

### 3 Viet Nam

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#### I. Introduction

Vietnam is officially known in English as the “The Socialist Republic of Vietnam”. The full name in Vietnamese is “Cong Hoa Xa Hoi Chu Nghia Viet Nam”. It is a sovereign and reunified independent country, has a high percentage of territorial waters.

The country was usually called Annam until 1945, changed the official name back to Vietnam when the Proclamation of Independence of the Democratic Republic of Vietnam was written by Ho Chi Minh president and announced in public, solemn declared to the world at Ba Dinh Square on September 2<sup>nd</sup>, 1945. Thus, September 2<sup>nd</sup> has become Vietnam’s National Day.

Vietnam is part of Southeast Asia, bordered by China to the north and Cambodia and Laos to the west, and the East Sea and Pacific Ocean to the southeast. Vietnam with total area 332,698 km<sup>2</sup> is about the size of New Mexico (329,560 km<sup>2</sup>), but shaped in a long, narrow "S". Vietnam's coastline is 3.260 km long and its inland border measures 3.730 km. The country's total length, from the northernmost point to the southernmost point, is 1.650 km.

Hanoi is the capital of Vietnam and the country's second largest city. From 1010 until 1802, it was the most important political centre of Vietnam. It was eclipsed by Hue, the imperial capital of Vietnam during the Nguyen dynasty (1802-1945), but Hanoi served as the capital of French Indochina from 1902 to 1954. From 1954 to 1976, it was the capital of North Vietnam, and it became the capital of a reunified Vietnam in 1976, after the victory in the war. October 2010 officially marked 1000 years since the establishment of the city.

Ho Chi Minh City, formerly named Saigon, is the largest city in Vietnam. Under the name Saigon, it was the capital of the French colony of Cochinchina and later of the independent republic of South Vietnam from 1955-75. South Vietnam was a capitalist and anti-communist state which fought against the communist North Vietnamese during the Vietnam War, with the assistance of the United States and other countries. On 30 April 1975, Saigon fell and the war ended with a Communist victory. On 2 July 1976, Saigon merged with the surrounding Gia Định Province and was officially renamed Ho Chi Minh City.

Vietnam remains an agricultural based society, with 44% of its employed population in 2015 being engaged in agriculture, forestry and fishing. Other major industries providing employment are:

- manufacturing - 15.3%
- wholesale and retail trade - 12.7%
- construction - 6.5%
- accommodation and food services - 4.6%
- education and training - 3.6%
- transportation and storage - 3%<sup>1</sup>

Notwithstanding the high percentage of the population still engaged in agricultural pursuits, Vietnam has seen a dramatic rise in the population of its major cities (Hanoi, Ho Chi Minh City and Danang) as people are drawn there to seek economic opportunities not available in the rural areas.

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<sup>1</sup> Statistical Handbook of Vietnam 2015

## **I.1 Geography**

Its width, stretching from east to west, is 600 km at the widest point in the north, 400 km in the south, and 50 km at the narrowest part in the Quang Binh province on the central coast. Vietnam is also a transport junction from the Indian Ocean to the Pacific Ocean.

This location creates ideal and favorable conditions for national economic growth in general and the development of trade and tourism in particular. The mainland territory of Vietnam is an S-shaped land covering an area of over 329,241 square kilometers. From North to South, the territory of Vietnam extends for 1,750 kilometers, Vietnam possesses a long coastline with countless kilometers of ravishing beaches and stunning lagoons.

Stretching from the North to the South, Vietnam's topography varies dramatically with emerald-green mountains, fertile deltas, tropical rainforests inhabited by many rare and precious species of fauna and flora, sinuous rivers, mysterious caves, surreal-looking rock formations, heavenly waterfalls and pristine white-sandy beaches.

The country can be divided into three main regions: the North, the Central and the South. The North includes three sub-regions: Northwest, Northeast and Red River Delta. Northwest is well-known for the fantastic scenery of Sapa, awe-inspiring valleys and picturesque terraced fields of Mai Chau, peaceful hill-tribe villages and stunning nature beauty of Lao Cai, etc. Northeast is endowed with the sublime beauty of Ba Be National Park, the spectacular rock-formations and alluring grottos of Halong Bay and the poetic, fresh, quiet beauty of Ban Gioc Waterfall. Red River Delta is a region of beautiful rice fields and limestone cliffs, ancient temples, and skillful local craftspeople. The region is also deemed to be the cradle of Vietnamese civilization some of the most valuable historical heritages in Vietnam.

The Central of Vietnam is divided into two main sub-regions: North Central or North Central Coast and South Central which, in turn, includes South Central Coast and Central Highlands. North Central (Bac Trung Bo) contains six provinces in the northern half of Vietnam's narrow central part. All provinces in this region stretch from the coast in the east to Laos in the west: Ha Tinh, Nghe An, Quang Binh, Quang Tri, Thanh Hoa and Thua Thien Hue. South Central (Nam Trung Bo) contains seven coastal provinces and Danang city (centrally-controlled municipality) in the southern half of Vietnam's central part: Binh Dinh, Binh Thuan, Khanh Hoa, Phu Yen, Ninh Thuan, Quang Nam and Quang Ngai. Central Highlands (Tay Nguyen) contains the five inland provinces of southcentral Vietnam: Dak Lak, Dak Nong, Gia Lai, Kon Tum and Lam Dong. Almost of this region is mountainous. While mostly inhabited by ethnic minorities, there are many Vietnamese living here. The Central which is home to many ethnic minorities, is characterized by high temperate plateaus rich in volcanic soil and by spectacular beaches, innumerable sand dunes and lagoons. Hoang Sa (island district belongs to Danang) and Truong Sa (island district belongs to Khanh Hoa) are two archipelagos rich in resources.

The South of Vietnam includes two main regions: Southeast and Mekong Delta. Southeast (Dong Nam Bo) contains those parts of lowland southern Vietnam which are north of the Mekong Delta. There are five provinces, plus the municipality of Ho Chi Minh City (formerly Saigon): Ho Chi Minh City, Ba Ria - Vung Tau, Binh Duong, Binh Phuoc, Dong Nai, Tay Ninh. Mekong River Delta (Dong Bang Song Cuu Long) is Vietnam's southernmost region, mostly containing small but populous provinces in the fertile alluvial delta of the Mekong River. There are twelve provinces, plus the municipality of Can Tho: Can Tho City, An Giang, Ben Tre, Bac Lieu, Ca Mau, Dong Thap, Hau Giang, Kien Giang, Long An, Soc Trang, Tien Giang, Tra Vinh, Vinh Long.

## **1.2 Climate**

Vietnam is located in both a tropical and a temperate zone. It is characterized by strong monsoon influences, but has a considerable amount of sun, a high rate of rainfall, and high humidity. Regions located near the tropics and in the mountainous regions are endowed with a temperate climate.

The annual average temperature ranges from 22°C to 27°C. In Hanoi, the average temperature is 23°C, in Ho

Chi Minh City it is 26°C, and in Hue it is 25°C.

There are two distinguishable seasons. The cold season occurs from November to April and the hot season from May to October. The difference in temperature between the two seasons in southern Vietnam is almost unnoticeable, averaging 3°C. The most noticeable variations are found in the northern provinces where differences of 12°C have been observed. There are essentially four distinct seasons, which are most evident in the Northern provinces.

Vietnam's climate can be divided into three different zones - North Vietnam, Central Vietnam and South Vietnam. The climate in North Vietnam is a humid and subtropical climate, while South Vietnam enjoys a tropical climate all year round, with the central region lying somewhere in-between. As Vietnam is a long, narrow country, climatic conditions vary considerably with temperatures ranging between 20°C and 35°C. Due to higher altitudes, it's generally coolest in the mountains - sometimes even freezing in the winter. In Hanoi and Ho Chi Minh City, the climate can be fairly hot and humid.

### **1.3 Resources**

Natural Resources (Oil and Gas): Vietnam's potential crude oil reserves in the southern offshore area stand at about 270 million tons and are likely to increase substantially with continued exploration. Vietnam has potential non-associated gas reserves of more than 360 billion cubic meters. Proven associated gas reserves are on the order of 57 billion cubic meters.

Mineral Resources: Vietnam's primary coal resource, anthracite, is concentrated in Quang Ninh Province in the Northeast. It has potential recoverable reserves of 7-8 billion tons of which 600 million tons are shallow (within a depth of 100 meters). The country also has an abundance of other minerals, including bauxite, iron ore, copper, gold, precious stones, tin, chromate, apatite, and building materials such as granite, marble, clay, silica sand, and graphite.

Other Resources: Vietnam is also very rich in other natural resources including significant hydropower (10,000 MW), marine resources, tropical forest, and agricultural potential. The country has 4 world heritages recognized by UNESCO, beautiful beaches, national ecologic forests, countryside, high-land and historic places.

### **1.4 Population**

Viet Nam has a population of 94,444,200 in 2016<sup>2</sup>, accounts for 1.27 % of the total world population. The average age expectancy is 70.7 for males and 76.1 for females<sup>3</sup>. Vietnam's population features a high proportion of young people, with approximately 42.01% being less than 24 years of age<sup>4</sup>. Vietnam's population is now in a so-called period of "golden population structure" which, according to the United Nations, will last for another 20 years. This presents a solid background to underpin national development.

Vietnam's population has ranked 14<sup>th</sup> among the countries with the largest population in the world, 8<sup>th</sup> in Asia and 3<sup>rd</sup> in Southeast Asia. The total population in Vietnam has changing 156 percent during the last 50 years. A population pyramid illustrates the age and sex structure of a country's population and may provide insights about political and social stability, as well as economic development. The population is distributed along the horizontal axis, with males shown on the left and females on the right. The male and female populations are broken down into 5-year age groups represented as horizontal bars along the vertical axis, with the youngest age groups at the bottom and the oldest at the top. The shape of the population pyramid gradually evolves over time based on fertility, mortality, and international migration trends.

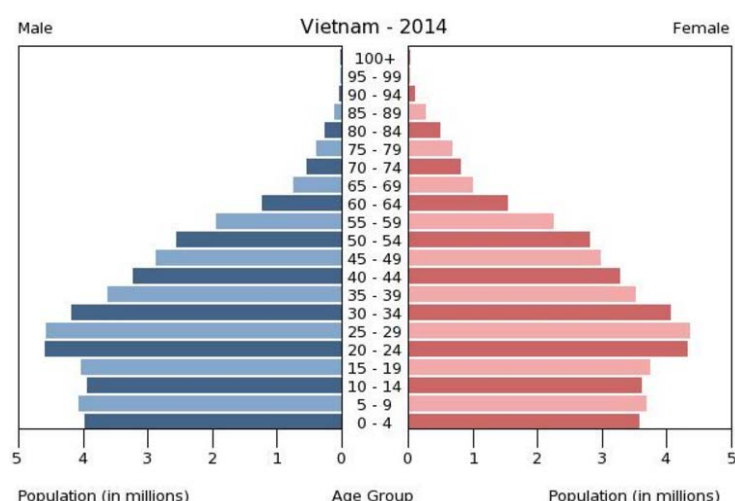
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<sup>2</sup> <http://www.worldometers.info/world-population/vietnam-population/>

<sup>3</sup> Statistical Handbook of Vietnam 2015

<sup>4</sup> [http://www.theodora.com/wfbcurrent/vietnam/vietnam\\_people.html](http://www.theodora.com/wfbcurrent/vietnam/vietnam_people.html)

**Figure 1: Vietnam population pyramid in 2014**



Source: Theodora ([www.theodora.com](http://www.theodora.com))

**Table 1: Population of Vietnam (2016 and historical)**

Year	Population	Yearly change (%)	Median age	Fertility rate	Density (p/km <sup>2</sup> )	Urban population (%)	Country's share of world population	Global rank
2016	94,444,200	1.07 %	30.8	1.96	305	34.1 %	1.27 %	14
2015	93,447,601	1.13 %	30	1.96	301	33.6 %	1.27 %	14
2010	88,357,775	0.97 %	29	1.93	285	30.6 %	1.28 %	13
2005	84,203,817	0.96 %	26	1.92	272	27.5 %	1.29 %	13
2000	80,285,563	1.32 %	24	2.25	259	24.6 %	1.31 %	13
1995	75,198,975	1.97 %	22	3.23	243	22.4 %	1.31 %	13
1990	68,209,604	2.24 %	21	3.85	220	20.5 %	1.28 %	13
1985	61,049,370	2.34 %	20	4.6	197	19.8 %	1.26 %	13
1980	54,372,518	2.22 %	19	5.5	175	19.4 %	1.22 %	15
1975	48,729,397	2.34 %	18	6.33	157	19%	1.2 %	17
1970	43,407,291	2.77 %	18	6.46	140	18.5 %	1.18 %	17
1965	37,860,014	2.99 %	24	5.4	91	16.6 %	1.14 %	18
1960	32,670,623	3.03 %	22	6.16	105	14.8 %	1.08 %	17
1955	28,147,785	2.56 %	24	5.4	91	13.2 %	1.02 %	18

Source: Worldometers ([www.worldometers.info](http://www.worldometers.info))

Vietnam is a multi-ethnic country with over fifty four distinct groups, each with its own language, lifestyle, and cultural heritage. Many of the local ethnic groups are known collectively in the west as Montagnard or Degar. The largest ethnic group is Kinh (Viet) 86.2%, 13.8%<sup>5</sup> is remaining minorities.

## I.5 Culture, Religions, Language and Food

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

According to the constitution, every Vietnamese citizen is given the freedom of religion. Each religion with its particular practice and rituals not only makes Vietnamese spiritual life more colorful and unique but also has a profound impact on the people as well as their culture.

<sup>5</sup> <https://en.wikipedia.org/wiki/Vietnam>

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

Vietnamese architecture expresses a graceful aesthetic of natural balance and harmony that is evident in any of the country's vast numbers of historic temples and monasteries. The pre-eminent architectural form is the pagoda, a tower comprised of a series of stepped pyramidal structures and frequently adorned with lavish carvings and painted ornamentation. Generally speaking, the pagoda form symbolizes the human desire to bridge the gap between the constraints of earthly existence and the perfection of heavenly forces. Pagodas are found in every province of Vietnam. One of the most treasured is the Thien Mu Pagoda in Hue, founded in 1601 and completed more than two hundred years later. In North Vietnam, the pagodas that serve as the shrines and temples of the Son La mountains are especially worth visiting. In South Vietnam, the Giac Lam Pagoda of Ho Chi Minh City is considered to be the city's oldest and is notable as well for its many richly-carved jackwood statues.

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

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

## **I.6 History in Brief**

At the beginning of the Bronze Age, the Viet tribe groups had settled in the North and North-Centre Vietnam. There were about 15 groups of Lac Viet tribesmen living mainly in the northern highlands and delta, and a dozen Au Viet groups living in Viet Bac, the northern region of old Vietnam. At that time, the two ethnic tribes of the Lac Viet and Au Viet lived together in many areas with other inhabitants.

Due to the increasing needs to control floods, fight against invaders, and exchange culture and economy, these tribes living near each other tended to gather and integrate into larger mixed groups. Among these Lac Viet tribes was the Van Lang, also the most powerful tribe. The leader of this tribe joined all the Lac Viet tribes together to found Van Lang Nation, addressing himself as Hung King.

The next generations followed in their father's footsteps and kept this appellation. Based on historical documents, researchers correlatively delineated the location of Van Lang Nation to the present day regions of North and North-Central Vietnam, as well as, the South of present-day Kwangsi (China). The Van Lang Nation lasted approximately from the beginning of the first millennium B.C. to the 3rd century B.C.

In 221 Before Christ (BC), Tan Thuy Hoang, King of Tan (China), invaded the land of the Viet tribes. Thuc Phan, the leader of the alliance of Au-Viet tribes was respected as the chief of the resistance war against the Tan enemy that later, in 208 BC, was forced to withdraw. With his imposing power, Thuc Phan nominated himself as King An Duong Vuong and founded Au Lac Nation with groups of Lac Viet and Au Viet tribes.

In 179 BC, Trieu Da, King of Nam Viet (China), invaded Au Lac country. The resistance of An Duong

Vuong failed soon after this invasion. As a result, the northern feudalists took turns dominating the country over the next seven centuries, establishing their harsh regime in the country and dividing the country into administrative regions and districts with unfamiliar names. However, the country's name of Au Lac would not be erased from the people's minds or their everyday life.

In the spring of 542, Ly Bi rose up in arms and swept away the Chinese administration, liberating the territory. He declared himself King of Van Xuan Kingdom in February 544, acknowledging the national superiority complex of the independent spirits to live in eternal peace. However, the existence of Ly Bi's administration was very brief. He was defeated by the Chinese imperial army, and the country returned to feudal Chinese domination again in 602. The name Van Xuan was restored only after the victory over the Han army at the Bach Dang River led by General Ngo Quyen in 938. This victory marked the end of the Chinese domination period in Vietnam.

In 968, Dinh Bo Linh defeated the twelve lords and unified the country. He declared himself King and named the country Dai Co Viet. This name remained throughout the Dinh dynasty (868-979), Pre-Le dynasty (980-1009) and the beginning of Ly dynasty (1010-1053).

In 1054, a flaming bright star appeared in the sky for many days, which was considered a good omen. As a result, the Ly King changed the name of the country to Dai Viet. This name remained until the end of Tran dynasty.

In March 1400, Ho Quy Ly usurped the throne of King Tran Thieu De, founded the Ho dynasty and changed the country's name to Dai Ngu, meaning peace in the ancient language. This name only lasted for very short time, until April 1407, when the Minh enemy invaded Dai Ngu and defeated the Ho dynasty.

