4 Vietnam

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I. Introduction

The Socialist Republic of Vietnam, with the motto "Independence – Liberty – Happiness", is a country in Southeast Asia. As of July, 2020, Vietnam's demography was estimated approximately 98,721,275, ranked the 16th most populous country in the world.[13] Vietnam is a multi-ethnic country with over fifty-four distinct groups, each with its own language, lifestyle, and cultural heritage. The largest ethnic group is Kinh (Viet), accounted for 86.2%, and 13.8% is remaining minorities. The country's capital is Hanoi city, well-known for its architecture and a rich culture with Southeast Asian, Chinese and French impact. Meanwhile, the major commercial hub and also the largest city is Ho Chi Minh, which was formerly named Saigon. Vietnamese currency is Dong (VND). As of July 2020, one US dollar is equivalent to 23.060 VND.[14]

Viet Nam has a long and proud history dating back more than 2,000 years (the first mention of Viet referring to the people in the Red River delta). Given its fertile river deltas, lush highlands and long coastline, agriculture and trade with surrounding Asia and the world have been at the center of economic activity since antiquity. Similarly, culture and administration have developed from the long interplay between foreign concepts and local traditions. Following centuries of both peaceful and violent evolution across the region, a unified and independent kingdom named Viet Nam, stretching from the Red River delta in the North to the Mekong River delta in the South, was forged for the first time in the early 19th century.

Modern and unified Viet Nam emerged in 1975 as the Socialist Republic of Viet Nam, following Viet Nam's declaration of independence in 1945 and the ensuing wars driven by external interference and internal divisions. The Communist Party of Viet Nam initially structured the country along the Soviet model of organization of the state and the economy. However, the initial pursuit of central planning and self-reliance as principles of economic management quickly proved untenable. Confronted with increasingly widespread scarcity, poverty and eventually hyperinflation, the country's leadership chose pragmatism over ideology and in 1986 initiated the Doi Moi reforms, introducing the market as the organizing principle of the economy.

Today's system is referred to as a law-ruled socialist market economy. The 2013 Constitution designated the state to play the leading role, providing favorable environments for the private sector on the basis of respecting market rules. The political and administrative organization remains socialist with the Communist Party of Viet Nam as the supreme institution.

In more than 30 years of the Doi Moi reform, Vietnam has moved from being one of the poorest nations in the world to a lower middle-income country with a number of convincing achievements. GDP in 2019 achieved impressive results with the growth rate of 7.02%, exceeding the 6.6-6.8% target set by the National Assembly. The economic structure of Viet Nam continued to shift positively as follows:

- The agriculture, forestry and fishing sector: 13.96%
- The industry and construction sector: 34.49%
- The services sector: 41.64%
- The taxes less subsidies on products: 9.91%

In the industry and construction sector, the manufacturing continued to be the main contributor to the economic growth. The services sector increased by 7.3%, of which the growth rate of market service activities reached 7.8%; a number of large-shared activities in the economy's total added value were the wholesale and retail trade; the financial, banking and insurance activities; the transportation and storage. In general, the trade and service activities continued to develop stably and grow fairly. The supply of goods on the market was plentiful, meeting fully and timely production and consumption needs. The

[13] www.cia.gov; The World Factbook
[14] www.vietcombank.com.vn

retail sales of goods and services increased significantly by 12.2% over the previous year, the highest growth rate in the period 2016-2019.[15]

I.1 Geography

Located in Southeast Asia on the east side of Indochina Peninsula, and bordered by Laos and Cambodia to the west, China to the north, the Gulf of Thailand to the south, the Gulf of Tonkin and the South China Sea to the east, Vietnam is shaped in a stretch and narrow "S", with an area of 331,210 square kilometers, which is about three times the size of Tennessee and slightly larger than New Mexico.[16] The country has a coastal line of 3,260 kilometers and its total length, from the northernmost point to the southernmost point, is 1,650 km. Most of the country is hilly or mountainous, with flat land representing only about 20 percent.

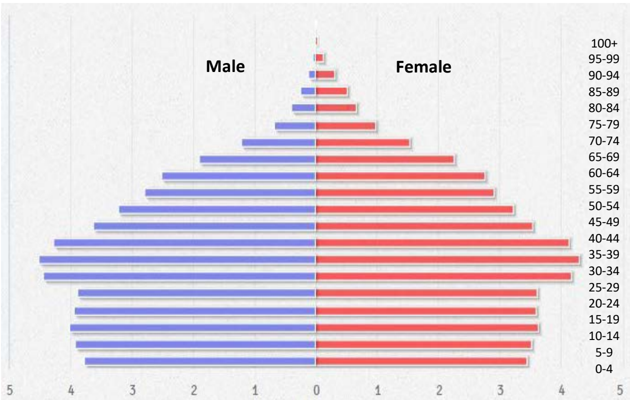
Stretching from the North to the South, Viet Nam's topography varies dramatically with emerald-green mountains, fertile deltas, tropical rainforests inhabited by many rare and precious species of fauna and flora, sinuous rivers, mysterious caves, surreal-looking rock formations, heavenly waterfalls and pristine white-sandy beaches. Viet Nam is fortunate to have very productive rice growing areas, with the Mekong Delta being particularly fertile and productive. The Red River Delta in the north covers an enormous area surrounding Hanoi, and while not as productive as the Mekong Delta area, produces vast quantities of rice. Most areas of lowland Viet Nam feature rice cultivation as well as numerous other crops and animals.

Hanoi, the capital of Vietnam, is located in the north of the country and Ho Chi Minh City, the largest city in terms of population and economic activity, is situated in the south. Other major cities include Hai Phong, Da Nang and Can Tho.

I.2 Population

Vietnam is experiencing rapid demographic and social change. Its population reached 96.5 million in 2019 (up from about 60 million in 1986) and is expected to expand to 120 million by 2050. But the population is rapidly aging. And Vietnam's emerging middle class, currently accounting for 13% of the population, is expected to reach 26% by 2026.

Figure 1: Vietnam Population Pyramid in 2020 (in millions)



Source: Theodora (www.theodora.com).

Between 2010 and 2020, the Human Capital Index (HCI) for Vietnam increases from 0.66 to 0.69. A Vietnamese child born today will be 69% as productive when she grows up as she could be if she enjoyed complete education and full health. Vietnam's HCI is the highest among middle-income countries, but there are some disparities within the country, especially for ethnic minorities. There is also a need to upgrade the skills of the workforce to create productive jobs at a large scale in the future.

[15] Statistical Handbook of Vietnam 2019
[16] Jeffrey Hays, 2008, "Land, geography, weather and climate of Vietnam"; http://factsanddetails.com/southeast-asia/Vietnam/sub5_9h/entry-3488.html

Health outcomes have improved in tandem with rising living standards. From 1993 to 2017, the infant mortality rate decreased from 32.6 to 16.7 (per 1,000 live births). Between 1990 and 2016, life expectancy increased from 70.5 to 76.3 years, and is the highest in the region for countries at a similar income level. Vietnam's universal health coverage index is at 73, which is higher than regional and global averages—with 87of the population covered. However, the high and widening sex ratio at birth (115 in 2018) shows that fundamental gender discrimination persists. At the same time, Vietnam is one of the most rapidly aging countries and the 65+ age group is expected to increase 2.5 times by 2050.[17]

I.3 History

The conquest of Vietnam by France began in 1858 and was completed by 1884. It became part of French Indochina in 1887. Vietnam declared independence after World War II, but France continued to rule until its 1954 defeat by communist forces under Ho Chi Minh. Under the Geneva Accords of 1954, Vietnam was divided into the communist North and anti-communist South. US economic and military aid to South Vietnam grew through the 1960s in an attempt to bolster the government, but US armed forces were withdrawn following a cease-fire agreement in 1973. Two years later, North Vietnamese forces overran the South reuniting the country under communist rule. Despite the return of peace, for over a decade the country experienced little economic growth because of conservative leadership policies, the persecution and mass exodus of individuals - many of them successful South Vietnamese merchants - and growing international isolation. However, since the enactment of Vietnam's "Doi Moi" (renovation) policy in 1986, Vietnamese authorities have committed to increased economic liberalization and enacted structural reforms needed to modernize the economy and to produce more competitive, export-driven industries. The communist leaders maintain tight control on political expression but have demonstrated some modest steps toward better protection of human rights. The country continues to experience small-scale protests, the vast majority connected to either land-use issues, calls for increased political space, or the lack of equitable mechanisms for resolving disputes. The small-scale protests in the urban areas are often organized by human rights activists, but many occur in rural areas and involve various ethnic minorities such as the Montagnards of the Central Highlands, Hmong in the Northwest Highlands, and the Khmer Krom in the southern delta region.[18]

I.4 Climate and resources

Viet Nam is located in both a tropical and a temperate zone. It is characterized by strong monsoon influences, but has a considerable amount of sun, a high rate of rainfall, and high humidity. Regions located near the tropics and in the mountainous regions are endowed with a temperate climate. Vietnam's climate can be divided into three different zones - North Vietnam, Central Vietnam and South Vietnam. The climate in North Vietnam is a humid and subtropical climate, while South Vietnam enjoys a tropical climate all year round, with the central region lying somewhere in-between. As Vietnam is a long, narrow country, climatic conditions vary considerably with temperatures ranging between 20°C and 35°C. Due to higher altitudes, it's generally coolest in the mountains - sometimes even freezing in the winter. In Hanoi and Ho Chi Minh City, the climate can be fairly hot and humid.

Viet Nam's potentially has extensive crude oil reserves in the southern offshore area of the East Sea and the Pacific Ocean. It has potential non-associated gas reserves of more than 360 billion cubic meters and proven associated gas reserves are in the order of 57 billion cubic meters. Viet Nam's primary coal resource, anthracite, is concentrated in Quang Ninh Province in the Northeast. It has potential recoverable reserves of 7-8 billion tons of which 600 million tons are shallow (within a depth of 100 meters). The country also has an abundance of other minerals, including bauxite, iron ore, copper, gold, precious stones, tin, chromate, apatite, and building materials such as granite, marble, clay, silica sand, and graphite. Viet Nam is also very rich in other natural resources including significant hydropower (10,000 MW), marine resources, tropical forest, and agricultural potential.

I.5. Culture, religion, language and food

[17] The World Bank in Vietnam. https://www.worldbank.org/en/country/vietnam
[18] www.cia.gov; The World Factbook

The diversity of Viet Nam's origins is evident throughout its culture. Spiritual life is a mixture of belief systems, including Confucianism, Taoism, Buddhism, Christianity, and Tam Giao (literally “triple religion”), which is a blend of Taoism, popular Chinese beliefs, and ancient Vietnamese animism. In modern Viet Nam, Mahayana Buddhism has the largest following.

The most important festival of the year is Tet, a week-long event in late January or early February that heralds the new lunar year and the advent of spring. Celebration consists of both raucous festivity (fireworks, drums, gongs) and quiet meditation. In addition to Tet, there are about twenty other traditional and religious festivals each year.

Vietnamese architecture expresses a natural balance and harmony that is evident in any of the country's vast numbers of historic temples and monasteries. The pre-eminent architectural form is the pagoda, a tower comprised of a series of stepped pyramidal structures and frequently adorned with lavish carvings and painted ornamentation. Generally speaking, the pagoda form symbolizes the human desire to bridge the gap between the constraints of earthly existence and the perfection of heavenly forces. Pagodas are found in every province of Viet Nam. One of the most treasured is the Thien Mu Pagoda in Hue, founded in 1601 and completed more than two hundred years later.

As a language, Vietnamese is exceptionally flexible and lyrical, and poetry plays a strong role in both literature and the performing arts. Folk art, which flourished before French colonization, has experienced resurgence in beautiful woodcuts, village painting, and block printing. Vietnamese lacquer art, another traditional medium, is commonly held to be the most original and sophisticated in the world. Music, dance, and puppetry, including the uniquely Vietnamese water puppetry, are also mainstays of the country's culture. Many different languages are spoken apart from Vietnamese, as most of the minority groups maintain their tradition languages.

Although rice is the foundation of the Vietnamese diet, the country's cuisine is anything but bland. Deeply influenced by the national cuisines of France, China, and Thailand, Vietnamese cooking is highly innovative and makes extensive use of fresh herbs, including lemon grass, basil, coriander, parsley, laksa leaf, lime, and chili. Soup is served at almost every meal, and snacks include spring rolls and rice pancakes. The national condiment is Nuoc mam, a piquant fermented fish sauce served with every meal. Indigenous tropical fruits include bananas, pineapples, coconuts, lychees, melons, mandarin oranges, grapes, and exotic varieties like the three-seeded cherry and dragon fruit.

I.6. Vietnam Political Institution and International Relations

I.6.1 Political Institution

The Socialist Republic of Vietnam is a single-party state. Its current state constitution, which replaced the 1975 constitution in April 1992, asserts the central role of the Communist Party of Vietnam in all organs of government, politics and society. Mainly political organizations affiliated with or endorsed by the Communist Party are legal to contest elections in Vietnam. These include the Vietnamese Fatherland Front and worker and trade unionist parties.

The President of Vietnam is the titular head of state and the nominal commander-in-chief of the military of Vietnam, serving as the Chairman of the Council of Supreme Defense and Security. The Prime Minister of Vietnam is the head of government, presiding over a council of ministers composed of five deputy prime ministers and the heads of 18 ministries and 4 commissions.

The National Assembly is Vietnam legislative body. The constitution recognizes the assembly as “the highest organ of state power”. The National Assembly has the power to draw up, adopt, and amend the constitution and to make and amend laws. It also has the responsibility to legislate and implement state plans and budgets. Through its constitution-making powers it defines its own role and the roles of the President and the government, the local people's councils and people's committees, the Supreme People's Court, and the Supreme People's Procuracy. The assembly can elect and remove government ministers, the chief justice of the Supreme People's Court, and the procurator general of the Supreme People's Procuracy.

The National Assembly, comprising 498 members elected to five-year terms, meets twice a year. Headed by a Chairman, it is superior to both the executive and judicial branches, with all government ministers being appointed from members of the National Assembly. The assembly appoints the

President (Head of State), the Prime Minister (Head of Government), the Chief Justice of the Supreme People's Court, the Head of the Supreme People's Procuracy (or "Supreme People's Office of Supervision and Inspection"), and the 21-member Government.

Political power is formally vested in The Communist Party by the country's constitution. Head of it is General Secretary. The General Secretary of the Communist Party performs numerous key administrative and executive functions, controlling the party's national organization and state appointments, as well as setting policy.

The Communist Party has significant influence over the executive and exercises control through its Central Committee. The Central Committee of the Communist Party comprises 175 full and 25 alternate members elected at the Party Congress held every five years. The Central Committee meets twice a year and acts as The Communist Party's supreme decision-making body. Members of the Communist Party hold all senior government positions.

I.6.2 International relations

From the early 1990s Viet Nam moved quickly to restore relations with the international community. 1995 was a historic year for Viet Nam, with its entry into the Association of South East Asian Nations (ASEAN), increasing integration into the global economy (especially a framework agreement with the European Union), and the establishment of formal relations with United States.

