

Doing Business in Viet Nam

A reference guide for entering the Viet Nam market



An aerial photograph of a coastal town in Vietnam, likely Hoi An. The town is built on a peninsula with terraced fields and a dense cluster of buildings. A large harbor filled with numerous small boats is visible, surrounded by a stone wall. The water is a vibrant turquoise color, and the surrounding landscape includes green hills and a small lake. The word "Contents" is written in white text on a dark background in the upper left corner.

Contents



Foreword by the Prime Minister	05
Welcome to 2019 Doing Business in Viet Nam	06
Viet Nam: the road to integration	08
Why invest in Viet Nam?	14
Sectors of opportunities	16
FAQs	22
<hr/>	
1. An overview of Viet Nam	24
2. Types of business entities	34
3. Trade	40
4. Taxation	46
5. Accounting and auditing	56
6. Human resources and employment law	61
7. Focus industries	64
<hr/>	
PwC Vietnam	72
Viet Nam Chamber of commerce and industry	76
Contact us	78

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The materials contained in this document were assembled in August 2019 and were based on the laws enforceable and information available at the time.





Nguyen Xuan Phuc
Prime Minister of
Viet Nam

“

In 2018, Viet Nam's GDP growth rate hit a 10-year record high of 7.08%, making it one of the top growth performers in the region and the world. The average nominal GDP per capita was nearly US\$2,600, equivalent to GDP per capita in PPP terms of US\$7,600. Viet Nam's development builds upon socio-political and macro-economic stability, as well as effective inflation control and improvements in the quality of growth. Moreover, the purchasing power of the 95-million strong population has made Viet Nam an attractive market to foreign investors.

By leveraging on its competitive advantage, Viet Nam achieved a trade turnover of nearly US\$480 billion and trade surplus of US\$7.4 billion in 2018. In addition to experiencing record growth in agricultural exports, Viet Nam has also become one of the world's factories, supplying electronic consumer goods, mobile phones, textiles and footwear. In 2018, Viet Nam was home to around 26,000 foreign direct investment (FDI) projects with total registered capital of nearly US\$350 billion. Many of those projects came from large corporations such as Siemens, Novartis, Carlsberg, Mitsubishi, Toyota, Samsung, LG, Exxon Mobil, Ford, GE, etc.

In addition, Viet Nam's securities market has continued its positive growth over the course of 20 years of development. In September 2018, FTSE Russell added Viet Nam to its watch list for possible reclassification as a "Secondary Emerging market" instead of a "Frontier market".

Thanks to strong improvements to its business environment, Viet Nam attracted a record FDI of US\$35 billion with implemented capital of US\$19 billion in 2018. The private sector also witnessed strong growth with over 131,000 newly established businesses in 2018. More local enterprisers have become confident embracing the international playing

field, such as automobile manufacturers Truong Hai and Vinfast.

The international rankings of Viet Nam were raised by many international organisations in 2018. The World Bank's Doing Business report ranked Viet Nam 69th out of 190 countries. As per the World Economic Forum's Global Competitiveness Report, Viet Nam placed 77th out of 140 countries. Meanwhile, Viet Nam's Competitive Industrial Performance (CIP) was 41th out of 150 countries in the UNIDO's 2016 report. In addition, Viet Nam ranked 57th out of 156 countries in the United Nations' Sustainable Development Goals index, an increase of 11 places from the previous year.

The Fourth Industrial Revolution, or Industry 4.0, is on the doorstep of every single enterprise, bringing about drastic changes that no nation can ignore. Viet Nam is embracing the challenges of Industry 4.0 and turning them into a great opportunity to compete through innovation with other countries, rather than through traditional elements like trade liberalisation, scale, experience, labour or capital.

Viet Nam jumped two spots in the Global Innovation Index (GII) 2018 to place 45th out of 126 economies. The country currently has over 3,000 start-ups that are developing and attracting more capital from local and foreign investment funds.

To achieve the above accomplishments, we have made efforts to build an action-oriented and development-enabling government of integrity in the service of the people and businesses. We commit to strengthening the legal framework towards international standards and to promote the private sector. A friendly, supportive and open business environment is what the Vietnamese government strives for."

Extracts from the speech by Prime Minister Nguyen Xuan Phuc in dialogue with leaders of multinational corporations on Viet Nam's economy
World Economic Forum, Davos, Switzerland
January 23rd, 2019.

Welcome to 2019 Doing Business in Viet Nam

On behalf of both the Viet Nam Chamber of Commerce and Industry (VCCI) and PwC Vietnam, we are pleased to share with you an extract from a conversation between **Dr. Vu Tien Loc, Chairman & President of VCCI** and **Ms. Dinh Thi Quynh Van, General Director of PwC Vietnam**.

VTL: Viet Nam has often been hailed as one of the top emerging economies in the world. As a consultant to many investors in this country over the years, could you tell us what they see in Viet Nam?

DTQV: That's an interesting question. For many years, investors have been amazed at the transition of Viet Nam from a centrally planned into a market economy, from one of the poorest in the world into a lower middle-income country. Viet Nam now is one of the most **dynamic** emerging countries in the region with great **potential**.



“Dynamic” – that’s a good description! Viet Nam’s economic transformation during the last 30 years has been nothing short of remarkable. In fact, I can cite some statistics that showcase our country’s dynamics:

- 2018 GDP growth reached 7.08% – the highest since 2008;
- 2018 import - export quadrupled to nearly US\$480 billion since our accession to WTO;
- With more than US\$19 billion, foreign direct investment (FDI) disbursement for 2018 was the highest in a decade, to name a few.

I agree. Both local and global businesses feel the same way too. According to PwC’s 2018 APEC CEO Survey, Viet Nam continues to be the No.1 investment hotspot with a net 46% of business leaders in APEC planning to increase investments in our country in 2019.

I know VCCI also conducted a survey which revealed that nearly 56% of foreign firms plan to expand their operations in Viet Nam.

Yes and one more thing I would like to add on is that the country’s dynamism is also evident in its active international integration and strong support for global free trade. To date, we have signed and joined 13 free trade agreements (FTAs) and are negotiating an additional three. In 2019, I’m looking forward to some exciting initiatives like the Comprehensive and Progressive Agreement for Trans-Pacific Partnership (CPTPP) which came into effect early 2019 and the ratification of the EU-Viet Nam Free Trade Agreement (FTA) in 2020.

True. I believe that these pacts will create an impetus for Viet Nam to speed up institutional reform, improve the business environment, and enable even more new cross-border business opportunities.

You're spot on. The new-generation FTAs will help Viet Nam's further integrate into the regional and global supply chains, expand its exports markets, and offer even more potential to investors. Furthermore, with a young population that is continually improving their knowledge and skills, Viet Nam has great **potential** to advance to the next levels in the global value chains.

Yes, and speaking of that, Viet Nam's FDI activities have been associated with relying on natural resources and low labour cost for years. Manufacturing, processing, real estate and retail have garnered the most interest from foreign investors. From VCCI's perspective, are there opportunities yet to be unlocked?

I think that there is plenty of room for further investment in high-tech industries, financial services, tourism and even modern agriculture. Supporting incentives have been offered in forms of tax or land rental schemes to encourage more investments in high-tech, green industries, non-polluting sectors and value-added services. I strongly believe that in the coming years, digital and eco-friendly investments are going to drive economic growth.

Those incentives you mentioned are the result of the Government's commitments to creating a more favourable environment for business.

For instance, the term "Enabling Government", coined by the Vietnamese government a few years ago, is still one of the key philosophies that Viet Nam adheres to. This is reflected in the government's on-going efforts to align the country with international standards and practices. While headline changes are generally positive, we must also recognise and be prepared for challenges in implementing change.

That's right. So in order to succeed and sustain growth for years to come, there is much more to prepare than just capital. In fact, investors must carry out numerous market assessments, and adapt their plans and capabilities to the evolving local context to ensure success.

That's true. While opportunities abound in Viet Nam, there are also obstacles ahead. Understanding Viet Nam, and all the elements that make it a unique market, will help businesses be better prepared to invest here. More importantly, with proper planning supported by the right information and advice, investors will not only effectively enter the market, but enjoy sustained success in this future economic power house.

“

For foreign investors, the Doing Business guide is a helpful start for any investment plan. It gives readers an overview of Viet Nam as a potential investment destination, and help them keep up-to-date with its dynamic business environment. VCCI and PwC Vietnam have collaborated to publish this guide since the hosting of APEC in Viet Nam in 2017. Since then, the guide has been an annual flagship publication which represents the partnership between VCCI and PwC Vietnam. We hope this guide can help investors through their sustainable growth in this economy.”

Viet Nam: the road to integration

Once among the smaller economies in ASEAN, Viet Nam has emerged as a dynamic country poised for economic modernisation and is participating actively in competitive, export-oriented and service industries.

Partnerships with the World Bank, IMF and other international organisations started in 1993. These have made important contributions to Viet Nam's remarkable socio-economic development over the past few decades.

Partnership with World Bank, IMF...



About 20 years ago, in 1998, Viet Nam joined the Asia-Pacific Economic Cooperation (APEC), which was a big step forward in Viet Nam's efforts in multilateralisation and international economic integration. Becoming an APEC member has had a positive impact on Viet Nam's development and reforms.

● **APEC membership**



1986



Doi Moi (Renovation)

More than 30 years ago, economic reforms collectively known as “Đổi mới” were initiated in Viet Nam with a goal of creating a “socialist-oriented market economy”. The country started to open up to foreign investment and trade. As a result, Viet Nam has achieved an impressive level of international integration with numerous milestones along the way.

1993

1995



ASEAN membership & Normalisation of US - Viet Nam relations

Becoming the 7th member of Association of Southeast Asian Nations (ASEAN) in 1995 was another major landmark in the regional integration process. Since joining the ASEAN bloc, Viet Nam has forged new bilateral and multilateral relations within ASEAN, and actively engaged in the regional economy by implementing the AFTA agreement. 1995 was also a historical year, as Viet Nam and the US announced the formal normalisation of their diplomatic ties, followed by booming trade volumes between the two countries in the subsequent years.

1998

2007



● **WTO accession**

Another key turning point was Viet Nam's accession to the World Trade Organisation (WTO) in 2007. The accession to the WTO opened a wide door for the country to enter the global playground with bilateral and multilateral free trade agreements. Over a decade of WTO membership has turned Viet Nam into a rising star globally. The economy has been reformed, gradually increasing the GDP contributions of industry and services while at the same time reducing the dominant share of agriculture.

The Agreement between Viet Nam and Japan for an Economic Partnership (VJEPA), signed in 2008, was the very first bilateral FTA for Viet Nam after the country joined the WTO. VJEPA has had positive economic consequences for both Viet Nam and Japan.

Viet Nam-Japan Economic Partnership Agreement (VJEPA)



2008

2015



Participation in the ASEAN Economic Community (AEC)

The official establishment of the ASEAN Economic Community (AEC) has been a landmark for ASEAN in moving from a less developed region to a much more prosperous and dynamic region. Deeper integration into the AEC in the coming period is expected to bring new opportunities for Viet Nam.

The Vietnamese National Assembly passed a resolution approving the Comprehensive and Progressive Agreement for Trans-Pacific Partnership (CPTPP) and related documents in 2018. The agreement will open up new opportunities for trade and create more motivation for Viet Nam to reform its economic institutions and business environment. According to calculations by the National Centre for Socio-Economic Information and Forecasting under the Ministry of Planning and Investment, the CPTPP would boost Viet Nam's GDP by US\$1.7 billion and exports by US\$4 billion by the year 2035.

CPTPP signed

CPTPP

2018

2019



EVFTA signed

The EU - Viet Nam Free Trade Agreement (EVFTA) and the Investment Protection Agreement (EVIPA) were signed in June 2019 in Hanoi. These agreements introduce a new era for both sides to further bilateral trade and investment cooperation. The Euro Commission has described the EVFTA as the most ambitious free trade deal ever inked with a developing country.

Highlights of Viet Nam Business Summit



Note:

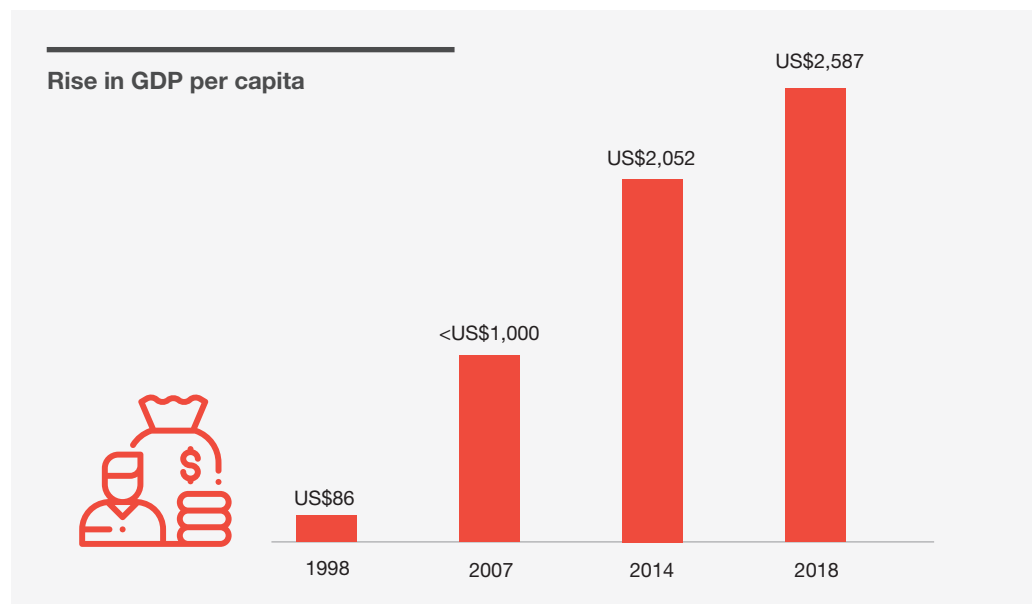
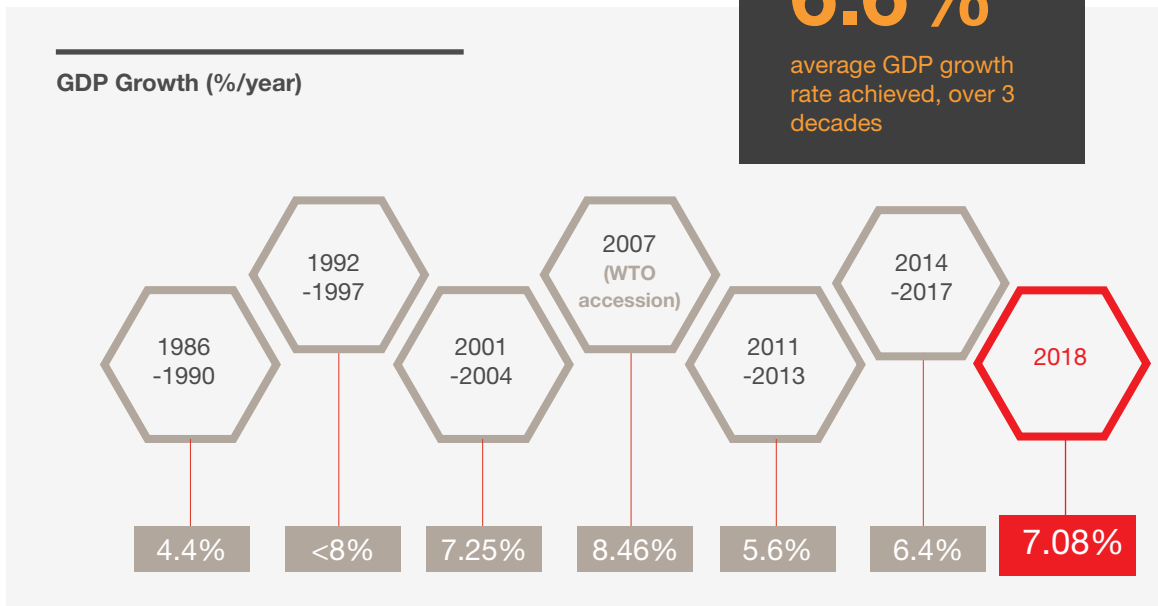
1. Delegates at the Me - Mother statue
2. Meeting with the World Bank
- 3,4,5. Meeting with business representatives
- 6,7. Viet Nam Business Summit 2018
- 8,9. Greeting APEC 2017 leaders



within APEC 2017 and World Economic Forum 2018 on ASEAN



Throughout over 30 years of Đổi mới, Viet Nam's economy has maintained an average GDP growth rate of 6.6%, featuring among the world's Top 50 economies.



Viet Nam is an attractive investment destination in the region

Since joining APEC in 1998 and WTO in 2007, Viet Nam has been carrying out its commitments to international economic integration with vigour. The country has opened its door to cross-border trade and investment, and undergone various institutional and policy reforms. New bilateral and multilateral relations have been forged, giving Viet Nam impetus to adhere to international standards of doing business.

2018, in particular, marked an important milestone in the implementation of Viet Nam's economic integration commitments. Within ASEAN, the country is implementing its commitments to cut 98% of tariff lines. In terms of trading with the Republic of Korea, Japan and Australia, Viet Nam is reducing taxes for products on the sensitive list.

By proactively realising those commitments and pledging to create favourable conditions for foreign enterprises, the country is also reaffirming its important geopolitical status in South East Asia and the Asia-Pacific region.

From possessing a convenient location in the region to unlocking some achievements in institutional reform, Viet Nam has proven to remain an attractive investment destination in the region.

In this section, we will explore some factors contributing to the said statement.

Why invest in Viet Nam?

Factors making Viet Nam an attractive investment destination:
(in no particular order)

1. Strategic location

Located next to China, Viet Nam's proximity makes it an ideal alternative location for investors seeking to diversify their supply chains from China. Investors are able to limit interruptions or delays to existing supply chains in China.