After 10 years of resistance against the Ming (Chinese) occupation (1418-1427), Le Loi had achieved a victorious triumph. In 1428, Le Loi declared himself King of Le dynasty and changed the name of the country back to Dai Viet. At this time, the territory of Vietnam had expanded to the region of present-day Hue. The name Dai Viet remained under the Le dynasty (1428-1787) and the Tay Son dynasty (1788-1810).

In 1802, Nguyen Anh claimed his coronation to become the first Nguyen King, starting the Nguyen dynasty and changing the country's name to Vietnam. This name was officially recognized in many diplomatic missions in 1804. However, the words Vietnam had already appeared very early in history.

First, in the 14th century, in a book of code entitled Vietnam The Chi, edited by Doctor Ho Tong Thoc. Then in the book by scholar Nguyen Trai entitled Du Dia Chi at the beginning of 15th century, the words Vietnam were repeated several times. Doctor Trinh Nguyen Binh Khiem (1491-1585) had written on the first page of his work Trinh Tien Sinh Quoc Ngu the following: ... Vietnam has constructed its foundation... The words Vietnam were also found in some carved stelae of the 16th - 17th century in Bao Lam Pagoda, Haiphong (1558), in Cam Lo Pagoda, Ha Tay (1590), in Phuc Thanh Pagoda, Bac Ninh (1664), etc. In particular, in the first sentence on the stele Thuy Mon Dinh (1670) at the landmark on the border at Lang Son, it was written: This is the gateway of Vietnam that guards the northern frontiers...

In terms of meaning, there are many theories that prove the words Vietnam are created by combining two racial and geographic elements, which is understood as Viet people from the south. During the reign of King Minh Mang (1820-1840), the name of the country was changed to Dai Nam, but Vietnam was still widely used in many literary works, civil business affairs, and social relations.

Following the triumph of the August Revolution on August 19, 1945, which had entirely swept away Vietnamese feudal and French colonial oppression and began a new era in the country, President Ho Chi Minh proclaimed the nation's independence and the national name Democratic Republic of Vietnam was born on September 2, 1945. Although Vietnam suffered from war and separation in the following 30 years, the sacred words Vietnam were very popularly used from the north to the south, and were deeply imprinted in the hearts of the Vietnamese people.

Following the liberation of Southern Vietnam on April 30, 1975, the entire country of Vietnam was completely unified. In the first meeting of the national assembly of the unified Vietnam on July 2, 1976, the assembly decided

to name the country The Socialist Republic of Vietnam. The constitution of 1980, and 1992, continued its affirmation of the country's official name, legally and actually.

## **I.7 Vietnam Political Institution and International Relations**

### **Political Institution**

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

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

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

The National Assembly, comprising 498 members elected to five year terms, meets twice a year. Headed by a Chairman, it is superior to both the executive and judicial branches, with all government ministers being appointed from members of the National Assembly. The assembly appoints the President (Head of State), the Prime Minister (Head of Government), the Chief Justice of the Supreme People's Court, the Head of the Supreme People's Procuracy (or “Supreme People's Office of Supervision and Inspection”), and the 21-member Government.

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

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

### **International relations**

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

China will continue to be Viet Nam's single most important bilateral relationship. The two countries regularly exchange high-level visits and are currently building a closer relationship. A treaty delineating the land border between the two countries was concluded in December 1999, thus resolving a longstanding bilateral dispute. Other tensions, for example over the contested territory of the Spratley Islands in the South China Sea, have been prevented from spilling over into broader high- level relations.

Membership of ASEAN is central to Viet Nam's economic development and international economic

integration strategies. Around 30% of Viet Nam's trade is with ASEAN countries. Under the ASEAN Free Trade Area (AFTA) and the ASEAN Investment Area this co-operation is expected to continue to grow. Viet Nam is an increasingly active member of ASEAN, having hosted both the Sixth ASEAN Summit in 1998, the ASEAN Regional Forum (ARF) Post Ministerial Conference in 2001, and successfully hosted the fifth Asia Europe Meeting (ASEM) in 2004. In 1998 Viet Nam was admitted to full membership of APEC, and hosted this Summit in November 2006. Viet Nam has formally acceded to the WTO (January 2007) and currently, Vietnam has had diplomatic relation with over 160 countries and trade relation with 120 countries and territories.

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

Multilateral diplomacy has been a highlight in Vietnam's external activities in the renewal era. Achievements in this respect have remarkably contributed to enhancing Vietnam's international prestige.



## II. Overview of Macroeconomic Activity and Fiscal Position

Vietnam has during the last two decades developed into a dynamic and fast growing market. Since the introduction of economic reforms in the late 1980s, the economy of Viet Nam performed very well in terms of economic growth as well as poverty reduction. Viet Nam's economy returned to a relatively stable macroeconomic environment during the last five years compared to the tumultuous period of 2007-2011.

Stabilization measures implemented in 2011-2015 period helped Vietnam restore macroeconomic stability by reducing inflation, strengthening external accounts, and stabilizing the foreign exchange market. Headline Consumer Price Index inflation eased to 6% in 2016 compare to 18.1% in 2001 and 9.1% in 2012. Subdued credit growth and easing of food price increases contributed to decline inflation.

The spread of sovereign bonds and Credit Default Swaps for Vietnam have also narrowed, currently at around the levels preceding the 2009 crisis. The dong/U.S. dollar exchange rate has increased moderately since a 1% official readjustment in July 2013.

Economic reforms, membership of WTO since 2007 and an impressive number of foreign investments have led to Vietnam's greater involvement in international trade and global economic cooperation. Most of the other Millennium Development Goal (MDG) targets have also been attained by the country well ahead of time. There was of course a slowdown in economic growth during the global economic crisis of 2008-2009; GDP growth declined to 6.2 and 5.3% respectively in 2008 and 2009. The economy recovered well from 2010 and achieved a GDP growth of 6.7% in 2015.

In recent years, the nation has been rising as a leading agricultural exporter and an attractive foreign investment destination. Vietnam's key products are: rice, cashew nuts, black pepper, coffee, tea, fishery products and rubber. Manufacturing, information technology and high-tech industries constitute a fast growing part of the economy. Vietnam is also one of the largest oil producers in the region.

**Table 2: Vietnam Key Economic Indicators**

Vietnam Key Economic Indicators	2012	2013	2014	2015	2016 est.
<b>Output, Employment, and Prices</b>					
Real GDP (% change yoy)	5.2	5.4	6	6.7	6.2
Domestic demand (% change yoy)	4.3	5.4	5.4	5.5	5.7
Industrial production index (% change yoy)	4.7	5.9	7.6	9.8	7.3
Unemployment (%) 1/	3.2	3.5	3.4	3.3	3.42
Consumer price index (% change yoy)	9.1	6.6	4.1	0.6	4.5
<b>Public Sector</b>					
Government revenues (% GDP)	22.9	22.1	20.3	20.2	20.0
Government expenditures (% GDP) 2/	27.7	27.7	26.0	25.6	25.2
Government balance, general (% GDP)	-4.8	-5.6	-5.7	-5.4	-5.2
Public Sector debt (%) GDP 3/	50.8	54.5	58.0	62.2	64.9
<b>Foreign Trade, BOP, and External Debt</b>					
Trade balance (billions US\$)	9.8	10.6	9.8	8.5	6.4
Exports of goods (billions US\$)	114.5	132.1	150.0	162.4	202.0
(% change yoy)	18.2	15.4	15.0	15.2	15.3
Import of goods (billions US\$)	113.8	132.1	148.0	165.6	212.6
(% change yoy)	6.6	16.1	17.0	17.2	17.3
Current account balance (billions US\$)	9.4	7.7	9.3	0.9	2.9
(% GDP)	6.1	4.5	5	1.3	1.4
Foreign direct investment (billion US\$)	8.4	8.9	9.2	11.8	14.6
External debt (billions US\$)	58.3	63.4	71.0	92.5	77.2
(% GDP)	37.4	37.2	38.1	43.1	37.6
Debt service ratio (% exports of g&s)	3.3	3.2	3.2	3.2	2.5
Foreign exchange reserves (billion US\$)	26.1	26.3	34.6	28.6	40.0
<b>Financial Markets</b>					
Domestic credit (% change yoy)	8.7	8.8	12.6	17.0	15.0
Short-term interest rate (% p.a) 4/	9.0	6.5	5	4.5	4.8
Exchange rate (Dong/US\$, eop) 5/	20,828	21,036	21,246	21,890	22,148
Nominal GDP (billions US\$)	155.6	170.4	186.2	214.7	205.2

Sources: General Statistics Office of Vietnam; State Bank of Vietnam; World Bank

- 1/ Urban areas.
- 2/ Includes off-budget items.
- 3/ Government debt, government guaranteed debt and local government debt.
- 4/ Three-month deposit, end-of-period.
- 5/ Central Bank's interbank exchange rate for 2016 is as of 1 December 2016.

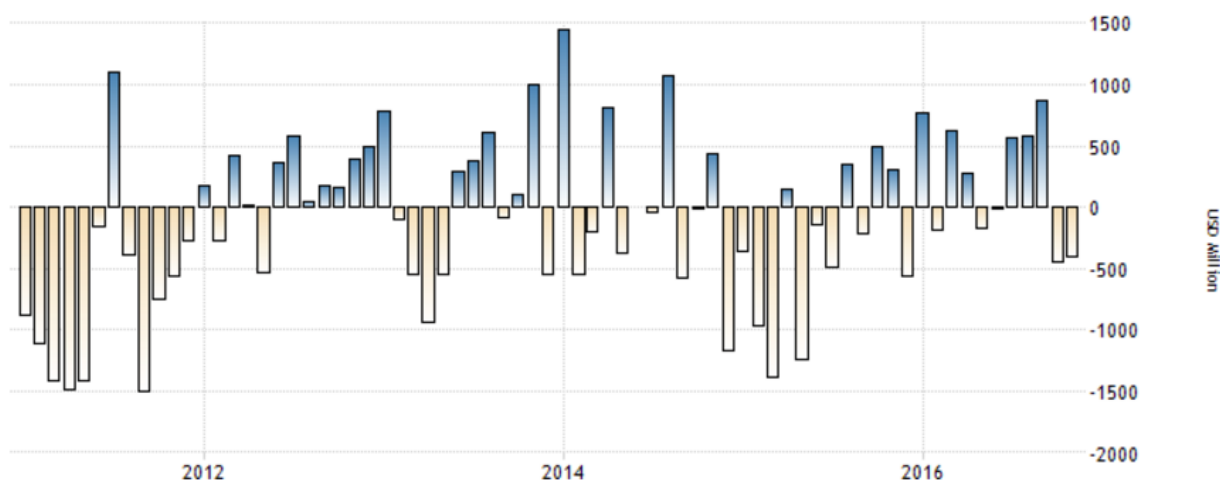
## II.1 International Environment

### II.1.1 Trade Balance

Since 2012, Vietnam's has been reporting trade surpluses more frequently as exports growth have been stronger than imports. In recent years, the biggest trade deficits were recorded with China, Korea, Taiwan, Singapore and Thailand. Vietnam records trade surpluses with the United States, Hong Kong, United Kingdom, Cambodia and United Arab Emirates.

Vietnam recorded a trade deficit of 0.4 billion US dollars (USD) in November of 2016, compared to a 0.3 USD billion surplus in a year earlier. It was the second straight month of gap, as exports rose 12.3 percent from a year earlier to 15.6 USD billion while imports went up 17.4 percent to 16.0 USD billion. In October 2016, trade deficit stood at 0.45 billion. Considering January to November 2016, outbound shipments grew by 7.5 percent compared to the same period a year earlier to 159.5 USD billion. Purchases in the period increased by 3.5 percent to 156.7 USD billion. That brought the trade surplus of 2.8 USD billion during that period. Balance of trade in Vietnam reached an all time high of 1444 USD million in January of 2014 and a record low of -1500 USD million in September of 2011.

**Figure 2: Vietnam Trade Balance from 2011-2016**



Sources: [www.tradingeconomics.com](http://www.tradingeconomics.com); General Statistics Office of Vietnam

The current account balance turned from a huge deficit of 11% of GDP in 2008 to a record high surplus equaling 6.1% of GDP in 2012. However, the current account surplus is projected to narrow over the medium term as imports pick up pace with expectations of accelerated economic recovery. In fact, it decreased gradually to 1.3% of GDP in 2015.

For the whole year of 2016, Viet Nam's trade-in-goods summed up to over 333.06 USD billion in value terms, 6.4% higher than the corresponding period of 2015. In which, the total merchandise exports value picked up by 8.5%, to US dollars 167.83 billion and the total merchandise imports value rose by 4.3%, to US dollars 165.23 billion from 2015 to 2016. As a result, in 2016, Viet Nam's total merchandise exports nearly balanced with Viet Nam's total merchandise imports. Trade balance of whole year 2016 is surplus with 2.59 USD billion.

**Table 3: Overview of Vietnam International Merchandise Trade Statistics in December and the whole year 2016**

Main Trade Indicators (in nominal terms and not seasonally adjusted)	
Merchandise Export (EX)	
Total value of December, 2016 (Bil. US\$)	7.9
Change as compared with November, 2016 (%)	-7.2
Total value of whole year 2016 (Bil. US\$)	167.83
Change as compared with the whole year 2015 (%)	8.5
Merchandise Import (IM)	
Total value of December, 2016 (Bil. US\$)	8.19
Change as compared with November, 2016 (%)	-0.6
Total value of whole year 2016 (Bil. US\$)	165.23
Change as compared with the whole year 2015 (%)	4.3
Total Merchandise Trade Value (EX+IM)	
Total value of December, 2016 (Bil. US\$)	16.09
Change as compared with November, 2016 (%)	-3.9
Total value of whole year 2016 (Bil. US\$)	333.06
Change as compared with the whole year 2015 (%)	6.4
Merchandise Trade Balance (EX-IX)	
Trade balance of December 2016 (Bil. US\$)	-0.29
Trade balance of whole year 2016 (Bil. US\$)	2.59

Source: Vietnam Customs

## II.1.2 Exports

Regarding table 3, total export value in December was estimated at 7.9 USD billion, down 7.2% compared to the previous month in 2016. For the whole 2016, the value of goods export reached 167.83 USD billion, up 8.5% compared to 2015.

Strong exports and a sustained flow of external capital and remittances have helped Viet Nam turn around its external balances. Exports continue to grow at a rapid clip thanks to the strong performance of the foreign invested sector. While earnings from commodity exports are declining, due to falling prices, Viet Nam's traditional labor-intensive manufacturing exports such as garments, footwear, and furniture continue to sustain rapid growth. Noteworthy additions to the export basket have been hitech and high-value products (for example, cell phones and parts, computers, electronics and accessories, automobile parts), that emerged as the largest and fastest-growing export items in 2016.

**Table 4: Some Main Goods for Exportation**

	2005	2010	2011	2012	2013	2014	Prel.
Crude oil (Mill. tons)	18.0	8.1	8.2	9.3	8.4	9.3	9.2
Coal (Mill. tons)	18.0	19.9	17.2	15.2	12.8	7.3	1.7
Footwear (Bill. USD)	3.0	5.1	6.5	7.3	8.4	10.3	12.0
Textile and garment products (Bill. USD)	4.8	11.2	13.2	14.4	17.9	20.1	22.8
Rice (Mill. tons)	5.3	6.9	7.1	8.0	6.6	6.3	6.6
Coffee (Thous. tons)	912.7	1218.0	1260.0	1735.5	1301.2	1691.1	1341.2
Rubber (Thous. tons)	554.1	779.0	817.5	1023.5	1074.6	1071.7	1137.4
Shelled cashew nut (Thous. tons)	109.0	190.0	177.6	221.8	262.1	302.6	328.2
Pepper (Thous. tons)	109.9	117.0	123.9	116.8	132.8	155.0	131.5
Tea (Thous. tons)	91.7	137	135.0	146.9	141.2	132.4	124.6
Wood and wooden product (Bill. USD)	1.6	3.4	4.0	4.7	5.6	6.1	6.9
Fishery products (Bill. USD)	2.7	5.0	6.1	6.1	6.7	7.8	6.6
Electronic goods, computers and their parts (Bill. USD)	1.4	3.6	4.7	7.8	10.6	11.4	15.6
Phones all of kinds and their parts (Bill. USD)		2.3	6.4	12.7	21.3	23.6	30.2

Source: General Statistics Office of Viet Nam

According to trade data disseminated recently by Viet Nam Customs, in total for Jan.-Nov. period of 2016, the value of exportation was of 159.5 USD billion, up by 7.5% as compared to the result of one year earlier. In which, domestic sector reached 45.4 billion US dollars, up 4.8%; where sector of foreign investment (including crude oil) was of US dollars 114.1 billion, up 8.7%.

In 2016, merchandise export value strongly and primarily increased in the area of foreign investment for items such as electronics, computers and accessories; telephones and accessories, textiles, footwear. Exports in this sector in recent years tended to increase strongly and take a high proportion of total exports. In details, phones all of kinds and their parts reached 31.3 USD billion, up 10.2%; textile and garment products reached 21.5 USD billion, up 4.5%; electronic goods, computers and their parts reached 16.8 USD billion, up 17.1%; footwear reached 11.6 billion USD, up 7.5%; machinery, equipment, tools and spare parts reached 9.3 USD billion, up 26%.

Export turnover of some agricultural commodities and raw materials decreased over the same period of previous year: crude oil reached 2.1 USD billion, down 39.7%; rice reached 2.1 USD billion, down 20.1%; cassava and cassava products reached 892 USD million, down 25.2%.

Regarding to main export market, the United States of America continues to be the largest export market of Vietnam with export value in eleven months of 2016 was estimated at 34.7 USD billion, increased 14% compared to the same period of 2015. The EU market stood at 2<sup>nd</sup> rank with export value estimated at 30.5 USD billion dollars, up 8.3%; and next to China which reached 19.6 USD billion, up 26.7%, followed by Japan with 13.2 USD billion, increase of 2.9%, Korea attained 10.4 USD billion, up 27.6%. Export of ASEAN market reached 15.7 USD billion, decreased 6.6%.

