




# *Vietnam* Country Report 2019

*Vietnam Country Report 2019, prepared by VietnamCredit analysts, is a comprehensive study of Vietnam's political, economic, socio-cultural and technological environment. The report was produced and released in January 2019.*

This report is expected to support policy makers, researchers, investors and corporations to make better decisions.

An aerial night photograph of a city waterfront. In the foreground, a park with a pagoda and a road with light trails is visible. The middle ground shows a large body of water reflecting the city lights. In the background, a dense city skyline with several tall skyscrapers is visible against a twilight sky.

VietnamCredit commits the trustworthiness of this report by extracting data from such reliable sources as General Statistics Office (GSO), General Department of Vietnam Customs, Ministry of Finance (MOF), Ministry of Labour-Invalids and Social Affairs, IMF, ADB, WB and our own data and sources.

## *Contents*

|                                  |    |
|----------------------------------|----|
| Political Environment            | 06 |
| Economic - Financial Environment | 28 |
| Socio-cultural Environment       | 74 |
| Technological Environment        | 98 |

01.

# POLITICAL ENVIRONMENT

1. Political System

2. Law

2.1. Law on laws

2.2. Resolution of the Communist Party

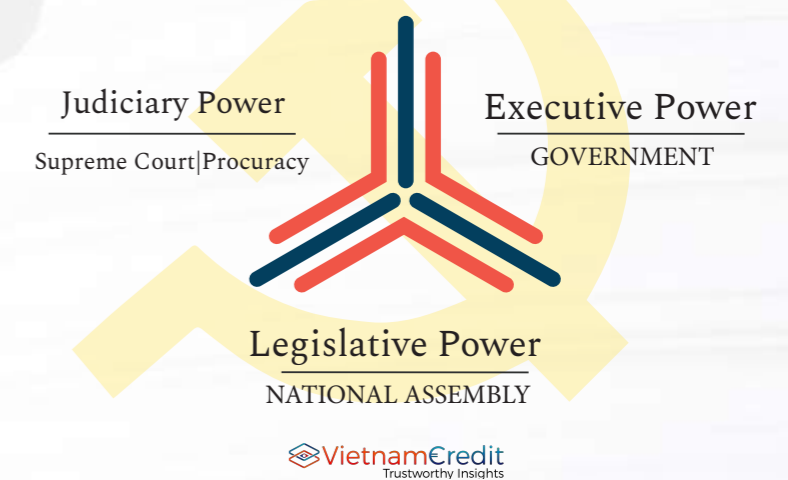
2.3. Business Law

2.3.1. Investment Law

2.3.2. Enterprise Law

3. Conclusion

*Political system in Vietnam does not follow “check and balance” mechanism, but it is under the centralized leadership of Vietnam Communist Party.*



Vietnam is a Socialist country where the State power is centralized and assigned under three branches of power: Legislative, Executive and Judiciary. Political system in Vietnam does not follow “check and balance” mechanism, but it is under the centralized leadership of Vietnam Communist Party.

The political framework in Vietnam is expressed through 4 important positions. They are the General Secretary of the Communist Party, the President, the Chairman of the National Assembly and the Prime Minister. People who take these positions are members of the Politburo with a 5-year term. During 2016-2021 term, the Politburo has 19 members but only 16 are currently working.

One month after President Tran Dai Quang suddenly deceased, on October 18, 2018, General Secretary Nguyen Phu Trong was elected President of Viet Nam, making him the most powerful man in the country. For the first time in many decades, a framework of 4 pillars transformed into 3: Party General Secretary cum President (Nguyen Phu Trong); Prime Minister (Nguyen Xuan Phuc) and Chairwoman of the National Assembly (Nguyen Thi Kim Ngan).



#### Article No. 9 of the Investment Law

“Stipulates that investors’ lawful assets are not nationalized or confiscated by administrative measures.”

*Investment Law, issued on November 26, 2014 (effective from July 1, 2015) is guided by the Decree No. 118/2015/ ND-CP. For the first time, Investment law stipulates the investment projects instead of investors (direct or indirect). It differentiates between investment project under normal procedures and projects requiring investment policy decisions.*

**243** conditional business lines

According to Law No. 03/2016/ QH14, detailing additional amendments to the conditional business investment sector, issued on November 22, 2017, there are 243 conditional business lines.

*The Investment Law also provides clear and detailed procedures to ensure that there are no overlaps and different explanations.*

The State protects the investors, offers many measures to encourage investment and ensures that investors are entitled to the best preferences in case the law is changed. Article 9 of the Investment Law stipulates that investors’ lawful assets are not nationalized or confiscated by administrative measures.

The highlight is that the Investment law provides a principle that conditional business lines in Vietnam must be clearly defined in accordance with Annex No. 4. According to Law No. 03/2016/QH14, detailing additional amendments to the conditional business investment sector, issued on November 22, 2017, there are 243 conditional business lines.

This number has been reduced compared to 2 years ago when there were 267 conditional business lines. The ministries and provincial agencies do not have the right to add lines of business.

Investment Law issued on November 26, 2014 (effective from July 1, 2015) is guided by the Decree No. 118/2015/ ND-CP. For the first time, Investment law stipulates the investment projects instead of investors (direct or indirect). It differentiates between investment project under normal procedures and projects requiring investment policy decisions. The procedure is described as follows:

*The Investment Law offers preferences for Investors from Article 15 to Article 18 as follows:*

## 01 LAND PREFERENCES

*Exemption from land rent, water surface rent*

**3 years**  
Projects in the field of investment promotion

**7 years**  
Projects in geographical areas with difficult socio-economic conditions

**11 years**  
Projects in geographical areas with extremely difficult socio-economic conditions; Fields of special investment promotion; Fields of investment promotion in areas with difficult socio-economic conditions

**15 years**  
Fields of investment promotion in geographical areas with exceptionally difficult socio-economic conditions; Fields of special investment promotion in area with difficult socio-economic conditions.

## 02 IMPORT/EXPORT TAX PREFERENCES

Exemption from import tax for equipment, supplies, means of transport and other goods for the execution of investment projects in Vietnam

## 03 LOSS TRANSFER

Within 5 years after the year loss is booked, enterprises with losses after tax audit may carry forward losses to the following years' income; This loss is deducted from taxable income.

## 04 CORPORATE INCOME TAX PREFERENCES

New investment projects in geographical areas with extremely difficult socio-economic conditions, economic zones, hi-tech parks and projects of a number of sectors according to regulations.