2. Increasing integration into global economy



Participation in strategic trade agreements, including the AFTA, EU-Viet Nam FTA and CPTPP, demonstrates the commitments

of Viet Nam towards trade openness with other countries.



3. Strengthening institutional and regulatory framework

Over the years, the Vietnamese government has improved its legal and institutional framework to create a transparent and fair investment environment

for investors. This has been reflected in the improvements in Viet Nam's Ease of Doing Business ranking from 99th in 2014 to 69th in 2019.

4. Large market with increasing purchasing power and an emerging middle class

With a population of about 95 million, ranking 14th in the world, Viet Nam has enormous market potential to various types of business investment. According to PwC's World in 2050 report, Viet Nam is forecast to be among the Top 20 economies in the world by 2050.

95 million
population

5. Young population and large workforce, with growing talents

Viet Nam is well known for its golden age structure with more than 52% of people in working age and about 97% of the working age population is literate, according to the Ministry of Education and Training.

The government has taken steps to meet the demand of high-skilled industries, including increasing vocational and technical training. In 2018, there were more than 1,900 vocational training centres across Viet Nam.

52%
of people in
working age



6. Stable and high-growth economy

Viet Nam is among the fastest growing economies in ASEAN and is poised for robust growth, projected to expand at 6.4% annually between 2018 and 2022, according to Moody's Investor Services. International organisations such as the World Bank and ADB have praised Viet Nam for the stable growth of the macro-economy.



8. Continuously improving infrastructure

Viet Nam is investing heavily in infrastructure, such as highways and sea ports, to provide an efficient business environment for investors. From 2012 to 2016, Viet Nam's infrastructure spending growth was among the fastest in ASEAN, at 11.5% p.a., nearly double its GDP growth.

This has helped boost the country's World Bank Logistics Performance Index ranking in 2018 by 25 spots to the 39th position among 160 countries, putting Viet Nam ahead Malaysia, Indonesia and the Philippines.



Manufacturing
labour costs
per hour

US\$6.5 CHINA

US\$3 VIETNAM

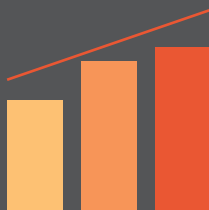
7. Competitive labour cost and increasing productivity

The rise of wages in China, coupled with the recent trade war between the US and China, has forced manufacturers to look for an alternative market. This is an opportunity for which Viet Nam is well positioned. For example, manufacturing labour costs per hour in China are projected to reach US\$6.5 in 2020, while these costs are about US\$3 in Viet Nam, according to Statista.

Vietnamese workers are also producing higher value added goods. Between 2008 and 2016, labor productivity in Viet Nam increased by 22.5%. In 2018 alone, labour productivity rose by 6% compared to 2017.

22.5%

labour
productivity
in Viet Nam
increased
(2008-2016)



Sectors of opportunities

For 30 years, Viet Nam has been an attractive destination for FDI. Foreign capital has become a major driver of Viet Nam's economic growth, creating more jobs and improving trading activities. Nevertheless, foreign investment in Viet Nam is significantly driven by low labour cost and generous profit-based incentives. The Government is renewing its FDI strategy towards increasing investor confidence and the added value to the economy.

Encouraged sectors are those in which the country has strong advantages and where foreign investors can offer high-technology and high value added goods and services that domestic Vietnamese companies do not have. The sectors include high-tech/ICT, processing and manufacturing, supporting industry, tourism, services and high-tech agriculture.

Though this strategy is still in draft, the Government has continuously encouraged foreign firms to invest in these sectors. Some sectors are more developed than others and some have more potential for growth. We would like to elaborate on some key industries:

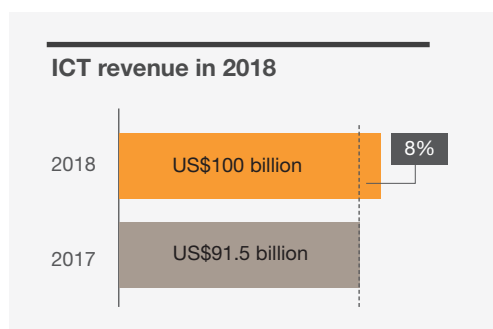


Business process outsourcing

Information and communication technology (ICT) is a booming sector in Viet Nam, supported by world-class telecommunication infrastructure.

ICT revenue in 2018 reached almost US\$100 billion, posting an 8% increase compared to 2017. Software export revenue is estimated to reach US\$3.5 billion, an increase of 11.6% over the previous year.

Within the ICT sector, business process outsourcing (BPO) is an industry that is poised for growth due to:

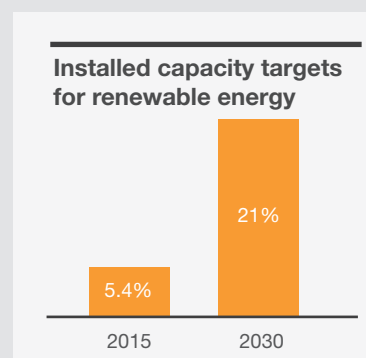


Growing talent pool	Viet Nam has about 250 universities training 50,000 students per year. The country's ICT sector has around 900,000 employees, with an annual growth rate of 7-10%, according to the Ministry of Information and Communications.
A vibrant digital sector	Viet Nam is home to a vibrant start-up environment. In 2018, local start-ups received US\$889 million in funding, triple the amount in 2017, according to Topica Founder Institute. Amongst start-ups in Viet Nam, the majority are based on technology and digital (FinTech, E-commerce & TravelTech).
Competitive cost	Viet Nam's labour costs for IT outsourcing and business processes are about 30% less than in India. Operation costs are also estimated to be cheaper, at about one third of the levels in India.
Companies are diversifying from China and India	Due to the US trade war with China and its intention to end preferential trade treatment with India, Viet Nam has become an attractive alternative destination for BPO.

Solar and wind energy

Viet Nam's energy demand is surging heavily with forecast indicating that by 2035 the total final energy demand will be nearly 2.5 times higher than in 2015. In order to reduce national energy production and consumption dependence on fossil based energy sources and contribute to energy security, renewable energy is a very promising area.

Growth in the non-hydro renewables sector is set to gain momentum, with opportunities in wind and solar. In 2018, Viet Nam attracted 23 inbound renewable energy investment projects, mainly in Asia-Pacific, according to FDI Intelligence. Among the factors contributing to the renewable energy growth are:



Government policy	The revised National Power Development Master Plan VII (PDP 7) plans to nearly quadruple the installed capacity for renewable energy to 21% as a percentage of total installed capacity of 2030, up from 5.4% in 2015.
Moving away from conventional power	From 2020 – 2030, hydropower and coal, oil and gas power will grow at a slower rate of 2.6% and 7.8% respectively, while renewable energy will accelerate at a rate of 23%.
Geography advantage	Suitable geography for wind and solar energy including: (i) coastal and mountainous regions favourable for wind turbines; (ii) high concentrate of direct normal irradiance in the Southern-central part (average DNI is more than 1,000kWh/sqm a year) will ensure stable long-term power generation.
Incentives for renewable	The government has openly shifted to a pro-renewable stance by issuing a number of investment incentives, for instance the introduction of the feed-in-tariff (FIT) scheme for solar and wind power.
Openness for foreign investors	In order to meet the high demand of capital requirement, the Vietnamese government has permitted 100% foreign ownership of Vietnamese energy companies. Foreign investors can choose different types of investment forms in which Public - Private Partnership (PPP) is preferred to minimise risks.

Retail banking

Viet Nam's financial services sector in general and retail banking in particular are undeveloped but boasts high growth potential. The Asian Banker predicts Viet Nam's retail banking income to experience a CAGR of 25% between 2016 – 2020.

Within this sector, we foresee room for growth in retail banking, in particular payment cards and wealth management services.

>90%

of financial transactions conducted in cash

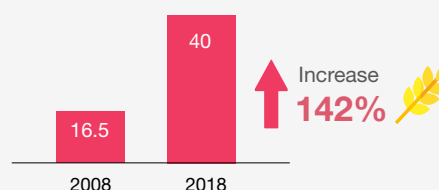
A heavily cash-based society	Over 90% of financial transactions are conducted in cash, hence the demand for other types of banking products is set to grow.
Increasing digital connectivity	The country's mobile internet subscriptions are expected to expand further from 45 million in 2017 to 55 million by 2023, according to Euromonitor International (Retailing 2019 edition), thereby presenting a unique opportunity in the FinTech space.
59% of the population is banked	It is noteworthy, however, that this 'banked' population is underutilising existing banking services, which indicates there is still significant potential for product diversification and growth within retail banking.
Young and populous consumer base	With about 60% of the 95 million population under the age of 35, the working age population will continue to expand over the next twenty years and bring higher demand for convenient, consistent and accessible financial services products.
Growing affluence	Rising affluence in the domestic market will likely lead to higher demand for premium services like wealth management, life insurance and retail banking products.

Modern agribusiness and food

Viet Nam is a tropical country which is gifted with favourable conditions for agriculture. The agro-forestry-fishery sector contributed 8.7% to the general growth of the economy in 2018 and agriculture's share in total employment was about 40%.

Nevertheless, foreign investment in Viet Nam's agriculture is still relatively untapped compared to its manufacturing counterpart. We believe that the country's agriculture sector holds major potential for foreign investors thanks to following factors:

Viet Nam's agricultural export growth (2008 - 2018) (US\$ billion)



Strong growth ahead	Viet Nam's agribusiness market value is estimated to reach \$44.6bn in 2020, according to Fitch Solutions and FAO.
Record high of export revenue	Agriculture's export revenue reached about US\$40 billion in 2018 with 10 commodity groups recording an export turnover of over US\$1 billion.
Food and Beverage CAGR is experiencing strong growth	The two main market sectors, Packaged Food and Soft Drinks*, both post a CAGR growth by 8% between 2018 – 2023, according to Euromonitor International.
Investment incentives	To call for more foreign capital and know-how into agribusiness and hence, situate high-tech agriculture at the core of the economy, the government has circulated a new decree on incentives for agricultural and rural investments.
Value added to Viet Nam's agriculture export	Viet Nam's agriculture is urged to create more value added products. However, the food processing industry is still weak and fragmented. As such, FDI businesses can invest in processing plants with advanced equipment and technology as a recommended strategy.

* Sum of Packaged Food market size in retail value RSP and sum of Soft Drinks market size in off-trade value RSP, Euromonitor International edition 2019



32 million

visitors arrivals in 2022
(forecast)

Tourism

Viet Nam's tourism sector is expected to spearhead the country's economy and its growth. According to the World Travel & Tourism Council, the direct contribution of tourism to Viet Nam's GDP in 2017 reached US\$12 billion (approximately 5.9% of total GDP) and is forecast to double to US\$25 billion by 2028.

Within tourism, we see the following potentials for growth and investment:

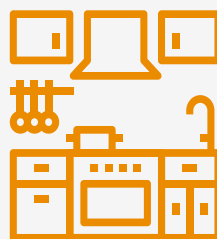
20% growth in tourist	Total visitor arrivals are forecast to reach 19.7 million in 2019, an increase of 20.4% from the previous year. Fitch Solutions forecasts an overall average of 20% in the period of 2018 - 2022 with total visitor arrivals to reach 32 million by 2022.
Demand for luxury travel	Viet Nam is increasingly developing its reputation as a luxury travel destination. The development of high-end, luxury resorts under internationally recognised hotel chains has expanded rapidly to cater for this increasing demand.
4 to 5 star hotels	The supply of four and five star hotels has grown strongly. Over the period of 2013 – 2016, 4-star hotels have enjoyed an 11% CAGR growth while 5-star hotels have experienced growth of 25% (EVBN, 2018 edition).
Cultural heritage	Viet Nam has five cultural, two natural, and one mixed site recognised by UNESCO as World Heritage Sites, emphasising its rich culture and biodiversity.
Opportunities in coastal areas	Significant growth is expected in the coastal areas and islands with the expansion of international airports, for example, in Da Nang and Van Don.
Better market access	Developing transport infrastructure and a competitive airline industry will support the growth in tourism, which bodes well for the hotel industry.

Consumer goods

Viet Nam is one of the most promising consumer markets in the Asia Pacific region, along with Indonesia, India, the Philippines and China. Viet Nam's consumer expenditure in 2018 reached approximately US\$181 billion (in current US\$, World Bank) and is forecast to grow further in the future.

Against the backdrop of rising consumer spending and disposable income in Viet Nam, a number of opportunities have emerged for consumer goods. In this sector, we will explore some of the key points driving those opportunities.

Household spending growth



50%

rise in household spending expected between 2018 and 2022

Double digit growth forecast

Retailing in Viet Nam is forecast to reach US\$173 billion by 2023, an increase of 61% from US\$108 billion in 2018, according to Euromonitor International*.

Areas for opportunities

Viet Nam's strong consumer confidence (one of the top three most confident countries globally, according to Nielsen) has propelled spending on consumer goods especially in the areas of food and beverages, premium goods and apparel.

E-commerce booming

E-commerce growth is forecast to double to US\$10 billion in 2020 from US\$5 billion in 2016, according to a report by Google and Temasek.

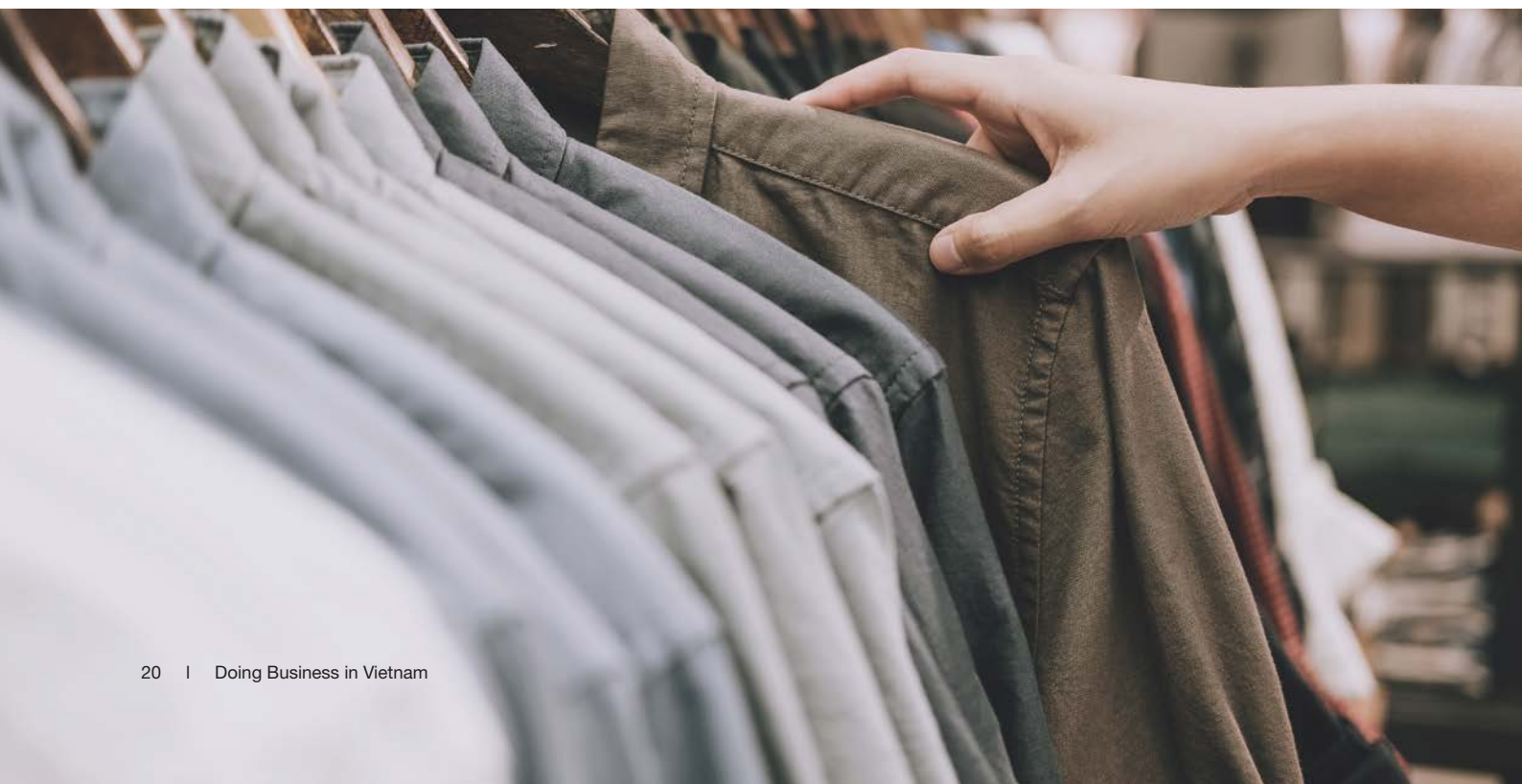
Rising household incomes

Net income per household is set to rise by more than 42% by 2023 from US\$4,621 in 2019 to US\$6,566, according to Fitch Solutions.

Household spending growth

Total household spending is forecast to grow by 50% from US\$132 billion in 2018 to US\$198.2 billion in 2022, according to Fitch Solutions.