### II.1.3 Imports

Value of imports in December 2016 were estimated at 8.19 USD billion, 0.6% compared to the previous month. The import value in 2016 reached 165.23 USD billion, an increase of 4.3% over the previous year.

**Table 5: Some Main Goods for Importation**

	2005	2010	2011	2012	2013	2014	Prel. 2015
Motor vehicles, assembled (Mill. USD)	386.6	978.2	990.9	594.8	752.2	1568.3	2982.7
Motorcycles (including unassembled) (Mill. USD)	541.4	890.6	832.8	637.3	566.2	391.3	350.8
Iron, steel (Mill. tons)	5.5	9.1	7.4	7.6	9.5	11.8	15.5
Electronic goods, computers and their parts (Bill. USD)	1.6	5.2	7.9	13.2	17.8	18.8	23.1
Petroleum oil, refined (Mill. tons)	11.5	9.9	10.7	9.2	7.4	8.4	10.0
Fertilizers (Mill. tons)	2.9	3.5	4.3	4.0	4.7	3.8	4.5
Medicament (Bill. USD)	0.5	1.2	1.5	1.8	1.9	2.0	2.3
Plastic in primary form (Bill. USD)	1.5	3.8	4.8	4.8	5.7	6.3	6.0
Insecticides and materials (Mill. USD)	168.3	575.7	664.9	699.8	786.2	829.5	732.9
Chemicals (Bill. USD)	0.9	2.1	2.7	2.8	3.0	3.2	3.1
Textile fabrics (Bill. USD)	2.5	5.4	6.8	7.1	8.4	9.6	10.2
Auxiliary materials for sewing and footwear (Bill. USD)	2.3	2.6	2.9	3.1	3.8	4.6	5.0

Source: General Statistics Office of Viet Nam

As well as the export, import operations of foreign investment area in recent years tended to increase in value and take a high proportion of total imports. In eleven months of 2016, the import of this area reached 92.8 USD billion, accounted for 59.3% and 3.6% of increase; whereas domestic sector attained 63.8 USD billion with 3.4% of increase.

Import turnover of some products serving the needs of domestic production decreased over the same period last year such as machinery, equipment, tools, spare parts with 25 USD billion, down 0.2%; phones all of kinds and their parts reached 9.6 USD billion, down 3.5%; petroleum oil, refined reached 4.2 USD billion, down

14%; chemicals attained 2.8 USD billion, down 1.8%; wood and wooden product reached 1.6 USD billion, down 18.1%; fertilizers reached 994 USD million, down 22.4%.

In terms of main merchandise imports, the import value of some commodities increased over the same period of previous year. Electronic goods, computers and their parts reached 25.4 USD billion, up 18.9%; fabric was at 9.5 USD billion, up 2.3%; iron, steel reached 7.3 USD billion, up 7.4%; plastic in primary form was at 5.7 USD billion, up 4%; auxiliary materials for sewing and footwear reached 4.7 USD billion, up 0.5%; chemicals reached 3.4 USD billion, up 9.6%; medicament was at 2.3 USD billion with 11.6% of increase.

Regarding to main import market, China is still the largest import market of Vietnam with imports in eleven months of 2016 was estimated at 44.6 billion US dollars, an decrease of 1% compared to 2015. Next is Korea with 28.9 USD billion, up 13.2%; ASEAN market reached 21.2 USD billion, decreased 1.9%. Japan was at 13.6 USD billion dollars, up 3.5%; followed by EU market with 10.1 USD billion, up 7%; the US attained 7.8 USD billion, increase of 8.7%.

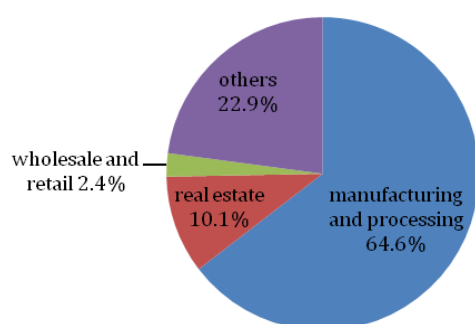
## II.1.4 Investment

Total investment of the whole society carried out in 2016 at current prices is estimated at 1,485.1 VND trillion, up 8.7% compared to 2015 and equaling 33% of GDP, including: state sector capital reached 557.5 trillion, accounting for 37.6% of the total and an increase of 7.2%; capital of the non-state sector reached 579.7 trillion, accounting for 39% and up 9.7%; the region's capital with foreign direct investment reached 347.9 trillion, accounting for 23.4% and 9.4% of increase.

From the beginning of the year to December 15, 2016, the foreign direct investment (FDI) attracted 2,556 newly licensed projects with the registered capital of 15,182.3 USD million, up 27% in the number of projects and own 2.5% in the registered capital against the similar period in 2015. Besides, there were 1,225 times of license-granted projects from previous years which registered to adjust capital with the additional capital of 5,765.1 USD million, up 50.5% in the number of projects and down 19.7% in the increased capital. Thus, FDI capital in 2016 was estimated to gain 15.8 USD billion, up 9% from 2015's similar period, reached the highest FDI disbursement so far.

In 2016, the manufacturing and processing industry has attracted FDI with the greatest number of registered capital of the new licensed projects reached 9,812.6 USD million, representing 64.6% of the registered capital of the new level; real estate sales activity reached 1,522.7 USD million, accounting for 10.1%; the wholesale and retail, repair of automobiles, motorcycles and other motor vehicles industry reached 367 million US dollars, accounting for 2.4%; the rest of the industry reached 3,480 USD million, accounting for 22.9% (figure 3).

**Figure 3: Foreign direct investment into Vietnam by industry in 2016**



Source: General Statistics Office of Vietnam

Including additional registration capital of the project was licensed from the previous year, the total FDI in

manufacturing and processing industry in eleven months of this year reached 15,538.6 million US dollars, accounting for 63.8% of the registered capital; the wholesale and retail, repair of automobiles, motorcycles and other motor vehicles industry reached 1,899.2 million US dollars, accounting for 7.8%; real estate activity reached 1,686.2 million, accounting for 6.9%; the other industries reached 5,248.7 million US dollars, accounting for 21.5%.

In 2016, the whole country has 51 provinces and cities directly under the central management which received newly licensed FDI projects from 63 nations and territories. In which, Hai Phong has the largest number of registered capital with 2,464.3 USD million, accounting for 16.2% of the new registered capital; next is Hanoi with 1,922.8 USD million, accounting for 12.7%; Binh Duong 1,630.5 USD million, accounting for 10.7%; Dong Nai 1,043.7 USD million, accounting for 6.9%; Ho Chi Minh City 1,006.7 USD million, accounting for 6.6%; Bac Giang 937.5 USD million, accounting for 6.2%; Ha Nam 604.3 USD million, representing 4%.

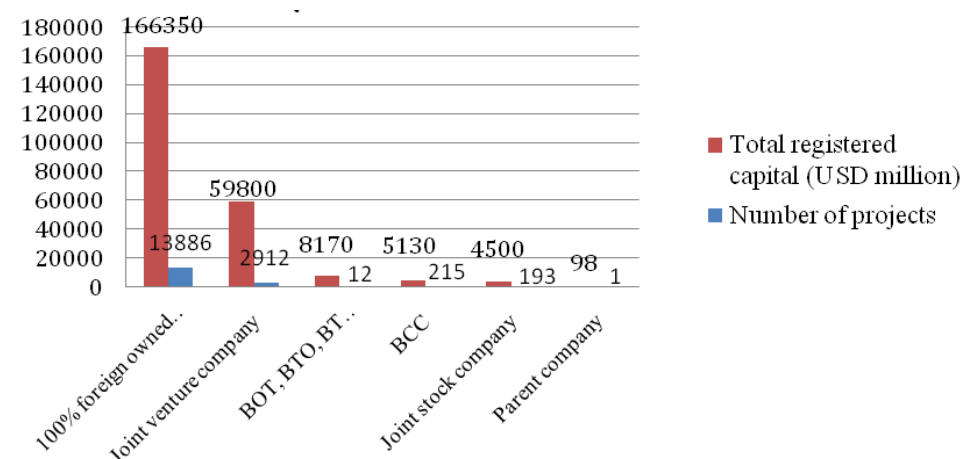
International investors invest in Viet Nam under 6 forms, including 100% foreign owned enterprise; joint venture company; Build-Operate-Transfer (BOT), Build-Transfer (BT), Build-Transfer-Operate (BTO); Business Cooperation Contract (BCC); joint stock company and the parent company. In general, a form of investment 100% foreign capital continues to dominate in terms of number of projects and total registered capital, outclasses the remaining forms of investment.

Figure 4 shows the foreign direct investment into Vietnam by form of investment in 2015 (accumulation of projects having effect as of December 31, 2015) with total registered capital and number of projects. While figure 5 expresses the structure of foreign direct investment into Vietnam by form of investment in 2015 (accumulation of projects having effect as of December 31, 2015).

According to figure 4 and 5, when investing in Vietnam, investors have overwhelmingly chosen to invest via 100% foreign owned enterprises with 13,886 projects, the total registered capital reached 166.35 USD billion (accounting for 81% of all FDI projects and 68.1% of total registered investment capital of the country). The second is joint venture with 2,912 projects and 59.8 USD billion of registered capital (accounting for 17% of the total number of projects and 24.5% of the total registered investment capital).

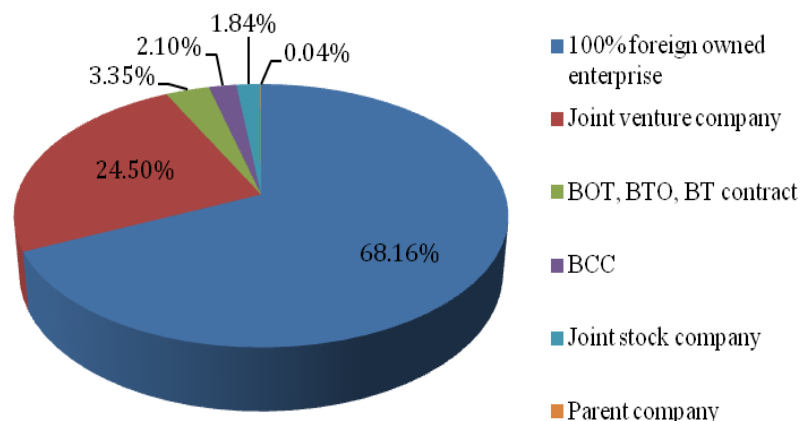
Next is the four remaining investment form. Construction contract including BOT, BTO, BT has 12 projects with registered capital of 8.17 USD billion. BCC has 215 projects with 5.13 USD billion of registered capital. Form of joint stock company has 193 projects with 4.5 USD billion of registered capital. Finally, the parent company form has only 1 project with 98 USD million.

**Figure 4: Foreign direct investment into Vietnam by form of investment in 2015 (accumulation of projects having effect as of 31/12/2015)**



Source: Foreign Investment Agency - Ministry of Planning and Investment

**Figure 5: Structure of Foreign direct investment into Vietnam by form of investment in 2015  
(accumulation of projects having effect as of 31/12/2015)**



Source: Foreign Investment Agency - Ministry of Planning and Investment

Among 68 countries and territories having investment projects licensed in Vietnam in 2016, South Korea is the biggest investor with 5,518.6 million US dollars, accounting for 36.3% of the new registered capital in Viet Nam. The follower is Singapore with 1,590.5 USD million, accounting for 10.5%. China ranked third with 1,263.2 USD million, accounting for 8.3%. Next is Hong Kong with 1,102.7 USD million, accounting for 7.3%; Japan is 868.1 USD million, accounting for 5.7% and Taiwan with 826 USD million, accounting for 5.4%.

Table 6 illustrates the foreign direct investment projects licensed by main counterparts (accumulation of projects having effect as of December 31, 2015), in which South Korea became the biggest investor of Viet Nam. Following is Japan and Singapore.

**Table 6: Foreign direct investment projects licensed by main counterparts (accumulation of projects having effect as of 31/12/2015)**

Country	Number of projects	Total registered capital (Mill. USD) (*)
Korea	4970	45191.1
Japan	2914	38973.6
Singapore	1544	35148.5
Taiwan	2478	30997.4
British Virgin Islands	623	19275.3
Hong Kong	975	15546.8
Malaysia	523	13420.1
United States	781	11301.8
China	1296	10174.2
Netherlands	255	8264.5
Thailand	419	7727.9
Cayman Islands	67	6392.3
Samoa	150	5771.7
Canada	147	5252.7
United Kingdom	241	4739.3
France	448	3423.0
Russia	113	2080.1
Switzerland	111	2045.1
Brunei	187	1904.5
Luxembourg	40	1857.4
Australia	357	1652.7
Germany	260	1393.7
British West Indies	11	1148.2
Cyprus	13	966.6
Turkey	13	729.2
Denmark	118	681.9
Belgium	63	551.7
India	118	439.7
Seychelles	41	418.1
Indonesia	46	397.0
Italy	69	357.3
Mauritius	43	325.1
The Philippines	72	324.2
Finland	14	321.0

(\*) Including supplementary capital to licensed projects in previous years.

Source: General Statistics Office of Vietnam

The total official development assistance (ODA) and preferential loans signed in 2016 was estimated at 5.38 USD billion, up 39.7% compared to 2015. The value of capital disbursement and preferential loans from the beginning of the year to December 15, 2016 reached about 3.5 billion US dollars. Estimate of full year 2016, the disbursement of ODA and preferential loans reached 3.7 billion US dollars, equal to 80.4% of disbursements in 2015.

## II.2 Domestic Environment

### II.2.1 Economic Growth

Vietnam is still an agriculture country, in which, agriculture, forestry and fishing accounts for the largest proportion of GDP with 17% in 2015. Next is manufacturing (13.69%), wholesale and retail trade (10.15%) and mining (9.61%). GDP increased significantly from 2157 VND trillion in 2010 to 4192 VND trillion in 2015, equaling to 194.3% within 6 years. So did the Gross National Income (GNI) with 191.6% of increase from 2010 to 2015.



**Table 7: Vietnam National Accounts**

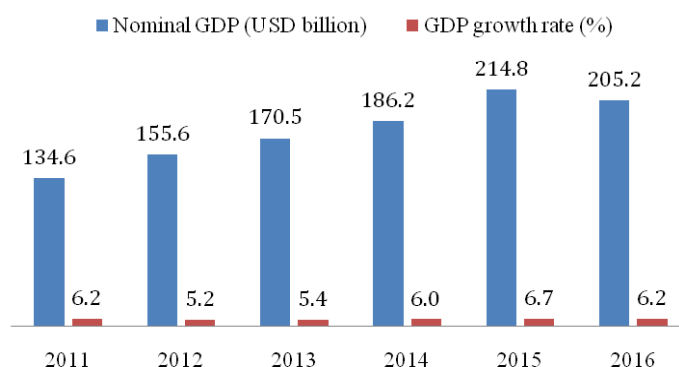
	Value (billion VND)						Structure (%)					
	2010	2011	2012	2013	2014	2015	2010	2011	2012	2013	2014	2015
<b>GDP by industrial origin at current market prices</b>	2157828	2779880	3245419	3584262	3937856	4192862	100	100	100	100	100	100
Agriculture, forestry and fishing	396576	543960	623815	643862	696969	712460	18.38	19.57	19.22	17.96	17.70	17.00
Mining	204544	274321	370617	394468	426184	402869	9.48	9.87	11.42	11.01	10.82	9.61
Manufacturing	279360	371242	431144	477968	518962	574201	12.95	13.35	13.28	13.34	13.18	13.69
Electricity, gas, steam and air conditioning supply	65721	81077	97311	115280	142060	167402	3.05	2.92	3.00	3.22	3.61	3.99
Water supply, sewerage, waste management activities	11107	13640	15280	17883	19526	21556	0.51	0.49	0.47	0.50	0.50	0.52
Construction	132618	156077	174739	184020	201203	228102	6.15	5.61	5.38	5.13	5.11	5.44
Wholesale and retail trade	172608	235024	299536	339275	387749	425543	8.00	8.45	9.23	9.47	9.85	10.15
Transportation and storage	62064	79135	93258	102596	112351	114558	2.88	2.85	2.87	2.86	2.85	2.73
Accommodation and food services	77800	101943	118140	134454	147720	155590	3.61	3.67	3.64	3.75	3.75	3.71
Education and training	50237	66384	84070	105121	120696	136699	2.33	2.39	2.59	2.93	3.07	3.26
Information and communications	19895	21090	22781	24652	26974	29392	0.92	0.76	0.70	0.69	0.68	0.70
Financial, banking and insurance activities	116515	148453	171172	195016	207083	230149	5.40	5.34	5.27	5.44	5.26	5.49
Real estate activities	131692	163107	178473	189508	202103	212882	6.10	5.87	5.50	5.29	5.13	5.08
Professional scientific and technical activities	28004	35333	41412	47399	51166	55574	1.30	1.27	1.28	1.32	1.3	1.33
Administrative and support service activities	7881	10054	11768	13504	14761	15829	0.37	0.36	0.36	0.38	0.37	0.38
Human health and social work activities	23335	26552	33402	58641	66204	72206	1.08	0.96	1.03	1.64	1.68	1.72
Arts, entertainment and recreation	14592	16819	18684	21220	23047	24969	0.68	0.61	0.58	0.59	0.59	0.60
Others	363279	435669	459817	519395	573098	612881	16.84	15.67	14.17	14.49	14.56	14.61
<b>GNI</b>	2075578	2660076	3115227	3430668	3750823	3977609						
<b>Net factor income from abroad</b>	-82250	-119804	-130192	-153594	-187033	-215253						
<b>Expenditure on GDP at current market prices</b>	2157828	2779880	3245419	3584262	3937856	4192862	100	100	100	100	100	100
Gross asset accumulation	770211	827032	884160	956124	1056632	1160447	35.69	29.75	27.24	26.68	26.83	27.68
Gross fixed assets	704401	745494	785337	847475	938452	1033780	32.64	26.82	24.20	23.65	23.83	24.66
Change in stocks	65810	81538	98823	108649	118180	126667	3.05	2.93	3.04	3.03	3.00	3.02
Final consumption	1565602	2008700	2285623	2566803	2838048	3115085	72.55	72.26	70.43	71.61	72.07	74.29
Government consumption	129313	164323	192362	220642	246711	265545	5.99	5.91	5.93	6.15	6.26	6.33
Private consumption	1436289	1844377	2093261	2346161	2591337	2849540	66.56	66.35	64.50	65.46	65.81	67.96
Disparity of exports of goods and services	-177215	-114887	113697	77350	128965	33169	-8.21	-4.13	3.50	2.16	3.28	0.79
Statistical discrepancy	-770	59035	-38061	-16015	-85789	-115839	-0.03	2.12	-1.17	-0.45	-2.18	-2.76

Source: General Statistics Office of Vietnam

Viet Nam's economic growth has been steadily improving due to strong growth in trade. After registering annual growth of 5.2% in 2012, GDP growth rate grew 6.7% in 2015, and was estimated 6.2% in 2016. Improved global demand and successful trade negotiations helped export-oriented firms attain robust growth. The industry sector has been performing well, as evidence from the recent industrial production index numbers.