**4 year tax-exemption from the first year generating taxable income**  
and a 50% reduction of the tax payable for the next 9 years

**10% for 15 years from the first year generating turnover**

New investment projects in areas with difficult socio-economic conditions, industrial parks in disadvantaged provinces and projects in a number of sectors according to regulations.

**2 year tax-exemption from the first year generating taxable income**  
and a 50% reduction of the tax payable for the next 4 years

**17% for 15 years from the first year generating turnover**



## *Socialist-oriented market economy*

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*Vietnam's economic - political system are gradually following China's model. Although they are not completely the same because the two countries have differences in history and culture, the organizational structure of power and future development orientation are similar. It is called a socialist-oriented market economy, but this term has not been clarified yet.*

- *Basically, Vietnam's business laws have been fully promulgated, adjusting most of the business sectors.*

Especially in recent years, Vietnam is trying to promote the fight against corruption and to tackle economic crimes. The government wants to give a message about transparency in state governance and will eliminate special privileges for groups.

- *In 2019, there will be 19 laws coming into effect*

of which 12 laws take effect from January 1, 2019 and 7 will be effective from July 1, 2019. Of the laws that will be effective in 2019, the Law on Planning (Amendment), the Law on Anti-Corruption, the Competition Law and the Law on Cyber Security are significant and remarkable.

- *On January 1, 2019, the Law on Cyber Security became effective*

in which Article 26 stipulates that multinational companies in Vietnam must provide user information to the State when required; Enterprises providing services on the Internet must store data in Vietnam according to the time prescribed by the Government. The Cyber Security Law emphasizes behaviors that may violate cybersecurity on the cyberspace, creating a lot of exchanges and concerns from Internet users as well as multinational companies in Vietnam. Vietnam Government reckons that the Cyber Security law will better protect the people and the nation.



02.

ECONOMIC - FINANCIAL  
ENVIRONMENT





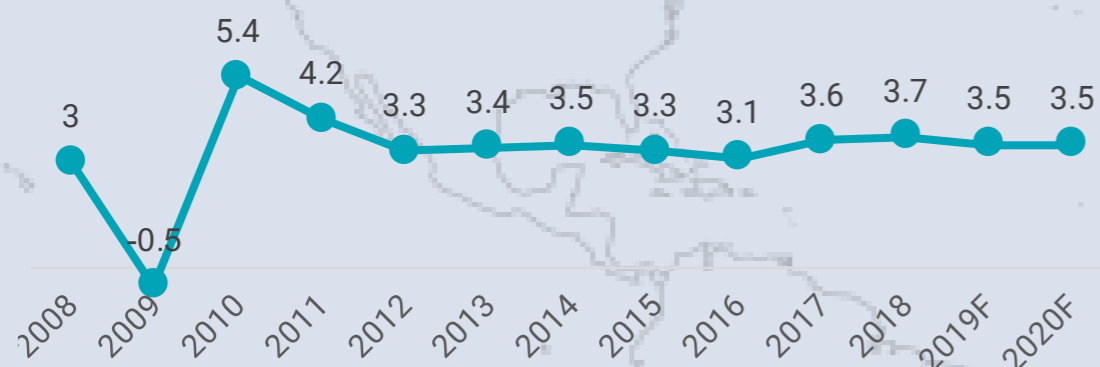
# Global Economy

The global economic growth still keeps the momentum going but it has reached its peak and may face risks such as increasing trade tension and tight financial conditions.

Most of the world's major economies are expected to experience negative growth next year. Global GDP is forecast to increase 3.5% in 2019 and 2020, down 0.2% compared with 2018.

Global GDP growth rate

Sources: OECD, VietnamCredit



Overall, growth in global trade of goods and services combined is expected to moderate to 4.3% in 2018, down from a six-year high of 4.8% in 2017.

On trade policy front, the outcome of some trade negotiations are still uncertain, and the risk of escalating trade restrictions has intensified, as new tariff announcements by the United States have led to retaliatory responses by major trading partners.

In other policy developments, there are some important Agreement have been signed:

- The European Union and the United Kingdom reached agreement on guidelines for trade negotiations
- The U.S.-Korea Free Trade Agreement was successfully re-negotiated
- The Comprehensive and Progressive Trans-Pacific Partnership (CPTPP) was signed by 11 member countries
- Leaders from 44 African nations have agreed to establish African Continental Free Trade Area (AfCFTA).
- Leaders of the US, Mexico and Canada have signed the US-Mexico-Canada Agreement (USMCA) which replaces the North American Free Trade Agreement (NAFTA)

Global trade and investment growth rate

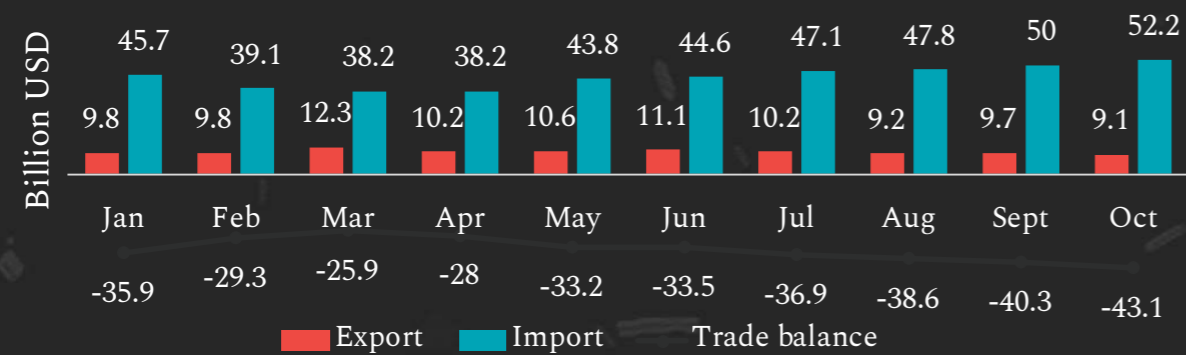


Source: OECD, VietnamCredit

**4,3%**  
growth in global trade of goods and services combined in 2018

**4,8%**  
growth in global trade of goods and services combined in 2017

## Import and export turnover of the US to China by month in 2018



The trade war did not have much impact on the US stock market. The S&P 500 index even reached the highest point of all time in mid-August 2018 and is still rising by 3.8%. This is because the contribution of exports to the US economy is relatively low, the value of exports to China is quite small and the US economy has been benefiting from the tax cut policy as well as increasing public spending since 2017.