Membership of ASEAN is central to Viet Nam's economic development and international economic integration strategies. Around 30% of Viet Nam's trade is with ASEAN countries. Under the ASEAN Free Trade Area (AFTA) and the ASEAN Investment Area this co-operation is expected to continue to grow. Viet Nam is an increasingly active member of ASEAN, having hosted both the Sixth ASEAN Summit in 1998, the ASEAN Regional Forum (ARF) Post Ministerial Conference in 2001, and successfully hosted the fifth Asia Europe Meeting (ASEM) in 2004. In 1998 Viet Nam was admitted to full membership of APEC, and hosted this Summit in November 2006. Viet Nam has formally acceded to the WTO (January 2007) and currently, Vietnam has had diplomatic relation with over 183 countries and trade relation with 120 countries and territories.

Vietnam also renewed the relation with international financial institution (IFI) and multi-credit organization like World Bank (WB), International Monetary Fund (IMF), and Asian Development Bank (ADB). At present, Vietnam holds membership of 63 International Organizations and maintains relations with over 650 Non-Governmental Organizations worldwide. Through its activities, Vietnam has been playing an increasingly important role within the UN as a member of the UN Security Council, ECOSOC, UNDP, UNFPA and UPU Executive Councils, as well as in, among others, the Non-Aligned Movement, Francophone and ASEAN. Multilateral diplomacy has been a highlight in Vietnam's external activities in the renewal era. Achievements in this respect have remarkably contributed to enhancing Vietnam's international prestige.

II. Overview of Macroeconomic Activity and Fiscal Position

Vietnam's development over the past 30 years has been remarkable. Economic and political reforms under "Doi Moi", launched in 1986, have spurred rapid economic growth, transforming what was then one of the world's poorest nations into a lower middle-income country. Between 2002 and 2018, GDP per capita increased by 2.7 times, reaching over US$2,700 in 2019, and more than 45 million people were lifted out of poverty. Poverty rates declined sharply from over 70% to below 6% (US$3.2/day PPP). The vast majority of Vietnam's remaining poor – 86%– are ethnic minorities. In 2019, Vietnam's economy continued to show fundamental strength and resilience, supported by robust domestic demand and export-oriented manufacturing.

Given its deep integration with the global economy, the Vietnamese economy has been hit hard by the ongoing COVID-19 pandemic, but has shown remarkable resilience. The macro-economic and fiscal framework remains resilient with an estimated GDP growth rate of 1.8 percent in the first half of 2020, projected to reach 2.8 percent for the year. Vietnam is one of the few countries in the world not to expect a recession, though its growth rate for this year is far less than the typical 6-7 percent pre-crisis projections. However, the impact of the ongoing COVID-19 crisis is hard to predict given the uncertainty surrounding its magnitude and duration. Public financing requirements will increase as the result of lower revenue and higher spending due to the stimulus package launched to mitigate the negative effect of the pandemics on households and businesses.[19]

Table 1: Vietnam Key Economic Indicators

Vietnam Key Economic Indicators	2016	2017	2018	2019	2020 est.
Output, Employment, and Prices (percent change)					
Real GDP	6.2	6.8	7.1	7.0	6.5
Core inflation	1.8	1.4	1.5	2.0	2.1
Unempoyment rate	2.08	2.05	1.99	2.01	2.02
Consumer price index	4.7	2.6	3.0	5.2	3.8
State budget finances (in percent of GDP)					
State revenue and grants	24.0	24.5	24.5	23.4	23.3
State expenditures	27.8	29.2	28.8	27.8	27.6
Net lending (+)/borrowing (-)	-3.9	-4.7	-4.4	-4.4	-4.2
Public and publicly guaranteed debt	59.7	58.2	55.6	54.4	53.3
Trade, Investment, and External Debt (billion US$)					
Trade balance	11.0	10.8	15.8	16.0	16.5
Exports, F.O.B	176.6	215.1	244.0	273.0	307.3
Import, F.O.B	165.5	204.3	228.2	257.1	290.8
Current account balance	5.9	4.7	5.8	5.7	5.5
Foreign direct investment	12.6	14.1	15.5	16.7	17.9
Portfolio investment	0.2	1.9	3.0	3.5	4.0
Medium- and long-term loans	3.2	4.3	4.1	3.7	3.4
Gross international reserves [1/]	36.7	49.2	55.3	66.2	77.7
External debt	90.2	107.9	110.0	121.9	133.3
(in percent of GDP)	44.8	49.0	46.0	47.2	47.5
Financial Markets					
Domestic credit (trillion VND)	6,307	7,102	7,852	8,906	10,055
Effective interest rate (in percent) [2/]	4.2	4.3	4.5	4.6	4.5
Exchange rate (VND/US$)	22,371	22,709	23.175	23.230	23.179
Nominal GDP (billion US$)	201.3	220.4	241.3	260.5	282.4
Per capita GDP (US$)	2,172	2,353	2,551	2,728	2,929

Source: General Statistics Office of Vietnam; IMF; World Bank.

[1/] Excludes government deposits.

[2/] Defined as interest payments divided by debt stock (excluding guarantees) at the end of previous year.

[19] The World Bank in Vietnam. https://www.worldbank.org/en/country/vietnam

II.1 International Environment

II.1.1 Trade Balance

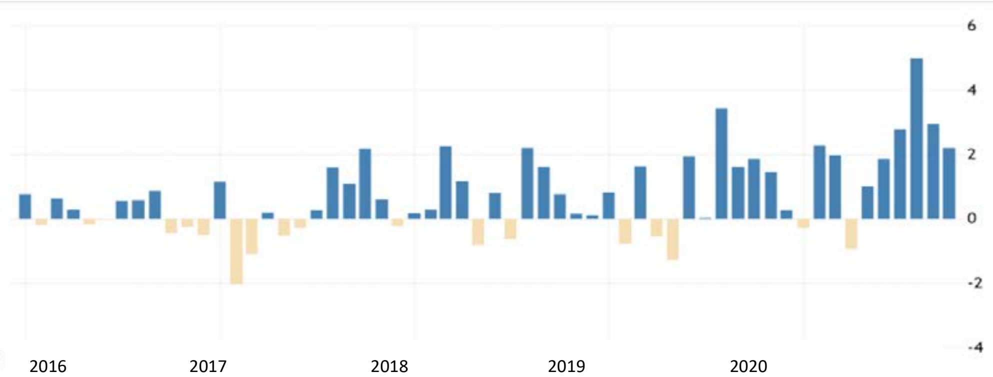
Vietnam's trade grew alongside its deepening global integration and participation into global value chains. The revolution in information and communication technologies and falling transportation and communications costs drove offshoring and unbundling of production from the developed to the developing world. As an active participant in global value chains, Vietnam benefits from jobs and knowledge created from its involvement in multinational corporation production. Today, Viet Nam's share of trade to GDP is one of the highest of any economy. The country has become a central assembly hub in several global value chains, ranging from garments to mobile phones and computers, and continues to attract large and increasing amounts of foreign direct investment. Viet Nam is also among the world's top exporters of a range of agricultural products including coffee and rice.

In 2019, the total export and import turnover reached 517.5 billion USD, going up by 7.6% over the same period of the last year, trade surplus reached 10.8 billion USD, the highest figure ever, of which the domestic economic sector saw a trade deficit of 23.7 billion USD; the FDI sector witnessed a trade surplus of 34.5 billion USD. Trade deficit from China, South Korea and ASEAN was 34.1 billion USD, 27.3 billion USD, and 6.9 billion USD respectively. Meanwhile, the trade surplus of the United States market in 2019 gained 46.9 billion USD and this figure of the EU market was 26.5 billion USD.

On the other hand, service export reached 19.9 billion USD, an increase of 10.3% compared to 2018, of which tourism service export was estimated at 11.8 billion USD, accounting for 59.4% of the total turnover and increasing by 17.4% over 2018. Service import in 2019 reached 21.1 billion USD, going up 3.7% over the previous year, of which transport service import gained 8 billion USD, contributing 37.9% to the total turnover and growing by 6.8%. Service trade deficit in 2019 was about 1.2 billion USD, declining by 47.9% compared to that in 2018.

The ratio of the total import and export turnover of goods and services to GDP was 199.8%, a slight decrease compared to that in the previous year but still exceeding the goals set by the National Assembly and the Government.

Figure 2: Vietnam Trade Balance from 2016 to 2020 (in billions of US dollars)



Source: www.tradingeconomics.com; General Statistics Office of Vietnam.

Export turnover of goods in 2019 was estimated at 264.19 billion USD, going up 8.4% compared to 2018, of which the domestic economic sector reached 84.99 billion USD, rising by 21.9%, accounting for 32.2% of the total export turnover; the FDI sector (including crude oil) gained 179.20 billion USD, growing by 3%, contributing 67.8% (the share decreased by 3.6 percentage points compared to the previous year). Thirty-two products had an export turnover of over 1 billion USD, sharing 92.8% of the total (of which six products generated over 10 billion USD, representing 63.4%). Meanwhile, the figure of import was approximately 253.36 billion USD, growing by 6.8% compared to 2018, of which the domestic economic sector reached 108.71 billion USD, expanding by 14.1%; the FDI sector attained 144.65 billion USD, increasing by 1.9%. Thirty-seven major imported products possessed over 1 billion USD, accounting for 90.6% of the total import turnover (of which three products reached over 10 billion USD, contributing 31.5%).

Table 2: Overview of Vietnam International Merchandise Trade Statistics in whole year 2019

Main Trade Indicators (in nominal terms and not seasonally adjusted)	
Merchandise Export (EX)	
Total value of December 2019 (Million US$)	22,561
Change as compared with November 2019 (%)	-1.0
Change as compared with December 2018 (%)	14.0
Total value of whole year 2019 (Million US$)	264,189
Change as compared with the whole year 2018 (%)	8.4
Merchandise Import (IM)	
Total value of December 2019 (Million US$)	22,302
Change as compared with November 2019 (%)	4.5
Change as compared with December 2018 (%)	8.6
Total value of whole year 2019 (Million US$)	253,071
Change as compared with the whole year 2018 (%)	6.8
Total Merchandise Trade Value (EX+IM)	
Total value of December 2019 (Million US$)	44,862
Change as compared with November 2019 (%)	1.7
Change as compared with December 2018 (%)	11.2
Total value of whole year 2019 (Million US$)	517,260
Change as compared with the whole year 2018 (%)	7.6
Merchandise Trade Balance (EX-IX)	
Trade balance of December 2019 (Million US$)	259
Trade balance of whole year 2019 (Million US$)	11,118

Source: Vietnam Customs.

Some products achieving large export turnover in 2019 were as follows: phones all of kinds and their parts with 51.4 billion USD, growing by 3.7% over the previous year; electronic goods, computers and their parts with 35.9 billion USD, climbing up 21.5%; textiles, sewing products with 32.9 billion USD, rising by 7.8%; footwear with 18.3 billion USD, augmenting by 12.8%; wood and wooden products with 10.6 billion USD, soaring by 19.5%; fishery products with 8.5 billion USD, edging down 2.6%.

Regarding the export markets in 2019, the United States ranked the first with 61.3 billion USD, a rise of 29.1% over the previous year, accounting for 23.2% of the total export turnover; EU gained 41.5 billion USD, a downturn of 1%, accounting for 15.7%; China attained 41.4 billion USD, a growth of 0.1%, contributing 15.7%; ASEAN reached 25.2 billion USD, an augment of 1.4%, representing 9.5%; Japan amounted to 20.4 billion USD, up 8.4%, making up 7.7%; South Korea reached 19.7 billion USD, an increase of 8.1%, accounting for 7.5%.

Table 3: Top 10 Major Exported Commodities of Vietnam in December 2019

No	Main exports	December (Million US$)	Compared with previous month (%)	Year to date (Million US$)	Compared with previous year (%)
1	Telephones, mobile phones and parts thereof	3,545	8.4	51.353	19.1
2	Textiles and garments	2,971	15.1	36,749	11.8
3	Computers, electrical products, spare-parts and components thereof	2,855	-36.5	24,128	0.9
4	Foot-wears	1,773	4.1	14,616	-8.2
5	Machine, equipment, tools, and instruments	1,749	-1.3	8,992	-1.0
6	Wood and wooden products	1,115	16.4	9,508	-4.0
7	Fishery products	725	-5.3	6,539	10.4
8	Other means of transportation, parts and accessories thereof	703	-3.8	5,955	-22.0
9	Yarn	374	6.5	6,386	-12.0
10	Iron and steel	359	-2.6	5,420	7.6

Source: Vietnam Customs.

Import turnover of goods in 2019 reached 253.4 billion USD, going up 6.8% over the previous year, of which: domestic economic sector reached 108.7 billion USD, rising by 14.1%; FDI sector gained 144.7 billion USD, growing by 1.9%. In terms of the structure of import of goods, the capital goods were estimated at 226.4 billion USD, going up 6.3% over the same period last year, accounting for 89.4% of the total import turnover (a decrease of 0.4 percentage points compared to the proportion in

2018). Consumer goods were estimated at 26.8 billion USD, rising by 10.8% and sharing 10.6% (an expansion of 0.4 percentage points).

Some products having large import turnover in 2019, particularly: electronic goods, computers and their parts with 51.4 billion USD, climbing up 18.8% compared to 2018; textile fabrics with 13.3 billion USD, edging up 3.8%; iron and steel with 9.5 billion USD, going down 4%; plastic reached 9 billion USD, declining by 1.1%; plastic products with 6.5 billion USD, up 10.4%; petroleum oil, refined with 6.2 billion USD, reducing by 20.8%; chemicals reached 5.1 billion USD, falling 0.7%.

In 2019, China continued to be Vietnam's largest import market with the import turnover of 75.5 billion USD, going up 15.1% compared to 2018, accounting for 29.8% of the total import turnover; the following was South Korea with 47 billion USD, decreasing by 1.4%, accounting for 18.5%; ASEAN with 32.1 billion USD, edging up 0.7%, contributing 12.7%; Japan with 19.6 billion USD, rising by 2.6%, sharing 7.7%; Taiwan with 15.2 billion USD, augmenting by 14.6%, backing 6%; EU with 15 billion USD, going up 7.3%, accounting for 5.9%; the United States with 14.4 billion USD, climbing up 12.7%, representing 5.7%; Thailand with 11.7 billion USD, going down 3.2%, accounting for 4.6%.

Table 4: Top 10 Major Imported Commodities of Vietnam in December 2019

No	Main imports	December (Million US$)	Compared with previous month (%)	Year to date (Million US$)	Compared with previous year (%)
1	Computers, electrical products, spare-parts and components thereof	4,307	-1.4	51,353	19.1
2	Machine, equipment, tools, and instruments	3,617	14.2	36,749	11.8
3	Textile, leather and foot-wear materials and auxiliaries	1,982	-2.3	24,128	0.9
4	Telephones, mobile phones and parts thereof	1,249	2.3	14,616	-8.2
5	Plastics	774	5.5	8,992	-1.0
6	Iron and steel	724	2.3	9,508	-4.0
7	Plastic products	612	7.4	6,539	10.4
8	Petroleum products	562	-5.3	5,955	-22.0
9	Base metals	532	-1.2	6,386	-12.0
10	Chemical products	513	6.9	5,420	7.6

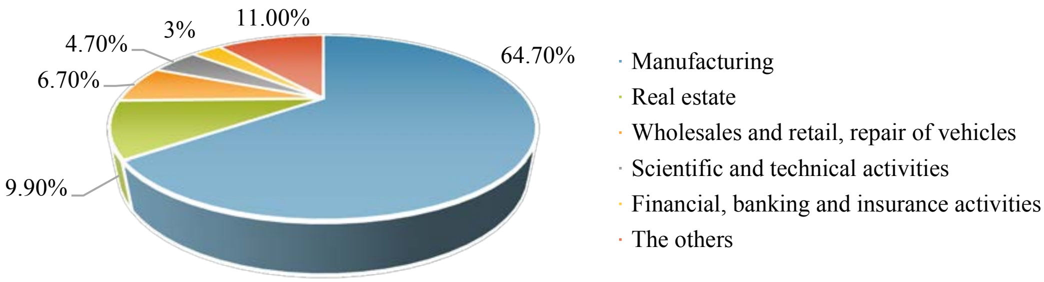
Source: Vietnam Customs.