Improving external accounts, falling inflation, and a stable exchange market have also contributed to macroeconomic stability. As a result, the index rose year over year from 2012 to 2015. The GDP in Viet Nam was worth 205 billion US dollars in 2016. The GDP value of Viet Nam represents 0.28% of the world economy.

**Figure 6: Vietnam GDP and GDP growth rate from 2011-2016**

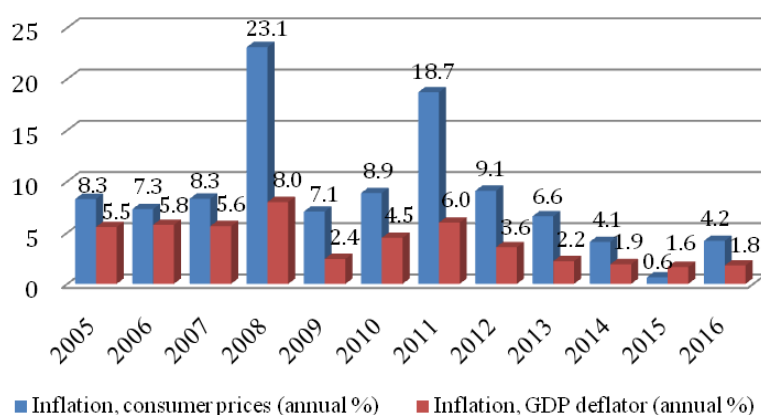


Sources: Ministry of Finance, The World Bank's database

## II.2.2 Inflation

Year 2008 and 2011 experienced very high inflation with the average inflation at 23.1% and 18.7% respectively due to the impact of the global financial crisis and the real estate bubble burst in Viet Nam. Thank to policies to curb inflation which was promptly adopted and applied in mid-2011 by government, inflation has been contained and stabilized. Eventually, it decreased considerably from 18.7% in 2011 to 0.6% in 2015. Actually, 2015 is the year the inflation (by consumer price) rose lowest in 10 years.

**Figure 7: Inflation rate from 2005 to 2016**



Sources: Ministry of Finance, General Statistics Office of Vietnam, The World Bank's database

The average CPI increase in 2016 compared to the average in 2015 was higher than the previous year, but lower than the average CPI increase of some recent years. In 2016, inflation rate was up to 4.2%, but still staying lower than the limit of 5% target set by the National Assembly. In general, the inflation rate in Viet Nam still remains stable and low level.

As estimate of General Statistics Office, the Consumer Price Index (CPI) rose 0.23% in December 2016 compared to last month and increase of 4.74% compared to December 2015. In which, the group of medicine and health service witnessed a highest increase with an increase of 5.3% in December 2016. Group of garment, headwear, footwear rose 0.25% as demand for winter shopping increased; beverages and tobacco increased by 0.21%; housing and construction materials rose by 0.19% due to gas prices affected by price increases and housing repair needs also rose in the last months of 2016; equipment and household appliances increased by 0.08%. The remaining groups had decreased price index: transportation fell 0.89%; restaurant and catering services decreased

by 0.03%, food drops 0.12%; post and telecommunications fell 0.03%; culture, recreation and tourism down to 0.02%. Only education group's price unchanged as compared to the previous month.

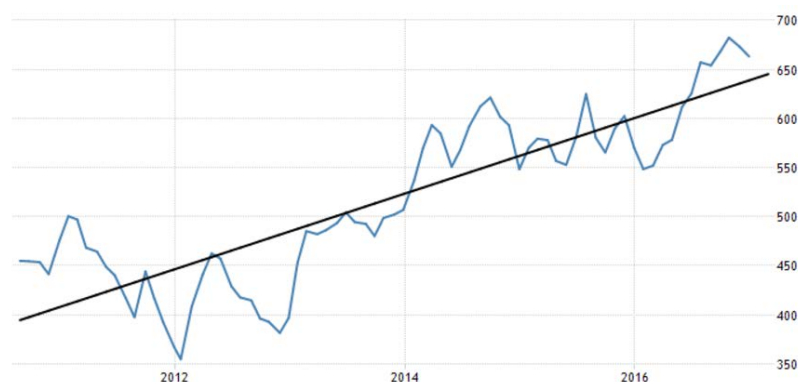
Core inflation rate in December 2016 increased 0.11% compared to November 2016 and up to 1.87% compared to the same period of last year. Inflation rate in 2016 rose an average 1.83% in comparison to 2015 average.

## II.2.3 Stock and Bond market

After financial crisis, stock and bond market in Vietnam gradually recovered with positive signals.

First, the Ho Chi Minh VSE is a major stock market index which tracks the performance of 303 equities listed on the Ho Chi Minh and Hanoi Stock Exchange in Vietnam. It is a capitalization-weighted index. Historically, the Vietnam Ho Chi Minh Stock Index reached an all time high of 688.89 in October of 2016 and a record low of 336.73 in January of 2012. In general, it had increase trend from 2011 to 2016.

**Figure 8: Vietnam Stock Market**



Sources: [www.tradingeconomics.com](http://www.tradingeconomics.com); Ho Chi Minh City Stock Exchange

Generally, a government bond is issued by a national government and is denominated in the country's own currency. Bonds issued by national governments in foreign currencies are normally referred to as sovereign bonds. The yield required by investors to loan funds to governments reflects inflation expectations and the likelihood that the debt will be repaid. The Vietnam Government Bond fluctuated during 2007-2016 period with decrease trend. It reached an all time high of 12.53 in May of 2011 and a record low of 5.97 in November of 2016.

**Figure 9: Vietnam Bond Yields**

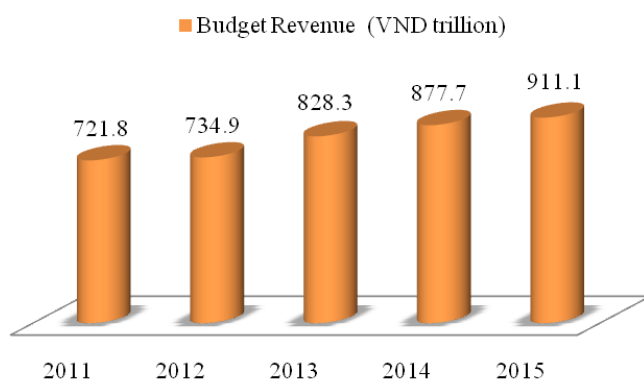


Sources: [www.tradingeconomics.com](http://www.tradingeconomics.com); State Treasury of Vietnam

## II.2.4 Fiscal Position

Budget revenue collection has been steadily increasing in the past five years. The spike in 2010 (29.6 % of GDP) was due to rapid economic recovery from the post crisis stimulus and high oil prices. Total revenue collection in 2012 grew by 10% in nominal terms compared to an average growth rate of 20% in 2010 and 2011. From 2012 to 2015, budget revenue increase 26.23%, with an average growth of 5.25% per year.

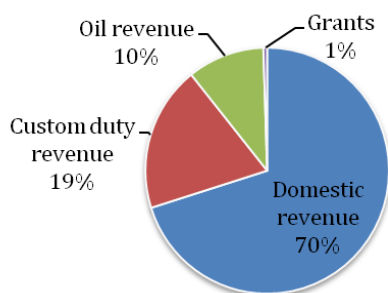
**Figure 10: Vietnam budget revenue 2011-2015**



Sources: Ministry of Finance, The World Bank's database

Structure of state budget revenue in Vietnam is 70% from domestic, 19% from custom duty, 10% of oil and grant with 1% in 2015. In the current budget structure, domestic revenue increased slowly, overspending decreased but did not achieve the plan, regular expenditures and wages increased, while spending for investment and development declined.

**Figure 11: Vietnam budget revenue composition in 2015**



Sources: Ministry of Finance, General Statistics Office of Vietnam

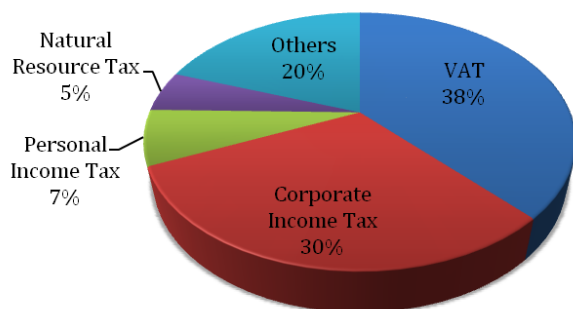
Regarding revenues in 2016, total state budget revenue as of December 15, 2016 is estimated at 943.3 VND trillion, equal to 93% of the yearly estimate, in which, domestic revenue was 744.9 VND trillion, 94.9%; oil revenues reached 37.7 VND trillion, 69.2%; revenues from exports and imports reached 156.2 VND trillion, 90.8%. Revenues was forecasted to exceed the target. Previous years, Vietnam has scale budget higher than the reasonable collection and no reserve space for revenue, according to which the budget will be easy to get stuck under the impact of economic fluctuations. In addition, low inflation also reduces the value of a part of state revenue which derive from increase of prices.

State budget revenues continue to rely largely on non-sustainable sources of income. The irregular earnings as revenue from crude oil, from the right to use the land, from the sale of state-owned assets accounted for approximately 25% of the total budget. Meanwhile, other revenues (from the corporate sector, export) decline due

to tax policy changes and tariff reduction commitments under the trade agreement. Accordingly, the ratio of revenue to GDP has plummeted from about 26% of GDP in 2011 to 20% of GDP in 2016.

As for tax revenue, it also rose gradually year to year with 525 VND trillion in 2011 to 748 VND trillion in 2016. Value added tax accounted for highest proportion of tax revenue (30% in 2015), next is corporate income tax (30%) and personal income tax (7%).

**Figure 12: Vietnam tax revenue composition in 2015**



Sources: Ministry of Finance, General Statistics Office of Vietnam

In recent years, the pressure to increase the state budget is very large, leading to high budget deficit, stretching, rising public debt burden... It placed a request to restructure the state budget. Although the state budget revenues continued to rise on the scale, but there were many declining revenues, while the expenditure needs of the state budget rose; the regional and revenue structure did not balance. As a result, the state budget revenue is unsustainable.

Regarding expenditures, according to initial estimates, the total state budget expenditure as of December 15, 2016 is estimated at 1135.5 VND trillion, equaling 89.2% of the annual estimate. In which spending for development investment reached 190.5 VND trillion, equal to 74.7%; spending for development of social economic, national defense, security, administrative management reached 786 VND trillion, 95.4%; paying for debt and grant was 150.3 VND trillion, 96.9%. Thus, compared to the previous years, the budget also had positive changes. However, the structure of the budget expenditures has some issues of concern.

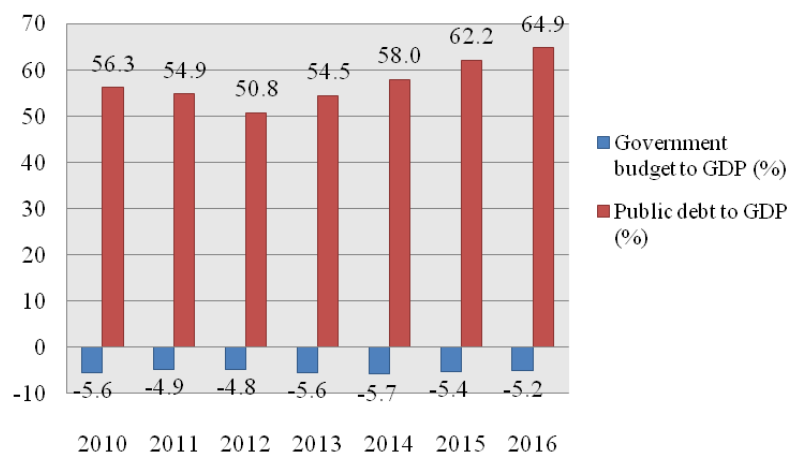
First, to pay debts (both principal and interest) in total expenditure is increasing due to the scale of debt in recent years is much higher and due loans. According to the Ministry of Finance, the current debt obligations against revenue was forecasted to exceed 25% of the total state budget in 2016 (the level safety by Decision No. 689/QĐ-TTg dated 04/05/2013 of the Prime Minister and the recommendations of the World Bank). Besides, domestic public debt in the short term such as government bonds with maturities of less than three years is often great risk to the budget. Moreover, public debt is high and increasing year to year which caused budget deficit.

Second, recurrent expenditures continue to account for a large proportion (over 67% in 2016), according to which, recurrent expenditure was greater than the revenue from taxes and fees. Thus, the administrative reforms have yet to take effect, systems and mechanisms of recurrent spending had no positive improvements and in the coming years, the ability to rapidly reduce recurrent expenditure is not easy, cause significant impact on the budget deficit and public debt in the medium and long term when the budget may have to borrow to cover regular spending but not to invest in developing.

Third, due to recurrent expenditure increase, the share of investment spending from the state budget decreases, only 22.5% in 2016. In fact, the state investment in total social investment has increased (to offset part shortage of private investment), however, the share of investment expenditure in the budget shows a sharp decline reflecting an negative spending structure when the majority of budget expenditures does not serve the objectives of investment

support growth but focuses on recurrent expenditure. Due to unsustainable revenues and tendency of reduce whereas budget expenditures increased and improper spending structure, together with high and increasing public debt lead to continuous growing of budget deficit.

**Figure 13: Government budget deficit in Vietnam**  
**Government budget and public debt**  
**in Vietnam**



Sources: Ministry of Finance, The World Bank's database

In September 2016, The Ministry of Finance has launched plan to reduce the rate of recurrent expenditure in 2017, the development investment ratio would be 24.7% (higher than 2016), recurrent expenditure is 63.9% (lower than 2016)<sup>6</sup>.

<sup>6</sup> <http://infonet.vn/cat-giam-chi-thuong-xuyen-ngan-sach-nha-nuoc-trong-nam-2017-post209033.info>

### III. Tax Structure

#### III.1 Overview of Vietnam Taxation System

##### III.1.1 Position and Function

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

##### III.1.2 Powers and Responsibilities

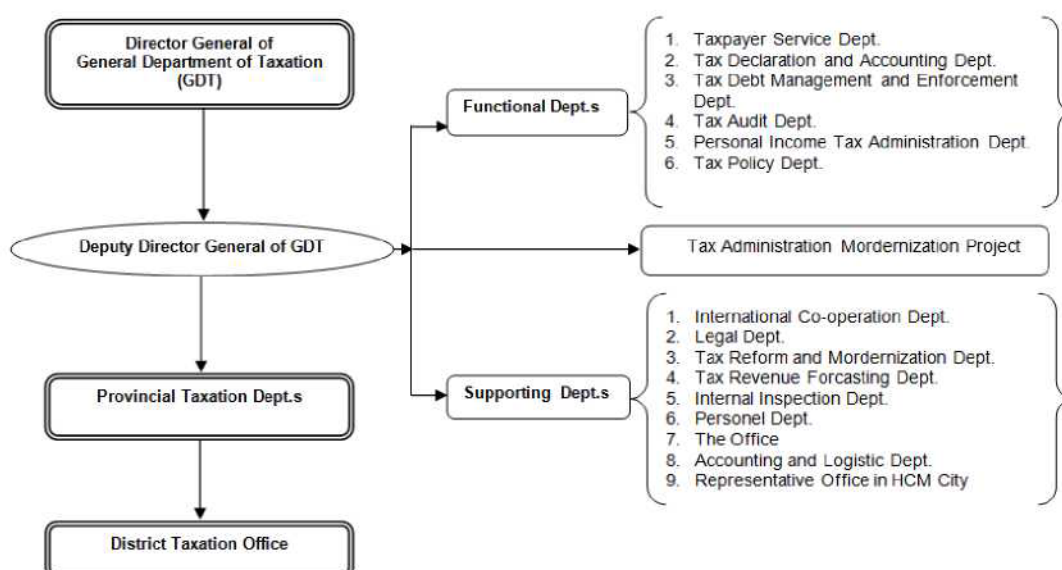
The General Department of Taxation has the powers and responsibilities in assistance to the Minister of Finance making draft laws, ordinances, decrees on tax policy and administration; developing strategies, master plans, national target programs and important programs of action, schemes and projects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

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

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

##### III.1.3 Organization Structure

The General Department of Taxation is organized based on functional model into a hierarchical system from the central to local level according to administrative units, ensuring adherence to the principle of centralism and uniformity with the headquarters of General Department of Taxation (GDT) in Hanoi, 63 tax offices at the province level, and 694 tax offices at the district level.