However, China is subjected to the most direct and severe impacts of the war. Although taxes imposed by the US on China have not affected much the value of China's exports to the US partly because the imposition of taxes takes place quite late (from July) and Chinese businesses have tried to increase the volume of exports to the US before higher taxes are officially in force in 2019, Chinese financial markets still suffered a lot of.

*Experts predict that by 2021, world GDP will decline by 0.5% with 0.8% decrease in the US and 1% in China due to the US-China trade war*



China's growth has posed challenges to the United States in the 21st century. The US-China trade war is the first sign of the war in terms of economics.

The war has damaged the global GDP and trade, and it is estimated that if the US raises taxes on all Chinese goods by 25%, along with China's retaliatory actions, world economic activities may be much more negatively affected. WB experts forecast that by 2021, world GDP will decline by 0.5% with 0.8% decrease in the US and 1% in China.

The trade war has played down the importance of the World Trade Organization (WTO). In WTO meetings to resolve the claims of the world's two largest economies, the leaders of both parties still had fiery arguments and there was no sign of concessions.

*The trade war is thus forecast to be difficult to end in the short term, even when the leaders of the two countries plan to meet on the sidelines of the G20 Summit in June 2019.*

# Overview of Vietnam's economy 2018 through 9 indicators

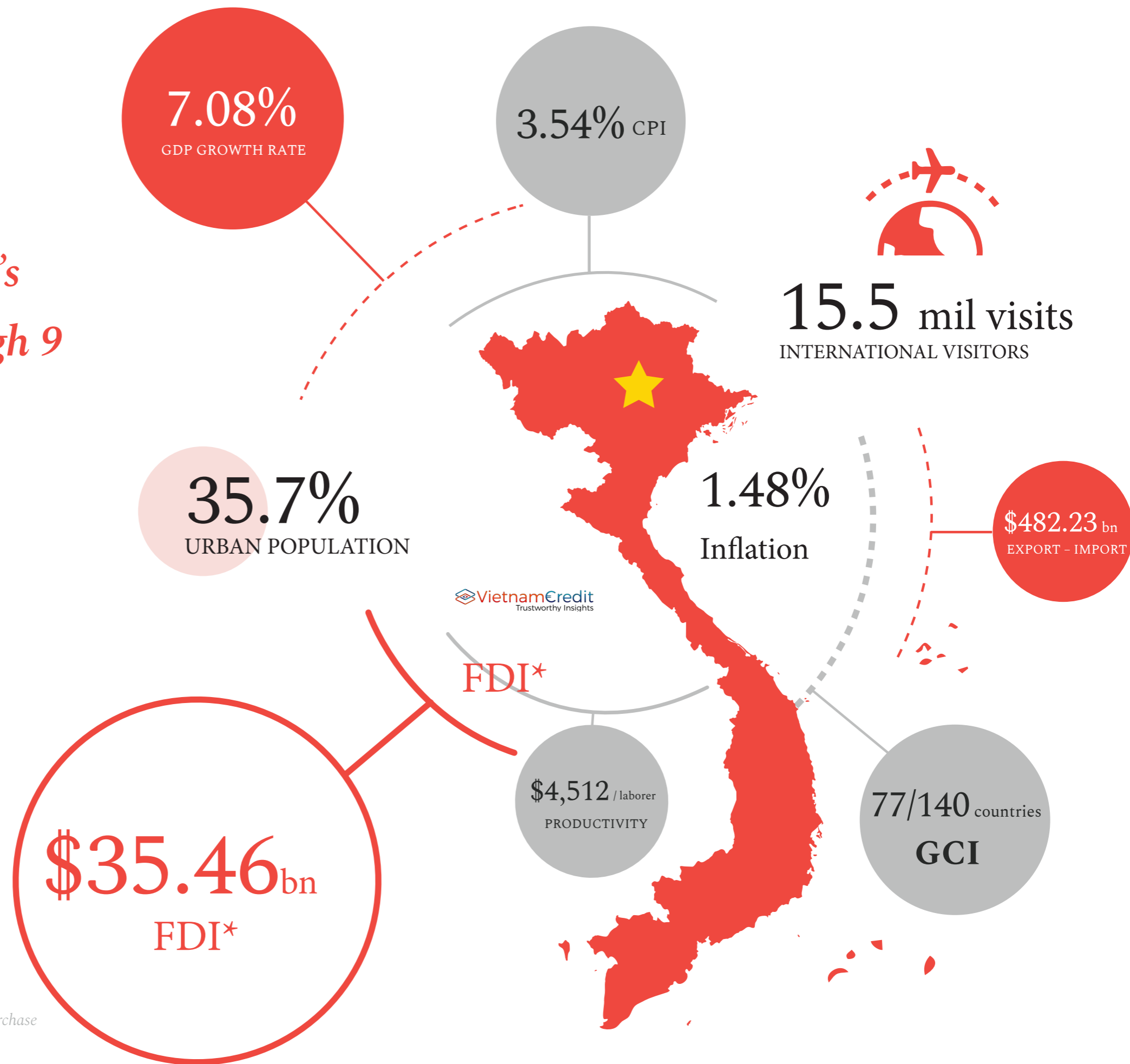
Capital *Ha Noi*

Language *Vietnamese*

Area *331,212 km2*

Population *96.96 mil*

Median Age *31*



\*total newly registered, additional capital and share purchase capital from Foreign Investors

# Vietnam Economy Overview 2018

## ↑ 10.2% IIP over the previous year

Processing and manufacturing industry continues to play a key role in promoting the overall growth of the industry with an increase of 12.3%

GDP of 2018 increased by 7.08%, reaching its peak since 2008; the industry and construction sector make the biggest contribution (48.6%). GDP per capita was estimated at USD2,587, which is USD198 higher than that of 2017



## ↑ CPI increases 3.54% over 2017

with average monthly increase of 0.25% due to the increase in the price of tuition, medical service and the increase of basic salary

## ↑ 17.6% number of FDI projects ↓ 15.5% registered capital

Vietnam attracted 3,046 newly licensed projects with total registered capital of USD17,976.2 million, increasing by 17.6% in number of projects but decreasing by 15.5% in terms of registered capital compared to the same period in 2017. Japan is the biggest foreign investor in Vietnam

## CPTPP (09/03/2018)

On March 9, 2018, the Comprehensive and Progressive Agreement for Trans-Pacific Partnership (CPTPP) was signed in Santiago, Chile.