II.1.2 Foreign Investment

The total investment at current prices in 2019 reached 2,046.8 trillion VND, an increase of 10.2% compared to that in 2018, occupying 33.9% of GDP, of which State sector's investment reached 634.9 trillion VND (accounting for 31% of the total investment), rising by 2.6%; Non-state sector's investment gained 942.5 trillion VND (making up 46%), growing by 17.3%; the FDI sector's investment reached 469.4 trillion VND (making up 23%), increasing by 7.9%.

In 2019, the total inward foreign direct investment of Viet Nam including the total newly registered capital, adjustment registered capital and capital contribution, purchasing shares by foreign investors reached nearly 39 billion USD. Of which, 4,028 FDI projects was newly licensed with the total registered capital of 17.4 billion USD, growing by 28% in the number of projects and decreasing by 5.7% in registered capital in comparison with those in 2018; 1,426 turns of projects which were licensed in the previous years registered to adjust investment with an additional capital of nearly 6 billion USD, declining by 23.5%; 10,773 turns of capital contribution and purchasing shares by foreign investors reached 15.6 billion USD, increasing by 54%. In 2019, the manufacturing with the total newly registered capital, adjustment registered capital and capital contribution, purchasing shares by foreign investors reached gained 25.2 billion USD, accounting for 64.7% of the total capital; the real estate activities reached 3.9 billion USD, accounting for 9.9%; the wholesale and retail trade, repair of motor vehicles and motorcycles reached 2.6 billion USD, making up 6.7%; professional, scientific and technical activities reached 1.8 billion USD, accounting for 4.7%; the financial, banking and insurance activities reached 1.2 billion USD, making up 3%.

Figure 3: Leading Sectors for FDI in Vietnam in 2019



Source: Foreign Investment Agency -Ministry of Planning and Investment.

Among countries and territories invested in Viet Nam in 2019, Korea was the largest investor that gained total newly licensed capital, additional capital and share-based contributed capital with 8.3 billion USD, accounting for 21.4% of the total registered capital; Hong Kong SAR (China) reached 8.2 billion USD, accounting for 21%; Singapore reached 4.4 billion USD, making up 11.4%; Japan reached 4.2 billion USD, sharing 10.7%; China reached 4.1 billion USD, making up 10.6%.

In terms of outward foreign direct investment of Viet Nam in 2019, there were 172 newly licensed projects with the total capital of Viet Nam side reached 409.6 million USD; 32 turns of projects adjusted their capital with an additional capital of 119.2 million USD. Thereby, the total outward foreign direct investment of Viet Nam (newly licensed and additional capital) reached 528.8 million USD in 2019, of which the wholesale and retail trade, repair of motor vehicles and motorcycles reached 134.2 million USD, accounting for 25.4% of the total investment; the agriculture, forestry and fishing sector reached 86.1 million USD, making up 16.3%; the professional, scientific and technical activities reached 70.1 million USD, accounting for 13.3%; the real estate activities reached 59.3 million USD, sharing 11.2%; the manufacturing reached 57.2 million USD, accounting for 10.8%. In 2019, Viet Nam invested in 33 countries and territories, of which Australia ranked the first with the total value of 154.6 million USD, accounting for 29.2% of the total investment; the United States with 100.6 million USD, making up 19%; Cambodia with 73.7 million USD, sharing 13.9%; Spain with 59.8 million USD, accounting for 11.3%; Singapore with 58.3 million USD, sharing 11%.

In 2019, preferential FDI policies are specified in the Law on Investment (2014), the Law on Corporate Income Tax (revised in 2013), the Law on Import-Export Tax (2016), Decree No. 118/2015/ND-CP of the Government detailing the implementation of the Law on Investment, Decree No. 123/2017/ND-CP regulating collection of land use fees, land rent and water (sea) surface rent, Decree No. 57/2018/ND-CP on incentive policies for enterprises investing in agriculture and rural development, Law on non-agricultural land use tax (2010) among others. Businesses operating in Viet Nam are entitled to preferential tax and financial policies, including import tax reduction/exemption, corporate income tax reduction/exemption.

Important criteria for preferential level calculation include (i) the location of investment projects (in disadvantaged areas or some economic and high-tech industrial parks), (ii) investment sectors specified by law, (iii) number of jobs created (for example a project creates at least 500 jobs in rural areas), (iv) large-scale project with total investment capital of at least VND 6 trillion and meeting other requirements.

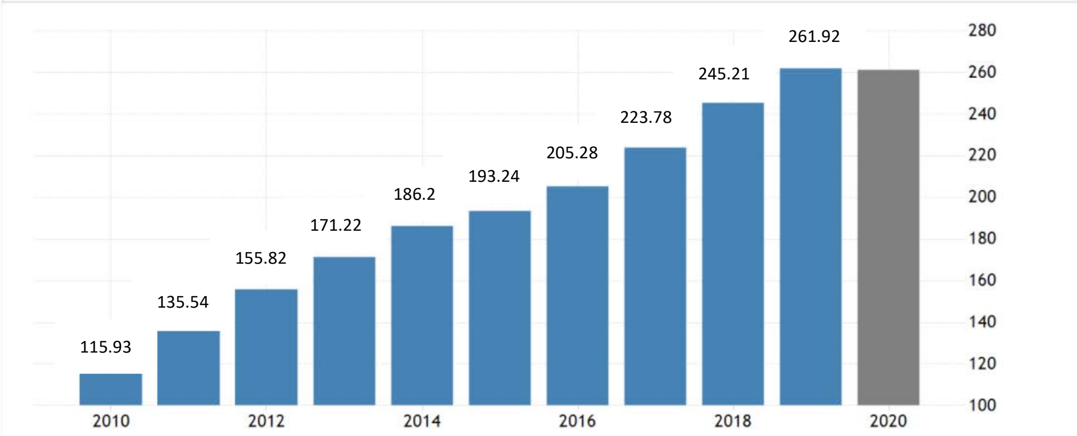
II.2 Domestic Environment

II.2.1 Economic Growth

In the context of the complicated and uncertain world situation, a downward in global economy and trade, Vietnam's socio-economic picture in 2019 achieved positive results in different fields thanks to efforts and high determination of the political system, business community and people nationwide.

The economy maintained high growth momentum, GDP growth rate in 2019 was estimated to reach 7.02%. This is the second consecutive year in the 10-year strategic period, the economy achieved a growth rate of over 7%, exceeding the set target, the economy's scale was expanded with the increasingly improved quality. In 2019, the size of GDP at current prices reached 6,037.3 trillion VND; GDP per capita was 62.6 million VND, equivalent to USD 2,715, an increase of USD 145 compared to 2018.

Figure 4: The Gross Domestic Product (GDP) in Vietnam from 2010 to 2020 (in billions of US$)



Source: www.tradingeconomics.com; World Bank.

In the agriculture, forestry and fishing sector, poultry development witnessed a positive growth, the production of poultry living-weight increased by 18.7% compared to that in 2018; fruit harvest yield was fairly good, especially the fishery activity was a bright spot of this sector (up 6.4%) with a good increase of output of in aquaculture and catching.

In the industry sector, the manufacturing recorded a high growth momentum; of which the key industries using a huge volume of labors, producing exported goods recorded a fairly good growth rate. The mining and quarrying had a positive growth of 1.29% after 3 consecutive years of reduction.

The services sector saw a growth rate of 7.3%, which was higher than that of the whole economy, of which the market services sector increased of 7.8%, which was the main momentum for the growth in 2019 of Vietnam. The retail sales of goods and services representing consumption needs of people increased by 12.2%, recorded the highest in the period of 2016-2019.

Vietnam's economy continues to show resilience in dealing with the effects of the Covid-19 pandemic. The growth rate is estimated to be 1.8 percent in the first six months of 2020. The crisis has had significant negative impact on service activities (mostly during the 3-week lockdown in April, 2020 and by the ban on foreign visitors since early March) and manufacturing exports (due to lower demand). In contrast, the agricultural sector has continued to perform at its pre-crisis level, boosted by high rice prices—the country's main crop—on both the domestic and international markets. Vietnam's resilience is grounded in its strong economic fundamentals. It is partly explained by the country's dual engine of growth: domestic demand and exports, which have performed relatively well in the past few months. It has also been supported by the government's early and swift health responses to the virus. External demand sustained exports growth in the first eight months of 2020 (up by 1.6 percent y/y). Because goods imports declined by 2.2 percent over the first 8 months of the year, Vietnam's trade surplus reached an estimated US$11.9 billion.

Table 5: GDP Growth and Macro Poverty Outlook Indicators in Vietnam

(annual percent change unless indicated otherwise)	2018	2019	2020 e	2021 f	2022 f
Real GDP growth, at constant market prices	7.1	7.0	2.8	6.8	6.5
Private Consumption	7.3	7.4	4.4	5.8	7.3
Government Consumption	6.3	4.2	9.8	4.3	4.8
Gross Fixed Capital Investment	8.2	7.9	5.5	6.3	7.0
Exports, Goods and Services	14.3	7.6	-0.2	7.3	9.0
Imports, Goods and Services	12.8	8.3	0.2	6.5	9.4
Real GDP growth, at constant factor prices	7.2	7.0	2.8	6.8	6.5
Agriculture	3.8	2.0	0.6	2.0	1.9
Industry	8.9	8.9	4.5	8.4	8.1
Services	7.0	7.2	2.0	6.9	6.3
Current Account Balance (% of GDP)	2.3	5.0	0.0	1.0	1.2
Fiscal Balance (% of GDP)	-4.4	-4.0	-6.0	-4.8	-4.0
Debt (% of GDP)	55.7	54.1	56.1	55.4	54.1
Primary Balance (% of GDP)	-2.4	-1.9	-4.0	-2.9	-2.2
Lower middle-income poverty rate ($3.2 in 2011 PPP)*	6.8	6.2	6.1	5.6	5.1
Upper middle-income poverty rate ($5.5 in 2011 PPP)*	23.1	21.4	20.9	19.4	18.1

Source: World Bank, Poverty & Equity and Macroeconomics, Trade & Investment Global Practices. (e: estimate, f: forecast)
(*) Calculations based on EAPPOV harmonization, using 2014-VHLSS and 2018-VHLSS.Actual data: 2018. Nowcast: 2019. Forecast are from 2020 to 2022. Projection using annualized elasticity (2014-2018) with pass-through = 0.7 based on GDP per capita in constant LCU.

II.2.2 Consumer price index, gold and USD price index

The year of 2019 continued to be a successful year in curbing inflation, the average consumer price index (CPI) in 2019 increased by 2.79% compared to that in 2018, hitting the lowest increase in annual average CPI in the past 3 years; CPI in December 2019 rose by 5.23% in comparison with that in December 2018. The targets of controlling inflation and keeping the average CPI in 2019 under 4% was achieved, thanks to the determined and timely directions of the Government and the close collaboration among line ministries in development and proposal of different price scenarios. The prices of some strategic commodities such as electricity, petroleum, medical services, education services were adjusted to gradually reach the margin of market prices.

Table 6: Annual Average CPI, Gold, USD Price Index and Core Inflation (Previous year = 100)

	2015	2016	2017	2018	2019
Consumer price index (percent change)	100,63	102,66	103,53	103,54	102,79
Food and foodstuff	101,48	102,36	98,92	103,23	104,06
Beverage and cigarette	102,15	102,21	101,52	101,42	101,99
Garment, hat, footwear	103,29	102,11	101,07	101,50	101,74
Housing and construction materials	98,38	102,50	104,29	103,32	103,03
Household equipment and goods	102,02	101,13	101,02	101,24	101,35
Medicine and health care services	102,14	128,52	142,29	110,82	103,84
Transport	88,08	92,69	106,80	106,38	98,96
Post and communication	100,33	99,34	99,40	99,34	99,32
Education	106,45	106,31	109,10	106,31	105,65
Culture, entertainments and tourism	101,64	101,52	100,86	101,31	101,83
Other consumer goods and services	102,89	102,17	102,14	102,44	102,67
Gold price index (percent change)	95,27	105,95	103,71	102,36	107,55
USD price index (percent change)	103,16	102,23	101,40	101,29	100,99
Core inflation (percent change)	2,05	1,83	1,41	1,48	2,01
Spatial cost of living index among regions (Red River Delta = 100) (percent change)					
Northern midlands and mountain areas	104,77	101,34	101,41	100,54	100,35
North Central and Central coastal areas	101,90	100,33	100,43	99,50	100,30
Central Highlands	103,85	101,12	101,01	100,41	99,97
South East	104,31	101,73	101,88	101,53	101,28
Mekong River Delta	96,29	98,29	98,56	98,15	98,23

Source: General Statistics Office of Vietnam.

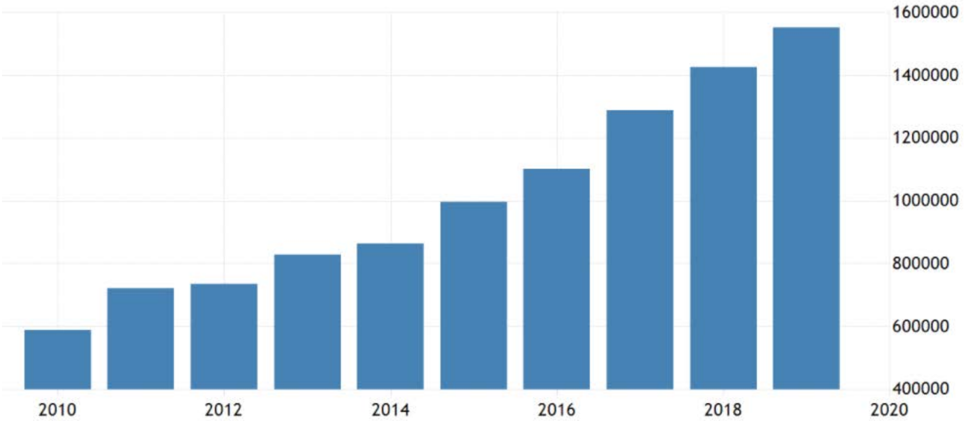
The core inflation in December 2019 increased by 2.78% compared to the same period of last year. The average core inflation in 2019 rose by 2.01% over 2018.

In 2019, the domestic gold price increased in accordance with the world gold price due to the escalation of trade war between the U.S and China, geopolitical tensions in the Middle East region, three times of cutting interest rate of US Federal Reserve (FED). On average, the domestic gold price in 2019 rose by 7.55% compared to that in 2018. The gold price in December 2019 surged up 16.23% over December 2018. In Viet Nam, the foreign currency reserve of the State Bank of Vietnam was abundant enough to meet the import enterprise's demand for the foreign currency, resulting in the stability of the exchange rate between VND and USD. The US dollar price index in December 2019 reduced by 0.77% in comparison with that in the same period of last year; the average US dollar price index in 2019 went up 0.99% against 2018.

