic reform programs on track.

The government is committed to pushing on with market liberalization and other reforms such as reforms to the State-Owned Enterprise (SOE) sector, government procurement, labor representation, intellectual property rights, e-commerce and the digital economy.

Apart from anything else, Vietnam recognizes that reform is essential to maintaining its economic competitiveness in the region as an attractive investment destination.

Lastly, as China's economy slows and labor becomes more expensive, Vietnam is considered the go-to-place for manufacturing, particularly in textile and electronics. It is also possible that we will see some import-substitution in Vietnam, with what might have been "Made in China" being produced in Vietnam's already booming industrial zones.

With an optimistic view of the Vietnam economy, in spite of the uncertain economic situation in 2017, we are looking forward to steady growth in investment in the upcoming 12 months.



**Warrick Cleine**

Chairman and CEO  
KPMG in Vietnam

# Vietnam

## KEY COUNTRY FACTS



The Socialist Republic of Vietnam is a Southeast Asian country with a rich history and, in recent decades, a strong track record of political, civil and commercial achievement. In 1986 the government sought to end the nation's isolation through a series of economic and political reforms, known as Doi Moi, which opened the country to the global economy.

In 2007 this was rewarded by Vietnam's accession to the World Trade Organization, followed by its participation in the ASEAN Economic Community in December 2015.

Today Vietnam has the one of the world's fastest-growing economies, proving a popular draw for both tourists and investors.



### GOVERNMENT

Socialist Republic, one party state



### POPULATION

**91.1**  
MILLION (2015)



### CURRENCY

Vietnam Dong (VND)



### LANGUAGES

Vietnamese (official), English, French, Chinese, Khmer

### RELIGIONS

Buddhism, Christianity, Cao Dai, Islam

*Source: World Economic Forum, CIA Factbook*

# GROWING ECONOMY

Vietnam has one of the fastest-growing economies in the world, weathering the global financial crisis smoothly and emerging with encouraging macroeconomic indicators in 2009 and 2010.

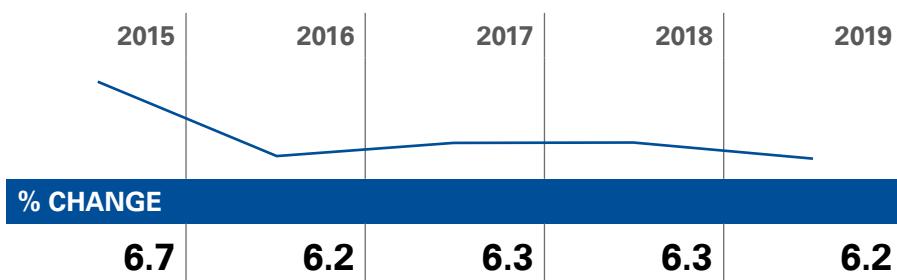
The government has continued its policy of economic openness and integration through a number of free trade agreements and relaxed domestic regulations which have led to significant year-on-year growth in foreign direct investment (FDI).

In addition to an improved regulatory environment, the country also benefits from its proximity to China, rich natural resources and a large and cost-effective workforce.

In 2016 the government cut corporate tax to 20% demonstrating its ongoing commitment to encourage growth in the private sector. Business forums and other forms of communication between government and business – unheard of a few decades ago – are now commonplace.

## Economic Performance

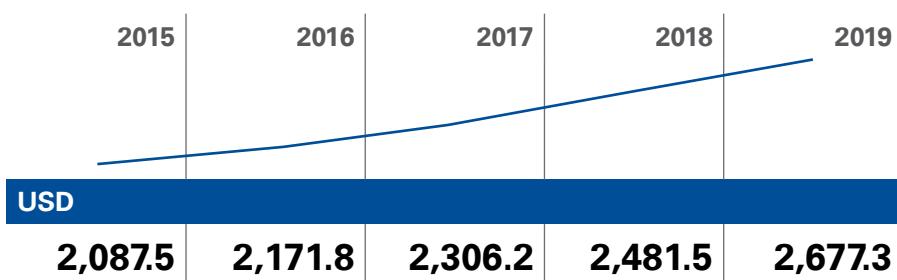
### GDP constant prices\*



\*2010 market price; percentage change after 2016 are estimates

Source: International Monetary Fund, World Economic Outlook Database, October 2017