## \$7.2 bn trade surplus

Vietnam's trade balance enjoyed a trade surplus of USD7.2 billion. The domestic economic sector saw a trade deficit of USD25.6 billion; the foreign invested sector (including crude oil) saw a trade surplus of USD32.8 billion.



## USD48.8 billion M&A

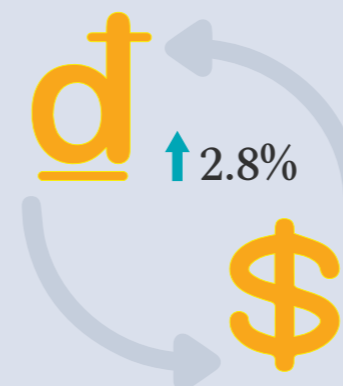
2018 marks 10th anniversary of business mergers & acquisitions (M&A) in Vietnam. According to statistics, there were 4,353 deals, with a total value of USD48.8 billion implemented in the period of 2009-2018.



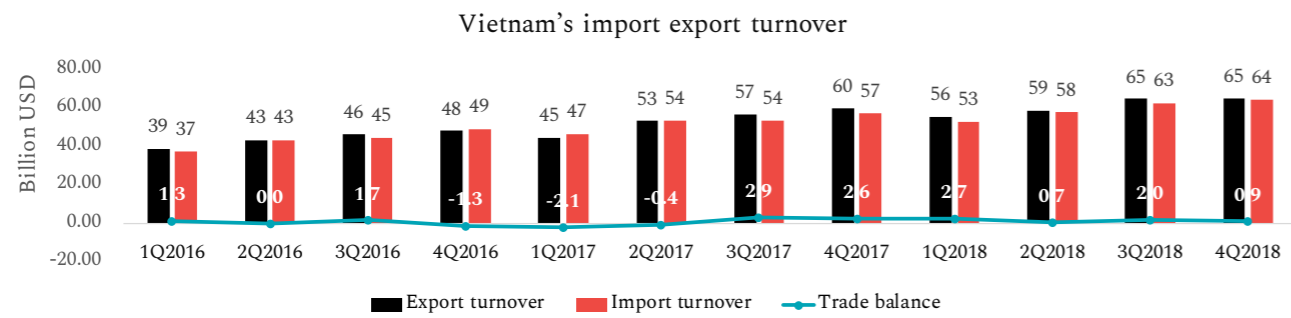
There were 131,275 newly established businesses with total registered capital of USD 63.6 billion, an increase of 3.5% in number of companies and 14.1% in registered capital

## 130% GDP

Credit growth in 2018 was 14% higher than 2017. Loan outstanding of the economy was at about 130% of GDP, which is much higher than many other countries in the world



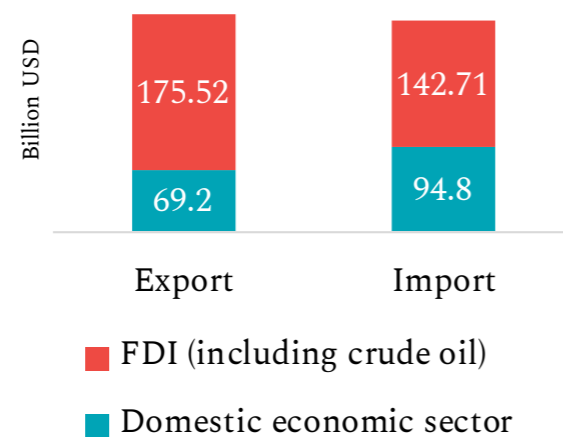
USD / VND exchange rate increased slightly. The central bank's daily reference exchange rate increased by about 1.5% compared to the beginning of the year, the exchange rate between commercial banks increased by 2.8% and the free market rate was about 3.5% compared to the beginning of the year.



Source: Vietnam Customs, VietnamCredit

In general, Vietnam's trade balance continued to enjoy trade surplus estimated of USD7.2 billion, of which the domestic economic sector saw a trade deficit of USD25.6 billion; the FDI sector (including crude oil) saw a trade surplus of USD32.8 billion.

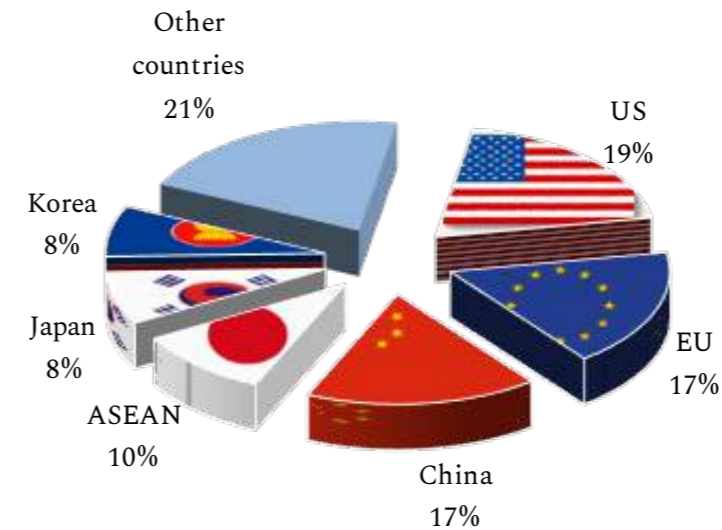
### Vietnam's import export turnover in 2018



Source: Vietnam Customs, VietnamCredit

In 2018, the domestic economic sector achieved higher export growth rate than the foreign invested sector. However, the export turnover of Vietnam mainly comes from the FDI sector, which contributed 71.72% to the total export turnover of the country.

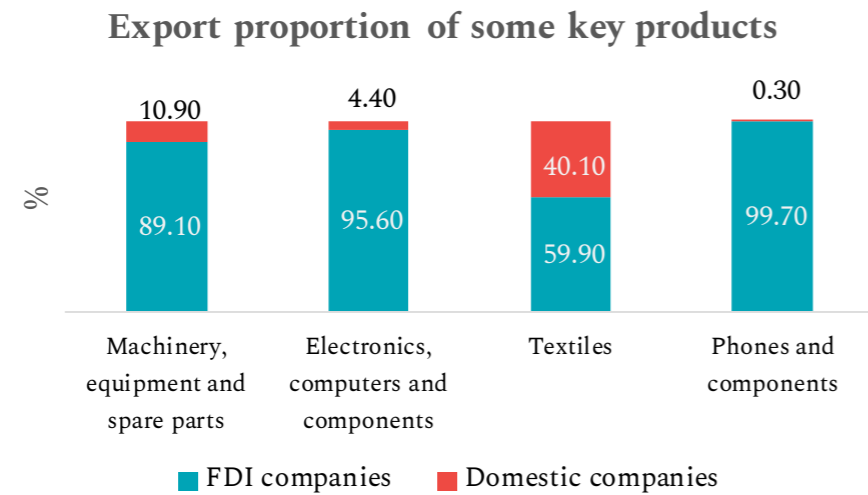
### Vietnam's major export market in 2018



The United States is Vietnam's largest export market with a turnover of USD47.5 billion, up 14.2%, followed by the EU with USD42.5 billion, up 11%, China with USD41.9 billion, up 18.5%, the ASEAN with USD24.7 billion, up 13.7%.