(*) Market size of Retailing in retail value (retailing selling price), Euromonitor International (Retailing 2019 edition)

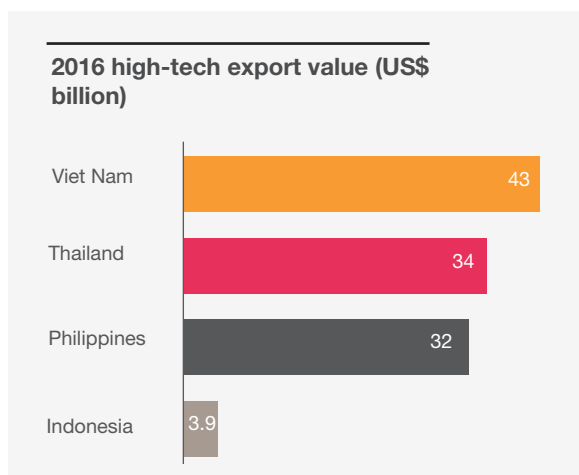


Manufacturing

As China's manufacturing sector experiences rising labour cost and due to the increasing US – China trade tension, Viet Nam is well-positioned to be Asia's new manufacturing centre, particularly in the electrical and electronics sector.

Viet Nam has been shifting gear into high technology, represented by around US\$43 billion of high-tech export value in 2016 which is higher than its peers including Thailand (US\$34 billion), Philippines (US\$32 billion) and Indonesia (US\$3.9 billion).

We will look at some factors below to explore why Viet Nam should be the next destination for manufacturers.



An emerging manufacturing export hub

In 2018, total export revenue was estimated at US\$244.7 billion, up 13.8% against 2017. Of that total, FDI companies contributed 71% (equivalent to US\$175.5 billion), up by 13% compared to 2017.

Higher-value manufacturing exports

Phones, computers, and cameras (plus their related components) posted a CAGR growth of 18%, 23% and 26%, respectively, over the period of 2013 - 2018.

Strong demand for Viet Nam manufactured goods


2018 as a whole was one of the best years for Viet Nam's manufacturing sector since the Purchasing Managers' Index (PMI) survey began in 2011 (IHS Markit). An average PMI of more than 50 leaves the industry well placed to have a positive 2019 despite headwinds elsewhere in the global economy.

Close proximity to China's supply chain and markets

Viet Nam is close to the manufacturing centre of southern China, which will be valued by foreign investors who may still want to maintain connection with China's supply chains.

Better physical connectivity through significant investment in infrastructure

From 2012 to 2016, Viet Nam's infrastructure spending growth was among the fastest in ASEAN, at 11.5% p.a., nearly double its GDP growth.



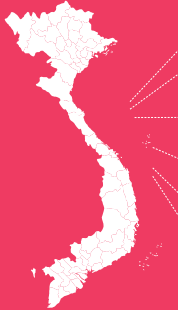
Viet Nam will continue its growth trajectory and foreign investment will remain a key driver for growth. Understanding the complexities of doing business in Viet Nam can be daunting. The table below provides some of the questions that investors need to think about when making investment decisions. Subsequent chapters in the guide provide further details on some of the questions.

FAQs for investing in Viet Nam

FAQs

Think about...

Viet Nam in general



- What is the demographics of Viet Nam?
- Which business areas is the Vietnamese Government encouraging foreign investors to engage in?
- How lucrative is Viet Nam compared to the other Southeast Asian economies?
- How does Viet Nam rank in international rankings for ease of doing business?
- What is the legal institution in Viet Nam and what is the highest-level representative body of the people?
- What international agreements is Viet Nam committed to?

- Market assessment
- Background check
- References from current investors

Market entry strategy



- What is the size and growth of the addressable market?
What's driving demand?
- What is the go-to-market strategy to quickly set-up and build my business in Viet Nam?
- Is my business sufficiently differentiated?
How much should I localise?
- How does the local legal and regulatory regime impact my identified industry?
- What do supply chain / distribution channels look like?
- Who would be suitable business partners for my business?

- M&A strategy
- Legal and regulatory review
- Strategy (market entry, background check, etc.)
- Working capital management
- Purchase price allocation
- Business valuation

Market entry plan



- Has my plan considered local tax and legal implications?
- Do I need advice on local accounting standards / requirements?
- What HR laws/regulations do I need to take into an account?
- Is my HR plan sufficient to establish core competencies and skills? Do I need plans for talent localisation?

- Tax structuring advice
- Negotiation support and SPA review
- Working capital management
- Business integration (operational, human resource, technology, risk advisory, etc.)
- Regulatory compliance (legal, tax, accounting)



1. An overview of Viet Nam

This guide, Doing Business in Viet Nam, provides a high-level overview of the practical aspects of doing business in Viet Nam, including the common types of business entities used by local and foreign investors, and the taxation and regulatory environment in Viet Nam.

The guide also covers some practical issues faced by investors when entering Viet Nam.



Viet Nam's enabling government, continuous institutional reforms and competitive workforce provide excellent conditions for investors to conduct long-term business."

Dinh Thi Quynh Van
General Director | PwC Vietnam

Geography

Viet Nam is conveniently located in the centre of Southeast Asia and is bordered by China to the north, and Laos and Cambodia to the west.

The total area of Viet Nam is over 330,900 square kilometres and its geography includes mountains and plains. Viet Nam's population is spread throughout the country.

Total population by end of 2018 was estimated at about 95 million people. Viet Nam represents a huge pool of both potential customers and employees for many investors. Hanoi in the north is the capital of Viet Nam and Ho Chi Minh City in the south is the largest commercial city. Da Nang, in central Viet Nam, is the third largest city and an important seaport.

VIETNAM

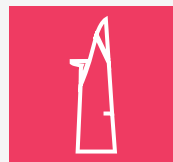
63 municipalities & provinces
330,900 square kilometres



Hanoi
capital city



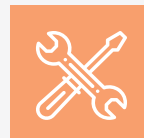
Da Nang
3rd largest city,
important seaport



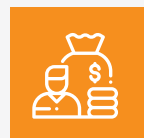
Ho Chi Minh
largest city



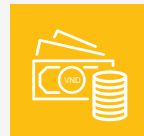
Population: about
95 million
(median age: 30.5)



54 million
employed people



\$2,587
average annual income



Currency
dong



Stock exchange:
Ho Chi Minh City
Hanoi

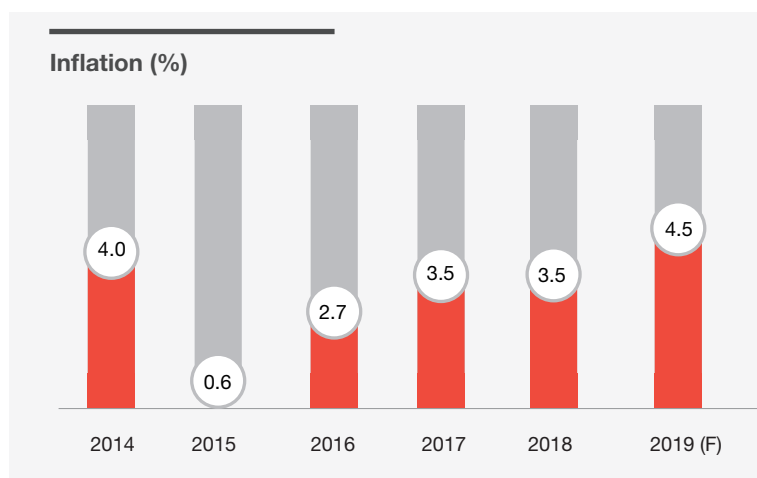
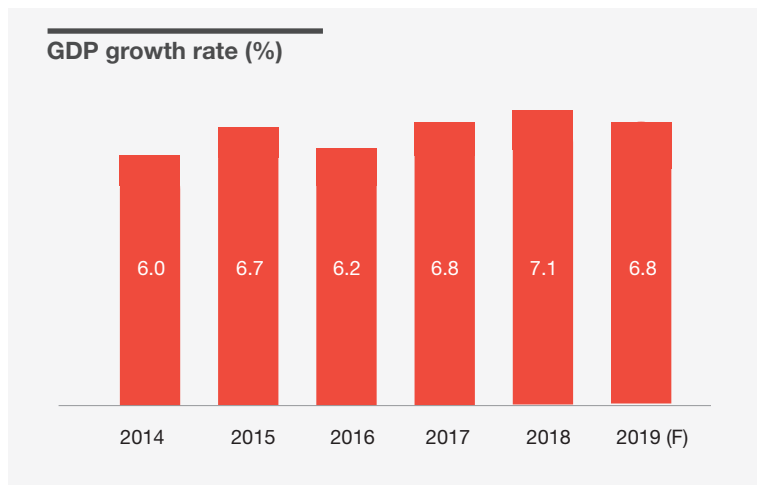
Economic environment

2018 saw a record GDP growth of 7.08%, the highest rate since 2008, beating the target to hit 6.7% by the Government and well close to the forecast of 7.1% by the Asian Development Bank (ADB).

The 10-year record high growth was a result of an improved business climate, positive economic structure transformation and impressive exports. The country witnessed another record trade surplus of close to US\$7 billion in 2018, of which, the domestic sector posted a trade deficit of US\$25.6 billion and the foreign-invested sector had a trade surplus of US\$32.8 billion. The majority of the top export items belong to the foreign direct investment (FDI) sector, contributing US\$143 billion, or about 71% of the total export value. Textiles and garments, electronic components and mobile phones remained top contributors to Viet Nam's export economy. Overcoming many difficulties, agricultural exports in 2018 hit about US\$40 billion, ranking 15th in the world and has exported to more than 180 countries and territories. Specifically, fruit and vegetables became one of the top three agricultural export products with a value of US\$3.8 billion.

Viet Nam's imports largely comprised raw materials and mechanical spare parts for manufacturing and production purposes as well as for projects in power and energy.

In terms of inflation rate, price management and inflation control were successful in 2018 with CPI growth of 3.5%, much lower than the target of about 4%. This marked the third consecutive year with inflation maintained at below 4%, contributing substantially to the success of socio-economic development and improved business.



Source: General Statistics Office of Viet Nam (GSO)

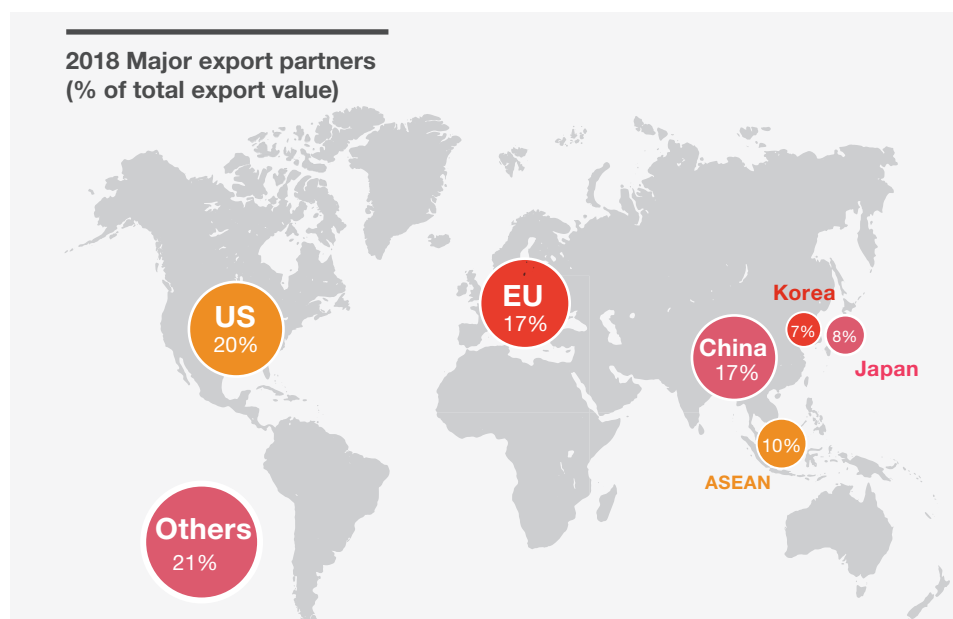
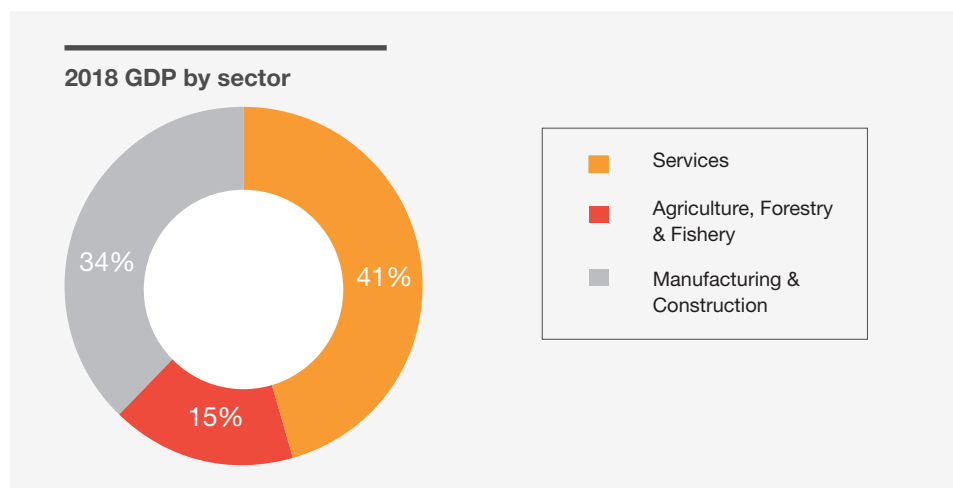
Key sectors and trading partners

In terms of economic structure, the services sector remained the largest part with 41% while manufacturing and construction accounted for 34%. The agriculture, forestry and fishery sector made up 15% of GDP in 2018. Product taxes less subsidies on production accounted for the rest of 10%.

The EU and ASEAN have continually been long-term trading partners of Viet Nam with total import-export turnover in 2018, hitting US\$55.8 billion and US\$56.3 billion respectively.

Four other import markets for Viet Nam, with turnover of over \$14 billion were: United States (US\$47.5 billion); China (US\$41.3 billion); Japan (US\$18.9 billion) and Republic of Korea (US\$18.2 billion).

For more information on FTAs and trade statistics, please refer to the 'Trade' section of this guide.



Source: GSO, General Department of Viet Nam Customs

Foreign direct investment

After more than 30 years of FDI attraction, the sector has become an important part of the economy, contributing greatly to the socio-economic development. Political stability, emerging middle class, competitive labour costs and the Government's will to carry out economic reforms are critical factors for Viet Nam to remain attractive to foreign investors.

At the 2019 World Economic Forum (WEF) in Davos, the Prime Minister of Viet Nam reassured that the Government would speed up institutional reforms and develop a socialist-oriented market economy conforming to international practices and the commitments which Viet Nam have made. Furthermore, the Government is building a national strategy on Industry 4.0 to seize opportunities brought about by the revolution.

Looking at the 30-year journey of FDI in Viet Nam, there is a need for the country to not only focus on economic growth, but also focus on how FDI can contribute to more sustainable growth, i.e. better jobs and improved living standards. Hence, shifting from quantity to quality investment is one of the key content of the draft FDI strategy towards 2023. This project has been carried out by the Ministry of Planning and Investment (MPI) with support from the World Bank. The new draft strategy focuses on high-tech, environmentally friendly, low-energy consuming and renewable energy projects, in addition to enhancing connectivity between FDI businesses and domestic companies.

New-generation free trade agreements have motivated investors from developed countries to expand their operations in Viet Nam and invest in the country. Specifically, the EU-Viet Nam Free Trade Agreement (EVFTA) and the Comprehensive and Progressive Agreement for Trans-Pacific Partnership (CPTPP) have offered legal framework to boost influx of investment from member countries.

To date, there are about 130 countries and territories investing in Viet Nam. In 2018, the country recorded total FDI of US\$35 billion with around US\$19 billion of FDI capital disbursed. Viet Nam also reported US\$9.9 billion of capital contribution and share purchase by foreign investors in 2018, an increase of 59.8% over 2017.

In 2018, Japan, Korea and Singapore accounted for more than half of the total registered FDI. Despite the strong will and encouragement of pushing up investments in Viet Nam, the capital from the US and the EU into Viet Nam has so far not matched the potential.

Manufacturing and processing still remain favourite sectors for foreign investors, reaching US\$16.5 billion in 2018, accounting for 46.8% of the total FDI. Real estate moved up to 2nd place at US\$6.6 billion, or 18.7%. Wholesale and retail trade; repair of motor vehicles and motorcycles secured the 3rd position at US\$3.6 billion, accounting for 10.4%.

130

countries and territories investing in Viet Nam.



There has been increasing interest from foreign firms in the retail market on the back of improved infrastructure system and administrative procedures, a growing middle-class population, and a stable economy. For instance, Aeon (Japan) stated that Viet Nam is a key investment destination in Southeast Asia with plans to open 30 shopping centre, with a total investment capital of US\$5 billion. By 2022, the Central Group (Thailand) aims to open 500 new stores to reach around 750 in Viet Nam. This plan is backed by the acquisition of Viet Nam's Big C supermarkets from Casino Group (France) and 49% of Nguyen Kim electronics supermarket. In the food manufacturing industry, Nestle (Switzerland) opened its sixth factory in the country, and Ve Wong (Chinese Taipei) in partnership with Kinh Do (Viet Nam) opened a US\$30 million factory to produce instant noodles.

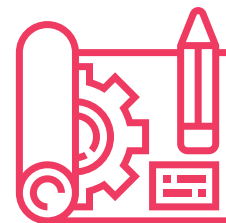
“Increasing interest in retail market”



Viet Nam is also regarded as a promising market for foreign hospitality firms as they are keen to enter and explore more opportunities in this high growth market. For example, Rezidor Hotel Group (Belgium) expanded by building a 522-room hotel. Banyan Tree Holdings (Singapore) granted investment certificate to increase its total investment capital at Laguna Lang Co integrated resort to US\$2 billion. In 2018, Mövenpick Hotels & Resorts (Switzerland) also started construction of a new hotel.