### **III.2 Tax Administration**

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

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

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

The GDT collects all domestic taxes with offices that extend through the provinces and the districts, and the Customs Department collects all taxes falling on imports and export tax. Only minor fees and charges are collected by financial agencies and service providers GDT is charged with collecting all major domestic taxes, in particular the Value-Added Tax (VAT), the Corporate Income Tax (CIT), excise taxes, and natural resource taxes, which account for 76.4% of domestic revenue collection (including domestic tax revenues from crude oil). GDT is also responsible for the collection of a relatively large number of minor taxes, such as the tax on the transfer of land use rights, the land and housing tax, and the small business tax. Domestic tax revenues, including tax revenues from crude oil, collected by GDT, amounted to 25.1% of GDP in 2010. GDT is operating in a rapidly and fundamentally changing environment, which will substantially increase the challenge of ensuring effective tax revenue collection.

#### **Tax Administration Law**

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

In general, the law is comprehensive and of high quality. It consists of 14 chapters, covering all key tax administration business functions (tax registration, filing and accounting, assessment, audit, collection and debt management). The law has clear provisions for governing taxpayer service, tax appeals, and tax law violation settlement. The Tax Administration Law has provided clear definition of the rights and obligations of taxpayers, the tax administration agency, and other related organizations. The law specifies the rights of taxpayers during the process of tax assessment, examination, audit and investigation, and appeals. Taxpayers are entitled to good taxpayer service that helps them understand the binding laws and regulations, and to obtain easy access to tax



information and compliance guidance. The law mandates the tax administration to compensate a taxpayer for damages caused by the administration. To avoid abuse by tax officials, the law stipulates that a tax audit can be conducted on a periodic basis but cannot exceed once a year. The tax administration agency is legally responsible for the confidentiality of taxpayer information. The law also specifies the purpose and scope of tax administration; the rights and responsibilities of the tax administration agency; and the roles and responsibilities of other stakeholders such as the people's committees, other government bodies related to tax administration, the media, and tax agents. The law includes a clear provision on international cooperation, which stipulates that, among other things, the tax administration agency is authorized to negotiate, sign, and organize implementation of international agreements with tax administrations of other countries.

In addition, the tax administration law has regulated a unique Taxpayer Identification Number (TIN), that emphasizes the granting and use of TINs, it is considered as the first step toward modern tax administration. For the symmetric treatment of tax payment and tax refunds, the law deals explicitly with tax payment deadlines and tax refunds. If taxpayers delay paying taxes, they are liable to pay a penalty at a daily rate of 0.05% of the amount of late payment. On the other hand, overpayment of taxes is to be refunded or deducted from the tax liability in the subsequent period. The tax refund must be made at the request of the taxpayer within five working days from the date of receipt of the letter of such request. And being more effective in exchanging information with the third-party, the law stipulates that third-party information can be acquired from various agencies, but the confidentiality of the information for tax purpose must be safeguarded.

The Tax Administration Laws Amendment Act ("the Act") was promulgated on 16 January 2014. The Act amends the Transfer Duty Act, Income Tax Act, Customs and Excise Act, Value-added Tax Act, Skills Development Levies Act, Unemployment Insurance Contributions Act, Securities Transfer Tax Act, Mineral and Petroleum Resources Royalty Act, Mineral and Petroleum Resources Royalty (Administration) Act and Tax Administration Act.

### **III.3 Tax Policy**

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

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

### **III.3.1 Value-Added Tax**

Value Added Tax (VAT) has been an important source of revenue in Viet Nam. It resently contributes about one - third of the total tax revenues, which is the largest share of all taxes to total tax revenue matched only by the tax on Enterprise Profits (CIT). Together, the VAT and CIT account for almost two-thirds of the tax revenues of the Government of Viet Nam. Except for a few years in the past, it has been generally a buoyant tax, the revenues growing at a rate greater than the growth rate of the GDP.

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

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

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

- 0% applies mainly to goods and services that are produced for export or which are used for international trade, such as foreign currency and gold bullion.
- 5% is applied to goods that are considered essential to the proper functioning of society and the economy, such as fertilizers, clean water, medicine, teaching aids and agricultural products.
- 10% is applies to most consumed goods that do not fall under the categories mentioned above.
- 

### **III.3.2 Corporation Income Tax**

A profits tax was first introduced in Viet Nam in 1990 and was levied on the income of all business enterprises whether private sector, state sector or established through foreign investment. The tax had a broad coverage with few exemptions. The corporate income tax in its present form was introduced in 1999. It was later amended in 2003 with a view to abolishing discrimination among different sectors of the economy, attracting more investment and enhancing tax revenues. It was amended again in 2008 effective January 1, 2009 to remove certain anomalies and provide a more business-friendly tax environment. Presently, this tax is one of the major sources of revenue in Viet Nam and has been generating between 3.5 and 5% of GDP in tax revenues in recent years.

The latest amendments in the CIT law were made in June 2013. Following the World Bank's policy dialogue with the Government of Viet Nam, the CIT Law of 2008 was revised in June, 2013. Presently the top rate has been reduced from 25% to 22%, with a lower rate of 20% for smaller firms.

### **III.3.3 Excise Tax or the Special Consumption Tax (SCT)**

The tax base consists primarily of goods whose consumption is regarded as socially and environmentally undesirable (alcohol, cigarettes, and gasoline); luxury goods (cars and air conditioners); and some entertainment items more likely to be consumed by the rich (dancing and massage establishments, casinos, jackpot games, golf, and lottery business). The tax rates on goods vary between 10% (gasoline, air-conditioners of 90,000 BTU or less, and electrically operated passenger cars between 16 seats and 24 seats) to 70% (votive gilt papers and votive objects), and on services between 15% (lottery business) to 40% (dance halls). The tax on gasoline, an import duty of 20% and an excise tax of 10% are applied. The rates for cars are differentiated by seating capacity and by fuel: gasoline, bio-fuel, or electrically operated cars. Liquor with differential alcoholic content is currently taxed at two different rates—45% and 25%. Beer is taxed at 45%. Air-conditioners with a capacity of less than 90,000 BTU are subject to 10% excises while other air-conditioners are not taxed. In addition, excise tax law provides the provision

of tax reductions for establishments facing difficulties caused by natural disasters or unexpected accidents.

### **III.3.4 Trade Taxes**

Trade taxes have been of special significance in Viet Nam, because they used to bring about one-third total tax revenues. This share has been falling mainly due to tariff reduction following Viet Nam's increased international commitments, and it decreased from about 21% in 1997 to 11.2% in 2010. With Viet Nam joining the WTO, the contribution of trade taxes is likely to decline further. Tariff rates fall into the following three broad categories: (i) Preferential rates applied to goods originating from countries in the most favored nation (MFN) category; (ii) Common tariff rates applied to goods from other countries without any trade agreements. For those countries, tariff rates in this case were 50% higher than for MFN countries; (iii) Special preferential tariff rates on goods from countries with special trade agreements with Viet Nam.

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

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

### **III.3.5 Personal Income Tax (PIT)**

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

No distinction between Vietnamese citizens and foreigners living in Viet Nam: Personal income taxpayers include residents who earn taxable incomes inside and outside the Vietnamese territory and nonresidents who earn taxable incomes inside the Vietnamese territory. No distinction between regular and irregular income: Although a scheduler tax rate has been adopted for some of these incomes, this still amounts to implicitly maintaining the difference in taxation of different kinds of incomes. Broader coverage of incomes: The law includes several types of incomes, such as income from capital investment including interest on loans, dividends, income from capital gains, transfer of immovable property, copyrights including technology transfer, transfer of industrial rights, franchising, and income from inheritance and donations. Taxation of interest and dividends will help expand the tax base and is a new change. Nontaxable income, tax-exempt income, tax reduction: The number of tax-free, job-related allowances has decreased. One major change is the inclusion of individual businesses that were subject to CIT in the previous PIT regime. One notable exemption in the act is overseas remittances. In addition, income from agriculture, forestry, feeding and catching seafood, etc., is tax exempt. Taxable period: The taxable period is

the calendar year for incomes from businesses and employment. However, for both Vietnamese and foreign residents, the taxable period equals each occasion of earning income in the case of income from interest, dividends, and profits, capital gains, immovable property transfer, winning lotteries, royalties, franchising, technology transfer, inheritance, and donations. This means the exemption threshold applies on a case-by-case basis rather than on the total annual income from these sources. Social and medical insurance: These contributions are explicitly deductible from business income or from salaries and wages.

Family deduction: A deduction for the taxpayer and dependents has been introduced. For the taxpayer, the monthly amount is 4 million dong, and for each qualified dependent it is 3.2 million dong. Charitable contributions: A deduction for charitable contributions has been introduced, which is in accordance with international practice. Tax rates: The law has seven tax brackets: 5, 10, 15, 20, 25, 30, and 35%. A scheduler tax structure has been adopted for incomes from capital investment (interest and dividends), royalties and franchising, winning prizes, inheritance or donations, and the sale of immovable property. Threshold for tax liability: A threshold of 10 million dong is applied for income from royalties, franchising, winning prizes, inheritance, etc. Thus, these incomes also receive a special tax break under the new law. Narrow tax base: The problem of a narrow tax base persists. It can be explained sensibly in short run by the interest of formalization of the labor market and the economy in short. Nonresidents: There are scheduler rates instead of a flat rate. A tax rate of 20% is applicable for income from salaries or wages. Tax rates applicable to income from business are 1, 2, and 5%.

### **III.3.6 Land and Property Tax**

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

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

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

### **III.3.7 Taxation of Natural Resources**

Taxation of natural resources in Viet Nam has gained greater importance because of its export of oil and gas and the recent rise in oil prices. The natural resources in Viet Nam may be placed into the following four categories, each with its own tax rates:

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

### III.3.8 Nontax Regimes (Fees and Charges)

The Government of Viet Nam has promulgated a large number of decrees, circulars, and decisions to impose different kinds of charges and fees and collect revenues from them. According to the Ordinance on charges and fees, the determination of charge rates is based on two principles: (i) the rates of charges for services provided by the state must ensure the recovery of capital within a reasonable period of time, and (ii) the rates for services provided by organizations and individuals must ensure the recovery of capital within a reasonable period of time and suit the payment capability of payers.

## III.4 International Tax Issues

### III.4.1 Tax Treaties

Vietnam is a signatory to a Treaty for the Avoidance of Double Taxation with many countries all over the world. Draft agreements with additional countries are at the discussion stages.

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

**Table 8: Countries that have Double Taxation Agreement (DTA) with Vietnam**

No.	Country	Signing date/place	Effective date
1	Australia	13/10/1992 Hanoi	30/12/1992
2	France	10/02/1993 Hanoi	01/07/1994
3	Thailand	23/12/1992 Hanoi	29/12/1992
4	Russia	27/5/1993 Hanoi	21/03/1996
5	Sweden	24/3/1994 Stockholm	08/08/1994
6	South Korea	20/5/1994 Hanoi	11/09/1994
7	UK	09/4/1994 Hanoi	15/12/1994
8	Singapore	DTA: 02/3/1994 Hanoi Protocol amending the DTA: 12/9/2012 Singapore	DTA: 09/09/1994 Protocol: 11/01/2013
9	India	07/9/1994 Hanoi	02/02/1995
10	Hungary	26/8/1994 Budapest	30/06/1995
11	Poland	31/8/1994 Warsaw	28/01/1995
12	Netherlands	24/01/1995 Hague	25/10/1995
13	China	17/5/1995 Beijing	18/10/1996
14	Denmark	31/5/1995 Copenhagen	24/04/1996
15	Norway	01/6/1995 Oslo	14/04/1996
16	Japan	24/10/1995 Hanoi	31/12/1995
17	Germany	16/11/1995 Hanoi	27/12/1996
18	Romania	08/7/1995 Hanoi	24/04/1996
19	Malaysia	07/9/1995 Kuala Lumpur	13/08/1996
20	Laos	14/01/1996 Vientiane	30/09/1996
21	Belgium	DTA: 28/02/1996 Hanoi Protocol amending the DTA: 12/3/2012 Hanoi	DTA: 25/06/1999 Protocol: Not effective
22	Luxembourg	04/3/1996 Hanoi	19/05/1998
23	Uzbekistan	28/3/1996 Hanoi	16/08/1996
24	Ukraine	08/4/1996 Hanoi	22/11/1996
25	Switzerland	06/5/1996 Hanoi	12/10/1997
26	Mongolia	09/5/1996 Ulan Bator	11/10/1996
27	Bulgaria	24/5/1996 Hanoi	04/10/1996
28	Italy	26/11/1996 Hanoi	20/02/1999
29	Belarus	24/4/1997 Hanoi	26/12/1997
30	Czech Republic	23/5/1997 Hanoi	03/02/1998
31	Canada	14/11/1997 Hanoi	16/12/1998
32	Indonesia	22/12/1997 Hanoi	10/02/1999
33	Taipei	06/4/1998 Hanoi	06/05/1998
34	Algeria	06/12/1999 Alger	Not effective
35	Myanmar	12/5/2000 Yangon	12/08/2003

36	Finland	21/11/2001 Helsinki	26/12/2002
37	Philippines	14/11/2001 Manila	29/09/2003
38	Iceland	03/4/2002 Hanoi	27/12/2002
39	Korea Republic	03/5/2002 Pyong Yang	12/08/2007
40	Cuba	26/10/2002 La Havana	26/06/2003
41	Pakistan	25/3/2004 Islamabad	04/02/2005
42	Bangladesh	22/3/2004 Dhaka	19/08/2005
43	Spanish	07/3/2005 Hanoi	22/12/2005
44	Seychelles	04/10/2005 Hanoi	07/07/2006
45	Sri Lanka	26/10/2005 Hanoi	28/09/2006
46	Egypt	06/3/2006 Cairo	Not effective
47	Brunei	16/8/2007 Bandar Seri Begawan	01/01/2009
48	Ireland	10/3/2008 Dublin	01/01/2009
49	Oman	18/4/2008 Hanoi	01/01/2009
50	Austria	02/6/2008 Vienna	01/01/2010
51	Slovak	27/10/2008 Hanoi	29/07/2009
52	Venezuela	20/11/2008 Caracas	26/05/2009
53	Morocco	24/11/2008 Hanoi	12/09/2012
54	Hong Kong	16/12/2008 Hanoi	12/08/2009
55	UAE	16/02/2009 Dubai	12/04/2010
56	Qatar	08/3/2009 Doha	16/03/2011
57	Kuwait	10/3/2009 Kuwait	11/02/2011
58	Israel	04/8/2009 Hanoi	24/12/2009
59	Saudi Arabia	10/4/2010 Riyadh	01/02/2011
60	Tunisia	13/4/2010 Tunis	06/03/2013
61	Mozambique	03/9/2010 Hanoi	Not effective
62	Kazakhstan	31/10/2011 Hanoi	Not effective
63	San Marino	14/02/2013 Rome	Not effective
64	Serbia	01/3/2013 Hanoi	Not effective
65	New Zealand	05/8/2013 Hanoi	Not effective
66	Palestine	06/11/2013 Hanoi	Not effective
67	Oriental Repulic of Uruguay	09/12/2013 Montevideo	26/07/2016
68	Azerbaijan	19/5/2014 Hanoi	11/11/2014
69	Turkey	08/7/2014 Ankara	Not effective
70	Iran	14/10/2014 Tehran	26/06/2015
71	Macedonia	15/10/2014 Skopje	Not effective
72	Portugal	03/6/2015 Lisbon	Not effective
73	United States of America	07/7/2015 Washington	Not effective
74	Estonia	26/9/2015 New York	Not effective
75	Malta	15/7/2016 Ulan Bator	25/11/2016
76	Panama	30/8/2016 Hanoi	Not effective

Source: General Department of Taxation

### III.4.2 Transfer Pricing (TP)

Transfer pricing has become one of the tax authorities' priorities in relation to tax administration in the current years. Latest regulation places emphasis on the need for taxpayers to adhere to the transfer pricing guidelines and clearly defines (amongst others), related party transactions which are subject to the transfer pricing rules, transfer pricing methods and compliance requirements.

Vietnam's transfer pricing regulations outline various situations where transactions will be considered as being between related parties, and the mechanisms for determining the market "arm's length" transaction value, e.g. comparable uncontrolled price, cost plus, resale price, comparable profits and profit split. Under the wide ranging definition of related parties, the control threshold is lower than in many other countries (20%), and the definition also extends to certain significant supplier, customer and funding relationships between otherwise unrelated parties. The tax authorities are given power to make transfer price adjustments with respect to non-arm's length related party transactions and taxpayers' failure to comply with the transfer pricing requirements.

Compliance requirements include an annual declaration of related party transactions and transfer pricing methodologies used, which is required to be filed together with the annual CIT return. Companies which have related party transactions must also prepare and maintain contemporaneous transfer pricing documentation.

An Advance Pricing Agreement mechanism has recently been introduced which will allow taxpayers and the tax authorities to agree in advance the pricing method.

Taxpayers are required to disclose their related party transactions when filing their annual corporate tax return.

In addition, the burden of proof is on taxpayers to demonstrate that related party transactions are carried out on arm's length terms. Therefore, taxpayers are required to prepare and maintain contemporaneous transfer pricing documentation.

### **III.4.3 Foreign Contractor Tax (FCT)**

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

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

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

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

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

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

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

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

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

### **III.5 Tax Reform Strategy period 2011-2015 and version to 2020**

On May 17, 2011 the Prime Minister issued Decision No 732/2011/QĐ-TTg, approving a 10-year tax system reform strategy through 2020 with ambitious targets for both renewing the tax system and accelerating reforms of tax administration.