*Export turnover of Vietnam is mainly contributed by FDI sector with the rate of 71.72%*



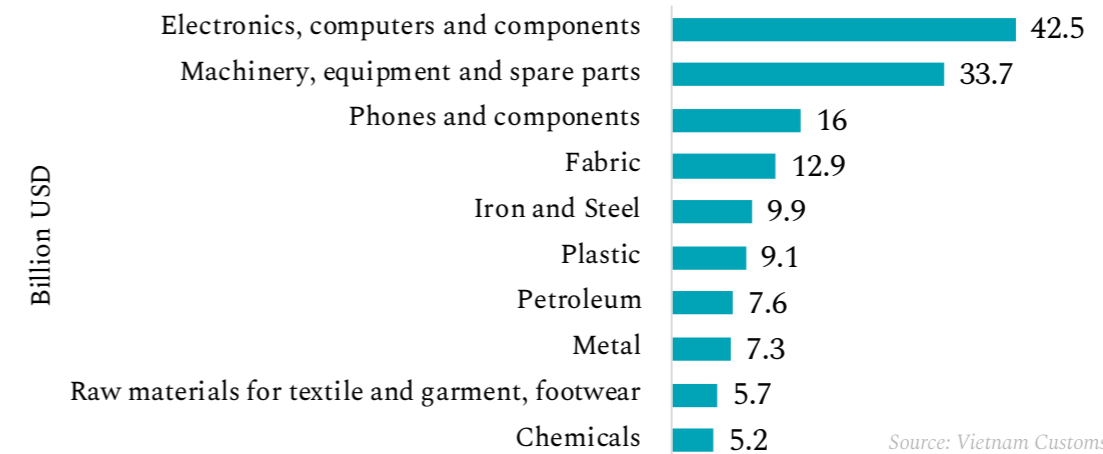
In 2018, there were 29 items with export turnover of over USD1 billion, accounting for 91.7% of the total export turnover of the country, of which 9 items reached over USD5 billion and 5 items reached over USD10 billion.

in which: Phones and components reached USD50 billion, up 10.5%; textiles and garments reached USD30.4 billion, up 16.6%; electronics, computers and components reached USD29.4 billion, up 13.4%; machinery, equipment and spare parts reached USD16.5 billion, up 28%; ...In general, the FDI sector still dominates the structure of export turnover of key products.



*36 items were estimated to import over USD1 billion, accounting for 90.4% of total import turnover and 4 items with over USD10 billion, accounting for 44.3%.*

### Import turnover of 10 main commodity groups in 2018



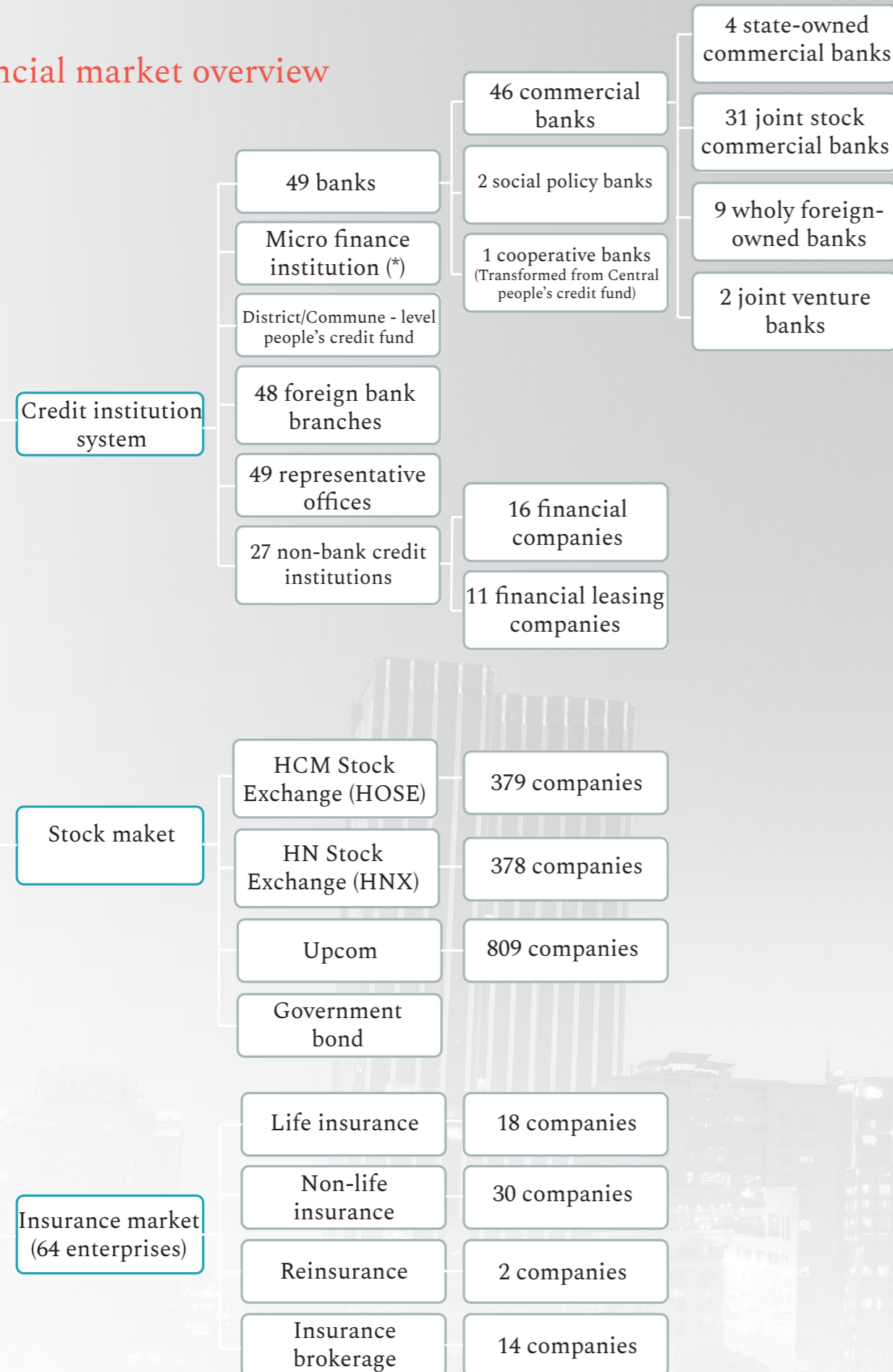
Source: Vietnam Customs, VietnamCredit

In 2018, import turnover was estimated at USD237.51 billion, up by 11.5% compared to the previous year, of which 36 items were estimated to import over USD1 billion, accounting for 90.4% of total import turnover and 4 items with over USD10 billion, accounting for 44.3%.