Asian and European infrastructure developers have also invested in Viet Nam with notable attention to critical projects in the transport, energy, telecommunications, and water sectors. In 2017, Modern Energy Management (Thailand) won the contract to develop the first phase of commercial scale wind farms being built by Woojin Construction (Republic of Korea), Tra Vinh Wind Power (Viet Nam) and Climate Fund Managers (Netherlands). Keppel (Singapore) won a US\$40 million engineering, technology and construction contract for a port development.

“Asian and European infrastructure developers have also invested in Viet Nam with notable attention to critical projects in the transport, energy, telecommunications, and water sectors”



EU investors are also busy investing in infrastructure projects such as Vinci Construction (France) selected to improve drinking water supply to Ho Chi Minh City. A consortium led by Alstom (France) with Colas Rail (United Kingdom) and Thales (France) won a metro system contract to be completed by 2021. T&T Group and Bouygues S.A. signed a contract worth 250 million Euro to re-build Hang Day Stadium, for an investment opportunity in the 31st SEA Games, which will take place in Viet Nam in 2021.

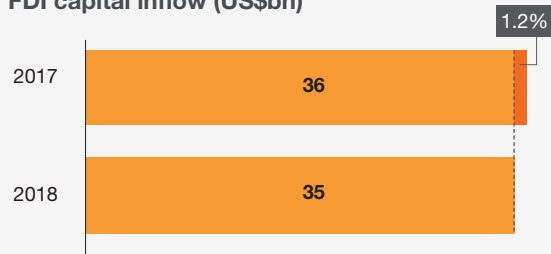
Investment incentives

Investment incentives are granted to investment projects based on location, sector and other factors such as the size of the project. High technology, software, new energy, waste recycling and education are among business areas eligible for investment incentives. The full list could be retrieved from the Foreign Investment Agency's website. Those incentives are provided in the following forms:

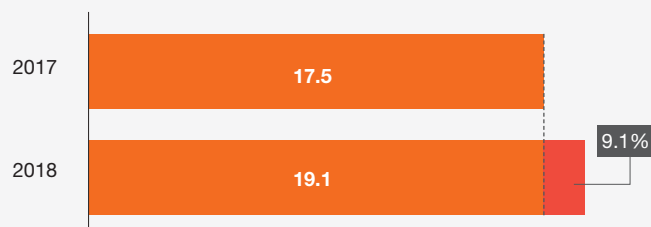
- Lower tax rates for the whole duration of the investment term or part thereof; exemption from and reduction of tax rates;
- Import duty exemption for fixed assets; and
- Reduction/exemption of land rental

Further details on tax incentives could be found under the 'Tax' section of this guide.

FDI capital inflow (US\$bn)



FDI disbursement (US\$bn)

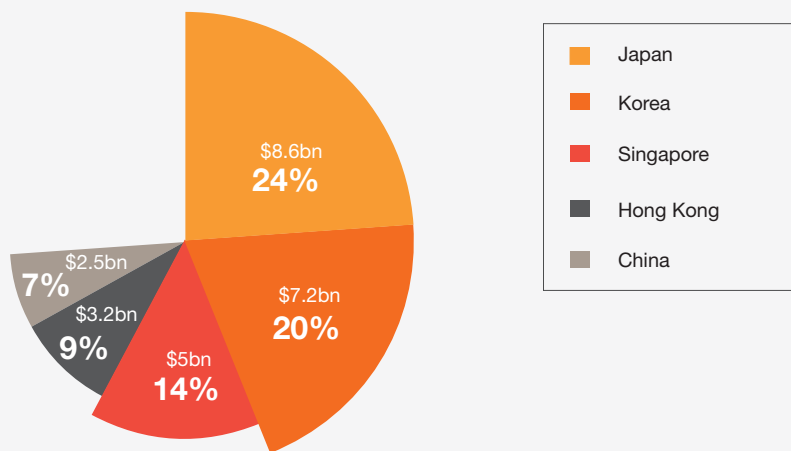


Source: Ministry of Planning and Investment of Viet Nam



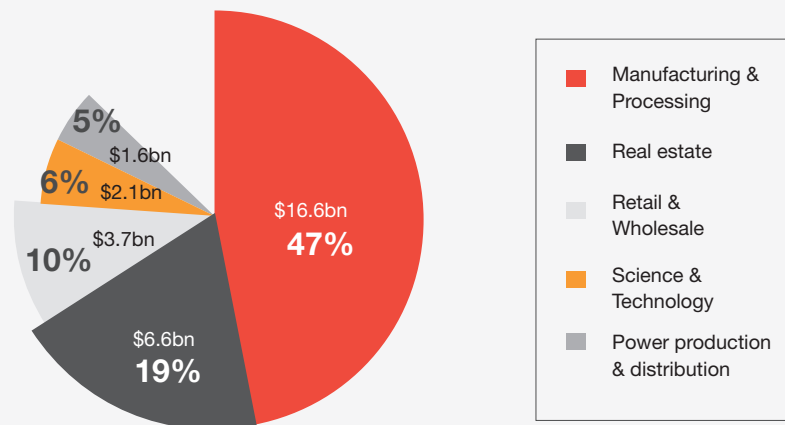
Key FDI sources 2018

Total registered capital



Key FDI sectors 2018

Total registered capital



Source: Ministry of Planning and Investment of Viet Nam

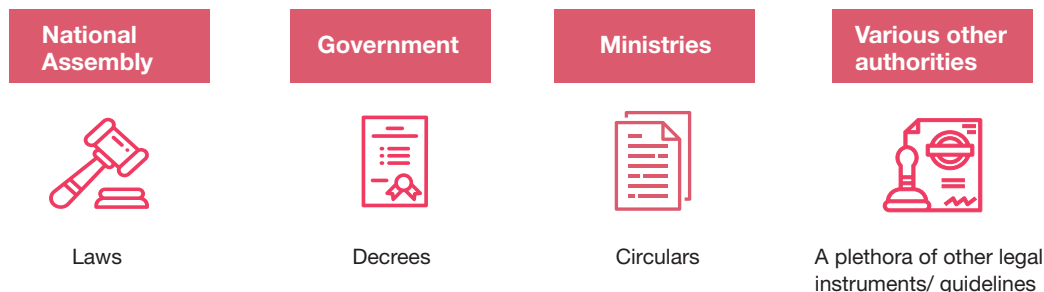
Legal and regulatory regime

Political structure:

Viet Nam is a socialist country operating under the single-party leadership of the Communist Party.

A nationwide congress ('National Congress') of the Communist Party of Viet Nam is held every five years, with the most recent being in early 2016, to determine the country's orientation and strategies and adopt its key policies on policies for socio-economic development. The National Congress elects the Central Committee, which in turn elects the Politburo.

Hierarchy of regulations:



As the only party in the political arena, the role and influence of the Communist Party is unique.

Viet Nam's legal powers are centralised in one supreme body, and then delegated to lower bodies located in Viet Nam's 63 municipalities and provinces. The National Assembly is the only body with the power to amend the Constitution and pass laws but the implementation and administration of such laws is decentralised.

One of the Government's priorities is to enhance the legal system, which will result in a more business-friendly regulatory environment. Consequently, in 2019 numerous laws are coming into effect, largely focusing on sectors such as IT, real estate and agriculture. Among them, the most significant ones are the Law on Cybersecurity, the Law on Securities (amended), the Law on Zoning and the Law on Competition.

2019 is going to be a busy year for lawmakers in Viet Nam as the National Assembly plans to pass twenty six draft laws as well as debate eighteen draft laws. It is planned that in 2020 the National Assembly will pass the draft Law on amending and supplementing a number of articles of the Law on Land, which has received a large amount of public attention since it is expected to address land-related deficiencies with regard to foreign investments and residential projects.



Law on investment and enterprises

In late 2014, the National Assembly passed the Law on Investment (LOI) and Law on Enterprises (LOE), both of which came into effect on 1 July 2015. These laws govern the establishment and operation of companies in Viet Nam.

Since 2015, a series of implementing regulations have been issued including Decree 78/2015/ND-CP guiding enterprise registration (amended in 2018), Decree 96/ND-CP guiding the implementation of the LOE, and Decree 118/2015/ND-CP guiding the implementation of the LOI. In late 2019, the National Assembly plans to pass the Law amending the LOE and LOI to improve the business and investment environment in Viet Nam.

Intellectual property (“IP”)

As a member of the WTO, Viet Nam must conform with the WTO’s requirements on Intellectual Property. The Law on Intellectual Property Rights (“IPR”) was passed in 2005, which was amended and supplemented in 2009. According to the Law on IPR, three major IP rights are protected in Viet Nam: copyright and related rights; industrial property rights; and rights in plant varieties. Viet Nam’s participation in both the EVFTA and the CPTPP Agreement requires Viet Nam to meet high standards of IPR protection.

Viet Nam has taken steps to improve its IP framework to the same level as other Southeast Asian countries, according to the sixth annual US Chamber International IP Index, which analyses the IP climate in 50 world economies, released in February 2018 by the US Chamber of Commerce Global Innovation Policy Center (GIPC).

Foreign exchange controls

The Vietnamese dong is not freely convertible and cannot be remitted overseas. The Government has been implementing measures to gradually reduce the country’s dependency on the US dollar.

All buying, selling, lending and transfer of foreign currency must be made through banks and other financial institutions authorised by the State Bank of Viet Nam. As a general rule, all monetary transactions in Viet Nam must be undertaken in Vietnamese dong. Payments, contracts, quotations, etc. within Viet Nam must generally be in Vietnamese dong.

The outflow of foreign currency by transfer is only authorised for certain transactions such as payments for imports of goods and services from abroad, repayment of loans and the payment of interest accrued thereon, transfers of profits and dividends and for transfer of technology/ royalties.

Foreign investors and foreigners working in Viet Nam are permitted to transfer abroad profits and income earned in Viet Nam, and any remaining invested capital upon the liquidation of an investment project.

Business etiquette and culture

Many Vietnamese are more comfortable using their native language rather than English. However, many English speakers can be found in Viet Nam, especially in the larger cities.

Presenting business cards is an important ritual in the Vietnamese business world. Cards are exchanged at the beginning of a meeting using both hands. Translating written materials into Vietnamese shows respect for Vietnamese colleagues and business partners.

Face to face business meetings are important in Viet Nam and an appropriate level of respect must be shown according to rank and seniority.

Scan/Click here for PwC’s legal newsbrief





2. Types of business entities

A foreign entity may establish its presence in Viet Nam as a limited-liability company with one or more members, a joint-stock company, a partnership, a branch, a representative office or a business cooperation contract.

Foreign investors may also buy an interest in an existing domestic enterprise, subject in some cases to ownership limitations which vary depending on the industry sector.

The choice of investment vehicle will depend on factors such as the number of investors, industry, size of the project and whether there is any intention to list.



The government has introduced a range of open policies and clearer guidance supporting investors to establish a commercial presence in Viet Nam. Licensing procedures have become less cumbersome during the recent years.”

Phan Thi Thuy Duong

Partner | PwC Legal Vietnam

Forms of business

Limited-liability company

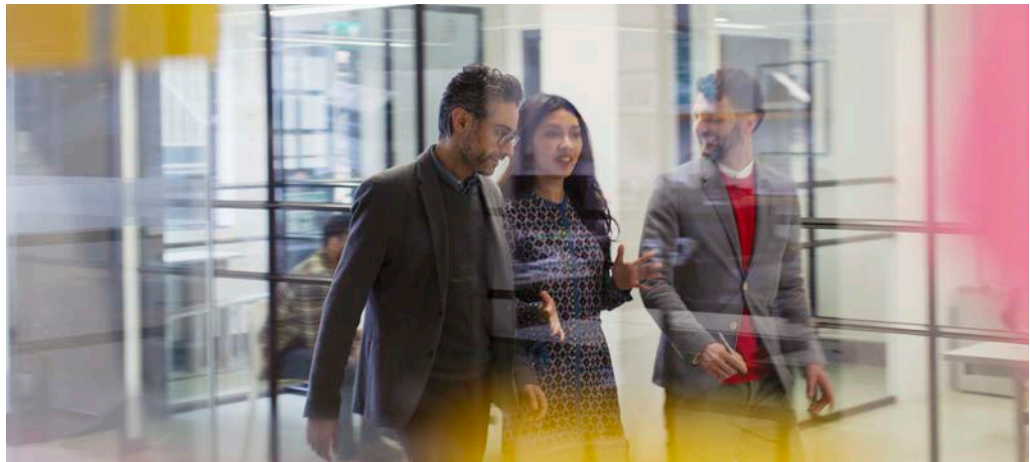
A limited-liability company is a legal entity established by its “members” (i.e. owners) through capital contributions to the company. The capital contribution of each member is treated as equity (charter capital). The members of a limited-liability company are liable for the financial obligations of the company to the extent of their charter capital contributions.

The management structure of a limited-liability company would normally consist of the “members’ council”, the chairman of the members’ council, the general director and a controller (or board of supervisors where the limited-liability company has more than 11 members).

A limited-liability company established by foreign investors may take either of the following forms:

A 100% foreign-owned enterprise
(where all members are foreign
investors)

A foreign-invested joint-venture
enterprise between foreign investors
and at least one domestic investor



Joint-stock company

A joint-stock company is a limited liability legal entity established through a subscription for shares in the company.

Under Vietnamese law, this is the only type of company that can issue shares. The charter capital of a joint-stock company is divided into shares and each founding shareholder holds shares corresponding to the amount of capital the shareholder has contributed to the company.

A joint-stock company is required to have at least three shareholders. There is no limit on the maximum number of shareholders in such companies.

The governance of a joint-stock company includes the general meeting of shareholders,

the board of management, the chairman of the board of management, the general director and a board of supervisors (not compulsory if the joint stock company has less than 11 shareholders, or if a corporate shareholder holds less than 50% of the shares of the joint-stock company).

A joint-stock company may either be 100% foreign-owned or may take the form of a joint venture between both foreign and domestic investors.

Partnership

A partnership is a very rare form of investment. It may be established between two individual general partners. The general partner has unlimited liability for the operations of the partnership.

Branch

This is not a common form of foreign direct investment and is only permitted in a few sectors (e.g. banking and foreign law firms). A branch is not an independent legal entity. Branches of foreign companies are different from representative offices in that a branch is permitted to conduct commercial activities in Viet Nam.

Representative office

Foreign companies with business relations or investment projects in Viet Nam may apply to open representative offices in Viet Nam. A representative office may not conduct commercial or revenue-generating activities (i.e. the execution of contracts, receipt of income, sale or purchase of goods, or provision of services).

A representative office is only permitted to carry out the following activities:

Act as a liaison office	Conduct market research	Promote its head office's business and investment opportunities
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This is a very common form of registered legal presence in Viet Nam, particularly for those in the first stage of a market entry strategy.

Business cooperation contract (“BCC”)

A BCC is a cooperation agreement between foreign investors and at least one Vietnamese partner in order to carry out specific business activities.

This form of investment does not constitute the creation of a new legal entity. The investors in a BCC generally share the revenues and/or products arising from a BCC and have unlimited liability for the debts of the BCC.

Public and private partnership contract (“PPP”)

A Public and Private Partnership (“PPP”) contract is an investment form carried out based on a contract between the government authorities and project companies for infrastructure projects and public services.

PPP contracts include Build-Operate-Transfer, Build-Transfer, Build-Transfer-Operate, Build-Own-Operate, Build-Transfer-Lease, Build-Lease-Transfer and Operate-Manage contracts.



Both public and private investors are encouraged to participate in PPP contracts. The rights and obligations of the foreign investor will be regulated by the signed PPP contracts and the applicable regulations governing such contracts. Investment sectors include:

- Transportation infrastructure and relevant services;
- Lighting systems, clean water supply systems, water drainage systems, water/waste collection and treatment systems, social/resettlement houses, cemeteries;
- Power plants and power transmission lines;
- Infrastructure for healthcare, educational and training, cultural, sport and relevant services, offices for government authorities;
- Infrastructure for commerce, science and technology, hydrometeorology, economic zone, industrial zone, high-tech zone, centralised information technology zone, information technology application;
- Infrastructure for agriculture and rural development, services for enhancing the correlation of agricultural production with processing and consumption of agricultural products; and
- Other sectors according to the Prime Minister's decisions.