The changing socio-economic situation in Viet Nam over the next decade will greatly impact the realization of this tax reform strategy. That Viet Nam has emerged from the list of poor countries will result in a considerable reduction of foreign aid resources, including aid for human resources development. The fulfillment of all bilateral and multilateral international commitments and full opening of the domestic market will reduce revenues from exports, putting further pressures on State budget revenues. Global warming, climate change, and the depletion of natural resources are factors greatly affecting development which must be taken into account in tax reform strategy. The primary objectives for the 10-year tax reform strategy are to build a coordinated, unified, fair and efficient tax system suited to a socialist-oriented market economy, one that gives an effective macro-economic management

tool to the Party and the State to boost domestic production. Tax revenues during 2011-15 will be maintained at 23-24 per cent of the GDP. In the subsequent five years (2016-20), the rate will be lowered on goods or services in order to encourage competition and capital accumulation. For tax administration, the strategy sets objectives of building a modern and efficient tax sector that makes the administration of taxes, charges and fees unified, transparent, simple to understand and feasible, based on three foundations: (i) transparent tax policies and simple and systematic procedures that conform to international practices; (ii) quality human resources that are free of corruption; and (iii) application of modern information technology. By 2015, at least 60 per cent of enterprises will use electronic tax services; 50 per cent of enterprises will register and declare taxes online; and 70% of taxpayers will be satisfied with the services provided by tax offices. These targets are expected to be higher in the subsequent five years (2016-20). The reformed tax system must guarantee reasonable tax revenues, boost production, increasing the competitiveness of goods and services, promoting export and investment, particularly investment in high technology and in regions facing difficult socio-economic conditions.

Tax policies must exert positive impacts on economic restructuring and job creation, ensuring sustainable economic growth, contributing to stabilizing and improving the quality of life of people and meeting the demands for reasonable State spending levels.

Tax policies must ensure transparency, clarity and feasibility. The tax base must be expanded to develop revenue sources while lowering the overall rate of taxation on each unit of goods or on income, helping increase domestic revenues (excluding revenues from crude oil) to over 70 per cent of the total State budget revenue by 2015 and over 80 per cent by 2020. The strategy will include 10 major types of taxes, charges and fees: value-added tax; excise tax; export and import duties; corporate income tax; personal income tax; royalties; agricultural land use levies; non-agricultural land use levies; environmental protection tax; and charges and fees. Compared to the strategy in the previous 10-year period, the 2011-20 tax reform strategy will have two salient points: changing the licensing fee into an annual fee for business management; and perfecting regimes and policies on State budget revenues from natural resources, such as collection of land use levies and revenues from mineral and oil rights. Together with the accelerated administrative reforms, it is necessary to proceed with the reform of public finance towards clear definition of functions and tasks of budget-funded units. The policy on privatizing public services will be further carried out, which requires changes in the collection of taxes and fees for public services so far provided by the State. During 2011-20, the Law on Charges and Fees will replace the existing Ordinance on Charges and Fees and the license tax converted into an annual fee for business management.

In the next decade, the Vietnamese economy will remain far behind the leading ASEAN economies. Though per-capita income will see relatively high growth, taxes on economic activities will continue to be mostly indirect and based on consumption. The value-added tax will play a major role with broad impacts on every citizen, especially when the economy is restructured toward reducing the agricultural ratio and raising the industrial and service ratios. Without being increased, VAT revenues will increase in both amount and in their ratio to total overall tax revenues.

The Law on Royalties, newly promulgated in 2009, should be further revised toward ensuring that royalties are an effective tool to manage, protect and promote the efficient use of national resources, particularly non-renewable resources. Royalty rates must be low enough to boost the exploitation of natural resources but high enough to restrict waste and excessive export of unprocessed minerals. As natural resources are under the ownership of all the people, suitable policies related to the assignment of rights to explore for and exploit resources are also needed. Tax laws must be made consistent with the laws on petroleum, water resources, minerals and forest protection and development. Policies must encourage the use of renewable natural resources while reasonably limiting and regulating the exploitation of non-renewable resources and stimulate the use of substitutes for these resources. During 2011-20, the policy on land-related revenues will be revised to ensure its consistency and conformity with amendments to the Land Law. Regulations will be issued to implement National Assembly Resolution No



55/2010/QH12 of November 2010, on exemption from and reduction of agricultural land use levies, as well as the Law on Non-Agricultural Land Use Fees. Further study is needed to find means to encourage more efficient land use. Tax incentives will be granted for the use of land in regions hit by difficulties or in remote areas, while higher levies will be imposed on urban uses. Property taxes will be applied to homes and improvements of great value at an appropriate time, aiming to boost the healthy development of the real estate market and ensure reasonable revenues for the State budget.

## **IV. Country-Specific Fiscal Issues**

As looking forward to 2016, the macroeconomic environment is expected to keep improving. Thanks to its positive fundamentals, recently signed trade agreements, and affordable work force, Vietnam will continue to attract more foreign investment. However, competition will intensify and force the government to conduct proper changes in policies to stay competitive in the regional market.

### **IV.1 Financial market**

The world financial crisis of the past 6-8 years has adversely affected Viet Nam. At the core of the crisis is the difficult position many of the country's banks have found themselves in. At the moment, the financial and banking system is facing difficulties which were revealed since 2010. Although banks have achieved high growth levels, non-performing loans are now a major problem. One of key reasons of the collapse of banking system is the issuance of loans without adequate risk assessment. The Government has recently issuing a Circular to tighten the lending practices of banks in regard to risk management.

Three main areas of the crisis impact on Vietnamese financial and banking systems are identified as follows:

- (1) Pressure of devaluation on the Viet Nam currency - the Dong;
- (2) Impact on the banking sector; and
- (3) Pressure on the balance of payments.

In general, the financial system, capital and money markets in Viet Nam are under-developed and dominated by the banking sector. The banking sector shares the same weaknesses of its counterparts in Asia such as a high ratio of non-performing loans, resulting from bad lending practices, inflexible exchange rate management, and weak prudential regulation and supervision.

Vietnam's economy in the last 3 years has made important progress, steady GDP growth with annual CPI increase is lower than the set target of about 5%. In particular, a number of outstanding achievements such as financial markets continue to take steps towards sustainable development; the stock and bond market continued growth; restructuring the banking system is made stronger with bad loan ratio falls below 3%; exchange rates, interest rates are operating in a flexible manner, providing favorable conditions for business operations of the enterprises. All these factors have helped Vietnam financial market achieve steady growth step and create the foundation for next period.

However, besides these positive signals, Vietnam's economy is also facing a number of challenges such as the budget deficit increases; public debt is about to hit the threshold; bad debt has not been resolved completely; while the economic development is lack of sustainability due to depending heavily on FDI. These are the risks that can arise, directly impact and generate huge implications for the economy and financial market in future.

### **IV.2 Property market**

Viet Nam experienced a severe decline in its real estate market in the second half of 2011. This dramatic decline caused an imbalance and stagnation with inventories topping VND 100 trillion (4.7 USD billion) in 2012. The collapse in property prices rendered many projects unprofitable and it remains a common sight in the major cities of Viet Nam to see unfinished property developments. All regions experienced lack of liquidity, many businesses went bankrupt, and brokers gave up their jobs, etc.

The situation was gradually changed during 5 years. Vietnam's fast rising property market leaves hard times behind. The speed of the market's turnaround has been startling. Successful property transactions have doubled from a year ago, and developers have halved their unsold inventory from 6 USD billion at the peak of the crisis at the start of 2013.

The government is restructuring the banking sector. In 2013 it gave the real estate sector a 1.4 USD billion

stimulus and has placed stronger financial requirements on property developers. From July 1, 2015 the government relaxed rules on investment by foreign firms, foreign buyers and "Viet Kieu", the overseas Vietnamese whose families fled their homeland when the communist north conquered the U.S.-backed south in 1975. The moves to open up the property market were the latest in a slew of reforms shows the party's progressives are in the driving seat heading into a scheduled leadership change in January.

Easing restrictions on buyers from overseas has had pronounced results. There are 4.2 million Vietnamese overseas and about 30,000 foreign executives working in Vietnam long-term. That shows potential for a bright future. The overseas money excites realtors most. Vingroup recently held two sales opening events for projects exclusively targeting foreigners and "Viet Kieu" in Hanoi and Ho Chi Minh City. The property firm said it received deposits for 112 apartments within two hours. There's much room for growth, with Vietnam's market valued at 21 USD billion in 2014 by Nomura Research Institute, compared with Thailand's 89 USD billion and Singapore's 241 USD billion<sup>7</sup>.

In terms of property market, leasing activities gain momentum. Rent growth and occupancy levels witnessed improved across all property types. Vietnam is flooded with new construction, and its real estate market is sizzling hot. Boosted by recovery from the housing bust of 2009-2013, by a booming economy, and by the Housing Law and the Law on Real Estate Business (effective July 1, 2015), which allows foreigners and overseas Vietnamese to legally own, sell and transfer real properties (subsequently fleshed out by Decree No 99 (effective December 10, 2015) and by Circular 19 (effective August 15, 2016)), real estate prices in Vietnam have been rising rapidly. The law - and the subsequent liberal decrees - are hugely important. And the result has been a boom.

- In quarter 3 of 2016, total dwelling sales in Ho Chi Minh City (HCMC) surged by 49% from the previous quarter, and by 193% from the same quarter last year, according to Savills World Research. Most of the sales were of townhouses, which accounted for 71% of total transactions. In HCMC primary market apartment prices rose by 7.4% during the year to Q3 2016, according to Jones Lang LaSalle. HCMC secondary market apartment prices rose 7.5%.
- In Hanoi, the country's capital, apartment prices also saw robust growth in Q3 2016, according to Jones Lang LaSalle: Hanoi's primary market apartment prices rose by 8% during the year to Q3 2016. Hanoi's secondary market apartment prices rose 5.3%.

Nevertheless, the industry still needs more transparent approvals and a regulatory body to safeguard the interest of foreign investors. Developers should understand the objectives and investment pattern of these investors in order to spur more foreign capital.

#### **IV.3 Inefficient state-owned enterprises**

The state-owned enterprises (SOEs) comprise a significant portion of the Vietnamese economy. These industries comprise 40% of Viet Nam's Gross Domestic Product (GDP) and were conceived as centrally planned companies that would be agents of socialist efficiency. Since their inception, the Vietnamese government lavished easy loans and preferred status on the SOEs, but the results have been disappointing. The majority of SOEs are not profitable and their combined debt exceeds 20 USD billion, 16% of Viet Nam's GDP. They are unable to produce significant growth in jobs or wealth for Viet Nam as a whole.

SOEs are rife with corruption, discourage foreign investment and retard the development of infrastructure. Generous lending practices and preferred government treatment have concentrated disproportionate financial and human capital in the SOEs with poor economic outcomes. The absence of competitive market forces has allowed SOEs to invest heavily in multiple subsidiary companies, many of which are neither profitable nor linked to the SOEs' core businesses. Grand corruption, combined with the arbitrary and reckless use of capital, has stunted Viet

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<sup>7</sup> <http://www.cnbc.com/2015/08/02/vietnams-fast-rising-property-market-leaves-hard-times-behind.html>

Nam's economic growth and must be dealt with by a comprehensive program of SOE privatization.

Viet Nam sits at a crossroads. It can choose to keep its SOEs largely unreformed and carry on down a steady path of slow economic decline. The government risks instability if it does not take action. If growth stagnates, the Vietnamese population may eventually lose patience with its leadership and demand change on their own terms.

The second path offers a more hopeful future for Viet Nam. It will require the political will to embrace genuine reform and compel those, who may be unwilling, to change. Tensions may rise in the Party as those who understand the need for reform are confronted by colleagues unwilling to relinquish their hold on wealth and power. Furthermore, the Vietnamese government must be transparent in its handling of the SOE's endemic debt problems. Self-financing "black boxes" must be opened and debt obligations paid or written off.

In 2015, Vietnam offered a 3.47% stake in Airports Corporation of Vietnam to the public, of which over 80% was purchased by foreign investors. From a geopolitical perspective, external investment can support privatization by deepening economic interdependence and providing politically neutral financing. Foreign investors demand "good governance" and the transparency that makes it evident, particularly in transition economies. Yes there are more hurdles to market-based privatization than insufficient corporate governance; many of Vietnam's SOEs are laden with debt (39.22 USD billion in 2015) and structural inefficiency. A thorough understanding of these dilemmas in reference to enhanced transparency will help the government better evaluate the durability of SOE reforms and at the same time improve the financial standing of SOEs.

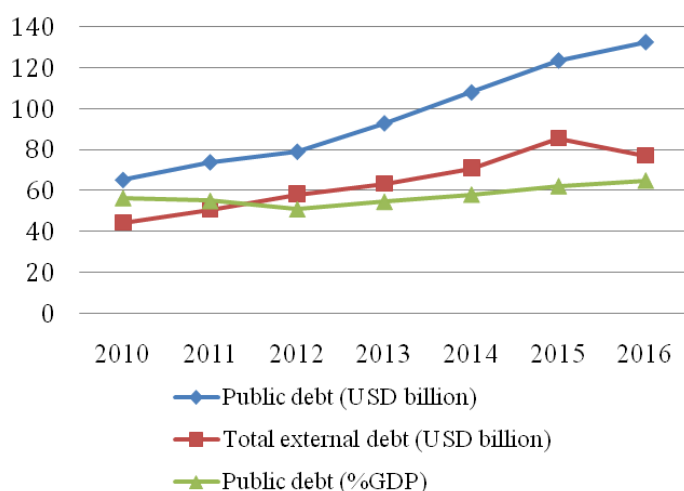
Applying corporate governance in privatized SOEs should be considered not as a trade-off between – but as a catalyst for – economic growth and political stability. Even though Vietnam's government appears capable of weathering civil society pressures, stalled growth through the failure of SOEs is a greater threat to political stability than the enhanced socio-economic mobility resulting from transparent, market-based privatization.

The privatization process will result in sustained long term gains as FDI is encouraged, infrastructure is properly funded, and capital, both financial and human, is put to better use in the private sector. The outcome will likely be a vibrant, growing economy and a burgeoning middle class. It is a future that holds the greatest opportunity for economic stability for Viet Nam as its population shares in growing financial security.

#### **IV.4 High and increasing public debt**

Vietnam has the high and increasing public debt. Together with the rapid development of the economy, Vietnam's public debt tends to rise very rapidly. In the period 2007-2011, public debt had increased about 25%, reaching average growth rate of 5% per year and the period 2012-2016, it risen up to 68% with the average growth rate of 14% per year. In Vietnam, public debt nearly reaches to threshold of 65% of GDP in 2016. If it exceeds this threshold, it can lead to the possibility of insolvency (recalling the Argentina with public debt to GDP ratio which was 65% in 2001 and then the crisis happened).

**Figure 14: Public debt in Vietnam**

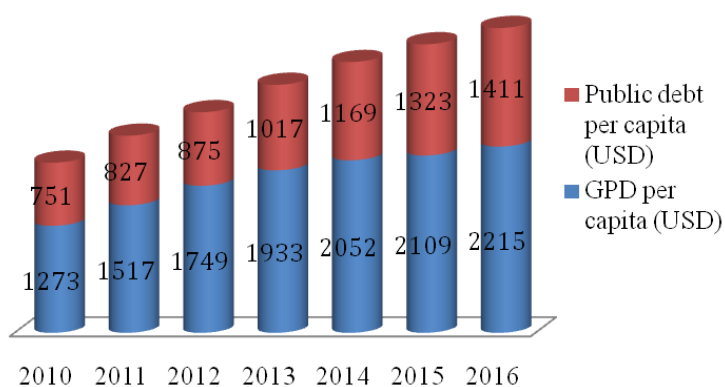


Sources: Ministry of Finance; The Economist Intelligence Unit

Moreover, the public debt in Vietnam is mostly external debt. This amount accounted for 67.95% public debt in 2010 and decline slightly to 58.26% in 2016. Yet, it still takes more than a half part to total public debt. This will create more insolvency risk for Vietnam economy when the debt depends on exogenous factors.

The high increase of public debt caused large budget deficits, creating inflation and more burden to population. High public debt also means cutting public expenditure such as social security benefit, pensions, child care etc. Although GDP per head in Vietnam rose from 2010 to 2016, so did the public debt burden. More than a half of resident income will be spent for paying debt. This number will be higher in future and put more burden to next generations in Vietnam.

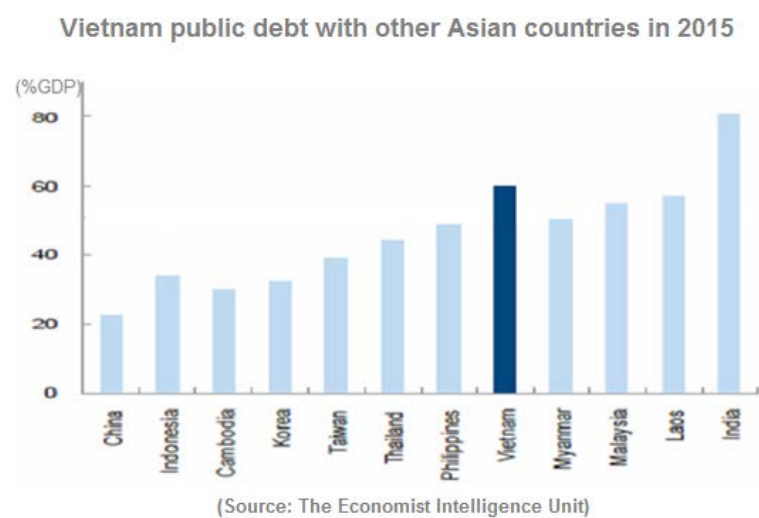
**Figure 15: Public debt per capita in Vietnam**



Sources: Ministry of Finance; General Statistics Office of Viet Nam

In comparison with some Asian countries, Vietnam had a high public debt with 62.2% to GDP in 2015 just after India while China was the country with the lowest public debt. Actually, Japan which does not appear in this chart had much higher public debt than any Asian countries with over 220% in 2013. However, Japan debt is mostly domestic. It means low risk in debt payment and Japan will be fine when it owes the citizens. Indeed, there has not been debt crisis in this country until now.