Many items for domestic production, processing and assembly including electronics, computers and components, machinery and equipment, tools and spare parts, phones and components, fabrics, iron and steel,...have increased turnover compared to the previous year.

## Financial market overview

### FINANCIAL MARKET



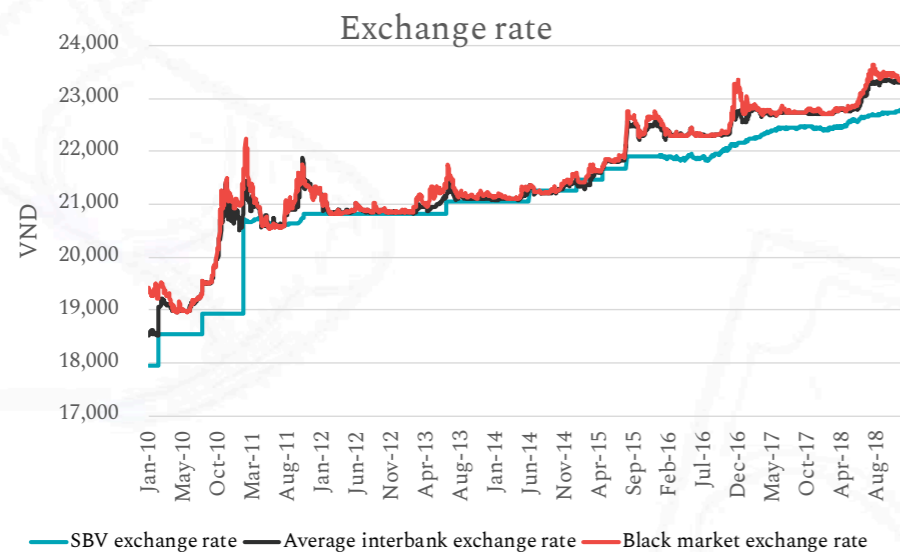
*Vietnam's financial market is constituted by 3 divisions: the system of credit institutions (CIs), the stock market and the insurance market.*

Organizations participating in the market :

- Credit institution system: currently, there are 49 banks, 48 branches of foreign banks and 49 representative offices of foreign banks, 27 non-bank credit institutions (as of June 30, 2018) and an unofficial financial system which is not fully managed (including microfinance companies, fintech, peer to peer lenders ... etc.).
- Stock market: there are about 156 securities trading organizations; including 2 major stock exchanges with 757 listed companies. In addition, there also exist the Government bond and another stock exchange named Upcom (Unlisted Public Company market) with 809 listed companies
- Insurance market: there are 64 insurance companies.

\* including registered financial companies (consumer credit) and unofficial microfinance companies/ units

*Foreign exchange market: The exchange rate has hovered around the allowed band of the State Bank, increasing by more than 2% on average over the past 4 years.*



Source: SBV, VietnamCredit

USD / VND exchange rate increased slightly. The SBV exchange rate increased by about 1.5% compared to the beginning of the year, the exchange rate between commercial banks increased by 2.8% and the black market rate was about 3.5% compared to the beginning of the year. The main reason for the exchange rate increase in the domestic market is: (i) the USD index is about 5% higher than the beginning of the year, 9% higher than the bottom in February 2018; (ii) the exchange rate is still under pressure from inflation but positively supported positively by the supply demand for foreign currency.

It is expected that Vietnam foreign exchange market in 2019 will continue to fluctuate in a margin of about 2% compared to 2018 thanks to the demand-supply support (trade balance will continue experience surplus of about USD4 billion, FDI to be disbursed USD 20 billion, FII is about USD 2 billion, remittances are about USD9 billion) and the SBV's exchange rate management policy. Meanwhile in the international market, the US dollar is forecast to stay unchanged when the US economy continues to be the world economic leader.





# 03.

## SOCIO-CULTURAL ENVIRONMENT

By the end of 2018, Vietnam's population reached 96.96 million, accounting for 1.27% of the world's population and standing 14th in the global population rankings.

Vietnam's population density is 313 people per square kilometer, doubling that of China ( 151 people per km<sup>2</sup>) and almost 9 times than that of USA (36 people per km<sup>2</sup>)

Vietnam is among countries with the most rapidly aging population, it is projected that the number of people aged 65 or over will triple the current figure, reaching 18.4 million in 2040

Vietnam's Urbanization rate is rapid while urban population rate is low; technical infrastructure and social infrastructure are not synchronous. In 2011 the urbanization rate accounted for 31.55% while in 2018 figure was just 35.7%.

The average unemployment rate in Vietnam from 2011-2018 remained relatively stable at 2.22 - 2.3%

Vietnamese people's traditional ways of shopping have gradually been replaced by online shopping.