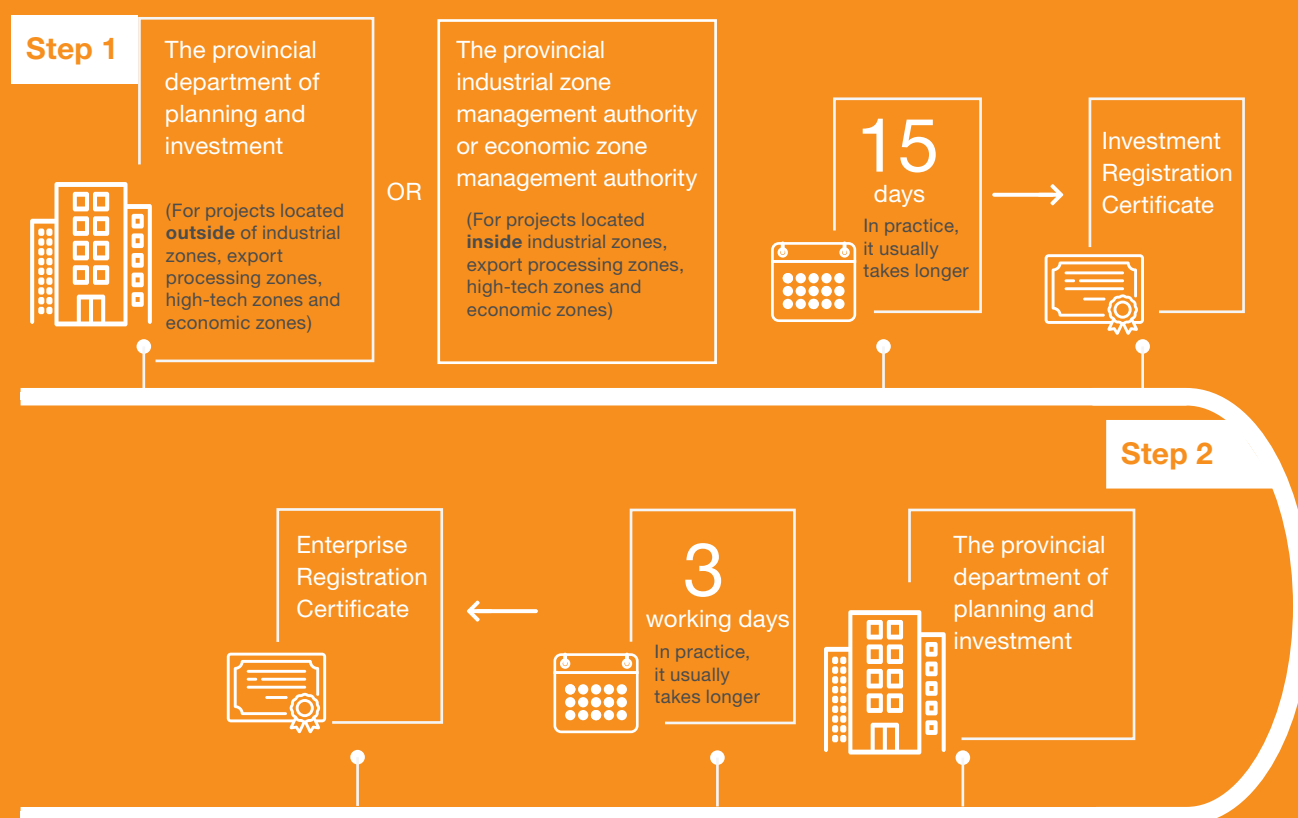
Liquidation and bankruptcy

A company can only be voluntarily liquidated if it is solvent and all creditors can be paid. The process generally takes 12 months or more and requires a final tax audit.

The Bankruptcy Law came into effect on 1 January 2015 setting out, inter alia, which parties can instigate bankruptcy proceeding, procedures for the appointment of a liquidator, organisation of creditors meetings and priority of creditor payments.

Setting up a business

Limited-liability company/Joint-stock company



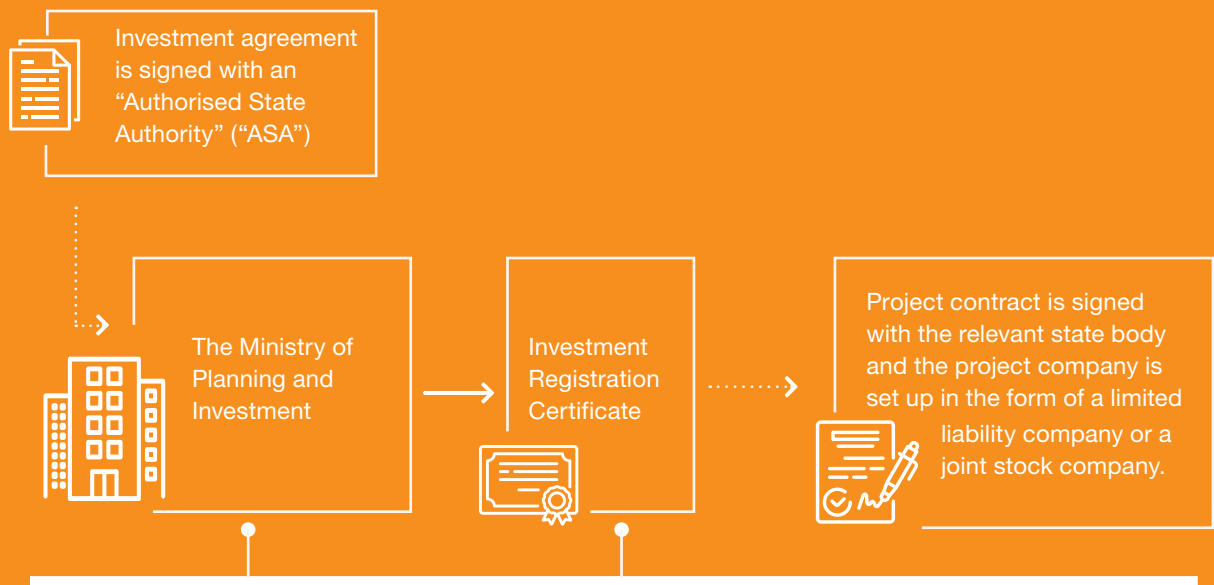
Note: Investment in "conditional" sector activities is subject to more cumbersome licensing procedures. These may require an approval in principle, or the licence application to be reviewed also at the central government ministry level in Hanoi.

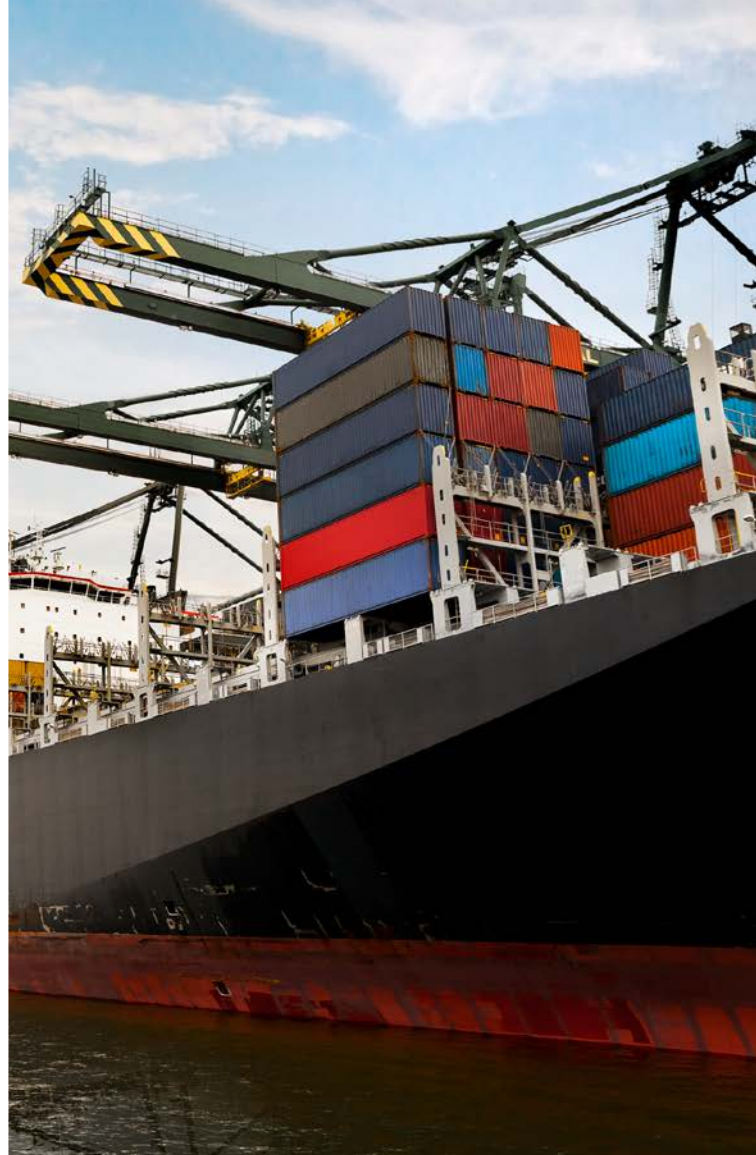


Representative office



Public-Private Partnership (PPP) project (such as BOT/BTO/BT project)





3. Trade

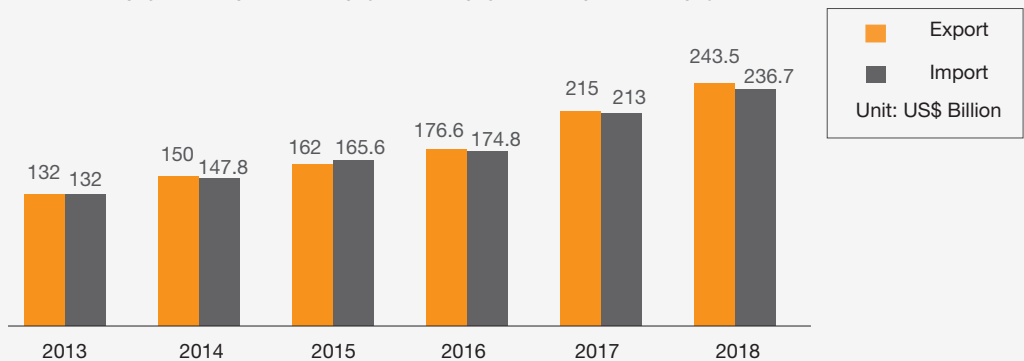
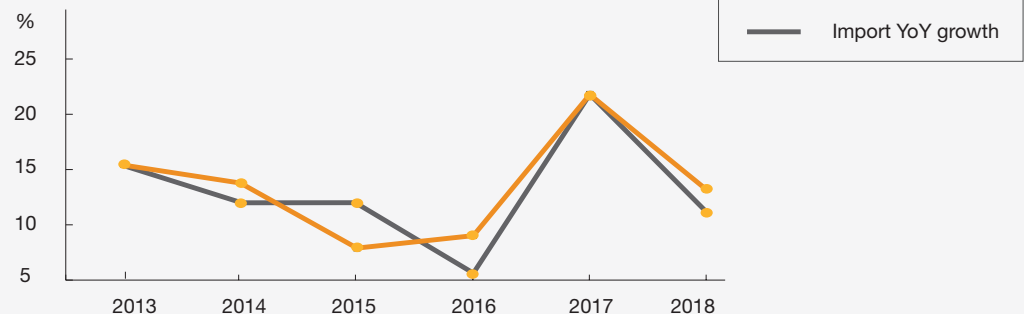


Viet Nam's participation in new-generation FTAs like the CPTPP and EVFTA will help diversify trade opportunities and create a more transparent business environment and prepare for Industry 4.0"

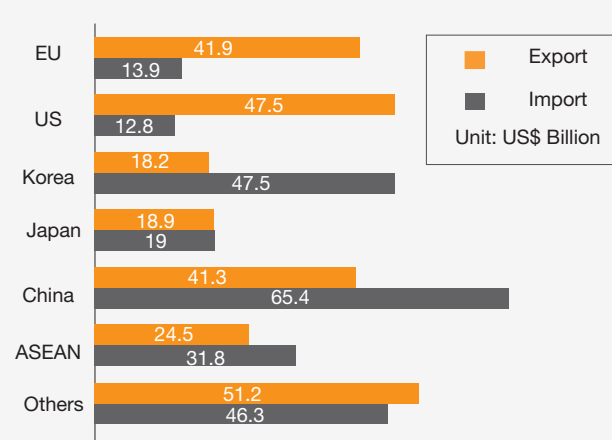
Grant Dennis
Chairman, Consulting Leader
PwC Vietnam

Trade statistics

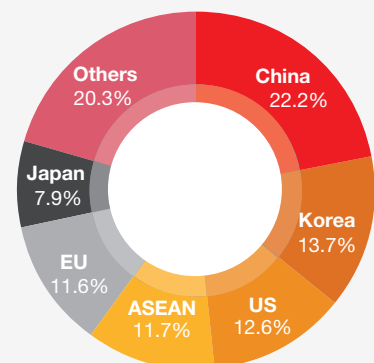
Export & Import Growth (2013 - 2018)



Key traders (2018)



Share of 2-way Trade (2018)



Source: GSO, Ministry of Planning & Investments and General Department of Viet Nam Customs

10 Key export commodities in 2018



Phones and their parts
US\$49.1 billion



Computers, electrical products
US\$29.3 billion



Footwear
US\$16.2 billion



Vehicles and their parts
US\$8.0 billion



Cameras, video cameras and parts
US\$5.2 billion



Textiles & garments
US\$30.5 billion



Machinery, instruments, accessories
US\$16.5 billion



Fishery products
US\$8.8 billion

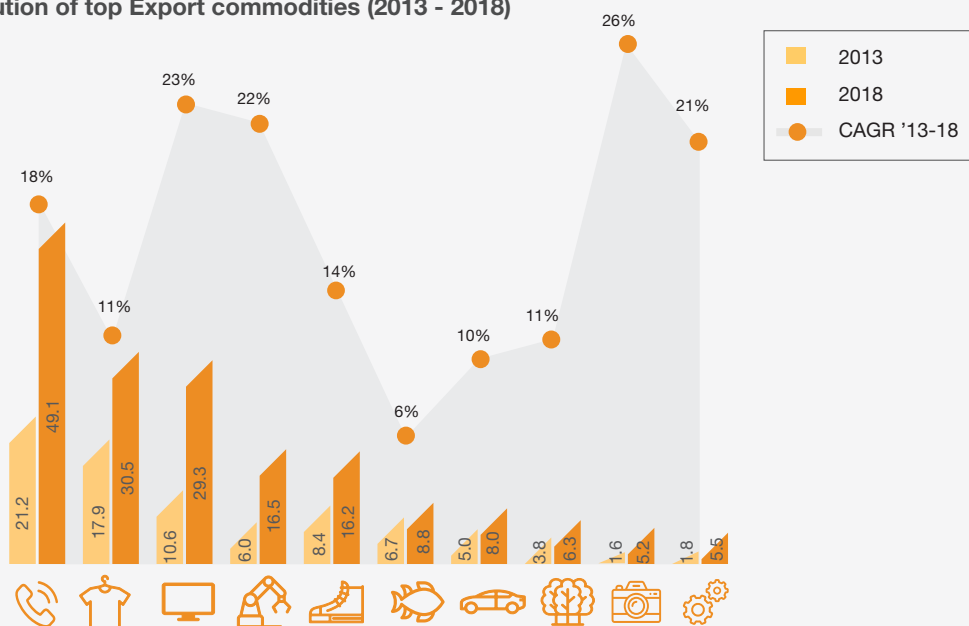


Wooden products
US\$6.3 billion



Iron and steel
US\$4.5 billion

Evolution of top Export commodities (2013 - 2018)



Source: GSO, Ministry of Planning & Investments and General Department of Viet Nam Customs

10 Key import commodities in 2018



Computers,
electrical products
US\$42.2 billion



Machinery, instruments,
accessories
US\$33.7 billion



Phones and their parts
US\$15.9 billion



Plastics & plastic products
US\$15 billion



Fabrics
US\$12.8 billion



Chemicals & chemical products
US\$10.2 billion



Iron and steel
US\$9.9 billion



Petroleum products
US\$7.6 billion

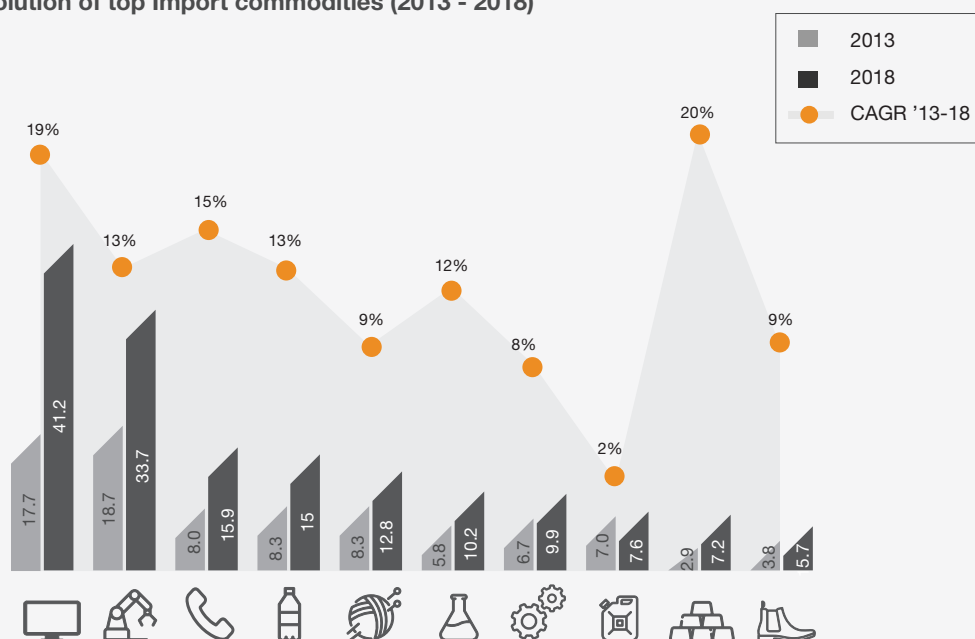


Other base metals products
US\$7.2 billion



Textile, leather and
footwear materials
US\$5.7 billion

Evolution of top Import commodities (2013 - 2018)



Source: GSO, Ministry of Planning & Investments and General Department of Viet Nam Customs

Free trade agreements

Viet Nam has entered into or completed the negotiation of a number of Free Trade Agreements (FTAs), including both collective and bilateral FTAs (e.g. FTAs with the EU, Japan, Chile and Korea).

While the original TPP agreement has been put on hold, the revised agreement came into progressed as the CPTPP (Comprehensive and Progressive Agreement for Trans-Pacific Partnership). These developments reveal that Viet Nam continues to be increasingly integrated into the global economy through numerous bilateral and collaborative FTAs.

Regarding the CPTPP, it maintains most of the terms of the TPP, allowing the remaining TPP11 (excluding the USA) to continue implementation of the FTA. The CPTPP has been effective in Viet Nam since Jan 2019.

The ASEAN-Hong Kong FTA was signed in late 2017 and came into force in June 2019. The EU-Viet Nam FTA is the next major milestone for Viet Nam from a trade perspective. This FTA is expected to liberalise 90% of trade flows over a 10-15 year time frame. The FTA is expected to come into effect in 2020.