II.3 Fiscal position

The state budget revenue in 2019 was estimated at 1,551.1 trillion VND, an increase of 126.2 trillion VND (up 8.9%) compared to that in 2018, of which: the domestic revenue reached 1,273.9 trillion VND (accounting for 82.1% of the total revenue), an increase of 10.9%; the crude oil revenue was 56.3 trillion VND (accounting for 3.7%), a decrease of 14.8%; the budget balance revenue from exports and imports gained 214.3 trillion VND (accounting for 13.8%), an increase of 5.8%; and grants reached 6.7 trillion VDN (accounting for 0.4%), a decrease of 12.6%.

Figure 5: Vietnam Government Revenues from 2010 to 2019 (in billions of VND)



Source: www.tradingeconomics.com; ADB-Asian Development Bank.

Noting a positive shift in the structure of budget revenue and expenditure, the percentage of revenue from domestic sources has increased from 68% in the 2011 – 2015 period to 80.5% in 2016 – 2018, and 82% in 2019. The rate is forecast to reach 83.6% in 2020. Meanwhile, collection from crude oil and import-export activities has fallen from 30% in 2011 – 2015 to 19% in 2016 – 2018, and 17.7% this year. It is forecast to decline further to 16.1% in 2020.

Regarding expenditure, the percentage of estimated budget spending on investment for development has been growing, and is expected to reach 27 – 28% between 2016 and 2020, higher than the targeted 25 – 26%. State budget spending on development investment is estimated at 2.15 quadrillion VND during the period, 2 quadrillion VND higher than planned. The proportion of regular spending has decreased gradually, from 61.8% in 2018 to 61.2% in 2019, and ideally 60.5% in 2020, while the target is under 64%. Budget overspending estimates have also been falling, expected to account for 3.44% of GDP in 2020 since the rate is likely to stay approximately 3.6 – 3.7% in the 2016 – 2020 period.

Table 7: Structure of State Budget Revenue from 2015-2019

	2015	2016	2017	2018	2019est
Total revenue (percent change)[1/]	100	100	100	100	100
Domestic revenue (Excluding oil revenue)	75,64	80,51	80,33	80,61	82,13
Revenue from state owned enterprises[2/]	15,67	13,52	11,38	10,74	10,64
Revenue from foreign invested enterprises	13,81	14,40	13,31	13,08	13,55
Revenue from non-State sector	12,70	13,88	13,99	14,72	15,36
Tax on personal income	5,56	5,77	6,09	6,62	7,05
Environmental protection tax	2,65	3,81	3,45	3,30	4,07
Fees	4,68	4,35	4,91	4,91	5,23
Revenue from land and houses	8,42	10,95	11,95	12,95	12,40
Others	12,15	13,83	15,25	14,30	13,82
Oil revenue	6,61	3,55	3,83	4,64	3,63
Total revenue from export, import activities		23.95	22,91	22,06	22,39
VAT refund		-8,75	-7,66	-7,85	-8,58
Grants	1,16	0,74	0,59	0,54	0,43
Total expenditure (percent change)[3/]	100	100	100	100	100
Expenditure on development investment[4/]	31,47	28,18	27,51	25,44	24,99
Expenditure on social and economic services[5/]	61,77	63,34	65,07	61,24	59,79
Expenditure on education and training	13,90	13,71	15,09	14,29	13,98
Expenditure on science and technology	0,74	0,73	0,68	0,76	0,74
Addition to financial reserve fund	0,02	0,04	0,01	0,01	0,01

Source: General Statistics Office of Vietnam.

[1/] Data adjusted in accordance with State budget Law 2015, including revenue from lottery, excluding revenue from mobilization of investment as stated in Clause 3, Article 8 of State budget Law and excluding revenue from transferring source.

[2/] From 2015 excluding dividends, remaining profit of SOEs; proceeds from sales of state-owned shares in enterprises.

[3/] Data adjusted in accordance with State budget Law 2015, including expenditure on Government bond, excluding principal payment.

[4/] Excluding expenditure on national reserves.

[5/] Including expenditure on creating source to implement salary transform and streamline employees

III. Tax structure

III.1 Overview of Vietnam Taxation System

III.1.1 Position and Function

The General Department of Taxation is an agency under the Ministry of Finance and functions to advise and assist the Minister of Finance in performing the state management of domestic revenues nationwide including taxes, charges and fees and other state budget revenues, and to manage taxation in accordance with law.

III.1.2 Powers and Responsibilities

The General Department of Taxation (GDT) has the powers and responsibilities in assistance to the Minister of Finance making draft laws, ordinances, decrees on tax policy and administration; developing strategies, master plans, national target programs and important programs of action, schemes and projects on tax administration as well as annual tax-revenue estimates in accordance with the State Budget Law.

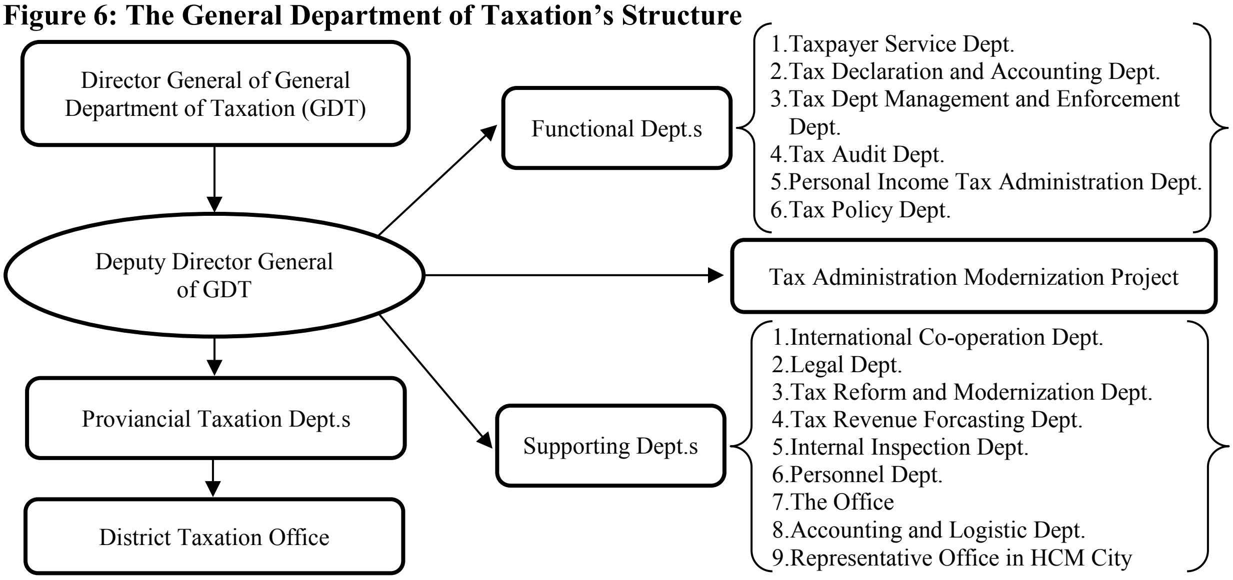
According to Tax Administration Law, General Department of Taxation has responsibilities to promulgate documents providing professional guidance, internal normative documents and documents for specific application within the scope of its management, including the implementation of legal documents, strategies, master plans, plans, programs, projects and schemes on tax administration; guides and explains tax policies of the State; and provides support for taxpayers to fulfill the tax payment obligation in accordance with law.

Local Tax Departments: Tax Departments of provinces are organizations under the GDT and function to perform the administration of taxes, charges, fees and other state budget revenues within the tasks of the tax sector in the locality under law. Tax Department shall perform the tasks, powers and responsibilities under the Tax Administration Law, tax laws and other relevant laws.

III.1.3 Organization Structure

The GDT is organized based on functional model into a hierarchical system from the central to local level according to administrative units, ensuring adherence to the principle of centralism and uniformity with the headquarter in Hanoi, 63 tax offices at the province level, and 415 tax offices at the district level.

Figure 6: The General Department of Taxation's Structure



Source: Ministry of Finance

III.2 Tax Administration

All revenues from taxes and fees are due at the Viet Nam National Assembly of Viet Nam or the National Assembly Standing Committee set up by the laws and ordinances, and is collected by the GDT through its collection agency the tax department, tax department, tax office, the tax, by the General Department of Viet Nam Customs through its agency the Department of customs, customs department, and the professional staff in all other authorized localities in the country. For fees and charges, collection agencies of the ministries, local authorities concerned are authorized to collect.

In nominal terms, the tax rate (tax) by the National Assembly of Viet Nam regulations. But in reality, the tax rate is proposed by the Government in consultation with the Ministry of Finance which is more specific Taxation. For some taxes, such as import and export taxes, Congress allowed the government to self-adjust as needed. Separate fees are charged and revenues of local governments, local governments have the right to decide.

The tax system in Viet Nam is not divided into national taxes and local taxes in many countries. However, the State Budget Law No. 01/2002/QH11 have defined some income taxes is that the central government is entitled to 100%, a number of taxes and fees that local governments are entitled to 100%, and a number of taxes that governments at all levels divided according to each local situation.

The GDT collects all domestic taxes with offices that extend through the provinces and the districts, and the Customs Department collects all taxes falling on imports and export tax. Only minor fees and charges are collected by financial agencies and service providers GDT is charged with collecting all major domestic taxes, in particular the Value-Added Tax (VAT), the Corporate Income Tax (CIT), excise taxes, and natural resource taxes, which account for 76.4% of domestic revenue collection (including domestic tax revenues from crude oil). GDT is also responsible for the collection of a relatively large number of minor taxes, such as the tax on the transfer of land use rights, the land and housing tax, and the small business tax. GDT is operating in a rapidly and fundamentally changing environment, which will substantially increase the challenge of ensuring effective tax revenue collection.

Tax Administration Law

Viet Nam has made commendable strides in strengthening the legal framework for tax administration. Tax regimes are being revamped and a Tax Administration Law has been adopted, which became effective in July 2007. Such progress creates a solid legal foundation for the current comprehensive tax administration reforms. The structure of tax collection has been converging with the general trend in more advanced countries, with gradual reduction of trade taxes as a share in total tax intake. The Tax Administration Law establishes the legal basis for self-assessment and supports the strategic direction of reforms aimed to enhance transparency and integrity in the tax system and to create an effective culture of voluntary compliance. In addition, it eliminates gray areas potentially fostering non-compliance by taxpayers and abuse by tax administration officials. Among several important innovations, the law introduces a unique Taxpayer Identification Number and stipulates that third-party information can be acquired from various agencies for effective audit and enforcement, while safeguarding its confidentiality.

In general, the law is comprehensive and of high quality. It consists of 14 chapters, covering all key tax administration business functions (tax registration, filing and accounting, assessment, audit, collection and debt management). The law has clear provisions for governing taxpayer service, tax appeals, and tax law violation settlement. The Tax Administration Law has provided clear definition of the rights and obligations of taxpayers, the tax administration agency, and other related organizations. The law specifies the rights of taxpayers during the process of tax assessment, examination, audit and investigation, and appeals. Taxpayers are entitled to good taxpayer service that helps them understand the binding laws and regulations, and to obtain easy access to tax information and compliance guidance. The law mandates the tax administration to compensate a taxpayer for damages caused by the administration. To avoid abuse by tax officials, the law stipulates that a tax audit can be conducted on a periodic basis but cannot exceed once a year. The tax administration agency is legally responsible for the confidentiality of taxpayer information. The law also specifies the purpose and scope of tax administration; the rights and responsibilities of the tax administration agency; and the roles and responsibilities of other stakeholders such as the people’s committees, other government bodies related to tax administration, the media, and tax agents. The law includes a clear provision on international cooperation, which stipulates that, among other thing, the tax administration agency is authorized to negotiate, sign, and organize implementation of international agreements with tax administrations of other countries.

In addition, the tax administration law has regulated a unique Taxpayer Identification Number (TIN), that emphasizes the granting and use of TINs, it is considered as the first step toward modern tax administration. For the symmetric treatment of tax payment and tax refunds, the law deals explicitly with tax payment deadlines and tax refunds. If taxpayers delay paying taxes, they are liable to pay a penalty at a daily rate of 0.03% (since July 2016) of the amount of late payment. On the other hand, overpayment of taxes is to be refunded or deducted from the tax liability in the subsequent period. The tax refund must be made at the request of the taxpayer within five working days from the date of receipt of the letter of such request. And being more effective in exchanging information with the third-party, the law stipulates that third-party information can be acquired from various agencies, but the confidentiality of the information for tax purpose must be safeguarded. The Tax Administration Laws Amendment Act ("the Act") was promulgated on 16 January 2014. The Act amends the Transfer Duty Act, Income Tax Act, Customs and Excise Act, Value-added Tax Act, Skills Development Levies Act, Unemployment Insurance Contributions Act, Securities Transfer Tax Act, Mineral and Petroleum Resources Royalty Act, Mineral and Petroleum Resources Royalty (Administration) Act and Tax Administration Act.

III.3 Tax Policy

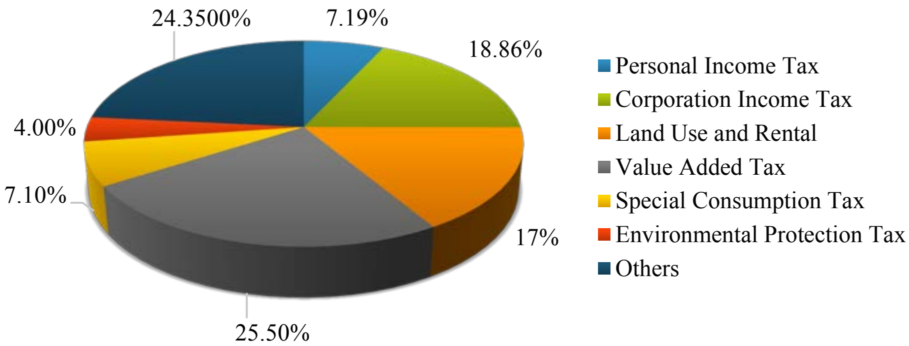
According to the 2002 State Budget Law there are three types of taxes in Viet Nam. First, taxes assigned 100% at the central level; second, taxes assigned 100% at the provincial level; and third, taxes shared between the central and provincial governments. The tax revenues assigned 100% to the central government include export and import taxes, VAT and excises on imports; taxes and other revenues from the petroleum industry; and corporate income tax on enterprises with uniform accounting. The tax revenues assigned 100% to the sub-national level include land and housing taxes, natural resource taxes excluding those on petroleum activities, license tax, tax on transfer of land use rights, fees on land use, land rent, revenues from the leasing and sale of dwellings publicly owned, registration fees and most other fees and charges. The taxes shared between the central and provincial governments include all VAT receipts with the exception of VAT on import goods; corporate income tax with the exception of receipts from enterprises under the whole-unit accounting system; personal income tax; special consumption tax on domestic goods and services; and gasoline 108 and oil fees.

"Sharing rates" are determined which establish the proportion of total revenues from shared taxes which a province may retain. The "sharing rates" between the center and the provinces are not stated in the Budget Law. It is left for the Standing Committee of the National Assembly to fix the sharing rates for each province for a period of three to five years. A peculiarity of tax sharing in Viet Nam vis-à-vis most other countries is that tax sharing rates are uniform for all shared taxes for each province but they differ by province. The tax sharing rates are calculated as part of the budget process at the start of each stability period of at least three years by using a formula. The formula estimates the gap between expenditure needs (estimated on the basis of norms) and revenue capacity. For the larger group of relatively poor provinces the tax sharing rate is 100%.