According to the latest report of Consumer Conference® Global Consumer Confidence™ & Nielsen, Consumer Confidence Index in Vietnam in the third quarter of 2018 hit 129 points (ranked second in the world)



# Major social indicators



**VietnamCredit**  
Trustworthy Insights

Capital **Ha Noi**

Language **Vietnamese**

Area **331,212 km<sup>2</sup>**

Population **96.96 mil**

Median Age **31**



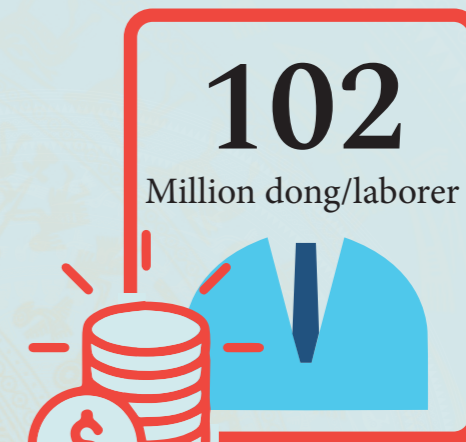
Average life expectancy

# 73.5



Urban population

# 35.7%



# 102

Million dong/laborer

Labor productivity



boys/100 girls

# 115.1

Unemployment rate

# 2.0%

English proficiency index

# 41/88

quốc gia

HDI

# 116

/189 countries

Fertility rate

# 2.5

Births/woman

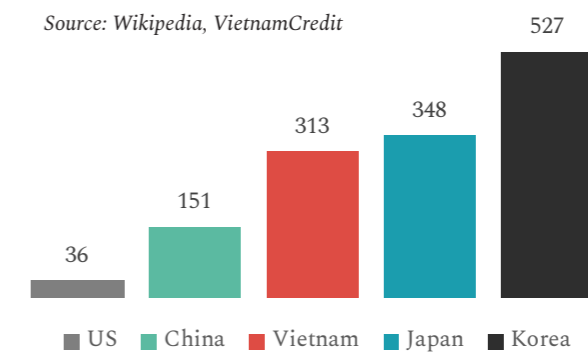


The population of Vietnam in 2018 was about 96.9 million, accounting for 1.27% of the world population and ranked 14th.

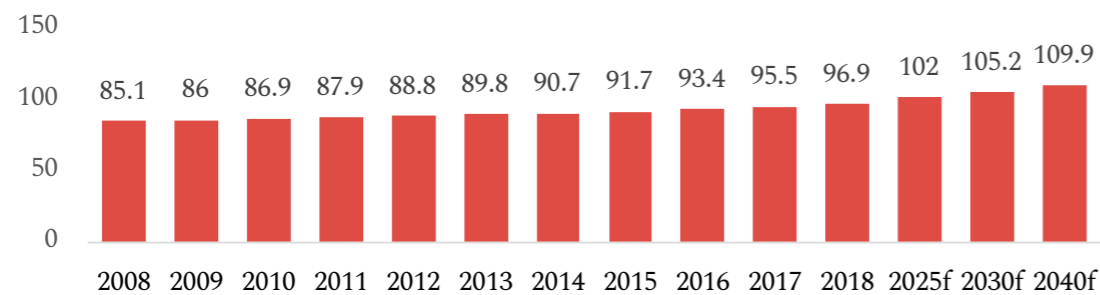
Population density in Vietnam is ranked among the highest in the world, 5 times higher than the average.

In 2018, the population density in Vietnam is 313 people / km<sup>2</sup>, twice as high as China (151 people / km<sup>2</sup>) and 9 times the population density in the US (36 people / km<sup>2</sup>). High population density and unreasonable population distribution have caused many obstacles and challenges for the country's development. According to GSO forecasts, in 2024, Vietnam's population will exceed 100 million people, the population density will reach 335 people / 1km<sup>2</sup>.

Population density in Vietnam compared with other countries in 2018 (people / km<sup>2</sup>)



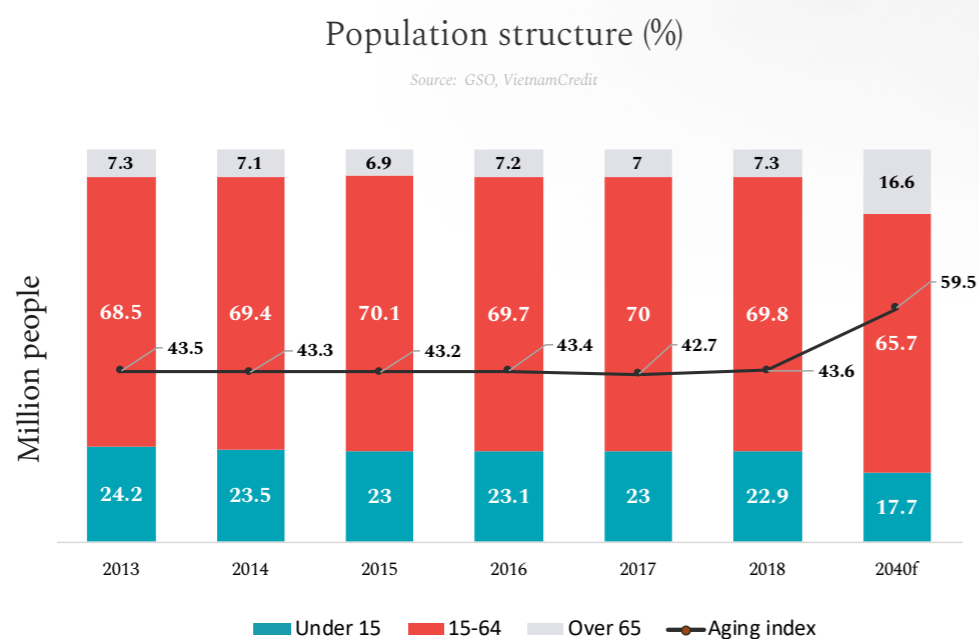
Vietnam's population over the years (million)



Source: GSO, VietnamCredit

The population of Vietnam in 2018 was about 96.9 million, accounting for 1.27% of the world population and ranked 14th. It is forecasted that by 2040, Vietnam's population will reach about 109.9 million people. Facing a series of population challenges: population aging, gender imbalance, low population quality, disparity in fertility across regions ... Vietnam General Department of Population and Family Planning has eased the 2-child policy.

According to World Bank, Vietnam's population aging rate is among the fastest in the world. It is forecast that the number of people aged 65 in Vietnam will triple the current figure, reaching 18.4 million people in 2040.