Conflicts in US – China trade

Since the US – China Trade war has caused difficulties for Chinese exporters (mostly in manufacturing), there have been early signs of Chinese manufacturing firms willing to explore potential expansion to Viet Nam. However, as Viet Nam's labour skills are still lower than China's, in the short term, Viet Nam may only benefit from low value-added manufacturing migration from China, and hence see increasing imports from China accordingly.

On the medium to long term, the trade war could open broader opportunities for Viet Nam to export to both countries, as well as attracting additional manufacturing capacity from China and receiving more FDI flows.

03

key FTAs are: CPTPP,
EVFTA and AHKFTA

Viet Nam has continued on the path of economic liberalisation since its admission to the WTO in 2007. While conceding some delays, key FTAs have been signed and have progressed. The three main FTAs are:

- **Comprehensive and Progressive Trans-Pacific Partnership (CPTPP)** – The original TPP has been amended, due to the withdrawal of the USA. However, the remaining 11 TPP signatories have continued to move towards full implementation of the original TPP terms, with some minor modifications. This agreement still includes circa 14% of global GDP and should continue to foster the attractiveness of Viet Nam as an investment destination and bode well for future economic growth. As one of the least-developed economies of the CPTPP group, Viet Nam still needs to continue to make large strides, in order to reach the standards outlined in the agreement, but also stands to achieve some of the largest gains among the group. Viet Nam's agricultural and manufacturing sectors are in an especially good position to take advantage of more open trading terms. In addition to gains in trade, the FTA should also stimulate advancements in regulatory processes, transparency, labour standards, IP, market access, disputes and other issues. The FTA has been effective since Jan 2019.
- **EU - Viet Nam FTA (EVFTA)** – The EVFTA was finally signed in June 2019, with full ratification expected within 2 years from EU member states. The EU is Viet Nam's second largest export market and this FTA will expand opportunities; notably, for increased investment and trade between Viet Nam and EU member states. Viet Nam has already become a key market in ASEAN for exports to the EU and this trend will continue.
- **ASEAN - Hong Kong FTA (AHKFTA)** – Signed in late 2017, this key FTA came into force in mid-2019. Key benefits of the AHKFTA include: increased ease of investment, ownership and financial transactions between Hong Kong and ASEAN. Viet Nam is Hong Kong's largest export market within ASEAN and tariff reductions, reduced trade restrictions and investment protection should increase the depth of this economic relationship. Additionally, onward investment through Hong Kong to ASEAN will be streamlined.

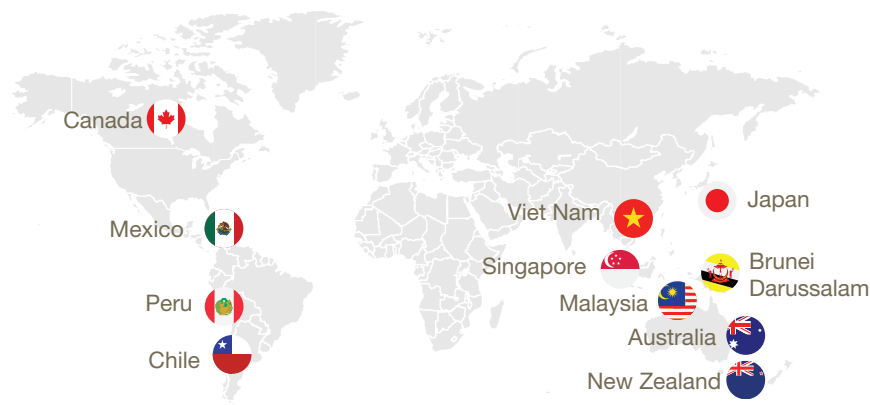
These three key FTAs as well as other recent liberalisation actions (FTAs, SOE equalisation, market liberalisation policies) show that the Viet Nam government is committed to expanding market access and opportunities in trade and investment to foreign investors.

However, additional regulatory reforms, continued domestic investment and improvements in manufacturing and labour standards are necessary to fully realise benefits from these and other trade agreements.

11

TPP signatories
account for circa
14% of global GDP

11 CPTPP members





4. Taxation



The local tax system is undergoing modernisation to become more in line with international practices, and reduce tax compliance costs and time.”

Nguyen Thanh Trung
Partner | PwC Vietnam

General overview

Most business activities and investments in Viet Nam will be affected by the following taxes:

- Corporate income tax;
- Foreign contractor tax
- Capital assignment profits tax;
- Value added tax;
- Import duties;
- Employment taxes.

There are various other taxes that may affect certain specific activities, including:

- Special sales tax;
- Natural resources tax;
- Property taxes;
- Export duties;
- Environment protection tax.

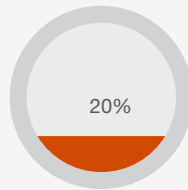
All these taxes are imposed at the national level.

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Pocket Tax Book 2019

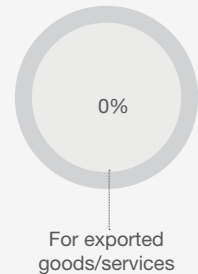
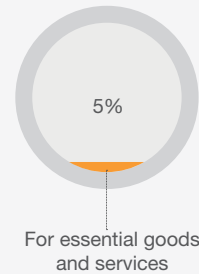
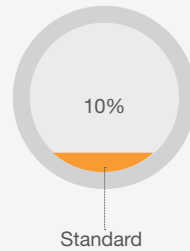


Tax rates

Corporate income tax ("CIT")

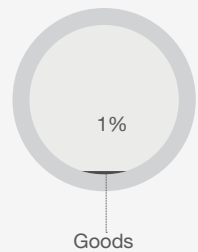
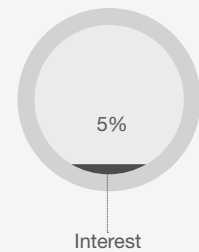
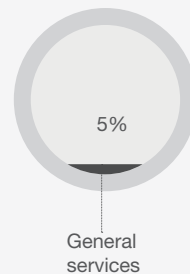
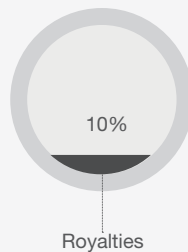


Value added tax ("VAT")



Foreign contractor tax (Excluding VAT)

Levied on certain payments to foreign parties, rates depend on the nature of activities, e.g

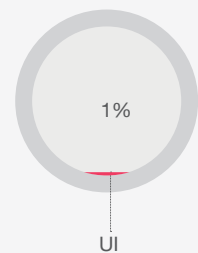
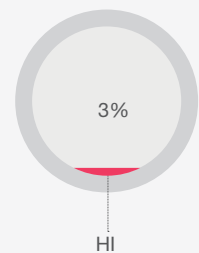
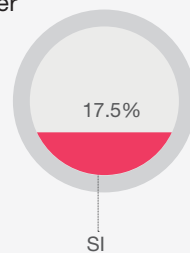


Personal income tax ("PIT")

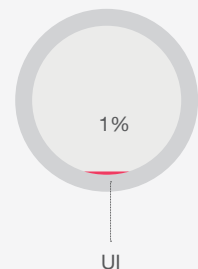
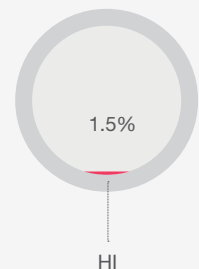
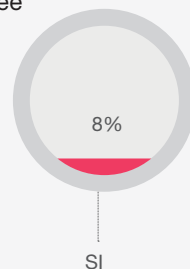
- PIT rates depend on residency status and nature of income.
- Tax residents are taxed on their world-wide taxable income, tax non-residents are taxed on their Viet Nam sourced income only.
- Employment income: for residents, progressive tax rates from 5 to 35% apply, for non-residents, a flat rate of 20% applies on the Viet Nam sourced income.
- Non-employment income: tax rates vary from 0.1% to 10%.

Social insurance ("SI"), Health insurance ("HI") and Unemployment insurance ("UI")

Employer



Employee





Tax incentives

- 10% preferential CIT rate for 15 years; and
- 4 years of tax exemption plus subsequent 9 years of 50% reduction

Based on

Sector

Applicable for

Certain encouraged sectors, including high technology, environmental protection, scientific research, infrastructural development, software production and renewable energy.

Location

Certain qualifying economic and high-tech zones, and especially difficult socio-economic areas.

Other

Qualified large scale manufacturing projects, investment project in manufacturing supportive industrial products prioritised for development, high-tech enterprises and agricultural enterprises applying high-tech.

Tax incentives have played an important role in attracting investment into Viet Nam. Recent years have seen a shift in the tax incentive focus with more high-value activities being incentivised.

- 10% preferential CIT rate for entire life and
- 4 years of tax exemption plus subsequent 5 to 9 years of 50% reduction

Based on

Sector

Applicable for

Certain public sector fields such as education, healthcare, culture, sports and located in regions with especially difficult or difficult socio-economic conditions.

Location

- 20% preferential CIT rate for the entire life

Based on

Location

Applicable for

Qualified people's credit funds, cooperative banks and micro-finance institutions.

- 17% preferential CIT rate for 10 years; and
- 2 years of tax exemption plus subsequent 4 years of 50% reduction

Based on

Sector

Applicable for

Certain encouraged sectors, including manufacturing of high quality steel, equipment for agricultural activities; development of traditional crafts.

Location

Difficult socio-economic areas.

- 2 years of tax exemption plus subsequent 4 years of 50% reduction

Based on

Location

Applicable for

New investment project in qualified industrial zones.



Tax year end

The tax year end in Viet Nam is generally 31 December, but financial year end 31 March, 30 June, or 30 September are also possible.

Corporate income tax (“CIT”)

Tax rates

The standard CIT rate is 20%.

Companies operating in the oil and gas industry are subject to CIT rates ranging from 32% to 50%.

Companies engaging in prospecting, exploration and exploitation of mineral resources are subject to CIT rates of 40% or 50%.

Calculation of taxable profits

Taxable profit is calculated as the difference between total revenue, whether domestic or foreign sourced, and deductible expenses, plus other assessable income.

Taxpayers are required to prepare an annual CIT return which includes a section for making adjustments to accounting profit to arrive at taxable profit.

Non-deductible expenses

Expenses are tax deductible if they actually incur and relate to the generation of revenue, are properly supported by suitable documentation (including bank payment evidence where the invoice value is VND20 million or above) and are not specifically identified as being non-deductible.

Losses

Taxpayers may carry forward tax losses fully and consecutively for a maximum of five years.

Losses arising from certain activities are allowed to offset against each other. Carry-back of losses is not permitted. There is no provision for any form of consolidated filing or group loss relief.

Administration

CIT taxpayers are required to make quarterly provisional CIT payments based on estimates. If the provisional quarterly CIT payments account for less than 80% of the final CIT liability, any shortfall in excess of 20% is subject to late payment interest.

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 Viet Nam. Foreign investors are not permitted to remit profits if the investee company has accumulated losses.

Tax incentives

Preferential CIT rates apply from the commencement of generating revenue from the incentivised activities. The duration of application of the preferential tax rate can be extended in certain cases.

the annual CIT return must be filed and submitted not later than

90 days

from the fiscal year end

The tax holidays take the form of an exemption from CIT for a certain period beginning immediately after the enterprise first makes profits from the incentivised activities, followed by a period where tax is charged at 50% of the applicable rate.

Where an enterprise has not derived taxable profits within 3 years of the commencement of generating revenue from the incentivised activities, the tax holiday/ tax reduction will start from the fourth year of operation.

Capital assignment profits tax (“CAPT”)

Gains derived from the sale of a Viet Nam company are in many cases subject to 20% CIT. This is generally referred to as CAPT although it is not a separate tax.

(Please refer to our 2019 Pocket Tax Book for more details on determination of CAPT liability, filing obligation)



Transfer pricing (“TP”)

Decree 20/2017/ND-CP (“Decree 20”) and Circular 41/2017/TT-BTC (“Circular 41”) came into effect in May 2017, which are generally based on concepts and principles from the Transfer Pricing Guidelines of the Organisation for Economic Cooperation and Development (“OECD”) and Base erosion and Profit shifting (“BEPS”) Action Plan. Viet Nam’s TP rules also apply to domestic related party transactions.

Related party definition

The ownership threshold required to be a “related party” under Decree 20 is 25%. Decree 20 removes the previous related party definition of two entities having transactions between them accounting for more than 50% of their sales or purchases.

TP 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, i.e. comparable uncontrolled price, resale price, cost plus, profit split and comparable profits methods.

TP 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).

Taxpayers are also required to make declarations of information contained in the local file and master file.

The TP declaration forms must be submitted together with the annual CIT return within 90 days from the fiscal year end date.

TP documentation

Companies which have related party transactions must also prepare and maintain contemporaneous three-tiered TP documentation including master file, local file and country-by-country report.

The three-tiered TP documentation has to be prepared before the submission date of the annual tax return. A taxpayer may be exempt from preparing TP documentation if certain conditions are met.

TP audit

There has been a marked increase in the number of transfer pricing audits performed in recent years, with these adopting an increasingly sophisticated approach, often challenging the validity of comparables cited in TP documentation.

20% of EBITDA cap on interest deductibility

Decree 20 introduces a 20% EBITDA cap on the tax deductibility of total interest expenses. The 20% EBITDA cap could be applied to both related party and third party loans.

Substance over form principle

Decree 20 emphasises the need for closer scrutiny of all related party transactions to ensure that value creation is actually generated from intra-group transactions. The substance over form principle is especially relevant to CIT deductibility and TP documentation must support such related party transactions.

Intercompany service charges

Decree 20 provides various criteria for the tax deductibility of intercompany service charges, notably, a taxpayer needs to demonstrate that the services provide commercial, financial and economic value, and provide evidence of the reasonableness of the service charge calculation method.

A tax deduction will not be allowed for intercompany service charges where the direct benefit or additional value to the taxpayer cannot be determined, such as duplicated services, shareholder costs.

Foreign contractor tax (“FCT”)

Scope of application

FCT is applied to foreign organisations and individuals undertaking business or earning income sourced from Viet Nam on the basis of agreements with Vietnamese parties (including foreign owned companies).

FCT is not a separate tax, and comprises a combination of Value Added Tax (“VAT”) and CIT, or Personal income tax (“PIT”) for income of foreign individuals.

Payments subject to FCT include inter alia, interest, royalties, service fees, goods supplied within Viet Nam or associated with services rendered in Viet Nam. The applicable tax rates vary depending on the payment method and the nature of the transactions. Certain distribution arrangements where foreign entities are directly or indirectly involved in the distribution of goods or provision of services in Viet Nam are also subject to FCT.

FCT exemption is provided for certain cases, such as pure supply of goods, services performed and consumed outside Viet Nam and various other services performed wholly outside Viet Nam.

There are three methods for FCT payment and declaration:

Deduction method

Direct method

Hybrid method



Please refer to our 2019 Pocket Tax Book for more details on FCT rates, determination of FCT liability, and FCT filing obligations.



Double taxation agreements

The CIT element of FCT may be affected by a relevant Double Taxation Agreements (DTA) provided that certain conditions are met.

Viet Nam has signed around 80 DTAs and there are a number of others at various stages of negotiation.

Please refer to our 2019 Pocket Tax Book for more details on DTA.



Value added tax (“VAT”)

VAT applies to goods and services used for production, trading and consumption in Viet Nam. In addition, VAT applies on the dutiable value of imported goods. For imported services, VAT is levied via the FCT mechanism.

There are two VAT calculation methods:

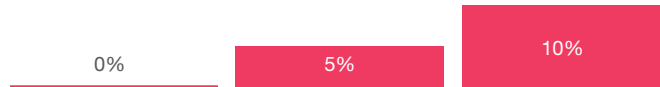
Deduction method

Direct calculation method

Please refer to our 2019 Pocket Tax Book for more details on determination of VAT liability, and VAT filing obligation.



There are three VAT rates:



VAT exemption is provided for certain goods and services. VAT refunds are only granted in certain cases. 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.

Invoicing

Entities in Viet Nam can use pre-printed invoices, self-printed invoices or electronic invoices. However, from November 2020, e-invoices will be compulsory for all enterprises.

**November
2020**

e-invoices will be
compulsory for all
enterprises

Please refer to our 2019
Pocket Tax Book for more
details on SST rates,
determination of SST
liability, and SST filing
obligation.

Special sales tax ("SST")

SST is a form of excise tax that applies to the production or import of certain goods and the provision of certain services.

The taxable price of domestically produced goods sold by a manufacturer/ imported goods sold by an importer is the selling price exclusive of SST 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 tax. 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.

SST amount paid on material imported or purchased from domestic suppliers is creditable provided certain conditions are met.

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information

Import and export duties

Rates

Import and export duty rates are subject to frequent changes. Import duty rates are classified into 3 categories:

Ordinary rates	Preferential rates	Special preferential rates
----------------	--------------------	----------------------------

To be eligible for preferential rates or special preferential rates, the imported goods must be accompanied by an appropriate Certificate of Origin.

Calculation

In principle, Viet Nam follows the WTO Valuation Agreement with certain variations. The dutiable value of imported goods is typically based on the transaction value. Where the transaction value is not applied, alternative methodologies for the calculation of the dutiable value will be used.

Exemptions and refunds

Import duty exemptions are provided for projects which are classified as in encouraged sectors/locations and other goods imported in certain circumstances. Import duty refunds are also possible for various cases.

Export duties

Export duties are charged only on a few items, basically natural resources with rates range from 0% to 40%.