III.3.1 Value-Added Tax

Value Added Tax (VAT) has been an important source of revenue in Viet Nam. It recently contributes about one-fourth of the total tax revenues, which is the largest share of all taxes to total tax revenue matched only by the tax on Enterprise Profits (CIT). Together, the VAT and CIT account for approximately half of the tax revenues of the Government of Viet Nam.

Figure 7: Tax Composition in 2019



Source: General Statistics Office of Vietnam.

Prior to the introduction of VAT, Viet Nam had adopted a turnover tax in October 1990 in its first round of tax reform. In an effort to mitigate the shortcomings of this tax, several rounds of amendments have been carried out since then. Finally, the turnover tax was replaced by a VAT in 1999. Subsequently, several amendments have been made with some major changes adopted in 2003, 2006, and the VAT Law revision conducted in 2008.

The last amendments to the VAT Law 2008 were made in June 2013. The law applied to value added taxes had been primarily the VAT Law of 2008 and it was recently revised in June 2013. The main revisions to the VAT Law include providing clearer criteria for tax exemptions and providing a VAT threshold. These revisions simplify tax assessment, create more favorable conditions for small taxpayers, and will enhance efficiency in tax administration. A summary of these amendments is given.

III.3.1.1 Tax rates

There are three bands of VAT that apply to different goods and services: 0%, 5% and 10%.

- 0%: This rate applies to exported goods including goods sold to non-tariff areas and export processing enterprises, goods processed for export or in-country export (subject to conditions), goods sold to duty free shops, certain exported services, construction and installation carried out for export processing enterprises, aviation, marine and international transportation services.

- 5% This rate applies generally to areas of the economy concerned with the provision of essential goods and services. These include: clean water; teaching aids; books; unprocessed foodstuffs; medicine and medical equipment; husbandry feed; various agricultural products and services; technical/scientific services; rubber latex; sugar and its by-products; certain cultural, artistic, sport services/products and social housing.

- 10% This “standard” rate applies to activities not specified as not-subject to VAT, exempt or subject to 0% or 5%.

III.3.1.2 VAT Refunds

VAT refunds are only granted in certain cases, including:

- Exporters having excess input VAT credits over VND300 million. The refunds are provided on a monthly or quarterly basis, in line with the VAT declaration period of the taxpayer. The amount of input VAT relating to export sales (meeting the criteria for VAT refunds) that can be refunded to a taxpayer must not exceed 10% of its export revenue. VAT refunds are available to companies which import goods and then export them without further processing subject to various conditions;
- New projects of companies adopting VAT deduction method which are in the pre-operation investment phase and have accumulated VAT credits over VND300 million. Exceptions include conditional investment projects which do not satisfy the regulated investment conditions, or investment projects of companies whose charter capital has not yet been contributed as regulated; and
- Certain ODA projects, diplomatic exemption, foreigners buying goods in Vietnam for consumption overseas.

In other cases where a taxpayer's input VAT for a period exceeds its output VAT, it will have to carry the excess forward to offset future output VAT.

III.3.2 Corporation Income Tax

A profits tax was first introduced in Viet Nam in 1990 and was levied on the income of all business enterprises whether private sector, state sector or established through foreign investment. The tax had a broad coverage with few exemptions. The corporate income tax in its present form was introduced in 1999. It was later amended in 2003 with a view to abolishing discrimination among different sectors of the economy, attracting more investment and enhancing tax revenues. It was amended again in 2008 effective January 1, 2009 to remove certain anomalies and provide a more business-friendly tax environment. Presently, this tax is one of the major sources of revenue in Viet Nam and has been generating approximately 14,5% of GDP in tax revenues in recent years.

III.3.2.1 Tax Rates

Enterprises (generally companies) are subject to the tax rates imposed under the CIT Law. The standard CIT rate is 20%. Companies operating in the oil and gas industry are subject to CIT rates ranging from 32% to 50% depending on the location and specific project conditions. Companies engaging in prospecting, exploration and exploitation of certain mineral resources are subject to CIT rates of 40% or 50%, depending on the project's location.

III.3.2.2 Tax Incentives

Tax incentives are granted to new investment projects based on regulated encouraged sectors, encouraged locations and the size of the projects. Business expansion projects (including expansion projects licensed or implemented during the period from 2009 to 2013 which were not entitled to any CIT incentives previously) which meet certain conditions are also entitled to CIT incentives from 2015. New investment projects and business expansion projects do not include projects established as a result of certain acquisition or reorganization.

- The sectors which are encouraged by the Vietnamese Government include education, health care, sport/culture, high technology, environmental protection, scientific research and technology development, infrastructural development, processing of agricultural and aquatic products, software production and renewable energy.
- New investment or expansion projects engaged in manufacturing industrial products prioritized for development are entitled to CIT incentives if they meet one of the following conditions: (i) the products support the high technology sector; or (ii) certain products which support the garment, textile, footwear, electronic spare parts, automobile assembly, or mechanical sectors.
- Locations which are encouraged include qualifying economic and high-tech zones, certain industrial zones and difficult socio-economic areas.
- Large manufacturing projects (excluding those related to the manufacture of products subject to special sales tax or those exploiting mineral resources) are entitled to CIT incentives as follows: (i) Projects with total capital of VND 6,000 billion or more, disbursed within 3 years of being licensed, meeting either of the following criteria: minimum revenue of VND 10,000 billion/annum by the 4th year of operation; or head count of more than 3,000 by the 4th year of operation; (ii) Projects with total capital of VND 12,000 billion or more, disbursed within 5 years of being licensed and using technologies appraised in accordance with relevant laws.

From 1 January 2016 onwards, the two common preferential rates of 10% and 17% are available for 15 years and 10 years respectively, starting from the commencement of generating revenue from the incentivized activities. The duration of application of the preferential tax rates can be extended in certain cases. When the preferential rates expire, the CIT rate reverts to the standard rate. The preferential rate of 15% will apply for the entire project life in certain cases. Certain socialized sectors (e.g. education, health) enjoy the 10% rate for the entire life of the project.

Taxpayers may also be eligible for tax holidays and reductions. The holidays take the form of an exemption from CIT for a certain period beginning immediately after the enterprise first makes profits from the incentivized activities, followed by a period where tax is charged at 50% of the applicable rate. However, where an enterprise has not derived taxable profits within 3 years of the commencement of generating revenue from the incentivized activities, the tax holiday/tax reduction will start from the fourth year of operation. Criteria for eligibility for these holidays and reductions are set out in the CIT regulations.

Additional tax reductions may be available for companies engaging in manufacturing, construction and transportation activities which employ many female staff or ethnic minorities. From 1 January 2018, certain incentives, including a lower CIT rate are granted to small and medium enterprise ("SMEs") (various criteria apply in order to be considered an SME).

A resolution on CIT policies to support and develop SMEs has been drafted for consideration which proposes to lower the CIT rate applicable to SMEs to 15%-17% and provide various tax holidays, e.g. exemption from CIT for the 2 years beginning immediately after establishment of SMEs.

Tax incentives which are available for investment in encouraged sectors do not apply to other income earned by a company (except for income which directly relates to the incentivized activities such as disposal of scrap), which is broadly defined.

III.3.2.3 Losses

Taxpayers may carry forward tax losses fully and consecutively for a maximum of five years. Losses arising from incentivized activities can be offset against profits from non-incentivized activities, and vice versa. Losses from the transfer of real estate and the transfer of investment projects can be offset against profits from other business activities. Carry-back of losses is not permitted. There is no provision for any form of consolidated filing or group loss relief.

III.3.2.4 Profit Remittance

Foreign investors are permitted to remit their profits annually at the end of the financial year or upon termination of the investment in Vietnam. Foreign investors are not permitted to remit profits if the investee company has accumulated losses. The foreign investor or the investee company is required to notify the tax authorities of the plan to remit profits at least 7 working days prior to the scheduled remittance.

III.3.3 Excises or the Special Consumption Tax (SCT)

Special Consumption Tax (SCT) is a form of excise tax that applies to the production or import of certain goods and the provision of certain services. Imported goods (except for various types of petrol) are subject to SST at both the import and selling stages.

The taxable price of domestically produced goods sold by a manufacturer/imported goods sold by an importer is the selling price exclusive of SCT and environment protection fee. Where the selling price is not considered as in line with the ordinary market price, the tax authorities may seek to deem the taxable price. The taxable price of imported goods upon importation is the dutiable price plus import duties. Where manufactured or imported goods are subsequently sold by a trading entity to entities which are not third parties, an anti-avoidance provision may impose minimum taxable price in certain cases.

III.3.3.1 Tax Credits

Taxpayers producing SCT liable goods from SCT liable raw materials are entitled to claim a credit for the SST paid on raw materials imported or purchased from domestic manufacturers. Where taxpayers pay SCT at both the import and selling stages, the SCT paid at importation is creditable against SCT paid at the selling stage.

III.3.3.2 Tax Rates

The Law on SCT classifies items subject to SCT into two groups: (i) Commodities - cigarettes, liquor, beer, automobiles having less than 24 seats, motorcycles, airplanes, boats, petrol, air-conditioners up to 90,000 BTU, playing cards, votive papers; and (ii) Service activities - discotheques, massage, karaoke, casinos, gambling, lotteries, golf clubs and entertainment with betting.

Table 8: The Special Consumption Tax Rates

Products/services	Tax rates (%)
Cigar/Cigarettes	75
Spirit/Wine	
a) Spirit/Wine with ABV ≥ 20°	65
b) Spirit/Wine with ABV < 20°	35
Beer	65
Automobiles having less than 24 seats	10 -150
Motorcycles with cylinder capacity above 125cm3	20
Airplanes	30
Boats	30
Petrol	7 – 10
Air-conditioner (not more than 90,000 BTU)	10
Playing cards	40
Votive papers	70
Discotheques	40
Massage, karaoke	30
Casinos, jackpot games	35
Entertainment with betting	30
Golf	20
Lotteries	15

Source: PWC, Vietnam Pocket Tax Book 2020.

III.3.4 Personal Income Tax (PIT)

Before the PIT law was passed by the National Assembly in November 2007, and before it went into effect on January 1, 2009, the taxation of personal income was regulated by the Ordinance on Income Tax on High Income Earners. The latest amendment of PIT Law was enacted in 2012. An attractive feature of the PIT is that it is revenue elastic. In the case of Viet Nam, however, the tax applies to only very high-income earners, which leaves the majority of people out of the tax net and thus contributes very little to tax revenues.

III.3.4.1 Tax residency

Residents are those individuals meeting one of the following criteria:

- Residing in Vietnam for 183 days or more in a tax year; or
- Having a permanent residence in Vietnam (including a registered residence which is recorded on the permanent/temporary residence card, or a rented house in Vietnam with a lease term of 183 days or more in a tax year) and unable to prove tax residence in another country.

Tax residents are subject to Vietnamese PIT on their worldwide taxable income, wherever it is paid or received. Employment income is taxed on a progressive tax rates basis. Other income is taxed at a variety of different rates.

Individuals not meeting the conditions for being tax resident are considered tax non-residents. Tax non-residents are subject to PIT at a flat tax rate of 20% on their Vietnam related employment income, and at various other rates on their non-employment income. However, this will need to be considered in light of the provisions of any Double Taxation Agreement that might apply.

III.3.4.2 Employment Income

The definition of taxable employment income is broad and includes all cash remuneration and various benefits-in-kind. However, the following items are not subject to tax:

- Payments for business trips;
- Payments for telephone charges/stationery costs;
- Office clothes (subject to a cap if the office clothes are provided in cash);
- Overtime premium (i.e. the additional payment above the normal wage, not the full amount of the overtime/nightshift payment);
- One-off allowance for relocation (i) from Vietnam for Vietnamese working overseas; (ii) to Vietnam for expatriates working in Vietnam; or (iii) to Vietnam for Vietnamese residing overseas on a long-term basis and returning to Vietnam to work;
- Transportation to and from work;

- Once per year home leave round trip airfare for expatriate employees and Vietnamese working overseas;
- School fees up to high school in Vietnam/overseas for children of expatriates/Vietnamese working overseas;
- Training;
- Mid-shift meals (subject to a cap if the meals are provided in cash);
- Certain benefits in kind provided on a collective basis (e.g. membership fee, entertainment, healthcare);
- Airfares for employees working on a rotation basis in a number of industries (e.g. petroleum, mining);
- Employer's contributions to certain local and overseas non-mandatory insurance schemes without payout of accumulated premiums to the employees (e.g. medical insurance, accident insurance); and
- Allowances/benefits for wedding, funeral (subject to a cap).

There are a range of conditions and restrictions applicable to the above exemptions.

III.3.4.3 Non-employment Income

Taxable non-employment income includes:

- Business income (including rental income in excess of VND100 million/year);
- Investment income (e.g. interest, dividends);
- Gains on sale of shares;
- Gains on sale of real estate;
- Inheritances in excess of VND10 million;
- Winning prizes/gifts in excess of VND10 million (excluding income from winnings at casinos);
- Income from copyright/ franchising/ royalties/ receiving gifts in excess of VND10 million.

III.3.4.4 Non-taxable Income

Non-taxable income includes:

- Interest earned on deposits with credit institutions/banks and on life insurance policies;
- Compensation paid under life/non-life insurance policies;
- Retirement pensions paid under the Social Insurance law (or the foreign equivalent);
- Income from transfer of properties between various direct family members;
- Inheritances/gifts between various direct family members;
- Monthly retirement pensions paid under voluntary insurance schemes;
- Income of Vietnamese vessel crew members working for foreign shipping companies or Vietnam international transportation companies; and
- Income from winnings at casinos.

III.3.4.5 Foreign Tax Credits and Tax Deductions

In respect of tax residents who have overseas income, PIT paid in a foreign country on the foreign income is creditable.

Tax deductions include:

- Employee contributions to mandatory social, health and unemployment insurance schemes;
- Contributions to local voluntary pension schemes (subject to a cap);
- Employee contributions to certain approved charities;
- Exemption: (i) Individual exemption: VND9 million/month; (ii) Exemption for dependent: VND3.6 million/month/dependent. The dependent allowance is not automatically granted, and taxpayers need to register qualifying dependents and provide supporting documents to the tax authority.

III.3.4.6 Tax rates

Table 9: Tax Rates for Employment Income of Residents

Annual Taxable Income (million VND)	Monthly Taxable Income (million VND)	Tax rate
0 – 60	0 – 5	5%
60 – 120	5 – 10	10%
120 – 216	10 – 18	15%
216 – 384	18 – 32	20%
384 – 624	32 – 52	25%
624 – 960	52 – 80	30%
More than 960	More than 80	35%

Source: PWC, Vietnam Pocket Tax Book 2020.

Table 10: Tax Rates for Other Income of Residents and Tax Rates for Non-Residents

Residents - other income		**Non-residents**	
Type of taxable income	Tax rate	Type of taxable income	Tax rate
Business income	0.5% - 5% (depends on type of business)	Business income	1% - 5% (depends on type of business)
Capital investment i.e. interest, dividends (except for bank interest)	5%	Employment income	20%
Capital transfer	20% on net gains	Capital transfer	0.1% of the sales proceeds
Securities/ JSC share transfer	0.1% of the sales proceeds		
Real estate transfer	2% of the sales proceeds		
Income from copyright (*)	5%		
Income from franchising/royalties (*)	5%		
Income from winning prizes (*)	10%		
Income from inheritances/gifts (*)	10%		

Source: PWC, Vietnam Pocket Tax Book 2020.
(*) in excess of VND 10 million

III.3.5 Land and Property Tax

Although private ownership of land is not permitted in Viet Nam (the land officially belongs to the Vietnamese people and the State acts as administrator of the ownership rights), the right to use the land for a specific time period can be obtained.