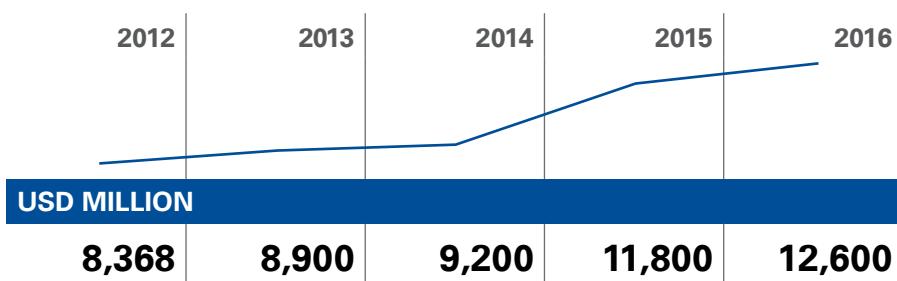
### GDP per capita, current prices (CAGR 6.42%)



Figures after 2015 are estimates

Source: International Monetary Fund, World Economic Outlook Database, October 2017

### Foreign direct investment inflows



Source: World Bank database

## Main FDI investors



South Korea  
**USD 3,637.6 mil**



Japan  
**USD 1,338.9 mil**



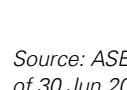
Singapore  
**USD 1,250.6 mil**



China  
**USD 969.4 mil**



Taiwan  
**USD 961.7 mil**



Source: ASEAN Secretariat - FDI Database as of 30 Jun 2017

# THRIVING ECONOMY

Vietnam's growth was slowed but not stopped by the financial crisis, falling from an average of 7.3% between 2005 and 2008 to 5.3% in 2009. The country bounced back strongly with growth reaching 6% in 2014 and 6.8% in 2016. Growth remains coupled to inflows of foreign investment and exports, but rising domestic consumption is helping rebalance the economy.

## Political stability



- Vietnam, as a single-party state, enjoys political stability that supports investment decisions. The World Bank gave the country an average political stability index of 0.15 for the period 2010-2014.

## Regulatory environment



- Policy has been focused on further economic liberalization. During preparations for World Trade Organization (WTO) membership, Vietnam revamped much of its legal system, in particular the Labor Code and Land, Competition, Enterprise, Investment and Tax Laws, in order to foster a more transparent investment environment.
- Further entry into the global economy since then – in particular a desire to attract multinational corporations into the market – has led to continuous improvement of the legal framework to meet international standards.
- Recent changes to the property and stock markets allow foreigners to purchase land, houses and apartments, and to hold up to 100% of listed companies in most industries. Although some restrictions remain, the new laws provide a more welcoming environment for both foreign and domestic investors.
- A particular policy focus is strengthening the banking sector, with progress made on restructuring non-performing loans, transparency in reporting, and consolidation of lenders towards international standards.

## Rankings

<sup>+</sup> All rankings are global unless otherwise indicated

Source: *Doing Business 2018*, The World Bank; *Global Competitiveness Index 2017 - 2018*, World Economic Forum; *Global Innovation Index 2017*, Cornell University, INSEAD and WIPO; *Corruption Perceptions Index 2016*, Transparency International

Index	Ranking <sup>+</sup>
Ease of Doing Business	68
Intellectual Property Protection	99
Transparency of Government Policymaking	82
Corruption Perceptions Index	113
Global Competitiveness Index	55
Global Innovation Index	47

## Young well-educated workforce



- The country's young, well-educated workforce provides a competitive advantage. The workforce continues to grow, increasing by 1.7% in 2015, as more young people enter the labor market. Although the education system produces a high level of literacy, additional training of workers may be required for particularly sophisticated requirements.

## Attractive tax environment<sup>1</sup>



- Income tax:
  - Resident tax rates are progressive and up to 35%
  - Non-residents are taxed at a flat rate of 20%
- Corporate tax: 20%
  - Certain sectors of the oil and gas industry are subject to higher taxes
- Value added tax: 10%
- Investment incentives:
  - Corporate income tax (CIT)
    - Preferential CIT rate for a definite period or for the entire duration of the investment project
    - Exemption from CIT and reduction of CIT for a definite period (see table below)

Investment projects engaging in socialised businesses and located in areas with difficult or especially difficult socio-economic conditions	Tax rate of 10% for the whole project life Exemption: 4 years Reduction: 9 years
Investment projects engaging in socialised businesses and located in areas with normal socio-economic conditions	Tax rate of 10% for the whole project life Exemption: 4 years Reduction: 5 years
- Investment projects in economic zones, high-tech zones and especially difficult locations - Investment projects in large-scale manufacturing; - Investment projects engaged in manufacturing or processing agricultural products in areas with difficult socio-economic conditions; - Investment projects engaged in manufacturing supporting industry products of prioritised development	Tax rate of 10% for 15 years Exemption: 4 years Reduction: 9 years
Investment projects of manufacturing or processing agricultural products located in areas with normal socio-economic conditions	Tax rate of 15% for the whole life
- Investment projects located in areas with normal socio-economic conditions - Investment projects in steel industry, energy, machinery for agriculture	Tax rate of 20% (17% from 2016) for 10 years Exemption: 2 years Reduction: 4 years
Investment projects located in industrial zones/ export processing zones (except for those in with favorable socio economy conditions)	Exemption: 2 years Reduction: 4 years No preferential tax rate is given