Personal income tax (“PIT”)

Tax residency

Individuals earning income from Viet Nam are subject to PIT, depending on their residency status. Residents are those individuals meeting one of the following criteria:

- Residing in Viet Nam for 183 days or more in either the calendar year or the period of 12 consecutive months from the date of arrival;
- Having a permanent residence in Viet Nam (including a registered residence which is recorded on the permanent/temporary residence card, or a rented house in Viet Nam with a lease term of 183 days or more in a tax year in case of foreigners) and unable to prove tax residence in another country.

Tax rates

Tax residents are subject to Vietnamese PIT on their worldwide taxable income. Employment income is taxed on a progressive tax rates basis ranging from 5% to 35%. Other income is taxed at a variety of different rates.

Tax non-residents are subject to PIT at a flat tax rate of 20% on their Viet Nam 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 DTA that might apply.

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

Social, Health and Unemployment insurance contributions

Unemployment insurance (“UI”) contributions are applicable to Vietnamese individuals only.

Health insurance (“HI”) contributions are required for Vietnamese and foreign individuals that are employed under Viet Nam labour contracts.

From 1 December 2018, Social Insurance (“SI”) contributions are payable by both Vietnamese and foreign individuals working in Viet Nam under employment contracts with an indefinite term or a definite term of 1 year or more.

Please refer to our 2019
Pocket Tax Book for more
details.



Please refer to our 2019
Pocket Tax Book for more
details.



Please refer to our 2019
Pocket Tax Book for more
details.



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5. Accounting & Auditing





The accounting and auditing framework is converging towards international standards in order to ensure transparency and improved risk management.”

Mai Viet Hung Tran
Partner | PwC Vietnam

Accounting framework

Vietnamese accounting standards

There are currently 26 Vietnamese Accounting Standards (“VAS”). All of these standards were issued from 2001 to 2005 and were primarily based on the old versions of the respective International Accounting Standards at that time with certain customisations to fit Viet Nam’s circumstances. It should be noted that some key accounting standards, such as for financial instruments and impairment of assets have not been issued yet in Viet Nam.

Accounting law and applicable implementation guidance

In Viet Nam, Accounting Law is the highest accounting regulation issued by the National Assembly. Accounting activities are further governed by a system of decisions, decrees, circulars, official letters and the Vietnamese Accounting Standards.

The accounting framework in Viet Nam is mainly rules-based accounting rather than a principles-based one. The Vietnamese Accounting System is seen as the book keeping and financial reporting manual that provides a standard chart of accounts, financial statements template, accounting books and voucher templates, as well as detailed guidance on accounting double entries for specific transactions in each individual account.

There are industry-specific accounting guidelines for credit institutions, insurance companies, securities companies, fund managers and funds. Out of these sectors, the accounting guidelines for credit institutions are issued by the State Bank of Viet Nam (“SBV”).



12 months

is duration of the accounting period

“Accounting records are generally required to be maintained in Vietnamese Dong (“VND”)”



Accounting records

Framework: Vietnamese Accounting System

Language: Accounting records are required to be maintained in Vietnamese language, but this can be combined with a commonly-used foreign language.

Accounting period: The accounting period is generally 12 months in duration. The first accounting period must not be longer than 15 months from the license date for a newly setup company. The last accounting period must also not be longer than 15 months.

Currency: Accounting records are generally required to be maintained in Vietnamese Dong (“VND”). Entities that receive and pay mainly in foreign currency can select a foreign currency to be used for their accounting records and financial statements provided that they meet all the stipulated requirements. However, for statutory reporting, entities using another currency as their accounting currency must convert their financial statements prepared under that accounting currency into VND under certain prescribed regulations.

Accounting documents: Accounting vouchers and accounting books can be stored either in the form of hard documents or electronic media. Those entities that use electronic media are not required to print out the accounting vouchers and accounting books for storage purposes. Upon request of the competent authorities to cater for testing, inspection, monitoring and auditing, these entities have responsibilities to print out the accounting documents stored on electronic media and have them signed by the legal representative and the chief accountant (or accountant in charge) and stamped (if there is an applicable seal).

Retention: Five years for those documents used for management or operation of the enterprise; ten years for accounting data, accounting books; and permanently for documents that are important in terms of the economy, national security and defense.

Accounting records are seen as a basis for assessing VAS non-compliance. The tax authorities treat VAS non-compliance as a basis for tax reassessment and imposition of penalties, including withdrawal of Corporate Income Tax (“CIT”) incentives, disallowance of expenses for CIT purposes and denial of input VAT credits/refunds.

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Financial reporting

The basic set of financial statements prepared under VAS comprises the following:

- Balance sheet
- Income statement
- Cash flow statement
- Notes to the financial statements, including a disclosure on changes in equity

An enterprise is required to appoint a Chief Accountant who must satisfy the criteria and conditions stipulated by the Law on Accounting and guiding regulations. The annual financial statements must be approved by the Chief Accountant and the Legal Representative and a copy of the financial statements must be submitted to the local authorities within 90 days of the end of the financial year.

Audit requirements

Internal audit

Decree No.05/2019/ND-CP provides a legal framework for the establishment and implementation of Internal Audit; as well as roles and responsibilities of Internal Audit function and other related stakeholders. The requirements in this regulation are set to reach the international best practices on Internal Audit, enhancing the transparency of information in the marketplace and the efficiency and effectiveness of corporate governance. This Decree came into effect on April 1, 2019. Within 24 months from the effective date, the target groups of this decree must complete necessary preparation tasks and be ready for the implementation of Internal Audit in accordance with this Decree.

Target groups of the Decree:



Enterprises including: Listed companies; Enterprises with more than 50% of their charter capital held by the State, which are parent companies operating in a parent-subsidary business model; and State enterprises which are parent companies operating in a parent-subsidary business model;



Organisations and individuals conducting Internal Audit activities.



State-owned public service units satisfied certain requirements.



Other Governmental agencies required by the Decree.

External audit

Viet Nam has issued 47 auditing standards which are primarily based on international standards of auditing with certain customisations to fit Viet Nam's circumstances.

The annual financial statements of all foreign-invested entities must be audited by an independent auditing company operating in Viet Nam. Audited annual financial statements must be completed within 90 days of the end of the financial year. These financial statements should be filed with the applicable licensing body, Ministry of Finance ("MOF"), local tax authorities, Department of Statistics and other relevant authorities.

Audit contracts should be signed with the independent auditing companies no later than 30 days before the end of the enterprise's fiscal year. The enterprise is legally responsible for providing timely and sufficient information, as well as explanations to the auditor.

There is a requirement to rotate audit firms after five consecutive years for credit institutions. For entities other than credit institutions, the signing auditors are required to be rotated off after three consecutive years.

Heading to international financial reporting standards ("IFRS")

There are certain key differences between IFRS and VAS, mainly including terminology, accounting treatment and presentation and disclosure requirements. It should be noted that IFRS has been changing continuously with a number of revisions and amendments made to date. There are still a number of key accounting standards such as regarding financial instruments and impairment of assets that have not been issued yet in Viet Nam.

It should be noted that Accounting Law 2015 introduces the concept of Fair Value for the first time, with further specific guidance expected to be issued by the MOF in the near future.

The application of IFRS normally attracts significant attention especially in markets where decision making on it is approaching such as Viet Nam. In March 2019, the MOF released the draft IFRS adoption roadmap for public comments, in which FDI enterprises can volunteer to prepare IFRS report since 2022.

When applying IFRS, enterprises must ensure to provide adequate information and explanations clearly and transparently with tax authorities, management and supervision agencies regarding the determination of obligations to the State Budget. Businesses should put in place accounting-auditing human resources as well as upgrading technologies, systems and processes which are all decisive factors in successfully adopting IFRS.

Scan/Click here for PwC's IFRS services





6. Human Resources and Employment Law





To meet the increasing demand for high-quality human resources, the government has commenced partnering with the private educational sector to develop and implement strategies for training and upskilling of the workforce.”

Phan Thi Thuy Duong
Partner | PwC Legal Vietnam

Employment law

Viet Nam’s population is over 95 million. Around 52% of the population is in working age. Approximately 23% of the labour force is considered trained or skilled, according to the Ministry of Labour - Invalids and Social affairs.

The Labour Code, which became effective on 1 May 2013, creates a legal framework that sets out, inter alia, the rights and obligations of employers and employees with respect to working hours, labour agreements, overtime, strikes, and termination of employment contracts. In addition, there are various implementing decrees guiding the provisions of the Labour Code, for example decrees on labour contracts, working hours, salary, labour outsourcing and disputes.

The law provides a maximum 8-hour working day or a 48-hour working week. An employer and an employee may agree that an employee works overtime, provided that the total overtime worked does not exceed 200 hours per year. In special circumstances and with notification to the relevant authorities, the maximum overtime can be increased to 300 hours per year.

In a labour contract with Vietnamese workers, wages and salaries must be set in Vietnamese dong. The wages of employees are subject to minimum rates determined by the Government from time to time.

Foreigners working in Viet Nam must generally have a work permit issued by the labour management authority. In order to obtain a work permit, foreigners assigned to work in Viet Nam are required to show a degree of knowledge, a special skill or a manager/executive-level skill not readily available in the domestic labour market.

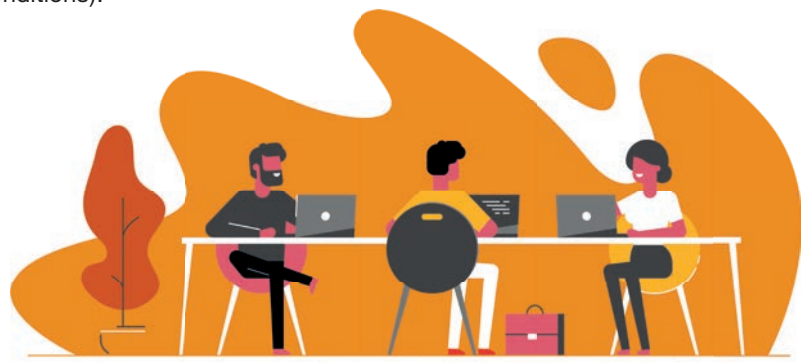
Under the Labour Code, the maximum duration of a work permit is 24 months (which, however can be renewed, subject to certain conditions).

52%

of the population is
in working age

24 months

is the maximum
duration of a work
permit



Immigration

Foreigners coming to Viet Nam must obtain an entry visa (with certain exceptions under treaties or other reciprocal agreements) from the Immigration Department in Viet Nam or Vietnamese embassies/consulate offices in foreign countries.

A business visa is issued to foreign individuals who conduct business in Viet Nam.

Other HR issues

There are some other important points employers need to pay attention to:

- Registering internal working regulations with the provincial labour department if there are 10 employees or more;
- Setting up grass-roots trade unions if at least five employees request, and contributing union funds to the upper level trade union;
- Ensuring union organisation operates in a cooperative manner;
- Dealing with poor performance is a difficult process;
- A definite-term labour contracts can only be renewed once after which an indefinite-term contract must be used.

High skilled employees

The country has a young and dynamic growing workforce with a median age of 30.5 years, a relatively young population compared to China's median age of 37.4 years.

Vietnamese employees are often praised for being hard-working and skilful. However there is still a need for professional development to ensure the workforce remains competitive. In some areas of the economy, talents are scarce and in high demand. To deal with this talent issue, both local and foreign companies are investing heavily in local talent development programs. This involves in-house training, aggressive talent acquisition, and talent retention programs.

The government, in acknowledgement of the importance of productivity improvement, is determined to increase labour productivity and regards this as one of the three pillars for achieving a new growth model for the country, alongside growth quality and increased competitiveness.



7. Focus Industries



Banking and Capital Markets

Real Estate



The financial system is becoming more resilient thanks to systematic efforts to restructure banks, resolve bad debts and adopt international risk frameworks.”

Nguyen Hoang Nam
Partner | PwC Vietnam

Banking and capital markets

Capital markets overview

Viet Nam capital markets include primary and secondary markets, which operate under the supervision by the State Securities Commission.

They are expected to grow quickly over the next few years, due to the relatively low percentage of stock market capitalisation against GDP at the present time. The bond market has also experienced a high growth rate, but it is still relatively small, which provides room for future growth. The Government has loosened the regulations on foreign ownership limits in order to attract foreign investments.

Recently in March 2019, Prime Minister approved a plan focusing on the restructuring the securities market to 2025. Under this new plan - namely, Decision 242/QD-TTg the Government wants to accelerate the comprehensive restructuring of the securities market, so that it becomes both a medium and a long-term capital-raising instrument for the Vietnamese economy and its businesses. Several milestones have been set out in the Decision, including the value of the stock market being projected to reach 100% and 120% of Viet Nam's total GDP in 2020 and 2025, respectively, and the number of listed companies in 2020 rising by 20% from 2017.

“Growth is expected in retail banking, in particular payment cards and wealth management services.”



Banking

Viet Nam's banking and financial services sector is under-developed but boasts high growth potential. Within this sector, growth is expected in the retail banking segment, in particular payment cards and wealth management services.

The demand for a range of retail banking products is set to grow due to the huge untapped market. There is also the opportunity to modernise Viet Nam's cash-based society, since more than 90% of payment transactions are still made with cash, and the market for payment cards is relatively untapped.

Generally, all foreign investors with an established presence in Viet Nam will need to open a bank account in order to conduct their business. Foreign investors in Viet Nam may open accounts denominated in Vietnamese dong, and they may also open accounts denominated in US Dollars and other foreign currencies.

Banks include domestic joint stock commercial banks, state-owned commercial banks, 100% foreign-owned subsidiary banks, joint-venture banks and foreign bank branches.

Futhermore, other credit institutions include finance companies and leasing companies. As at 30 June 2018, there were 31 joint stock banks, 4 state-owned banks, 9 foreign owned banks, 48 foreign bank branches, 16 finance companies and 11 leasing companies operating in Viet Nam.



Operating in
Viet Nam as at
June 2018

04

State-owned
banks

31

Joint stock
banks

48

Foreign bank
branches

16

Finance
companies

11

Leasing
companies

09

Wholly foreign –
owned banks

The Law on Credit Institutions allows commercial banks to provide a wide range of products and services, from traditional financial products to funding the management and securities business.

In recent years, the Viet Nam banking system has gone through a wave of restructuring where the smaller and weaker banks were acquired by or merged with larger banks, or placed under the supervision of the State Bank of Viet Nam (“SBV”).

Effective from January 2018, the amendment to the Law on Credit Institutions introduced procedures for the liquidation of banks, for the first time. It also provided further guidance on determining cross ownership and directions for the future restructuring of banks.

The Government has recently issued the development strategy of Viet Nam banking sector to 2025 with a vision to 2030.

Accordingly, the credit institutions continue to play a critical role in the overall financial system of Viet Nam. The strategy sets out the following objectives:

- Developing the credit institutions network so that they operate transparently, competitively, safely and efficiently;
- Diversifying the structures of ownership, sizes and types of credit institutions;
- Based on advanced technology and advanced banking management approaches, and in line with international practices and standards, the credit institutions network will be developed, with a view to it being among the top four ASEAN countries by 2025;
- Adapting to the processes of liberalisation and globalisation;
- Meeting the economy’s increasing demands for financial and banking services, towards financial inclusion by 2030, thereby ensuring that people and businesses have full and convenient access to quality financial services, actively contributing to the country’s sustainable development.

In the 2018-2020 period, the credit institutions network will continue to be restructured, with a focus on the basic and thorough handling of non-performing loans (bad debts), and measures to ensure that poor-performing credit institutions use the appropriate forms, in accordance with the market mechanism on the principle of prudence, safeguarding the interests of the depositors and maintaining the stability and safety of the system. The credit institutions network will also continue to improve the financial status and improve the management capacity of the credit institutions in accordance with the law and international practices.



Minimum legal capital requirement

A minimum legal capital requirement applies to credit institutions operating in Viet Nam. The minimum legal capital levels for commercial banks, foreign banks’ branches, finance companies and financial leasing companies are VND3,000 billion, US\$15 million, VND500 billion and VND150 billion, respectively.

The total foreign ownership in a local bank is capped at

30%

Foreign ownership

The total foreign ownership in a local bank is capped at 30%. Subject to the approval of the Prime Minister on a case-by-case basis, foreign investors can own more than 30% of a local bank, however.

Capital adequacy ratio (“CAR”)

Under the SBV’s guidance, CAR is required to be maintained at a minimum level of 9%.

The existing CAR calculation methodology is closely based on Basel I, with respect to credit risk and it does not take into account any other risks, such as operational risk and market risk charges.

In late 2016, the SBV issued a new regulation on CAR, which will be effective from 2020. In accordance with this new regulation, CAR is required to be maintained at 8%, and its calculation methodology will change so that it is aligned with Basel II, which not only takes into account credit risk but also operational risk and market risk. This new regulation is considered to be a step forward in terms of the safety and effectiveness of Viet Nam’s banking sector.



30 days

from the end of the fiscal year is when the report must be submitted to the key stakeholders and to the SBV

Basel II

The SBV has issued a regulation which requires the top ten domestic commercial banks to comply with the Basel II Standardised Approach to calculating regulatory capital by 2015 and the Advanced Approach by 2018. At the end of 2016, an official circular on the CAR calculation following the Standardised Approach was issued by the SBV, which requires commercial banks to maintain a minimum CAR of 8% from January 2020.

The SBV also issued a new regulation on the Internal Capital Adequacy Assessment Process (ICAAP) in 2018, which requires a bank to have internal procedures and processes in place, to ensure that it possesses adequate capital resources to cover all of its material risks over the long term.

“The SBV also issued a new regulation on ICAAP in 2018”



Internal controls and internal audit

Credit institutions and foreign banks' branches operating in Viet Nam are required to set up an internal control system and an internal audit function in order to comply with the SBV's regulations.

Every year, credit institutions and foreign banks' branches must review and assess the adequacy, validity, effectiveness and efficiency of their internal controls. Accordingly, a report on the self-assessment of the internal controls, including risk updates, a summary of the main operations, and the relevant risks, checks and controls at organisational, unit and department levels must be prepared.