**Figure 16: Vietnam public debt in comparison with other Asian countries in 2015**



## **V. Conclusion: Socio-economic development in 2016 and major tasks for 2017**

At the meeting of the Vietnamese National Assembly in October 2016, Government have reported the main contents of the socio-economic situation in 2016 and main targets, missions, solutions for socio-economic development in 2017.

### **V.1 Socio-economic development in 2016**

Besides these advantages, we have to face many difficulties and challenges. Economic growth, global trade is lower than predicted; the price of many basic goods and crude oil price at a low level. East Sea situation complexity. Climate change is happening faster than predicted. Disaster, bold, malaria harm in the North, the prolonged drought in the South Central Highlands, salty unprecedented intrusion in the Mekong River Delta, flood and storm incidents of marine pollution in the four central provinces had heavy influence to the country's socio-economic, especially in the production and life of the people.

Implementation of the resolutions of the party and the National Assembly, the Government has implemented comprehensive direction, sync, drastic solution of tasks, make plans for socio-economic development and estimation of 2016, Government excessive focus issued mechanisms, the development policy for the period 2016-2020. With the efforts of the whole party, the whole army and the whole people, the business community, the socio-economic situation in Vietnam had taken a positive transformation and achieved important results on most of the field.

#### **V.1.1. Result achieved**

##### **1) Macro-economic stability, the basic balance is guaranteed**

The Government has focused on directing, operating flexibility, close coordination between fiscal policy and monetary policy with other policies to control inflation, macroeconomic stability and to promote growth.

The consumer price index (CPI) rose 3.14% 9 months of the year, an estimated increase of about 4%. The price adjustment according to market mechanism for education, medical services are prepared and consistent operating without causing great impact to the ground.

Bad debt continue to be processed in association with credit quality, liquidity and safety assurance system. Credit of the economy increases 11.24%. Some institutions continued to reduce the interest rate on the loan and the mobilization of about 0.5-1.5%. Rates and the foreign exchange market, the gold market is stable; the foreign exchange reserve reached over 30 billion dollars, the highest ever.

Tight management, lost against budget, transfer price, debt reduction, and strengthen tax control form, saving the Government excessive spending. Government excessive revenues in September totaled 70.8%; the estimated increase of 2.4% for the whole year; overspending to keep using the level passed by Congress (in absolute value).

Raising capital for development investment be promoted. In 9 months, FDI increased 12.4% done; ODA and concessional loan disbursements of about 2.7 billion dollars. Stock market capitalization reaches 63% of GDP, the highest ever; indirect foreign investment increased sharply. The total investment of the whole society Annual Convention reached 32.5% of GDP (the plan is 31.5%).

Many measures to promote exports have been taken in the context of global trade growth and the sector plummeted. The total turnover increased 6.7% in 9 months, which groups exporting agriculture and forestry aquatic products increased 7.4% (the same period dropped by more than 10%); the Super production 2.8 million. Estimated year 6-7% increase in exports. The management of the market, pricing, prevention of smuggling, trade fraud is enhanced; ensure good supply of essential items, not to happen every fever, lack of reviews.

## **2) Focus on dealing with difficulties of production and business, economic growth promoting**

The Government held the conference with business, issued the 19 resolutions on improving investment environment, enhance business competitiveness, 35 resolutions about support and business development, resolution 60 about accelerating the disbursement of capital for industry. Implement these solutions promote innovation, entrepreneurship, difficulty and problems, more timely recommendations of people, enterprises, responsible for the head. There are specific policies to create a breakthrough development for many local. Investment promotion work is implemented more effectively. Time business registration procedures to shorten longer 1-3 days. In September, over 81 thousand new established businesses and over 20 thousand active businesses back. Have generated trust and the air of excited people, investors and businesses.

Economic growth in the following quarter is higher than the previous quarter, nine months increased 5.93%. Agricultural areas are recovering, rising 0.65%. Processing and manufacturing industry increased 11.2%. The service sector rose 6.66%, higher than the same period. International tourists reach 9.6 million, up 25.7%. Annual economic growth estimated to reach 6.3%.

## **3) Economic restructuring achieved some initial results**

Continue to perform the tasks, economic restructuring solutions, focus on the emphasis on the investment restructuring, credit institutions, State-owned enterprises (SOE) and agricultural restructuring associated with the construction of the new countryside. The National Assembly plans to restructure the economy, financial planning-Government excessive and the medium term investment plan the 2016-2020 period. Deployment of 2 national target programs and 21 program objective. Continued restructuring credit organizations tied to handle bad debts, for credit institutions is weak. Within the 10 year implementation of SOE restructuring, building the overall scheme for the period 2016-2020 and the project to establish representative offices in State capitals owner in the business. Directs promoting privatization, capital and make the auction, listing on the stock market, ensuring transparency, not to the losses of State assets and capital.

Agricultural restructuring associated with the construction of new countryside to be promoted. Step by step reorganization of production, expansion; strengthening cooperation, links, associated production with processing and consumption, promote the application of scientific and technological progress, the shift of crops, livestock, crop adaptation to climate change; replicate effective models. New rural construction programs reach more results. To date there have been 27 districts and 2,843 new rural standard Township, occupying 23% rate. To the end of 2016, expects to have 30 districts and about 2,200 standard new rural township (25%).

Continue to implement restructuring, the service industries in the direction of enhancing the application of science and technology, enhance value, competitiveness. Implement policies to support industrial development, processing industry, manufacturing industry, high technology, environment-friendly, renewable energy development, clean energy. The internal structure of the industry shifted positively. Focuses on developing the service industry has the potential, the advantage (such as tourism, telecommunications, information technology, etc.). The National Conference on tourism and construction of the project of Vietnam tourism development orientation became the spearhead economic industry.

## **4) Take care of the physical, spiritual life of people**

Complete support for housing for nearly 84 thousand families who have the following resolutions of the National Assembly; keep looking, and identifies those martyrs. Credit policy incentives for poor households, students and other poverty reduction support policy be continued interest made. The rate of poor households by the end of the year 2016 multi-dimensional standard reduced to about 8.5%. Implementation of social protection policy; the superior was 92 thousand tons of rice sudden relief and support students in the region difficult.



Trained labor rate reaches 53%, including the training of 3 months or more have reached 21%. Vocational quality is improved, the third ASEAN skills competition. In 9 months, has created jobs for nearly 1.2 million people. Labor productivity increased by approximately 5.5% of society. The total number of participants reached 12.8 million social insurance, unemployment insurance reached 10.8 million. Continue to implement the mechanism, promote policies to support the development of social housing.

Strengthening of preventive medicine; clinical quality and reduce the overload of hospitals improved step by step. The focus of the new construction, upgrade some Central Hospital, the medical facility and the last satellite. Application of scientific and technological progress, rotation and training for officers. Continue the reform of administrative procedures in the examination; network connectivity over 14 thousand medical facility. Deployment of a National Conference on promoting health insurance for the entire population; forecasting the end of the year 2016 participation rates reached 80-81%; striving to 2020 has at least 90% of the population participate in health insurance. National Conference and directing food safety assurance. Renovation work, modify the management regulation on measures taken administrative processing on the basis of compulsory detoxification; addiction treatment by alternative medicine.

Continued innovation, improving the quality of education and training. Enact structural frame national education system and the national qualifications framework. Promote human resources development in the ethnic minority; improve student support policy, solidifying the school classroom and the home service for teachers in rural communes, a particularly hard. Universal preschool education for children of 5 years old reached 84.1%, there have been 53/63 provinces and cities achieved the standard. Innovating teaching methods, examinations, tests, reviews according to capacity, quality of the learner and the learning process. The good organization of the exam to graduate from high school and the National University enrollment, College, ensuring seriously, secure, convenient. Strengthen the quality control of higher education establishments. Implementing socialized public school; There have been 17 universities, public execution mechanism of autonomy. Support the development of intellectual property. Network planning, issued and implemented the mechanism of autonomous organizations of public science and technology. Facilitate promote market development and science and technology business. Approval, implementation of the project "support for start-up ecosystem national innovation by the year 2025". Promote the development of science and technology markets, enhanced connectivity, market organization and equipment technology (Techmark).

The whole movement of population to build the cultural life is promoted. Many monuments, cultural values, history, ethnic identity is preserved and promoted. Reach high achievements in international sports activities; the first to win 2 Olympic gold medals in the world; successful sports Congress Fifth Asian Beach in Vietnam and reached results ranked the whole group. Attach importance to the work of the elderly, replicate the model intergenerational clubs help each other. Construction of the National Assembly of the law on children, the law on religious beliefs. The work, due to the advancement of women; the ethnic policies continued to be interested in performing. Signing and implementing the regulation, the joint program between the Government with the Vietnam Fatherland Front and the central transport Board. Media information be promoted, most are serving Party Congress, election of Parliament, the people's Council levels and important events of the country.

## **5) Deal with climate change, disaster prevention, drought, saltwater intrusion, environmental protection and resource management**

Climate change has been proactively focused to deal with, prevention of natural disasters, especially drought in the Central Highlands, saline intrusion in the Mekong River Delta in the North, flood and storm Central. Directs the implementation of urgent measures to fight drought and saline intrusion. Deploy the project to deal with climate change. Enhance disaster prevention and search and rescue, rescue.

The management, exploitation and use of natural resources, mineral associated with emphasis on environmental protection. The National Conference, issued the directive of the Prime Minister and steer implementation of the mandates, urgent solutions on the protection of the environment. Complete phase 1 the handling of dioxin contamination at the Da Nang airport, proactively steering troubleshooting marine environment in four central provinces; implemented several measures to support the production, life, ensure political security, social order and safety. Out of money and rice aid from Government excessive, after receiving compensation of Formosa, had the overall approach and advance of 3,000 billion for the four provinces to pay for people. At the same time directing the review, clarify the responsibilities of the collective, the individual involved in the incident.

Protection of forest development, tied to sustainable poverty reduction for fellow minorities be further implemented; resolutely closed natural forests, handle service. 2016 forest cover rate estimated to reach 41.15% (41%) is planned. The rate of industrial zones, export processing zones and the active waste-water treatment systems focus of environmental standards is 86% (85%) objectives.

#### **6) Improve institutional, administrative reform, strengthening discipline, discipline, promote prevention of corruption and waste**

Construction, the project 20 Congress laws and ordinances; 103 issued Decree, the decision of the Prime Minister detailing, guiding the implementation of the law, especially with regard to the Investment Law, business law; fix basically standing debt status text. Enacting and implementing administrative reform plan the 2016-2020 period. Promote the reform of administrative procedures. The local continues to implement effective mechanisms to a door, a door, contributing to enhance transparency, reduce the time, cost savings for people, business. Emergency conditions of the entire organization, new work rules change; directive issued augmented discipline, discipline in the State administrative authority levels. Issued the regulation on the work of the Government, the decree and the determination to fulfill the Decree stipulates the functions, duties, powers, organizational structure of ministries, ministerial-level agencies in 2016. Establish and promote the role of the task force of the Prime Minister; formation mechanism of regular inspection, urging implementation of tasks with regard to the sectors and levels.

To sum up 10 years of implementation, the project Law construction, anti-corruption (modified). Seriously implementing the conclusions of the Secretary-General, the Chairperson of the Central corruption prevention. Issued augmented detection, indication of handling incidents of corruption. Many big corruption, social concerns have been brought to trial. Strengthen inspection, check. Focus on resolving complaints, accusations, especially the service complex, the grievance backlog, prolonged.

#### **7) Hold national sovereignty, ensuring social safety order**

Defense, security is enhanced; national sovereignty, Sea Island was hold. Enhance the capacity of law enforcement on the sea; monitors, timely handling of these situations occur. Implementation of the program, a project of social-economic development tied to defense and security, especially on the key points. Proactively prevent, fight to prevent the incitement, causing political insecurity, social safety and order. Guaranteed absolutely great events of the country. Boost the fight against crime. Strengthen fire prevention solutions; ensure order, road safety, reduced accident three criterion.

#### **8) Foreign and international integration achieved many results**

Foreign Affairs and international integration to be promoted; relations with the partners to go into depth, in fact, effective. Strengthen bilateral diplomatic, create interlaced interests; the successful organization of the foreign visit of the leader of the party, the State and the senior foreign delegation visits Vietnam. Deployment of foreign multilateral effectiveness; the initiative, actively participate in the Conference, a forum of international and regional

level. Timely response, in accordance with the situation on the East Coast. The overall strategy of international integration and construction of efficient implementation scheme of the process of international economic integration, uphold social-economic stability in the context of participation in the free trade agreement of the new generation. To date, there have been 64 countries to recognize Vietnam's market economy. The Government has completed the procedures, the ratification of the Treaty trans-Pacific Partnership (TPP).

### **V.1.2. Limitation, weakness**

1) GDP growth in first 9 months of the year reached low compared with the same period (5.93% versus 6.5%). The agricultural sector only increased 0.65% (in the same period 2.08%). The index of industrial production (IIP) increased 7.4% (9.9%); in the same period that the mining industry falling 4.1% (8.6%) rising. The forecast GDP growth for the whole year is lower than the plan (6.7%). Business production difficult; in September there were about 45 thousand enterprises suspended operation and on thousands of business 8.3 complete dissolution procedure. Economic growth plan will affect the other targets, including Government excessive spending rate, public debt, government debt compared to GDP may be higher than expected.

2) Exports increased 6.7% (only 9 months of rising 9.1%), forecasts a year approximately plan; in which the export processing industrial groups have a lower increase than 8.5% (18.6%); the same period exports to the ASEAN region decreased 9.1%. Market management in the country and border trade also present inadequacies. Smuggling, commercial fraud complications; first step to solve the new status of agricultural materials, poor quality; numerous service multi-level sales scams, credit, pressing social causes.

3) Recording tricky budget, reaching lower than same period of 9 months (70.8% compared to 74.9%), in which currency the central budget only reached 61% tax still unsettled debt.; Deploy the slow capital investment plans. Some projects use the low efficient capital investment; the basic construction of the biggest debt. Manage the use of public property, public spending is also wasteful. High public debt, large repayment pressures.

4) Restructure many sectors, the field is still slow. Handling bad debt and weak commercial banks were difficult, low results. The capital markets, securities, real estate development is not yet sustainable. Restructuring, SOE equitization, invested outside of the industry has not yet reached the plan. The number of enterprises are large stock but selling capital ratio reaches low. Some inefficient, unprofitable State-owned stretching, not transparency business results; many major investment projects of the Corporation, the Corporation is slow progress, at a loss, waste, investment must stop, stop the activity; the management staff from many inadequacies, not yet timely detection and handling of violations, cases of serious consequences to occur.

Restructuring of agriculture, industry, services in many local slow deployment, and embarrassing. New rural construction in some places have not properly concerned to develop production and raise the income of the people; There are also local substance abuse, including for the poor, policy audience; building new rural debt in some localities. Slow to support industrial development. Travel management many inadequacies. Marine environmental issues seriously negative impact to production, business, tourism, services and security, affecting employment, income, people's lives in some central provinces.

5) The life of the people is still difficult, especially for the disaster, hurricane, flood, drought, saline intrusion and environmental issues. The loss of food safety occurs in many places, pressing social causes. The work of examination and treatment and management services in some hospitals still weak. The quality of education, especially University, vocational conversion slowly, not really tied to social needs. The application of science and

technology, develop the market difficulties, little business numbers, small scale. Moral degradation status, lifestyle slowly be overcome. Tackling housing and cultural institution for the workers in the industrial area of focus is also difficult. Not yet attract the economic sectors involved in social housing development. Happens many children suffering injury, drowning. Information communication management also has many inadequacies in the operation of the press.

6) Natural disasters, climate change damage. Environmental pollution took place in many places, the quality of the environment degradation, slowly improved. The work to grasp the situation, to detect, handle environmental infringement not yet timely. Environmental impact assessment for many investment projects also form; check, monitoring the enforcement of remaining weak. Happens many unauthorized deforestation. Flood situation serious happens in Ho Chi Minh City and Hanoi.

7) Discipline in the Administration and in society was not strictly. Abilities, qualities of a division officer, public servants have yet to meet the requirements. Sorting apparatus, downsizing is still slow. Coordination between ministries, local lack of rigor. A number of legal provisions did not ensure the flaws, the feasibility. Implementation and enforcement of policies, law many weaknesses, inadequacies. The construction of the electronic government is slow; information technology application in State agencies have not yet truly powerful. Inspection, testing, monitoring and criticizing the high efficient society. Corruption and waste are also serious.

8) The struggle to protect national sovereignty, Foreign Affairs and international integration difficult, challenge. Crime situation, social safety and order on a number of areas, complications. Happens many criminal cases, against the person on duty and traffic accidents, serious fire. Ensuring security, secure information network has many limitations. Preparation work, prediction, impact assessment and response to the challenge of integration available yet.

Generally, despite the many difficulties, limited but socio-economic situation of our country continue turning positive, fairly comprehensive results achieved on most of the field. Macro-economic stability, inflation under control; production continues to grow; restructuring the economy achieved a number of results; private sector investment in strong transformation; the belief of the society and the market rises. The major economic center, continued to promote the role of head growth train, making motivation development of the region and the country; many local forces reached the slaves were difficult.