- Exemption from import duty in respect of goods imported to form fixed assets, raw materials and components for implementation of an investment project
- Exemption or reduction of land rental and land use tax

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## Trade agreements



- Vietnam has ten free trade agreements (FTA) in force

### Bilateral FTAs

Agreements signed between Vietnam and a single trading partner



#### Vietnam-Japan Economic Partnership Agreement<sup>2</sup>

- Exemption from import tariff for over 94.5% of Vietnam's export revenues and over 87.6% of Japan's export revenues within the next 10 years
- At least 86% of agro-forestry-aquatic products and 97% of Vietnamese industrial products exported to Japan will benefit from preferential tariff rates
- Aquatic, farm products, apparel, steel, chemicals, electronic appliances will benefit most from this commitment to trade liberalization.



#### Vietnam-Chile Free Trade Agreement<sup>3</sup>

- Vietnam to eliminate 87.8% of tariff rate for Chile for 15 years
- Chile to eliminate tariffs for goods accounting for 99.2% of export value of Vietnam for 10 years from 2007

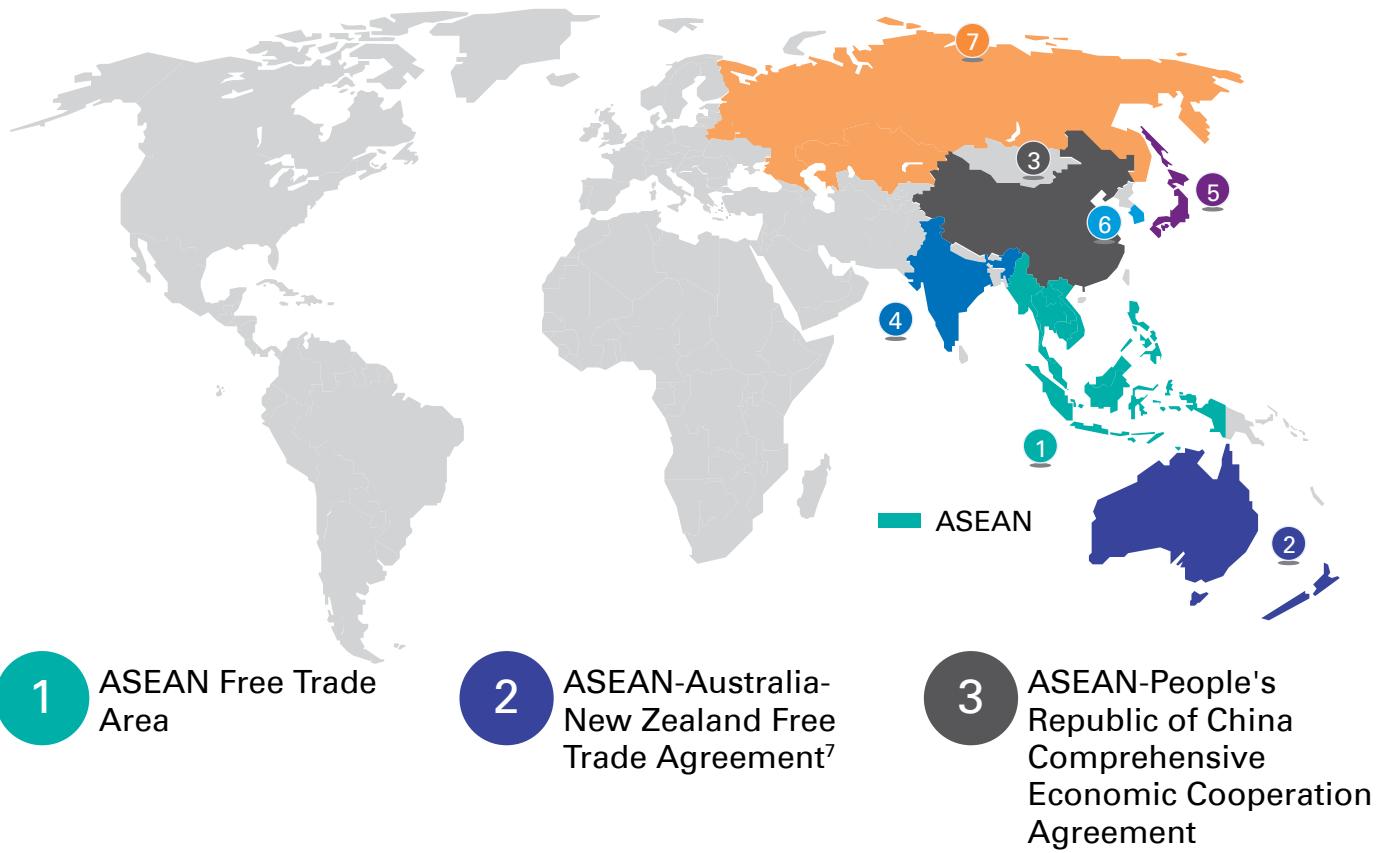


#### Vietnam-Korea Free Trade Agreement<sup>4</sup>

- Tariff elimination of 95.4% and 89.7% for all tariff lines by Korea and Vietnam, respectively
- Concessions for selected categories of Korean industrial products including garment materials and accessories, plastic materials, electronic accessories, car-parts, electrical home appliances, steel products and cables
- Opportunity for Vietnam's important exports such as agro-products, fish, tropical fruits, industrial products, mechanical instruments

## Regional FTAs<sup>6</sup>

Agreements signed between Vietnam and a group of trading partners



### 1 ASEAN Free Trade Area

- Elimination of tariffs on more than 99% of products
- Allows for back-to-back shipment of goods between member countries
- Allows for third-party invoicing of goods
- Allows for ASEAN cumulation

### 2 ASEAN-Australia-New Zealand Free Trade Agreement<sup>7</sup>

- Elimination of tariffs on more than 90% of the products with the exception of exclusions
- Allows for back-to-back shipment of goods between member countries
- Allows for third-party invoicing of goods
- Allows for ASEAN cumulation