This report must be submitted to the key stakeholders and to the SBV within 30 days from the end of the fiscal year.

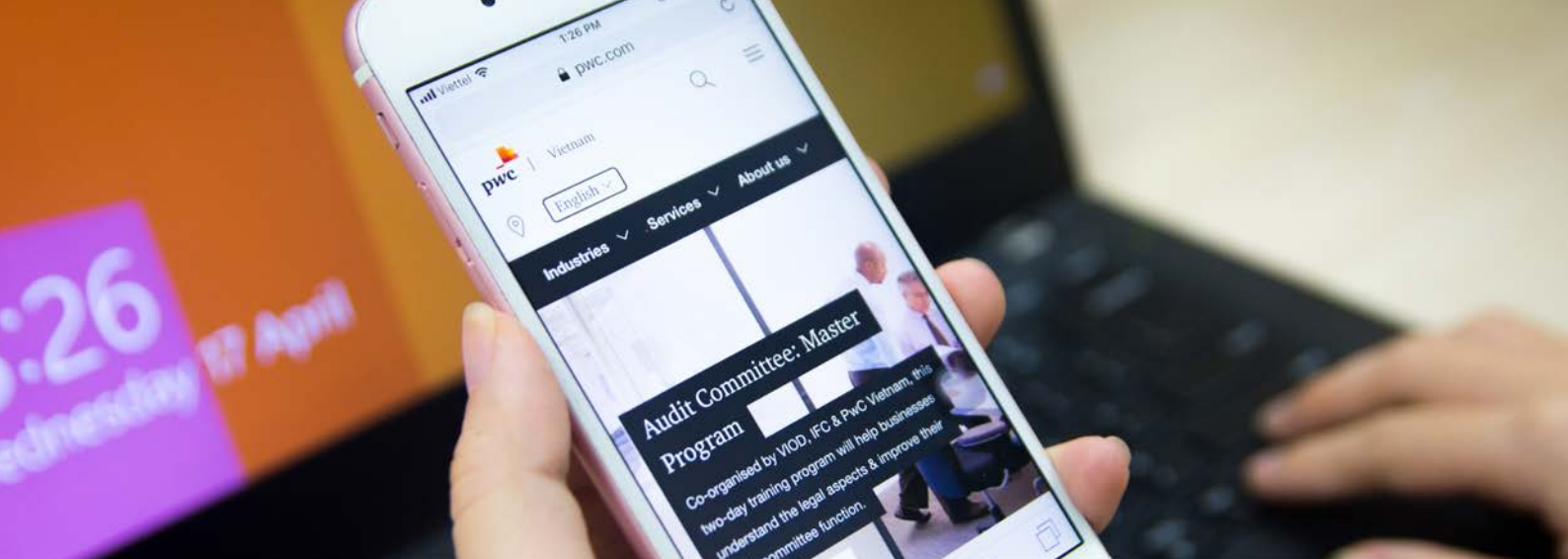
Similarly, an independent assessment by internal auditors of such credit institutions and foreign banks' branches is required on an annual basis. The contents of this assessment include reviews, assessments and reports on the adequacy, validity, and effectiveness and efficiency of the internal controls relating to the operations and fields that are being audited, through identifications and assessments of risks, identifications of existing problems with internal controls and indications of the changes to the internal controls that are necessary for their rectification. The internal audit results must be reported in a timely manner to the key stakeholders and within one month from the date of audit's completion to the SBV.

The SBV has recently issued a new circular providing guidance on internal control systems. The circular provides detailed guidance on internal control systems and the roles and responsibilities of the internal audit. This guidance is expected to be aligned more closely with the international framework and to provide a platform for Basel II implementation. The role of internal audit as the last line of defense in the governance system will become more important. The internal audit function is responsible for conducting independent audits and assessments of each bank's compliance with its internal policies and regulations. In addition, it also reviews and assesses the compliance of internal policies with regard to state regulations.

Independent audit requirements

The annual statutory financial statements and the operating effectiveness of the internal control system of credit institutions and foreign banks' branches are required to be audited by an independent auditor. Credit institutions are also required to rotate their auditing companies every five years.

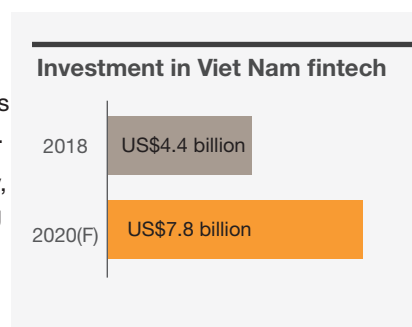
Before the end of each fiscal year, credit institutions and foreign banks' branches must select an independent auditing company from the List of Authorised Auditing Companies that is published by the SBV to audit their financial statements and the operation of their internal controls for the subsequent fiscal year.



Fintech and financial inclusion in an era of digitisation

Growing internet penetration, as a result of the proliferation of affordable smartphones, and lower data costs that increase the speed of transactions, has created favourable conditions for enhancing financial inclusion within Viet Nam.

In 2017, only 59% of the population had a formal bank account. It is noteworthy, however, that this 'banked' population consisted of relatively new retail banking customers, and this characteristic of the market, as well as the underutilisation of the existing banking services, indicates there is still significant potential for product diversification and growth within the banking industry.



One way for Viet Nam to increase its financial inclusion is to diversify the providers of digital financial services and to strengthen the knowledge-sharing surrounding its financial inclusion initiatives.

As such, technological innovation within the financial sector, commonly known as Fintech, is perhaps the most promising way to advance financial inclusion. This has been proven by the record of US\$4.4 billion invested in Viet Nam fintech market in 2017, which is expected to reach US\$7.8 billion by 2020.

“In coming years, there is a positive outlook for digital and consumer banking services in Viet Nam”



In order to enable digitalisation initiatives, the State Bank of Viet Nam Steering Committee on Fintech was set up in 2017. The Steering Committee brings together the State Bank, representatives from the department within the central bank, and the National Payment Corporation of Viet Nam to encourage the development of fintech initiatives. The central bank has also set an ambitious target of reaching 70% banking penetration by 2020 (pursuant to Decision 1276), with the hope of further accelerating the fintech market, with startups being ready to provide market solutions such as lifestyle banking services, mobile wallets and digital payment services.

Foreign enterprises have been pouring hundreds of millions of dollars into Vietnamese fintech firms, and more and more bank-fintech cooperation agreements have recently been signed. According to the State Bank of Viet Nam, there are about 80 fintech firms in Viet Nam providing diversified financial services, including payments, remittances, capital mobilisation and financial management. Cooperation between banks and fintech companies is the most commonly seen method of operation in Viet Nam, which mainly involves the one providing intermediary payment services to the other. So far, SBV has granted licenses to 29 non-bank organisations to provide such of services.

Over the coming years, there is a positive outlook for digital and consumer banking services in Viet Nam, which is supported by the robust economic growth of the country, its favorable demographics, and the rising internet and smartphone penetration. As a result of the rising affluence and tech-savviness of the younger population, Viet Nam is considered to be an attractive and potential investment destination for fintech in Asia. Fintech solutions will bring about new financial services that will complement the traditional banking products, thereby reshaping the competitive environment among the financial services providers in the country.



Viet Nam remains a property market of high interest in the Asia Pacific region and there is a general view that the key markets will see further growth across many segments thanks to a strong outlook for Viet Nam's economic fundamentals.”

Glenn Andrew Hughes
Director | PwC Vietnam

Real estate market

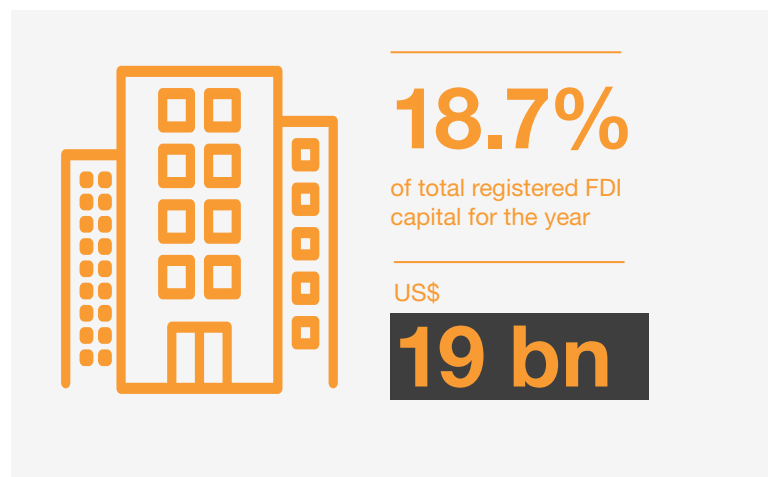
2018 performance summary

Asia's emerging markets have been targeted by international investors as a potential source of higher returns. Although the investment in emerging-markets is increasing, as their economies grow and their base of investable assets grows with them, these markets are not typically for investors who are seeking conservative positions. Viet Nam continues to be highly ranked as a **major area of focus for emerging-economy** investors, with national gross domestic product (GDP) growth of 7.08% in 2018 – the highest in 11 years, which was driven by strong domestic demand and FDI activity from Asian manufacturers.

Foreign investors have historically focused on housing in Viet Nam, usually in partnership with a local developer. Over the past year, there have also been a number of deals where foreign investors have bought into the listed and unlisted platforms of local developers. The residential market focus has now shifted from the high-end to the mid value segments, as urbanisation has created ongoing demand for housing in large urban centres.

Investments in the logistics sector in Viet Nam have not historically been a priority for investors, despite the booming manufacturing sector and generally poor existing infrastructure. That is changing now, though, as a result of the regulatory changes that allow foreign enterprises to operate more freely in the sector.

Ho Chi Minh City (HCMC) was ranked seventh for investment potential and second for development potential in the latest **PwC Emerging Trends in Real Estate Asia Pacific 2019 Survey**. HCMC is Viet Nam's largest city and the country's business capital. The population is young, incomes are on the rise, and growth has been forecast at an annual **6.6%** for each of the next three years by Standard & Poors. For opportunistic investors, there is ample evidence that there are investment opportunities to pursue.



2019 outlook

As per the Emerging Trends in Real Estate – Asia Pacific 2019 Survey that was published by PwC, there are more encouraging signs for foreign investment and fewer barriers to foreign participation in the real estate sector in Viet Nam, as compared to the other developing markets in Southeast Asian. Ho Chi Minh City continues to be the top emerging market, and it is particularly strong in the development arena, ranking second only behind Melbourne. Ho Chi Minh City is also the hottest market for acquisitions in virtually every sector: office, retail, and residential, while it is behind only Tokyo - the host of the 2020 Olympics - for hotels.

For office, Ho Chi Minh City is again the outstanding development market, even though the size of opportunity is small. The young, energetic workforce is an advantage of Viet Nam. There is no doubt that the command-driven economy makes life easier, particularly under a business-friendly administration. The Government of Viet Nam is seeking to secure the benefits that are provided by foreign investment, and it is increasingly welcoming to outside players.

Ho Chi Minh City also sits atop the target list for Residential investors, with mass-market and mid-market housing being seen as the new sweet spot. This is a pure development play for now, albeit in a fragmented market where it may be difficult to build scale.

Hanoi is also proving attractive for residential development investors. Hanoi has 7 million people in its metro area, which is smaller than but similar to HCMC, with both cities ranking behind only Jakarta and Bangkok for scale in Southeast Asia. Hanoi's stable economy is forecast to grow at a 6.6% in 2019, which ranks it similar to China's growth.

In the Retail sector, Ho Chi Minh City is once more the favoured location for investment but - as in previous years - it is unlikely that any significant cross-border capital would flow into the sector. The sector is growing significantly, however, with Cushman & Wakefield estimating that more than 600,000 square metres of new retail space will be developed by 2020, which is the equivalent of half of the city's existing retail supply.

In terms of Industrial/ Logistics investment, international capital moved into Vietnamese logistics and industrial in 2018, with private-equity players backing local developers. In 2019, this sector will remain extremely popular with investors in Asia Pacific real estate and key Viet Nam markets such as Ho Chi Minh City are expected to benefit as manufacturers move their industrial facilities into Viet Nam.

Viet Nam has always been a strong tourist destination, and it is witnessing a boom in the number of visitors from its neighbouring China and other Asian countries, which has led to extensive hotel development along the coast.

Ho Chi Minh City remains a popular choice as a tourist destination in Asia, even though Tokyo has taken the top spot. The strong trend in the growth of visitor numbers to Viet Nam suggests that there is underlying growth that will support the city as a target for hotel investors.

Relevant laws and regulations potentially affecting the market


Decision 255/QĐ-TTg on 4 Mar 2019 raises the preferential lending rate for social housing development by 0.2 points, from 4.8% p.a. in 2018 to 5% p.a. in 2019.

6.6%

is Hanoi's forecast economic growth in 2019

“Viet Nam has always been a strong tourist destination”





Ho Chi Minh City
continues to be
the top emerging market

At PwC Vietnam,
our purpose is to build
trust in society and solve
important problems.

We're a member of
the PwC network
of firms, which
operates in

158

countries

We're a member of the PwC network of firms, which operates in 158 countries around the world and employs more than 250,000 people. Our people throughout the network are committed to delivering the highest standards of quality in relation to the assurance, advisory, tax and legal services we deliver.

PwC Vietnam established offices in Hanoi and Ho Chi Minh City in 1994.

Our team of around 1,000 local and expatriate staff have a thorough understanding of the economy in which they work and have an in-depth knowledge of Viet Nam's policies and procedures covering areas such as investment, legal, taxation and regulatory matters, accounting, and mergers and acquisitions.

We have built strong relationships with key ministries, financial institutions, state-owned enterprises, private companies, commercial organisations and the ODA (Official Development Assistance) community in Viet Nam.



250,000
People

Over the past 25 years of operations, PwC Vietnam has committed to driving sustainable growth within our company and in the wider business community. With strong industry knowledge that our clients require at a local level, we bring a breadth of skills and depth of resources to our clients wherever they do business, throughout Asia and across the world.

Industry insights

Our teams are organised by business area to provide focused support on issues specific to any given industry. We have expertise in the following industries, amongst others:

			
Banking and capital markets	Engineering and construction	Financial services	Industrial products
			
Retail and consumer	Oil and gas	Pharmaceuticals and healthcare	Real estate
			
Technology	Telecommunications		

1994

is when PwC Vietnam established offices in Hanoi and Ho Chi Minh City

1,000

Local and expatriate staff in Viet Nam

Our services

PwC Vietnam provides clients with high-quality and industry-focused services, by developing and cultivating strong interpersonal relationships in order to truly understand your business and your needs. We can draw upon rich specialist resources from our regional and global network, combined with deep experience of the Vietnamese market. Our multi-disciplinary practice allows us to provide an unrivalled level of support to our clients.

Discover the benefits we can bring to you – whatever the size of your organisation – in the following areas: Audit & Assurance, Consulting, Deals, Tax and Legal.



For the full suite of PwC Vietnam's services, visit our website
<https://www.pwc.com/vn>



Our values

At PwC, our purpose is to build trust in society and solve important problems. We take pride in creating differentiated value through a network of technology-enabled innovators, who are committed to delivering client services from strategy through execution and improve the transparency, trust, and integrity of business practices.

Our five core values below help us achieve our purpose and deliver high-impact support to our clients.



Reimagine the possible



Make a difference



Act with integrity



Care



Work together

Scan/Click here for PwC Vietnam



VCCI

Liên kết doanh nhân Việt
Uniting Entrepreneurs



Note: State President, Party General Secretary Nguyen Phu Trong gave directions for VCCI's operations

VCCI

Viet Nam Chamber of Commerce and Industry (VCCI)

Founded in 1963 in Hanoi, the Viet Nam Chamber of Commerce and Industry (VCCI) is a nationwide organisation that brings together and represents the business community, employers and business associations in Viet Nam. It is devoted to accelerating the socio-economic development of the country and promoting commercial, economic, scientific and technological cooperation between Viet Nam and other economies in the world. VCCI is an independent, non-governmental, non-profit organisation, which has the status of a legal entity and operates with financial autonomy.

Through its activities both in Viet Nam and abroad, VCCI has been actively contributing to the renovation of the country, improvement of the business environment, development of mutually beneficial public-private partnerships, stimulation of economic growth and Viet Nam's integration in the regional and international economy.

VCCI has its headquarters in Hanoi and nine branches and representative offices stationed in key economic areas of the country.

Our Key Activities

Government - Business Dialogue

is hosted annually with the Prime Minister and high-ranking officials from Ministries. This serves as a high-level communication channel between the business community and the Vietnamese Government on various topics regarding the improvement of the business environment.

Provincial Competitiveness Index (PCI)

is a joint project of VCCI and the United States Agency for International Development (USAID), which started in 2005 to survey, research and reflect businesses' opinions on an annual basis in order to rank the economic governance quality of provincial authorities in creating a favourable business environment.

Website:
www.pcivietnam.org



Bilateral Business Forums

are organised each year, both domestically and globally on the occasion of high-level official visits between Viet Nam and other countries. These facilitate the connections between Viet Nam and business communities abroad.

WTO and Economic Integration Centre

is our biggest information source on international trade policies for businesses in Viet Nam as well as the largest focal point for businesses in taking advocacy actions relating to WTO, FTAs and other trade commitments of Viet Nam.

Website:
wtocenter.vn



Small and Medium Enterprise (SME)

support projects such as Start and Improve Your Business (SIYB) are carried out frequently, providing tremendous support to business start-ups in Viet Nam.

Viet Nam Business Annual Report

is an important publication for policymakers, businesses and people seeking to learn about business development in Viet Nam since 2006.

Website:
vbis.vn



and many more...



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Thank you



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