Culture, social progress; social security is guaranteed; the material and spiritual life of the people be improved. Resource management, environmental protection and response to climate change is focused. Administrative reform, investment and business environment, competitiveness improvement. The prevention of corruption and waste are drastic steering. Defense, security is enhanced, hold strategic initiative and national sovereignty. Foreign Affairs and international integration achieved many results.

## **V.2 Main targets, missions and solutions for socio-economic development in 2017**

The situation of the world in 2017 is quit complicated; the world economy can grow higher in 2016 but the recovery remains slow, uneven and there are lots of risks. Some basic commodity such as prices and crude oil remained at a low level. Strategic competition between the big countries in the region raged. East Sea situation continues tense, unpredictable. Besides the advantages, Vietnam still have many limitations and weakness. Productivity, quality, efficiency, competitiveness remains low while the world is entering the fourth industrial revolution. The implementation of the agenda of the United Nations by 2030 on sustainable development and the implementation of the commitments of international integration, especially the new

generation FTA agreement opens favorable opportunities but also poses difficult challenges. Strengthening national defense needs, security, protecting national sovereignty and respond to very large climate change while resources remain limited.

### **V.2.1. Overall targets and main targets**

#### **1) Overall targets**

Ensuring macro-economic stability, create distinct shifts in implementation of 3 strategic breakthroughs in economic restructuring, tied to a new growth model change, improve productivity, quality, efficiency and competitiveness, encouraging entrepreneurship, business development, promoting growth. Enhance the self-reliance of the economy. Ensuring social security and take care of people's lives. Developing cultural, democratic and progressive implementation, social justice. Actively respond to climate change, disaster prevention; strengthen the management of resources and environment protection. Continue to improve, improve the efficiency of law enforcement; speeding up administrative reform, strengthening discipline, discipline. Keep the initiative strategy, resolute, tenacious struggle firmly protected the independence, sovereignty, unity, territorial integrity; ensure national security, political stability and social safety, order. Improving the efficiency of diplomatic activities, integration, create a peaceful, stable environment for the development of the country.

#### **2) Main targets**

a) *Economics*: gross domestic product (GDP) increased by 6.7%; the consumer price increase rate by an average of about 4%; the total export turnover increase of 6-7%; deficit rate compared to the total export turnover of around 3.5%; Government excessive overdraft rate compared to GDP is not too 3.5%; the total development investment of the whole society about 31.5% of GDP; the rate of energy consumption per unit GDP fell 1.5%.

b) *About society*: the rate of poor households (according to the multidimensional approach to poverty) rising 1-1.5%, poor districts own falling 4%; the unemployment rate in urban areas to below 4%; labor rates through training reaches 55-57%, including training from 3 months or more have reached 22.5%; number of beds over a thousand inhabitants reached 25.5 beds (no bed clinics communes); the proportion of the population to join health insurance reached 82.2%.

c) *On environment*: the rate of industrial zones, export processing zones and the active waste-water treatment systems focus environmental standard 87%; the forest cover rate reaching 41.45%

### **V.2.2. Missions and solutions**

#### **1) Macro economic review, ensure the great balance of the economy**

Effective operating, closely coordinated between fiscal policy and monetary policy, controlling inflation as its objectives. Capacity forecasts and timely response to the upheaval in the country. Implement monetary policy flexible, proactive, effective; interest rate operating consistent with macroeconomic developments, inflation and currency markets; improving the quality of capital and ensure credit to the economy, especially in the priority areas (agricultural, rural, export, small and medium enterprises, industrial support, high-technology applications). Effective management of foreign exchange markets, gold; striving to increase the foreign reserves.

Implementation of fiscal policy tight-lock, squeeze the financial discipline – Government excessive. Focus lost prevention, transfer price, expanding the tax base, reducing the debt of the tax form. Thoroughly saves; Add the layout projects, task with ability to balance resources. Step by step implementation of securities administrative expenditure, tenders, orders, purchase order, charged with providing public services. Government excessive restructuring towards gradually increasing the proportion of domestic revenue, the proportion of investment

expenditure and diminishing proportion of the genus regularly, guarantee to pay the debt. Striving to reduce Government excessive spending. Enhance the management and effective use of public debt; focus testing, monitoring of loan use, loan is about lending again, fix bad loans increased costs due to slow progress and limit the maximum level of guarantee.

Promote mobilization of resources for investment and development, including research, enacting appropriate policy mechanisms to mobilize foreign currency and gold resources in society. Strengthen management, investment monitoring, loss prevention, waste. The strong attraction of external investment in the State, including the area of FDI participated in development of infrastructure; perfecting the mechanism of supervision, management, and policy costs, ensure public transparency. Stable development and improve the performance of the stock market, bonds, real estate.

Innovation and improving the quality of the work of forecasting the markets, boost trade promotion, market expansion associated with the branding of every Vietnam, participating in production networks and value chains, the global zone. Review, simplify import and export procedures, the effective implementation of a national door mechanism, strengthen interdisciplinary examination, check money to move from late check out, reducing time and costs in the spirit of resolution 19 of the Government. Support proactive business integration, the ASEAN community effective participation and the free trade agreement (FTA). Retail systems development, associated with the production for domestic consumption. Strengthen market management, prevention of smuggling, trade fraud, multi-level sales scam, black credit. Continue to implement the agenda of market prices for medical services, education... in association with, the policy object support poor households.

## **2) Focus on the difficulty, improve the investment environment, promote business growth**

To further improve the mechanism, policy and legislation planning, business investment. The National Assembly of the law project to support small and medium enterprises; amend bylaws guarantee credit and credit guarantee Fund for small and medium businesses. The effective implementation of law amendments and supplements to some articles of the Law relating to investment, business when it was passed by Congress.

Specific goal for each Ministry, local branches, created upheaval in implementation of resolution 19 on improving investment environment, enhance business competitiveness. Strengthening the checking, monitoring implementation, especially on simplifying administrative procedures, promoting the application of information technology, provide public services online, creating maximum favorable for people, business. Striving for 2017 reached the norms of minimal business environment by the average of the ASEAN-4.

Timely remove difficulties and obstacles, remove barriers, developing strong business, promote entrepreneurship, innovation in the spirit of resolution 35 of the Government. Attracting investment of multinational corporations associated with business development in the country and industry support. Business development of science and technology; improve the performance of the Fund, market development of science and technology associated with the protection of intellectual property rights.

Effective implementation of preferential policies, especially tax, credit, land, human resources to support the production and business, encouraging high-technology applications, support industry, agriculture, production and processing of agricultural product consumption. Promote development of new-type cooperative and economic models of effective cooperation.

## **3) Economic restructuring in a substantive way, associated with converting the pattern of growth, improving productivity, quality, efficiency and competitiveness**

Resolution of some central policies, large solution innovation model of growth, improving productivity, quality, efficiency and competitiveness. Promulgation and implementation of the project of the overall restructuring of the economy and the industry restructuring schemes, areas of the 2016-2020 period. The effective implementation of

the programs of the national science and technology; striving of enterprises technology innovation rose 15%, of which 5% business high-tech applications. Focus on achieving results more pronounced the industry, potential field, strengths such as agriculture, tourism, information technology.

Implementation of the medium-term public investment plan, focus capital for infrastructure development projects in key, create the advent and development of connections. Continue processing standing debt capital layout construction and Government excessive advance repayment. Improve technical level of economic investment in basic construction, had immediate solution, apply now to save the capital. Preparing the project, Long Thanh International Airport. Follow the progress of some sections of the North-South highways and important sections on the coastal route. Improve the feasibility study report of the railway North-South high speed.

Enact and implement effective projects to restructure the system of the credit institution associated with the handling of bad debt the 2016-2020 period. To further improve the legal framework, especially on the handling of mortgage assets, promoting the sale of the debt market, determine full, basic processing, further bad debt and weak commercial banks; reduce cross-ownership status of the credit institution, ensure the security of the system. Encourage mobilization of capital through the stock market, innovative and quality enhanced market surveillance; merging 2 transaction and improve the quality of securities services.

Implementing the overall plan SOE restructuring the 2016-2020 period. Speeding up privatization, which according to the market mechanism. Established professional bodies responsible for representing the State capital owners in the business.

Administrative capacity, the effective operation of the SOE equalization, when to register, listing on the stock market. For the SOE losses stretching, take the equity that cannot be dismantled then review, sell or bankrupt under the provisions of the law. Promote alignment, increase the efficiency of activities of agricultural, forestry company. Build and execute the plan delivered the autonomy for the 2016-2020 period public; promoting socialized public services, privatization of the public units are eligible, uncompromising downsizing and reductions from Government excessive, clearly defined the responsibility of the head of State management bodies and business units. Made public, transparency in SOE restructuring and business units, against losses, negative, group benefits, especially in determining the value of land use right or land rent, to calculate the value of the business.

Focused on agricultural restructuring associated with the implementation of national target programs to build new countryside the 2016-2020 period. Have appropriate policies to encourage agrarian accumulation associated with restructuring rural labor. The effective implementation of the plan, the Department of Agriculture high-tech applications. Strong business investment attraction into agriculture, rural; encouraged to apply high technology, biotechnology; replicate the efficient production model, associated production value chain, ensuring food security, adaptation to climate change. Enhance the mobilization of resources, debt relief form the new rural construction. Back to the land and planning the structure of production in the region suffered droughts, saline intrusion. Strengthen seed quality control, agricultural materials; inspections, food safety inspection; correct monitoring systems and quality control. Rice exporting consistent operating, ensure food security and export balance. Implement strictly the policy of closed natural forests. Development of the marine economy, fishermen caught offshore, people living on the island tied to protect national sovereignty.

Promoting the processing industry, construction, industrial electronics, industrial support, information technology, biology, environment; focus on products with competitive advantages, is likely to join the network of production and global value chains. Encourage technological innovation and application of scientific and technological progress and development of renewable energy. Priority to attracting investment projects using high technology, environment-friendly; standardized energy consumption for some basic industry.

Difficulty focusing, developing the service industry with technology, high value. Building strategy service exports to 2030; strengthening integration, enhance competitiveness, promote service exports. Implement effective tourism development solutions became the spearhead economic sector; focus improving the quality of the service,

simplify the immigration procedures, ensuring security safe for visitors. Deploy pilot electronic visa from early 2017 after Congress allowed.

#### **4) Develop cultural, social, taking care of people**

Continue to improve and implement effective policies to people; the Organization of the activities celebrating 70 years on invalids and martyr; interested in home support, search, the episode remains, identifies the martyr. Actively implementing the goal of sustainable poverty reduction national multidimensional standards and program goals of social security; resource priority regional development difficult, the border Islands, ethnic minority regions. The Congress revised the law project, the addition of some articles of the labor code. Development of the labor market, improving the quality of vocational training. Perfecting the system of social insurance, social assistance. Implement strictly the regulations on safety, hygiene and labor. Strengthen the management of foreign workers in Vietnam. Attach importance to the prevention of social evils. Boost capital mobilization channels, social housing development.

Improving the quality of medical examination and treatment; strengthening of preventive medicine, a strong innovation base medical work, make good health care role. Urgently complete some Central Hospital and the last line. Promoting socialized health development, in addition to public and private public partnership in clinical practice. Accelerate implementation of citizen health insurance tied to support suitable for policy objects, poor; overcoming the abuse of medical insurance. Strengthening accountability and improving the efficiency of the State management of the local authorities on food safety, Australia pushed the food chain safe. Handle the business, using chemicals, especially in the production and processing of agricultural products. Promote communication and implementation of the solution for sustainable population development, reduce gender imbalance at birth.

Continue to implement innovative programs, educational textbooks; comprehensive capacity development, physical, personality, lifestyle, ethics for students, students. Reviewing, improving network planning and training institutions; improving the quality of teachers and education managers. Have reasonable financial mechanisms, ensuring universal education. Continue to improve and implement effective policies to support the development of education and training for the regions in difficulty and the policy object. Encourage socialization development of high-quality schools. Improving the quality of teaching and learning of foreign languages, especially English. Associated with scientific research, training, technology transfer, career. Promoting quality education. Enhance delivery of autonomy, responsible for higher education institutions, vocational education; development of high-quality human resources; promote vocational training for rural workers.

Encourage strong research, innovation; market development of science and technology. Build and implement the strategy of national intellectual. Promoting links and cooperation between research institutions and enterprises, the enterprises are central to innovation, creativity.

Enhance the effective use of scientific research funding and operation of the public science and Technology Fund. Attach importance to the training of workforce development, science and technology advanced.

The effective implementation of the resolution of the Central Government on building and development of human culture, Vietnam; conservation, promote the value of cultural heritage; focus stop moral degradation. Active international exchange and cooperation, promoting the culture of Vietnam and receiving can selectively refined cultural world. Promote implementation of the movement of the whole people unite to build the cultural life in residential areas and in the new rural construction. Interested in sports development, fostering young talent. Attach importance to the work of the elderly, the disabled, families, women, children, adolescents. Improve the policy on religious beliefs and support for ethnic minority.



## **5) Actively respond to climate change, disaster prevention, environmental protection, enhance resource management**

Continue reviewing, improving legislation, policy, mechanisms, resource management, environmental protection and response to climate change. Updated scenarios of climate change, capacity forecasts, alerts and proactive prevention, mitigation of natural disasters, drought, saltwater intrusion, priority areas affected severely. Effective implementation of international commitments COP-21 by the United Nations.

Improve planning and strengthening management, efficient use of resources, minerals. Regulated land use. Harness, efficient use of water resources; the study of construction strategy of water security; active international cooperation in the sustainable use of water resources across the country. Resolutely prevent illegal extraction condition of the type of resources, minerals.

Fiercely protect the environment; construction of the observation of the environment, water resources, and resources, the marine environment. Implement strictly the regulations on the protection and development of forests; the conservation of biological diversity. Focus improving the quality of the environment, the handling of pollution, especially in the villages, urban, economic, industrial, residential, rural focus, the basin of rivers, lakes, coastal regions, the production base is at risk of heavy polluters. Tight control of environmental impact evaluation, not licensed for polluting projects. Strengthen inspection, checking and control ensure compliance with rules on management, use of resources, protecting the environment; serious, timely handling of the breach.

## **6) Build up effective administrative background and discipline**

To further improve institutional, enhance the quality of building laws and ordinances and documents detailing, instructions executed, not to owe. Focus on building the administrative professional background. Simplify procedures, enhancing publicity, transparency, improved processes, shorten the time, reducing costs; replicate the administrative centre model focuses at the local qualifying. Promote the application of information technology, building e-Government. Formation mechanism of interaction between the Government, the industry, the industry level through the electronic portal. Finishing, renovation work rules, assigned to articulate the mission, overcome Dodge, shifting the responsibility. Strengthening discipline discipline, creating powerful shifts in the direction of the superior administrative departments and the head of the agency or unit. The Organization implemented the Central resolution 4 (XII) of the corrective Party, construction; prevent, repel the degradation of political ideology, ethics, lifestyle, the expression "happenings", "self" internally.

Reviewing, complete functions, missions, organization of the State administrative apparatus. Strengthen the inspection, the inspection service, handle noise interference, negative behavior, violation of the law. Innovating the management and implementation of personnel policies. Resolutely implement Payroll under resolution 39 of the Politburo; for the State administrative system will decline 1.5% (corresponding to 3,868 inhabitants) in the total payroll according to the decision of the Prime Minister.

Promote the practice of saving, against waste in Government and in society as a whole. Enhance inspection efficiency, focusing on the areas of ease negative arises, of corruption. Detect, handle the corrupt, centralized processing of large lawsuits, social concerns. Improve the effectiveness of the Ombudsman, the complaints, accusations. Doing well the work of citizens, receiving and processing the petitions of the people and enterprises.

## **7) Maintain independence, sovereignty, political security, social safety**

Implementing effective defense strategies in the new situation. Enhancing the potential and development of the defense industry, security. Strengthening national defense posture the entire population, the people's security. Economic development combined with defense, security, especially in the border region, Islands. Ready response, timely, effective remedy incidents, natural disasters and rescue, rescue. Boost defense, security, foreign, participating in the peacekeeping force of the United Nations.

Resolute, persevering struggle to protect the sovereignty and national interests. Monitors the situation in the South China Sea, the initiative has the proper solution, asking the parties to respect the diplomatic process, legal, compliance with international laws, the UN Convention on the law of the sea of 1982, the full implementation of the DOC and promote soon reached the COC. Striving for substantive results in solving the problems of the border, the territory.

Maintaining political security, social order and safety. Proactively prevent, fight, preventing timely plot, operation of insurgents hostile forces, reactionary. Not to be surprise, in every situation. Promote crime prevention. Deploy, sync solutions ensure order, road safety associated with rigorous management of urban planning in Hanoi and Ho Chi Minh City, striving to reduce traffic jams, accidents on all three criteria; strengthening the prevention of fire and explosion.

#### **8) Improve the efficiency of foreign and international integration**

Actively deepen, more substantive relations with countries and partners. Actively participate in the ASEAN community, well organized APEC Summit 2017. Resolution of the Central Government on the effective implementation of the process of international economic integration, maintaining socio-political stability. Proactively accelerate the preparation work done FTA with the EU, the TPP agreement. Improving commercial dispute resolution, international investment. Doing well the work of the overseas Vietnam, protection of civilians, especially fishermen. Create all favorable conditions to the overseas Vietnam join, contribute more effectively to the development of the country.

#### **9) Promote media information, create social consensus**

Strengthen State management of media information. Rigorous regulation spokesperson and provides information on the socio-economic situation, advocates, legal policy of the party and State, Executive Director of the Government, ministries, local and social issues of concern. Focused advocacy to build a healthy society, living and working under the Constitution, the law. Demonstration, rewarding timely and processed strictly in press operations. Guarantee safety, security information network.

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