### 3 ASEAN-People's Republic of China Comprehensive Economic Cooperation Agreement

- Elimination of tariffs on at least 90% of the products
- Allows for back-to-back shipment of goods between member countries
- Allows for third-party invoicing of goods
- Allows for ASEAN cumulation

### 4 ASEAN-India Comprehensive Economic Cooperation Agreement

- Elimination of tariffs on at least 80% of product lines with the exception of exclusions
- Allows for back-to-back shipment of goods between member countries
- Allows for third-party invoicing of goods
- Allows for ASEAN cumulation

### 5 ASEAN-Japan Comprehensive Economic Partnership

- Elimination of tariffs on at least 90% of product lines with the exception of exclusions
- Allows for back-to-back shipment of goods between member countries
- Allows for third-party invoicing of goods
- Allows for ASEAN cumulation

### 6 ASEAN-(Republic of) Korea Comprehensive Economic Cooperation Agreement

- Elimination of tariffs on at least 90% of product lines with the exception of exclusions
- Allows for back-to-back shipment of goods between member countries
- Allows for third-party invoicing of goods
- Allows for ASEAN cumulation

## Vietnam-Eurasian Economic Union Free Trade Agreement<sup>5</sup>

- Reduction and/or elimination of customs duties on 87% of goods originating in the other party



### Concluded / signed FTAs<sup>8</sup>

- Comprehensive and Progressive Agreement for Trans-Pacific Partnership
- ASEAN - Hong Kong, China Free Trade Agreement



### FTAs under negotiation<sup>9</sup>

- Regional Comprehensive Economic Partnership
- Vietnam - European Free Trade Association Free Trade Agreement
- Vietnam - European Union Free Trade Agreement
- Vietnam - Israel Free Trade Agreement

## Endnotes

<sup>1</sup> Ease of doing business in Vietnam, The World Bank. Retrieved from: <http://www.doingbusiness.org/data/exploreeconomies/vietnam#paying-taxes>; Investment & Trade Promotion Centre of Ho Chi Minh City, Vietnam. Retrieved from [http://www.itpc.gov.vn/investors/how\\_to\\_invest/Tax/index\\_html/mldocument\\_view/?set\\_language=en](http://www.itpc.gov.vn/investors/how_to_invest/Tax/index_html/mldocument_view/?set_language=en); Investing in Vietnam 2017; KPMG. Retrieved from: <https://home.kpmg.com/content/dam/kpmg/vn/pdf/publication/2017/Investing-in-VN-2017.pdf>