The right to rent the land through the allocation of a Land Use Right (LUR) contract is the only form of land ownership available to foreigners. Holders of a Land Use Right contract are required to pay a 0.03% tax rate, based on the value of the land (not including buildings or businesses), as determined by the provincial People's Committee.

Following the 2012 Land Tax law, owners of residential property are also required to pay land tax at a progressive rate of between 0.03% and 0.15%, which is calculated according to the square meter.

III.3.6 Natural Resources Tax

Taxation of natural resources in Viet Nam has gained greater importance because of its export of oil and gas and the recent rise in oil prices. The natural resources in Viet Nam may be placed into the following four categories, each with its own tax rates: Metallic and nonmetallic minerals: These are subject to royalties alone. The rates on minerals are in the range of 5 to 25%, on nonmetallic minerals 3 to 20%, and on gems 16 to 30%. This broad band of differentiated rates is in place may be explained for the absence of a CIT. Natural forest products: These are subject to high royalty rates - in the range of 1 to 35%. Objective of such high tax rates could be to protect the forest resources. Natural aquatic resources and natural water: Most items in this category are taxed at 1 to 5% except pearls and sea slugs, which are taxed at 6 to 10%. Oil and natural gas: The oil and natural gas sector is subject to a combination of royalties and CITs. The royalty rates vary with the amount and depth of extraction and are in the range of 6 to 40%. The royalties on gas are taxed at rates of 1 to 30%. The CIT rate for this sector is 50% for normal exploration and production. For an investment promotion project, the tax rate is reduced to 32%. Currently, there is no separate CIT tax incentive for petroleum exploration.

III.3.7 Environment Protection Tax

Environment protection tax ("EPT") is applicable to the production and importation of certain goods deemed detrimental to the environment, the most significant of which are petroleum and coal.

Table 11: The Environment Protection Tax Rates

Products	Unit	Tax rates (VND)
Petrol, diesel, grease, etc	liter/kg	1,000 - 4,000
Coal	ton	15,000 - 30,000
Hydrochlorofluorocarbons (HCFCs)	Kg	5,000
Plastic bags (*)	Kg	50,000
Restricted use chemicals	Kg	500 - 1,000

Source: PWC, Vietnam Pocket Tax Book 2020.
(*) Excludes plastic bags used for packaging or which are "environmentally friendly"

III.3.8 Trade Taxes

Trade taxes have been of special significance in Viet Nam, because they used to bring about one-third total tax revenues. This share has been falling mainly due to tariff reduction following Viet Nam's increased international commitments, and it decreased from about 21% in 1997 to11.2% in 2010. With Viet Nam joining the WTO, the contribution of trade taxes is likely to decline further. Tariff rates fall into the following three broad categories: (i) Preferential rates applied to goods originating from countries in the most favored nation (MFN) category; (ii) Common tariff rates applied to goods from other countries without any trade agreements. For those countries, tariff rates in this case were 50% higher than for MFN countries; (iii) Special preferential tariff rates on goods from countries with special trade agreements with Viet Nam.

There is a fourth type of import duty under which several supplementary tax laws have been enacted that is in the nature of anti-dumping and anti-discrimination laws. Main Features of the Current Law on Import and Export Tax: The law applies to all goods that either passes through the country's borders or nontariff zones, and to goods purchased or exchanged by residents of Viet Nam. Two types of taxes are specified (i) an "absolute tax" or specific tax, based on units of goods, and (ii) an "ad valorem" tax based on the value in the import-export declaration. Import duties depend on two factors: country of origin and classification of goods.

There are effectively four types of duties, which vary by country of origin: (i) Preferential rates for countries that accord Viet Nam MFN status. Over 160 countries, including China, European Union member countries, the United States, and several major developing countries accord Viet Nam MFN status; (ii) Special preferential rates are further reduced tariff rates commonly applied in the case of ASEAN members and with China and India, for instance; (iii) Ordinary rates that are 150% of preferential rates and applicable to countries that do not grant Viet Nam MFN status and in addition discriminate against Vietnamese goods; (iv) Special types of duties are safeguard measures (antidumping duties) on specified goods deemed to be dumped and causing injury to domestic producers. The duty equals the difference between the goods' export price and their normal value.

III.4 International Tax Issues

III.4.1 Tax Treaties

Vietnam is a signatory to a Treaty for the Avoidance of Double Taxation with many countries all over the world. Draft agreements with additional countries are at the discussion stages. A Double Taxation Prevention Treaty, in principle, enables offsetting tax paid in one of 2 countries against the tax payable in the other, in this way preventing double taxation. Another important factor is the grant of an exemption or tax at a reduced rate on certain receipts such as interest, royalties, dividends, capital gains and others that are connected with a transaction carried out between parties associated with the Double Taxation Agreements. When certain income is taxable under the Vietnamese Income Tax Ordinance but there is an exemption (reduced tax) under any Taxation Treaty, the income is taxed, if at all, but only according to the provisions of the Taxation Treaty.

Table 12: Countries That Have Double Taxation Agreement (DTA) with Vietnam

No.	Country	Signing date/ place	Effective date
1	Australia	13/10/1992 Hanoi	30/12/1992
2	France	10/02/1993 Hanoi	01/07/1994
3	Thailand	23/12/1992 Hanoi	29/12/1992
4	Russia	27/5/1993 Hanoi	21/03/1996
5	Sweden	24/3/1994 Stockholm	08/08/1994
6	South Korea	20/5/1994 Hanoi	11/09/1994
7	UK	09/4/1994 Hanoi	15/12/1994
8	Singapore	DTA: 02/3/1994 Hanoi Protocol amending the DTA: 12/9/2012 Singapore	DTA:09/09/1994 Protocol: 11/01/2013
9	India	07/9/1994 Hanoi Protocol amending the DTA: 03/9/2016 Hanoi	02/02/1995 Protocol: 21/02/2017
10	Hungary	26/8/1994 Budapest	30/06/1995
11	Poland	31/8/1994 Warsaw	28/01/1995
12	Netherlands	24/01/1995 Hague	25/10/1995
13	China	17/5/1995 Beijing	18/10/1996
14	Denmark	31/5/1995 Copenhagen	24/04/1996
15	Norway	01/6/1995 Oslo	14/04/1996
16	Japan	24/10/1995 Hanoi	31/12/1995
17	Germany	16/11/1995 Hanoi	27/12/1996
18	Romani	08/7/1995 Hanoi	24/04/1996
19	Malaysia	07/9/1995 Kuala Lumpur	13/08/1996
20	Laos	14/01/1996 Vientiane	30/09/1996
21	Belgium	DTA: 28/02/1996 Hanoi Protocol amending the DTA: 12/3/2012 Hanoi	DTA:25/06/1999 Protocol: Not effective
22	Luxembourg	04/3/1996 Hanoi	19/05/1998
23	Uzbekistan	28/3/1996 Hanoi	16/08/1996
24	Ukraine	08/4/1996 Hanoi	22/11/1996
25	Switzerland	06/5/1996 Hanoi	12/10/1997
26	Mongolia	09/5/1996 Ulan Bator	11/10/1996
27	Bulgaria	24/5/1996 Hanoi	04/10/1996
28	Italy	26/11/1996 Hanoi	20/02/1999
29	Belarus	24/4/1997 Hanoi	26/12/1997
30	Czech Republic	23/5/1997 Hanoi	03/02/1998
31	Canada	14/11/1997 Hanoi	16/12/1998
32	Indonesia	22/12/1997 Hanoi	10/02/1999
33	Taipei	06/4/1998 Hanoi	06/05/1998
34	Algeria	06/12/1999 Alger	Not effective
35	Myanmar	12/5/2000 Yangon	12/08/2003
36	Finland	21/11/2001 Helsinki	26/12/2002
37	Philippines	14/11/2001 Manila	29/09/2003
38	Iceland	03/4/2002 Hanoi	27/12/2002
39	Korea Republic	03/5/2002 Pyong Yang	12/08/2007
40	Cuba	26/10/2002 La Havana	26/06/2003
41	Pakistan	25/3/2004 Islamabad	04/02/2005
42	Bangladesh	22/3/2004 Dhaka	19/08/2005
43	Spanish	07/3/2005 Hanoi	22/12/2005
44	Seychelles	04/10/2005 Hanoi	07/07/2006
45	Sri Lanka	26/10/2005 Hanoi	28/09/2006
46	Egypt	06/3/2006 Cairo	Not effective
47	Brunei	16/8/2007 Bandar Seri Begawan	01/01/2009
48	Ireland	10/3/2008 Dublin	01/01/2009
49	Oman	18/4/2008 Hanoi	01/01/2009
50	Austria	02/6/2008 Vienna	01/01/2010
51	Slovak	27/10/2008 Hanoi	29/07/2009
52	Venezuela	20/11/2008 Caracas	26/05/2009
53	Morocco	24/11/2008 Hanoi	12/09/2012
54	Hong Kong	16/12/2008 Hanoi	12/08/2009
55	UAE	16/02/2009 Dubai	12/04/2010
56	Qatar	08/3/2009 Doha	16/03/2011
57	Kuwait	10/3/2009 Kuwait	11/02/2011
58	Israel	04/8/2009 Hanoi	24/12/2009
59	Saudi Arabia	10/4/2010 Riyadh	01/02/2011
60	Tunisia	13/4/2010 Tunis	06/03/2013
61	Mozambique	03/9/2010 Hanoi	07/3/2011
62	Kazakhstan	31/10/2011 Hanoi	18/6/2015
63	San Marino	14/02/2013 Rome	13/01/2016

64	Serbia	01/3/2013 Hanoi	18/10/2013
65	New Zealand	05/8/2013 Hanoi	05/5/2014
66	Palestine	06/11/2013 Hanoi	02/4/2014
67	Uruguay	09/12/2013 Montevideo	26/07/2016
68	Azerbaijan	19/5/2014 Hanoi	11/11/2014
69	Turkey	08/7/2014 Ankara	09/6/2017
70	Iran	14/10/2014 Tehran	26/06/2015
71	Macedonia	15/10/2014 Skopje	Not effective
72	Portugal	03/6/2015 Lisbon	09/11/2016
73	United States of America	07/7/2015 Washington	Not effective
74	Estonia	26/9/2015 New York	14/11/2016
75	Malta	15/7/2016 Ulan Bator	25/11/2016
76	Panama	30/8/2016 Hanoi	14/02/2017
77	Latvia	19/10/2017 Riga	06/8/2018
78	Cambodia	31/3/2018 Hanoi	20/02/2019
79	Macau	16/4/2018 Macau	03/10/2018
80	Croatia	27/7/2018 Zagreb	Not effective

Source: General Department of Taxation, as of June 4, 2019.

III.4.2 Foreign Contractor Tax (FCT)

FCT is a system of withholding tax applying widely in Vietnam. It is applicable to foreign entities or individuals which carry on business in Vietnam or engage in a transaction with a Vietnamese contracting party but do not have any legal entity in Vietnam in one of the forms prescribed in the Enterprise Law.

Foreign contractors are taxed through a withholding mechanism. FCT rates vary depending on whether the foreign contractor has a permanent establishment in Vietnam, is registered for Vietnamese Accounting System (VAS) and the length of time the services are provided as well as the nature of supplies.

FCT applies to certain payments to foreign parties, including interest, royalties, service fees, leases, insurance, transportation, transfers of securities and goods supplied in Vietnam or associated with services rendered in Vietnam. It normally comprises a combination of CIT and VAT at varying rates, but can also include PIT for payments to foreign individuals.

Dividends: No withholding or remittance tax is imposed on profits paid to foreign corporate shareholders.

Interest: Withholding tax of 5% (CIT only) applies to interest paid on loans from foreign entities. Offshore loans provided by certain Government or semi-government institutions may obtain an exemption from interest withholding tax where a relevant double taxation agreement or intergovernmental agreement applies.

Interest earned from bonds (except for tax exempt bonds) and certificates of deposit are subject to 5% withholding tax. Sales of bonds and certificates of deposits are subject to deemed tax of 0.1% of the gross sales proceeds.

Royalties and License Fees: FCT at 10% (CIT only) applies to payments to a foreign entity for the right to use or transfer intellectual property or for transfers of technology.

Payments to Foreign Contractors: A withholding tax on payments to foreign contractors applies where a Vietnamese party (including foreign owned companies) contracts with a foreign entity that does not have a licensed presence in Vietnam.

This FCWT generally applies to payments derived from Vietnam, except for the pure supply of goods (i.e. where title passes at or before the border gate of Vietnam, and there are no associated services performed in Vietnam), services performed and consumed outside Vietnam, and various other services performed wholly outside Vietnam (e.g. certain repairs, training, advertising, promotion, etc.). Foreign contractors can choose between three methods for tax payment -the deduction method, the direct method and the hybrid method.

III.4.3 Transfer Pricing

In recent years, Decree 20/2017/ND-CP was enacted on 24 February 2017 and came into effect on 1 May 2017. A guiding Circular 41/2017/TT-BTC was enacted on 28 April 2017 and also came into effect in May 2017. Decree 20 and Circular 41 are based generally on concepts and principles from the

Transfer Pricing Guidelines of the Organization for Economic Cooperation and Development ("OECD") and the Base erosion and Profit shifting ("BEPS") Action Plan. Vietnam's transfer pricing ("TP") rules also apply to domestic related party transactions.

III.4.3.1 Transfer Pricing Methodologies

The acceptable methodologies for determining arm's length pricing are analogous to those espoused by the OECD in the Transfer Pricing Guidelines for Multinational Enterprises and Tax Administrations, such as comparable uncontrolled price, resale price, cost plus, profit split and comparable profits methods.

III.4.3.2 Transfer Pricing Declaration Forms

Compliance requirements include an annual declaration of related party transactions and TP methodologies used, and a taxpayer confirmation of the arm's length value of their transactions (or otherwise the making of voluntary adjustments). Decree 20 requires that the TP method applied must ensure that there is no decrease of tax liabilities to the state budget, which could imply that no downward adjustments are allowed. Decree 20 contains a TP declaration form which requires disclosure of detailed information, including segmentation of profit and loss by related party and third-party transactions.

Furthermore, taxpayers are required to make declarations of information contained in the local file and master file. This implies that this information should be available before the TP declaration forms are submitted to the tax authorities. The TP declaration forms must be submitted together with the annual CIT return within 90 days from the fiscal year end date. Decree 20 gives the tax authorities the power to use internal databases for TP assessment purposes in cases where a taxpayer is deemed non-compliant with the requirements of Decree 20. Taxpayers engaged in related party transactions solely with domestic related parties could be exempt from the requirements to disclose information on such transactions in the TP declaration forms, where both parties have the same tax rate and neither party enjoys tax incentives.

III.4.3.3 Transfer Pricing Documentation

Companies which have related party transactions must also prepare and maintain contemporaneous TP documentation. Decree 20 introduces a three-tiered TP documentation approach to collect more tax-related information on multinational companies' business operations, specifically, master file, a local file and country-by-country report ("CbCR"). The three-tiered TP documentation has to be prepared before the submission date of the annual tax return, which gives taxpayers just 90 days (from the fiscal year end date) to complete the year's TP documentation.