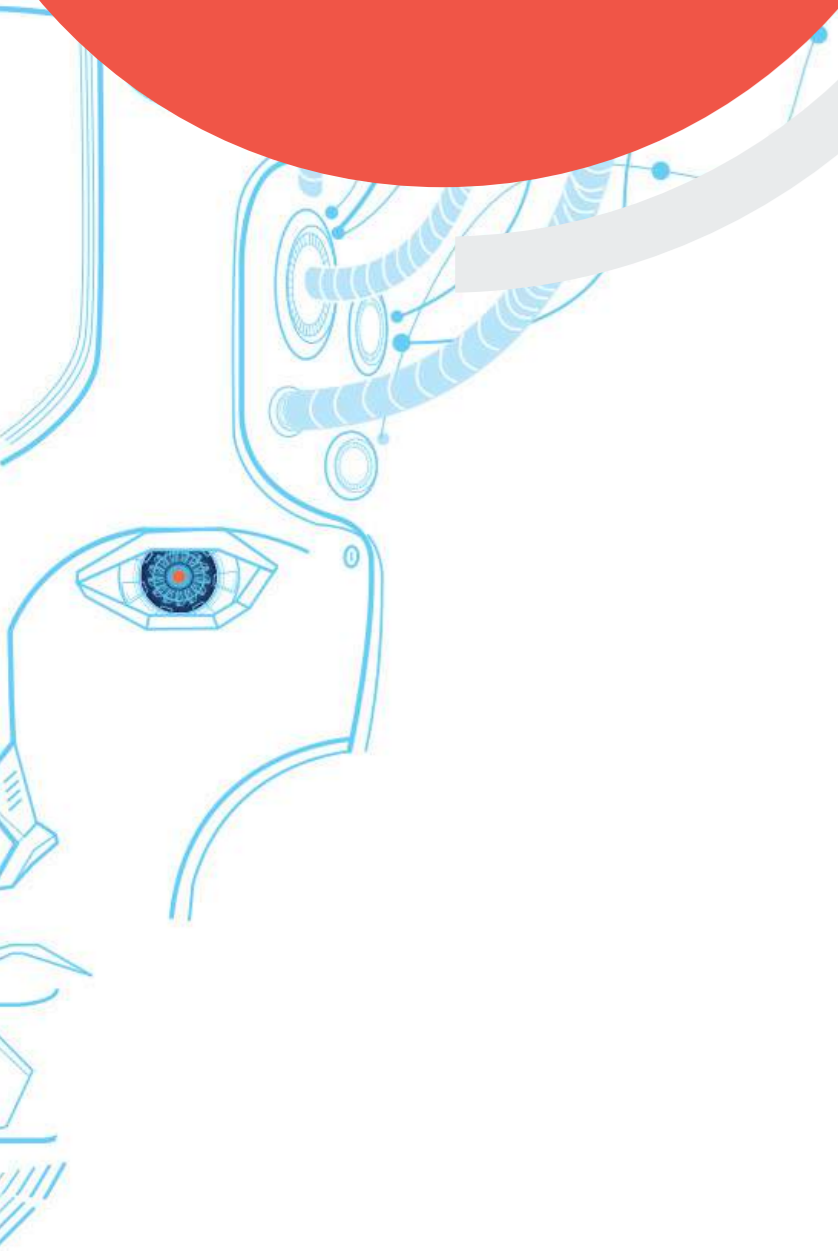


Although Vietnam is a young population country but its aging rate is quite rapid. In 2018, the number of people in working age is about 48.7 million, accounting for 50.3% of the total population of the country. The period of golden population is gradually passing away while the capacity of the labor force is not really well used.



04.

TECHNOLOGICAL  
ENVIRONMENT





*The technology environment in Vietnam is on the way of development. Technological innovation is critical importance in the context of Vietnam's international integration; especially in the 4th industrial revolution to enhance competitiveness for businesses.*

- 
- Vietnam Innovation Index in 2018 ranked 45th in the world
  - Total Science and Technology (S&T) R&D expenditure of Vietnam reached USD1.8 billion, which is lower than many countries in the region and the world
  - State budget expenditure for S&T R&D activities in 2018 was about USD1.1 billion. Human resources for scientific research were 60,543 people
  - IIP in 2018 reached 110.2. The key industrial products of the economy have achieved remarkable growth.
  - The number of intellectual properties (IP) has increased steadily over the years although IPs have not yet attracted the proper attention of businesses.

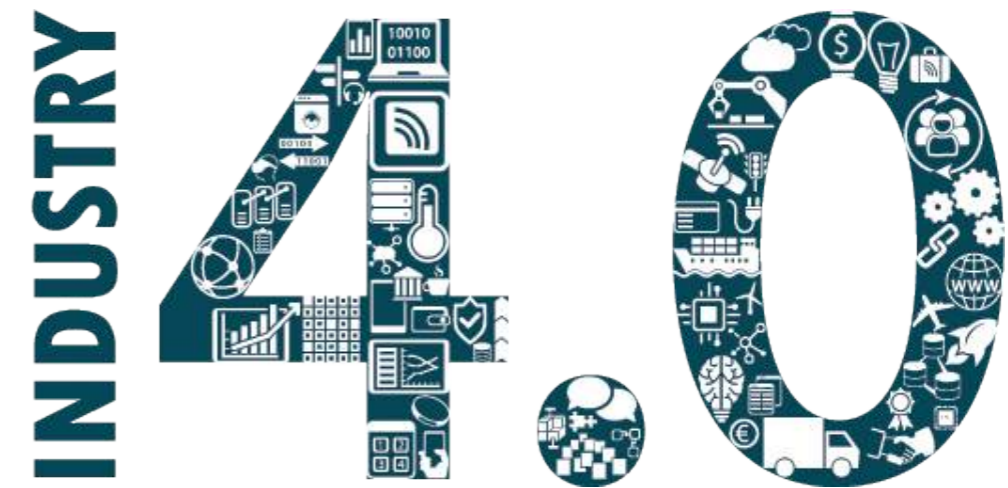


***“The Fourth Industrial Revolution (IR 4.0) is becoming globally popular and powerful nations are putting much effort into the technology race.***

Multinational corporations and large businesses have invested heavily in research and application of advanced science. According to the forecast of the 2017 World Economic Forum, companies with high technology expertise will surpass revenue (9%), profitability (26%), and market value (12%) of low - tech companies. The life cycle of a company shortens from more than 50 years in the last century to 15 years at the present time. And 4 out of 10 Fortune 500 companies will disappear within the next 10 years, giving way to companies that have technology power.

Vietnam will be greatly influenced by the IR 4.0. The Government has formulated policies that promote the development of this revolution and apply it to the country’s economic development. VietnamCredit focuses on analyzing the following 5 issues because we think they have a great impact on the technology and social environment:

*Global science and technology have come on in leaps and bounds with the Fourth Industrial Revolution (IR 4.0). There are 5 important factors that greatly affect the technology environment and Vietnamese society.*



*The following 5 issues are focused on introduction by VietnamCredit because we think it has a great impact on the technology and social environment:*

- Big Data & AI
- Automation & Sensor
- Machine learning & Social Listening
- Business 4.0
- Labor 4.0



## VietnamCredit - Business Information Provider in Vietnam

Company Report - Industry Report - Business Supporting Service

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