<sup>2</sup> Vietnam Trade Promotion Agency. Retrieved from [http://www.vietrade.gov.vn/en/index.php?option=com\\_content&view=article&id=1034:overview-of-vietnam-japan-relationship&catid=20:su-kien-xuc-tien-thuong-mai&Itemid=64](http://www.vietrade.gov.vn/en/index.php?option=com_content&view=article&id=1034:overview-of-vietnam-japan-relationship&catid=20:su-kien-xuc-tien-thuong-mai&Itemid=64); Vietnam-Japan trade expected to surge in 2017, Retrieved from <http://english.vietnamnet.vn/fms/business/171577/vietnam-japan-trade-expected-to-surge-in-2017.html>

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<sup>4</sup> WTO. Retrieved from <http://wtocenter.vn/fta/negotiations/vietnam-korea>

<sup>5</sup> WTO. Retrieved from <http://wtocenter.vn/other-agreement/russia-completes-ratification-eaeu-vietnam-fta>

<sup>6</sup> Vietnam Trade Promotion Agency. Retrieved from <http://en.vietrade.gov.vn>; 10 free trade agreements - necessary review for incentives, KPMG Vietnam; ASEAN Free Trade Agreements, ASEAN Secretariat. Retrieved from [http://www.jterc.or.jp/koku/koku\\_semina/pdf/130306\\_presentation01.pdf](http://www.jterc.or.jp/koku/koku_semina/pdf/130306_presentation01.pdf)

<sup>7</sup> AANZFTA. Retrieved from <http://aanzfta.asean.org/index.php?page=about-aanzfta>

<sup>8</sup> Free Trade Agreements, Asia Regional Integration Center. Retrieved from <http://aric.adb.org/fta-country>; The Signing of The ASEAN-Hongkong, China Free Trade Agreement and ASEAN-Hongkong, China Investment Agreement, ASEAN. Retrieved from: <http://asean.org/the-signing-of-the-asean-hongkong-china-free-trade-agreement-and-asean-hongkong-china-investment-agreement/>

<sup>9</sup> ibid

# Contact Us



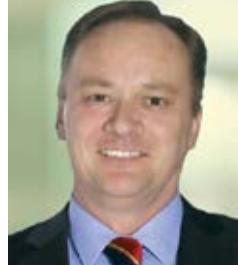
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# KPMG HAS A PRESENCE IN EVERY ASEAN NATION

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**25**  
Offices

**over 8,000**  
Staff

**more than 300**  
Partners



**BRUNEI**  
1 office



**CAMBODIA**  
1 office



**INDONESIA**  
1 office



**LAOS**  
1 office



**MALAYSIA**  
9 offices



**MYANMAR**  
1 office



**PHILIPPINES**  
5 offices



**SINGAPORE**  
1 office



**THAILAND**  
1 office



**VIETNAM**  
4 offices

# KPMG SERVICES

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## Audit

- Fundamental to a risk-based audit approach is understanding the way our clients run their businesses and drive performance.
- KPMG focuses on the areas which are critical to our clients in delivering their strategies and meeting goals.
- KPMG's extensive experience and proprietary tools have enabled us to provide seamless services to clients across industry sectors and geographical boundaries.

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## Tax

- Against a backdrop of increasing complexity in the business and tax landscapes, clients will need to weigh its tax options against many factors, such as tax ramifications against the financials, increased information sharing between tax authorities, evolving regulations, global competitions and new economies.
- Through two main service lines: tax consulting and tax planning and compliance, KPMG's tax practice consistently provides proactive advice and quality service. Our tax consulting service lines cover mergers & acquisitions & government incentives, global transfer pricing services, global indirect tax services, financial services tax and international tax. Our multi-national clients enjoy this single point of contact in Asia Pacific for all regional tax issues.
- In addition, our tax planning & compliance services include global mobility services, global immigration services network, global compliance management services, dispute resolution & controversy, tax management consulting and property tax / stamp duty advisory. With KPMG's vast network, clients' business commitments and tax needs will be best served by KPMG member firms in the region.

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## Advisory

- KPMG's Advisory team works with a range of clients, helping them meet challenges associated with growth, performance and governance.
- Our professionals can cover both operational and transactional activities.
- Our Advisory practice assembles skilled and experienced professionals in multi-disciplinary groups tailored to the needs of individual clients and their unique circumstances.
- In our clients' interests, we also draw on the capabilities and knowledge resources of KPMG's global network.
- We offer our clients a single point of contact to help streamline the relationship and enhance its productivity and usefulness to them.
- We understand and respect clients' needs and aspirations. Clients can draw from a range of management and risk consulting services covering a broad spectrum of business activity.

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### **Contributors to the research, analysis, and development of this paper:**

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## NOTES



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