If the taxpayer's ultimate parent resides in Vietnam and has worldwide consolidated revenues in the fiscal year of over VND18,000 billion, the ultimate parent company in Vietnam is responsible for preparing and submitting the CbCR. However, if the ultimate parent is outside Vietnam, the Vietnamese entity is responsible for obtaining a copy of the ultimate parent company's CbCR and submitting this upon request by the tax authorities.

A taxpayer is exempt from preparing TP documentation (but not all other aspects of the Decree) if one of the following conditions is met:

- Has revenue below VND50 billion and total value of related party transactions below VND30 billion in a tax period;
- Concludes an advance pricing agreement ("APA") and submits annual APA report(s);
- Has revenue below VND200 billion, performs simple functions and achieves at least the following ratios of earnings before interest and tax to revenue from the following business: distribution (5%), manufacturing (10%), processing (15%).

III.4.3.4 Advance Pricing Agreement ("APA")

Taxpayers have the option to enter into unilateral, bilateral or multilateral APAs with the tax authorities. The GDT has been in negotiations with the competent authorities of various overseas jurisdictions to conclude the first bilateral APAs for several taxpayers.

III.4.4 Tax reforms in response to Covid-19 pandemic

Tax relief measures include extended due dates for taxpayers to pay value added tax (VAT), individual (personal) income tax, and the amounts owed for land rental if the taxpayers are considered "vulnerable" in light of the coronavirus (COVID-19) pandemic. In particular:

a. 30% CIT reduction: Businesses with total revenue in 2020 not exceeding 200 billion VND (approximately 8.5 million USD) shall be entitled to a 30% reduction of CIT payable in 2020, according to Decree 114/2020/ND-CP dated 25 September 2020.

b. Extend the timeline for VAT payments: Taxpayers will be granted a 5-month payment extension for nominated periods as follows:

- Where taxpayers declare and pay VAT on a monthly basis: the 5-month extension of VAT payment deadline shall be applied for VAT payable of March, April, May and June of 2020.
- Where taxpayers declare and pay VAT on a quarterly basis: the 5-month extension of VAT payment deadline shall be applied for VAT payable of Quarter I and Quarter II of 2020.
- The above 5-month payment extension shall be applied from the day after VAT payment deadline.
- Taxpayers are still required to declare and submit tax returns by the statutory deadlines.

c. Extend the timeline for land rental payments: Taxpayers will be granted a 5-month payment extension for nominated period as follows:

- Extend the deadline of land rental payment for the first reporting period of 2020 of taxpayers who rent the land directly from the Government and pay land rental on an annual basis.
- The extension of land rental payment shall be within 5 months from the statutory deadline and not later than 31 October 2020.

d. Extend the timeline for VAT and PIT payment of business individuals, group of business individuals and household.

- Extend the PIT and VAT payment up to 15 December 2020 for business individuals, group of business individuals and household business individuals engaged in the aforementioned business sectors.
- The proposed payment extension of VAT, PIT and land rental is not automatically applied. An application for tax payment extension must be submitted to the tax authorities before 31 May 2020 for consideration and approval on every single case.
- In addition, other relief measures concern the suspension of social insurance contributions for a number of businesses affected by the COVID-19 pandemic.

IV. Country Specific Fiscal Issues

IV.1 Inefficiency bank system

Viet Nam's financial system is large for a middle-income country, as shown in the high levels of credit extended to the private sector. Nevertheless, the financial sector remains bank-centric and dominated mostly by state-owned banks, while non-bank financial institutions are relatively small.

Lagging competition in the banking sector may jeopardize the efficient allocation of resources. The Doi Moi reforms have mildly liberalized the sector by limiting the functions of the State Bank of Viet Nam (SBV) – once a central and a commercial bank – to monetary policy and banking supervision, and creating several other state banks. As of 2018, 96 banks operated in Viet Nam, including 7 state-owned credit institutions, 35 joint stock commercial banks, 46 foreign bank subsidiaries, 4 joint-venture banks and 5 wholly foreign-owned banks. Yet, in spite of this increasing diversification, four major state-owned credit banks (SOCBs) account for 45% of banking sector assets and provide half of total credit.

This monopoly may be a source of inefficiency. SOCBs tend to open preferential lines of credit for SOEs, conceding low interests and accepting government guarantees that companies without political connections could not afford. Financial access was the main business environment constraint for SMEs. Only 29% of small enterprises have an active line of credit, compared to 57% of large firms. This implicitly crowds out potentially more promising private companies that are willing to expand. Without the support of SOCBs, these firms usually re-invest their earnings or rely on informal sources of capital (such as "back-alley banks", trade credits, and money from family and friends) to upgrade. Recently, SMEs have been gaining access to banking services due to rapid innovation in financial technology (especially cashless payments and mobile banking services).

Efforts to strengthen asset quality and bank capital are underway, but vulnerabilities persist. The SBV initiated a series of reforms to mitigate the risk borne by the banking sector, including restructuring, mergers of banks and the enhancement of a legal framework for the management of non-performing loans (NPLs). As a result, the ratio of NPL to total gross loans decreased to a record low of 1.9% in the second quarter of 2019.

In addition to having a large banking sector, Viet Nam is also seeing the development of capital markets for corporate equity and other financing tools. Stock market capitalization amounted to 39% of GDP in 2017, compared to the ASEAN average of 114%. For many companies, including SOEs, transparency and accounting requirements for listing on the stock market can be a burden. The bond market, though growing rapidly, is predominantly tilted towards public sector borrowing. The creation of credit rating agencies is improving transparency and opening up opportunities on the stock market for large credit-worthy companies; meanwhile, the issuance of corporate bonds is on the rise. The swift emergence of Ho Chi Minh City as a sophisticated financial center is facilitating the trading of corporate securities and venture capital, and could enhance the issue of innovative assets, such as green bonds, which are key to financing the low carbon transition.

IV.2 Inflation

As with any country that has undergone fast-paced development in an already dynamic region, Viet Nam has faced numerous macro-economic challenges. The country quickly overcame the initial difficulties of inflation, resulting in a highly successful first decade, with growth reaching 10% by the mid-1990s. However, the external shock of the 1997 Asian Financial Crisis jolted the system; and while growth recovered quickly, it never returned to pre-crisis levels. The subsequent decade saw reforms continue at a fast pace and foreign direct investment (FDI) pick up until the Global Financial Crisis of 2008. However, weaknesses in the management of the macro economy and state-owned firms began to manifest themselves, planting the seeds for future difficulties. Thus, while Viet Nam managed to cushion the impact of the global crisis, in the early 2010s it had to contend with domestic problems consisting of a housing bubble, double-digit inflation and a banking crisis resulting from significant non-performing loans, mainly to state-owned firms.

After accelerating in the first three quarters of 2018 on the back of hikes in administered prices (for electricity and health services), headline CPI moderated significantly in the last quarter of 2018 due to softer food and fuel prices. For the year as a whole, the headline CPI came in at 3.6 percent well below the State Bank of Vietnam (SBV)'s inflationary target of 4 percent. Annual average core inflation remained subdued – rising slightly from 1.4 percent in 2017 to 1.5 percent in 2018.

Against the backdrop of moderate inflationary pressures, monetary policy continues to balance the SBV's dual focus on maintaining stability while supporting economic growth. While the monetary policy stance remains broadly accommodative, the SBV tightened macroprudential norms in 2018, setting credit growth limits for commercial banks and controlling lending to high-risk sectors (real estate, securities, and consumer lending). Liquidity in the banking sector also tightened markedly due to slower deposit growth pushing up short term interbank interest rates. Amidst tighter financing conditions, credit growth moderated to about 14 percent (year-on-year) in 2018 (down from 18 percent in 2017). Nevertheless, corporate and household balance sheets are increasingly leveraged with Vietnam's credit-to-GDP ratio standing at 135 percent. This leaves the economy more vulnerable to shocks and potential financial market stress, especially against a backdrop of legacy non-performing loans and relatively thin capital buffers in some banks.[20]

IV.3 Inefficient state-owned enterprises

Despite improved short-term prospects, there are significant downside risks. Domestically, a slowdown in the restructuring of the state-owned enterprise (SOE) and banking sectors could adversely impact the macro-financial situation, undermine growth prospects, and create public sector liabilities. Further fiscal consolidation through the continued contraction of public investment could undermine long-term development objectives. Vietnam's economy also remains susceptible to further volatile developments in the global economy, given its high trade openness and relatively limited fiscal and monetary policy buffers. External risks include escalating trade protectionism, heightened global and regional geopolitical uncertainty, and continued tightening of global financing conditions that could lead to disorderly financial market movements.

Economic growth has been resilient and macroeconomic stability has been broadly maintained. While relatively high public debt, rapid credit growth and balance sheet weaknesses in the banking and SOE sector remain key macroeconomic vulnerabilities, the Government has started to address these. Increased exchange rate flexibility introduced in early 2016 and gradual foreign exchange reserve accumulation have 9 bolstered resilience against external shocks, especially in the context of anticipated strengthening of the US dollar. While credit growth remains elevated, the recent moderation signals a shift towards a more stability-oriented monetary stance. With regard to fiscal policy, the government has started to implement a gradual fiscal consolidation. Sustaining the resolution of balance sheet weaknesses in the SOE and banking sector would also be important to contain medium-term macroeconomic risks.

IV.4 Public debt

The government initiated an ambitious fiscal consolidation program in 2017 to rein in public spending, and created a new legal framework to tighten oversight of debt management. After a decade of steady increases in the public-debt-to-GDP ratio, 2017-18 saw a welcome reversal in the public debt trajectory. The lower fiscal deficit in 2017 together with a reduction in government guarantees and significant privatization proceeds helped contain further increases in public and publicly guaranteed debt. Overall, public and publicly guaranteed debt declined to 61.4 percent in 2018 from the peak of 63.7 percent in 2016, remaining below the statutory limit of 65 percent of GDP. During the same time, government's debt fell slightly from 52.8 percent to 51.7 percent of GDP and remains above the 50 percent statutory limit for direct public debt. Meanwhile, the government refrained from issuing new guarantees which resulted in decline in the stock of public guaranteed debt from 10.2 percent in 2016 to 8.8 percent in 2018.

Public debt sustainability hinges on continued implementation of the envisaged fiscal consolidation program and remains subject to risks. In the baseline scenario, which is based on the overall macroeconomic framework and predicated on implementation of a gradual fiscal adjustment, including

[20] The World Bank, April 19, 2019; "The Socialist Republic Of Vietnam For The First Ho Chi Minh City Development Policy Operation"

some use of (non-debt creating) privatization proceeds for deficit financing, public debt is projected to decline to 57 percent of GDP in 2020, but start rising gradually from then onwards as fiscal deficits remerge. This baseline assessment is subject to considerable risk, including in particular delays in fiscal consolidation and persistent primary deficits exceeding the debt stabilizing level, shortfall in privatization proceeds as well as growth and exchange rate shocks.[21]

[21] The World Bank, April 19, 2019; "The Socialist Republic Of Vietnam For The First Ho Chi Minh City Development Policy Operation"

V. Conclusion: Where We Stand and Where We Go?

In more than 30 years since the first market reforms, Viet Nam has experienced a remarkable economic transformation, built on pragmatism and flexibility. GDP doubled every decade, multiplying almost six-fold over the entire period. In the late 1980s, half of the population lived in absolute poverty (less than USD 1.9 per day), a figure that has now dropped to less than 4% in 2019.

Viet Nam has embraced economic opening and integration into the global economy as central to its reform and development path. Beginning with its accession to ASEAN in 1995, then to the WTO in 2007 and the new "Comprehensive and Progressive Agreement for Trans-Pacific Partnership" (CPTPP) in early 2019 and the approval of the European Union - Vietnam Free Trade Agreement (EVFTA) in early 2020, Viet Nam has pursued a fast-paced integration strategy and uses trade agreements not only for obtaining market access, but also as blueprints for building capacity through foreign standards, domestic reforms and institutional design.

V.1 The economic impacts of the Covid-19 pandemic in Vietnam

V.1.1 Economic impacts of Covid-19

The global economy has entered into its worst recession in recent decades. Global GDP is expected to decline by 5.2 percent in 2020 as the result of the COVID-19 pandemic and the associated measures taken to contain it over time. In Vietnam, several economic and financial indicators have not yet bounced back to their precrisis levels, including the gross domestic product (GDP) growth rate that, at 1.8 percent in the first semester of 2020, was approximately 5 percentage points lower than its historical trajectory during recent years.

Vietnam's index of industrial production (IIP) saw a modest increase of 1.8 per cent in the first four months of 2020, the slowest pace in recent years, according to the General Statistics Office (GSO). In April 2020, the IIP slumped sharply by 13.3 per cent compared to the previous month and by 10.5 per cent compared to the same period last year. It is also the first IIP decrease during the 2016-2020 period. In March, the processing and manufacturing sector, which accounts for a large proportion of domestic industrial production, recorded the greatest IIP reduction of 10.5 per cent in the four-month period. The mining sector witnessed a decrease of 10.7 per cent while electricity production and distribution fell by 7 per cent. Meanwhile, water supply and waste-sewage treatment sectors rose by 1.8 per cent year on year.

The COVID-19 pandemic has caused a shortage of imported raw materials for production, seriously affecting industrial production. As of April 1, the number of employees in industrial enterprises decreased by 1.6 per cent year on year due to the impact of the COVID-19 pandemic, causing these firms to cut back their employment.

Vietnam's economy has been hurt by the pandemic as the GDP growth rate recorded in the first semester of 2020 was the lowest of the three last decades. Yet, it has remained one of the most dynamic economies in the world. This economic resilience can be explained by two factors. First, from February to April, the foreign sector was the driving force as merchandise (net) exports continued to grow at the exceptional rate of above 10 percent per month (year-over-year). During this first phase, domestic activities declined due to increasing social distancing and mobility restrictions, which culminated in the almost complete national lockdown in April. Second, from May to the present, domestic activities rebounded when the authorities started to ease most mobility restrictions; as an example, manufacturing production surged by over 30 percent in the last two months. Meanwhile, the foreign sector has started to lose steam, due to weaker demand by Vietnam's main trading partners. Concurrently, foreign direct investment inflows and remittances from Vietnamese living abroad have also shown signs of weakness.

Aware of the financial distress caused by the pandemic, the government has been quick to use monetary and fiscal tools to help the most vulnerable businesses and people, including by tax relief and direct financial support, which have been relatively well implemented since early April. The Vietnamese policy response also relied on a combination of foresight and pragmatism. Thanks to the accumulation of significant cash-flow reserves due to its prudent fiscal management before the crisis, the authorities were able to respond immediately both at the central and local levels, without additional domestic or external borrowing. There has been no sense of panic. To counterbalance the projected slowdown in global trade, the authorities have also reacted quickly by instructing that logistical costs of exporters be reduced, while cutting red tape, reducing fees, and streamlining procedures in customs and in main transport hubs.

V.1.2 Baseline scenario for 2020–22

The baseline scenario – without a big second wave of coronavirus infections in Vietnam and gradual control of the pandemic globally – projects that GDP growth will reach 2.8 percent in 2020. Such rate assumes that the economy will rebound by 3.5 percent in the second semester after recording only 1.8 percent during the first six months. This rebound, will be driven by the combination of domestic private and public demand, thanks to the countercyclical fiscal policy followed by the government that is expected to accelerate in the next few months. While the projected rate of 2.8 percent will be the lowest achieved by Vietnam over the past 35 years, it will ensure that Vietnam remains one the fastest-growing economies in the world – ranked fifth according to the Global Economic Prospects latest projections. During 2021–22, the Vietnamese economy is expected to return gradually to its historical GDP expansion of approximately 6 to 7 percent per year, as foreign demand should pick up in the main industrial countries. Over the next few years, Vietnam is expected to continue to benefit from trade and investment diversions thanks to its adhesion to various global and regional agreements, including the EU-Vietnam Free Trade Agreement (EVFTA) in June 2020.

Most financial variables will remain under control in 2020, especially the inflation rate, which is expected to remain under 4 percent during 2020–22. The SBV should adjust monetary expansion to the expected growth rate of the economy to contain potential pressure on domestic prices over time. Food and energy prices – two important items in the Consumer Price Index – should not see large increases in the absence of disruption in their supply chains or deterioration in climatic conditions.

On the external front, the current account balance should deteriorate temporarily due to lower receipts from tourism and remittances in 2020. Vietnam's export growth should decline significantly but should be accompanied by a similar (or even faster) reduction in imports as both variables are closely correlated in Vietnam. The level of FDI inflows is projected to drop in 2020 given the uncertainties in the world economy, but should return to recent levels afterward, partly reflecting the growing interest of foreign investors in the domestic market and their willingness to diversify their activities away from China.

The fiscal deficit should temporarily worsen due to the slowdown of the economy and the government's policy response to the COVID-19 crisis. It should reach approximately 6 percent of GDP in 2020 before returning to 4 to 5 percent levels in subsequent years, when the authorities will be able to return to their commitment of prudent and sustainable fiscal policy. The deterioration should be temporary, as revenue should pick up again when the economy gradually rebounds in the next few years. Stimulus spending should also decline gradually as the result of the expected economic recovery in 2021 and 2022.

In line with the expected short-term deterioration in the public deficit, public debt should increase from 54.1 to 56.1 percent of GDP between 2019 and 2020. This increase will be relatively limited because the government should be able to rely on its accumulated reserves to compensate for declining revenues and to finance additional spending. Subsequently, the government should return to its fiscal consolidation effort that will return the public debt-to-GDP ratio to the range of 55 percent during 2021–22. As in recent years, the government should rely on a combination of domestic and external borrowing to manage the risks associated to both the exchange rate and interest rate.

V.1.3 The new normal for Vietnam

The Financial Times wrote that, "even as countries tentatively start to emerge from the Covid-19 lockdown, life will not spring back to how it was pre-crisis until there is a vaccine. Organizations and individuals must adapt to another 'new normal'".[22] For Vietnam, this new normal may come a little bit earlier than for other countries as it is moving more quickly out of the crisis after controlling the

[22] https://www.ft.com/content/e90fa942-809f-11ea-82f6-150830b3b99a

pandemic. While the future remains hard to predict, businesses and people are likely to remain partially restricted in their movements, especially across borders. The foreign demand for Vietnamese products, including tourism services, should hardly return to its precrisis level given the remaining uncertainties. The fear of a resurgence of the pandemic will also certainly affect domestic demand as many private operators will postpone their investment and consumption plans so they can keep their savings to absorb a future shock. In this new equilibrium, where Vietnam's two traditional engines of growth are unlikely to run at full speed, the state will have to become the new catalyst for growth and give further attention to the possible emergence of new inequalities.

The state should make a deliberate effort to support the recovery of the economy. The authorities should accelerate the execution of their investment program by not only removing the main administrative bottlenecks surrounding several large projects but also by stimulating public works at the local level. The government should also provide smart assistance to the private sector, especially for businesses operating in distressed sectors such as transport and tourism. The state should also accelerate the implementation of its reform agenda as the emergence of megatrends in the global economy offers a unique opportunity for Vietnam to move more quickly toward its goal to become a high-income economy. The country can increase its footprint in the global economy and enhance the provision of better-quality services through digitalization and contact-free delivery. The shift in the use of information can also generate much-needed changes in individual and collective behavior toward the more careful management of the country's natural resources and beauty for future generations.

In the new normal, close attention should be given by the government to rising inequalities. Indeed, COVID-19 has not been fair as its impact has been significantly different on businesses and people, creating and reinforcing existing inequalities. Some sectors have recovered faster than others from the crisis, with essential and outdoor work such as farming and construction coming back first, while many hotels and tourism resorts are still working at a low capacity. In the job market, many white-collar employees whose jobs can done at home have been paid, while others have lost all their savings. These differentiated impacts will not only influence the short term but also shape the future of the country's labor market and the way firms operate. Over the past few decades, Vietnam has done a great job reducing extreme poverty by creating millions of productive jobs, mainly in manufacturing, and in sharing the fruits of its rapid growth. Looking ahead, these gains will need to be preserved by adapting the labor force skills to the new demands from firms. The state may also rethink its social protection policy, notably by reforming the existing tax system, so it can help secure jobs and income to the most vulnerable groups and manage the emergence of future inequalities. These reforms should be at the center of Vietnam's policy agenda so that Vietnam continues to be one of the most dynamic and inclusive economies in the world.

V.2 Air Pollution Challenge

Vietnam is struggling with alarming air pollution. Its two biggest cities, Hanoi and Ho Chi Minh City, are now among the top 15 polluted cities in Southeast Asia. Fine particulate matter (PM2.5) is the most concerning air pollutant in Vietnam. In 2019, Hanoi had only eight days with PM2.5 lower than the national standard of 50 micrograms per cubic meter (μg/m3). The air quality in Ho Chi Minh City was not much better, with only 36 days below the standard. For the remaining days of the year, over ten million people in these cities were exposed to heavily polluted air.

Finer particles are particularly harmful to human health as they can penetrate deep into the lungs and cardiovascular system, causing diseases including stroke, heart disease, lung cancer, chronic obstructive pulmonary diseases and respiratory infections. Up to 60,000 deaths in Vietnam in 2016 were related to air pollution. On average, air quality being below the World Health Organization's standard reduces life expectancy by one year and costs the country about 5 per cent of GDP per year.

Among the main causes of this pollution is transportation. Vietnam now has 3.6 million automobiles and 58 million motorbikes, mostly concentrated in big cities. Many of them are old vehicles, with limited emission control technology. They cause daily traffic jams and emit a large amount of air pollutants. There are many old buses and motorbikes with visibly black exhaust smoke in the country.

Vietnam's transportation issues are exacerbated by poor urban planning. Mushrooming high-rise buildings in city centers, each with thousands of inhabitants, create enormous pressure on the already overloaded road infrastructure. No mass transit systems exist except for the yet-to-be-convenient bus fleet. Open and green space is considered luxurious in Vietnam's big cities.

Another problem is dust from commercial and residential construction sites. Thousands of construction sites filled with trucks that are heavily loaded with sand and cement create perpetual dust storms. Old industrial sites inside cities and air polluting facilities such as coal power plants and cement and steel manufacturers worsen air pollution. Solid biomass cooking stoves used by hundreds of thousands of city dwellers as well as the burning of rice fields after harvest in peri-urban areas of Hanoi contribute significantly to air pollution, particularly in the dry season from October to February.

Environmental authorities have identified short-term solutions. These include stricter regulations on new vehicle emission standards, better traffic control, enforcement of dust management measures for construction sites and transporting trucks, enhanced monitoring of industrial emissions and bans on charcoal stove use in cities. While these measures could help partially address Vietnam's pollution, long-term national policies are needed.

- First, improving and reinforcing urban planning would mitigate air pollution considerably. Hanoi and Ho Chi Minh City have plenty of highly occupied high-rise buildings and now need more open and green space. Densely populated facilities such as government offices, universities and hospitals could be relocated to be outside cities. Relocating old industrial sites would reduce hazardous air pollutants. The completion of mass transit systems is also urgently needed, followed by the development of new systems. Green building codes and feed-in tariffs could promote the development of energy efficient and solar-powered buildings.
- Second, policies promoting the use of greener vehicles could reduce air pollution. Phasing out obsolete and polluting vehicles could be encouraged by providing subsidies for trading in old cars, paid for by higher taxes on new vehicles. This would help address distributional effect concerns, as owners of old vehicles tend to be from lower-income households. The government could also issue enabling policies to promote electric vehicles (EVs), such as allowing only EVs in downtown areas and an income tax reduction for EV manufacturers to make them more affordable.
- Third, pollutant pricing would be appropriate given the polluter pays principle. The environmental protection tax regulation could be revised to better target polluting fuels such as diesel and coal. Carbon pricing would reduce the consumption and production of carbon-based products and promote a low-carbon economy. This would alleviate air pollution and mitigate climate change, which is another threat to Vietnam's economic and social security.
- Fourth, a smooth and efficient transition to a renewable electricity system would help mitigate air pollution and climate change. Enabling policies such as feed-in tariffs and reverse auctions for solar and wind power would maintain the momentum of a recent boom in solar power that made Vietnam the top country in Southeast Asia for solar power installation. Vietnam could set more ambitious targets for renewable energy, given its high potential for solar, wind and off-river pumped hydropower.
- Last, fossil fuel subsidy reform could reduce the use of the dirty fuel and free up the current annual fossil subsidy of US$ 612 million or 0.3 percent of Vietnam's GDP for other welfare activities such as health, education and environmental protection.

It is the perfect time to prioritize these potential measures by revising the Law on Environmental Protection, which is planned to be approved by the National Assembly at the end of 2020. Vietnam has the capacity to turn around its pollution problem through careful regulation.

V.3 Future trends

V.3.1 Rapid population ageing

Viet Nam will experience an extremely rapid ageing process. Driven by a rise in life expectancy and declining birth rates, by 2055 for every person over 65 years old, Viet Nam will have just 2.5 people of working age, compared to 10.5 today.

The labor market, health care and social protection will have to respond to this challenge. Efficient investments in human capital will be essential to maintain productivity growth, given the decline in the working-age population. Today, Viet Nam relies heavily on families and traditional norms to provide for the elderly, both financially and in terms of care. However, as seen in more advanced countries in the region, such as Korea, the norms around intra-family care giving are likely to change rapidly as the demands of shrinking younger populations increase dramatically. Much of this pressure and change in norms will be concentrated on women, who bear the brunt of expectations for elderly care, and will also be required to play an increasing and extended role in the shrinking work force. A sustainable and universal social protection system (including pensions, social assistance and adapted health care) will also be crucial.

V.3.2 Vietnam's middle class is growing fast

By 2035, more than half of Viet Nam's population is projected to join the ranks of the global middle class (11% of the population are classified as such today, consuming USD 15 a day or more). This new population, the majority of which will live in urban areas, will represent a huge domestic market and the potential to drive development in the future, counterbalancing existing dependence on exports and foreign markets. However, this middle class will also expect better jobs and will have higher educational, social and civic aspirations. Expectations regarding public services are also likely to rise, as will demands for greater transparency and civic participation.

V.3.3 Climate change

Impacts of climate change in Viet Nam are likely to intensify. According to the medium-high emission scenario, by 2100 Viet Nam will have less rainfall in the dry season, higher average temperatures (about 3.5 degrees Celsius) and rising sea levels by up to one meter. This would cost 10% of GDP and directly affect 10.8% of the population, the largest percentage among 84 affected countries worldwide. The most vulnerable groups including the poor, the ethnic minorities and children would be more severely affected. As the majority of Vietnamese and their economic activities are located in two river deltas, sea level rise could have significant consequences. The Mekong River Delta, the "rice bowl" of Viet Nam, might be under water by 2200.

V.3.4 Digitalization and changing global trade patterns

Ongoing digitalization will create immense opportunities for Viet Nam, but could also present challenges. Technological transformation can lower production costs and generally speed up innovation. The rise of Artificial Intelligence (AI) and the growth in data could provide a foundation for new businesses and new jobs, and help address pressing social and global challenges such as ageing populations, climate change and energy security. However, automation might increase the risk of job losses if workers are not equipped with adequate skills to transition to new career opportunities.

Advancements in technology could also give rise to back-shoring. Recent years have seen an increase in reports of manufacturing companies in OECD economies transferring activities back to their home country (back-shoring) or to a neighboring country (near-shoring), due in part to cost reductions brought about by technology advancement. However, this trend would have a negative impact on booming FDI in Viet Nam, weakening its growth momentum. Good governance for technologies and a forward-looking policy approach are key to reaping the full benefits of technological transformation. The large number of students abroad specializing in Science, Technology, Engineering and Mathematics represent a significant human capital potential that could help Viet Nam seize unprecedented opportunities, if the right incentives were provided.

The broader outlook on trade is mixed, with a very favorable near term and an uncertain longer term. Contrary to these technology trends, the near term presents Viet Nam with a positive outlook on trade, with the trade altercations between China and the United States causing significant diversion of exports and investments from China to Viet Nam. Nevertheless, the longer-term outlook on trade is highly uncertain. The global economic outlook is decelerating, with negative consequences for trade that will likely impact Viet Nam, once the one-off effects of the China-US altercations have run their course.

V.4 Building socio-economic development norms for 2021

The 13th Congress of the Communist Party of Vietnam, planned for early 2021, may result in changes in leaders and political appointees at the national/central and provincial levels. At the same time, Vietnam will adopt a new Socio-Economic Development Strategy (SEDS) 2021-30 and Socio-Economic Development Plan (SEDP) 2021-25, which will lay out the country's development priorities for the next decade. These developments may affect future policies and implementation and possibly sustainability of ongoing initiatives, including partner-funded engagements.

The plans also outline some targets besides the 7-percent growth of the national economy in 2021, including an increase of about 9-11 percent in budget revenue from domestic production and business activities compared to the estimated collection in 2020. The targeted increases for each locality will depend on its specific conditions, characteristics and development speed. Meanwhile, revenues from import-export activities in 2021 are projected to rise about 4-6 percent over the results in 2020. Furthermore, they also clarify major orientations and tasks for next year, including continuing to complete the socialist-oriented market economy institutions, promoting fast and sustainable growth, speeding up economic restructuring, broadening import- export markets, and enhancing the quality and efficiency of human resources.

Some of the forces that have propelled Vietnam's growth are now slowing. The country's demographic dividend is fading, and global trade is declining, while other challenges - such as pollution and the rise of automation, are growing. The ongoing COVID-19 crisis could be an accelerator of these trends. Therefore, to thrive in such changing environment, Vietnam needs to strengthen its productive assets, with priority given to four following areas:

- **Dynamic firms**: Encouraging competition and easing firm entry and exit ensures the flow of resources to the most innovative and productive firms. This can only happen in a supportive business environment that ensures access to finance, transparent regulations and legal protections.
- **Efficient infrastructure**: Vietnam has built up a large stock of infrastructure. It now needs to improve the efficiency and sustainability of infrastructure services, including financing, and operations and maintenance.
- **Skilled workers and opportunities for all**: The country scores well on basic education, but it will need to promote university and vocational-technical skills that are becoming even more important for a productivity- led growth model. Those facing barriers entering the labor market, including ethnic minorities, should be provided with greater opportunities—to boost both social equity and economic growth as the population ages and the labor force shrinks.
- **Green economy**: Sustainable development requires more effective management of renewable natural resources such as land, forest and water; stricter pollution controls, including in major urban centers; and mitigation of and adaptation to the inevitable growing impacts of climate change.

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