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The Impact of Vietnam's Tax Incentives on the Attractiveness of Foreign Investment Based on the Investment Environment

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Abstract: Vietnam has recently become a major draw for foreign investment, especially from Chinese firms. This can be attributed to its booming economy, strategic location, and increasingly favorable investment policies. This analysis explores how Vietnam's tax incentives enhance its appeal to foreign investors, focusing on the varied regional and industry-specific effects of corporate income tax incentives. Research reveals Vietnam has significantly boosted its attractiveness to foreign investment by steadily lowering corporate income tax rates—from 25%-45% in the 1990s to a flat 20% by 2016. It also implemented differentiated incentives, including a 10% tax rate in economic zones, along with periods of tax exemption and reduction. At the regional level, tax incentives in economic zones, high-tech parks, and less developed areas have effectively guided Foreign Direct Investment (FDI). However, the impact of these policies has waned in more established regions like Ho Chi Minh City. Across industries, targeted tax exemptions and reductions in high-tech, environmental protection, and infrastructure sectors have successfully spurred industrial advancement. Nonetheless, challenges such as intricate tax regulations, varying local interpretations, and global tax reforms like the OECD global minimum tax introduce compliance risks and policy uncertainties. This research empirically confirms a positive link between tax incentives and inflows of foreign investment, as well as Gross Regional Domestic Product (GRDP). It also highlights the critical need to dynamically balance policy benefits and associated risks. This study offers a theoretical framework for foreign enterprises

to refine their investment strategies in Vietnam. It also provides valuable insights for other Southeast Asian nations developing competitive tax policies.

Keywords: Vietnam's tax Preferential Policies; Foreign Direct Investment; Gross Regional Domestic Product

1.Introduction

In recent years, Vietnam has emerged as a significant destination for international investment, attracting enterprises from China and other nations. This trend is fueled by its robust economic growth, advantageous geographical position, and continuously refined investment policies. As one of Southeast Asia's fastest-growing economies, Vietnam actively seeks foreign capital to advance industrial modernization and economic diversification, employing various tax incentives and reforms to its investment climate. Premier Li Qiang's October 2024 visit to Vietnam, a fellow socialist nation, highlighted the importance of forging a shared future and deepening comprehensive cooperation. Both countries are committed to advancing the Belt and Road Initiative and strengthening practical cooperation across sectors like electricity, minerals, trade, and infrastructure. Despite existing bilateral agreements that offer legal safeguards and tax benefits for investment, and growing economic ties facilitated by the Belt and Road Initiative and the Regional Comprehensive Economic Partnership (RCEP), a detailed analysis of specific tax incentives and diverse investment environments remains essential. This is crucial for identifying potential impediments to regional economic collaboration. Vietnam, as a developing nation, offers an investment environment that couples competitive labor costs with policy stability. Its tax framework provides multi-tiered and multi-sectoral incentives for foreign businesses, while also adapting to shifts in international policy. The Vietnamese government has implemented a range of proactive measures to draw foreign investment, including corporate income tax incentives, import duty exemptions, VAT benefits, and specialized support for particular industries and special economic zones. Notably, high-technology, manufacturing, infrastructure development, and renewable energy sectors benefit from more attractive tax incentives, such as multi-year income tax exemptions and preferential rates. Furthermore, numerous special economic zones and industrial parks have been established to streamline administrative processes, enhance the business environment, and provide foreign investors with more competitive conditions. For investors, the interplay between taxation and the investment environment, and between taxation and foreign investment, directly impacts business profitability and tax burden. It also indirectly shapes a country's investment appeal and economic competitiveness. Therefore, a thorough understanding of Vietnam's tax incentives, industry support mechanisms, and the broader investment landscape is vital for businesses looking to expand into the Vietnamese market.

2.Literature Review

2.1.Tax and Investment Environment

The investment environment is intrinsically intertwined with the broader economic environment, within which taxation emerges as a pivotal determinant. The inherent attractiveness of a nation's tax milieu functions as a paramount impetus for developing economies seeking to draw foreign investment. This study empirically demonstrates a statistically significant positive correlation between the allure of the tax environment and the subsequent inflows of foreign direct investment. Furthermore, the provision of tax incentives alongside the establishment of a low-tax burden environment demonstrably enhances the decision-making preferences of prospective foreign investors. Concurrently, institutional quality assumes a crucial regulative function within this intricate process. An efficiently operating institutional framework, characterized by elements such as transparent and standardized tax administration practices, not only directly augments the inherent appeal of the tax environment to foreign capital but also fortifies the aforementioned positive association between the tax environment and foreign investment inflows. This reinforcement is achieved through the optimization of tax policy implementation efficiency and a concomitant reduction in associated transaction costs. Subsequent empirical inquiries further underscore that the synergistic effect derived from the confluence of robust institutional quality and a conducive tax environment exerts a substantial promotional influence on foreign investment. This finding suggests that developing nations ought to strategically prioritize enhancements to their institutional quality while simultaneously endeavoring to mitigate the overall tax burden, thereby cultivating an investment environment distinguished by a "low tax burden and high efficiency." (Xu et al .2022). Inter-regional tax competition exerts an indirect but discernible influence on economic growth through the mechanism of enhanced trade openness. On one hand, the dynamics of tax competition contribute to an escalation in regional trade openness, primarily via mechanisms such as the reduction of corporate tax burdens and the systematic optimization of the overarching business environment. On the other hand, an elevated level of trade openness can, in turn, serve as a significant catalyst for regional economic expansion(Cheng et al.2023) . Vietnam as a salient exemplar of a developing country possessing an undeniably attractive investment environment. However, this appeal is tempered by the potential threat to investment security posed by complex tax procedures and intricate tax filing requirements. While the inherent allure of tax incentives remains high, their often convoluted and abstruse terms can present considerable impediments to businesses during the practical application phase (Wu et al.2022). Distinct industries exhibit varying degrees of sensitivity to the host country's tax environment. Specifically, the wholesale and retail sectors demonstrate a heightened responsiveness to the efficiency and transparency characterizing the host country's tax administration. Conversely, the manufacturing sector displays greater sensitivity to the inherent complexity of the host country's tax system(Zhuang et al.2020). Tax risk system inherent in "Belt and Road" investments. Their analysis delineates a four-dimensional taxonomy of tax risks prevalent within the cross-border investment landscape. These encompass: compliance risks stemming from the inherent disparities in tax systems across different jurisdictions; adjustment risks triggered by the restructuring of transfer pricing rules under the BEPS framework; double taxation risks arising from conflicts in tax jurisdiction; and compliance risks associated with the practical implementation of tax incentive policies. Collectively, these identifiable risk factors constitute the aggregate of tax variables that exert a material influence on the stability and predictability of the investment environment(Li et al.2018).

2.2.Tax and Foreign Investment

Tax policies act as a crucial tool for governments to regulate economies. They significantly influence Foreign Direct Investment (FDI), impacting where investments are located, their overall scale, and how industries are distributed. Income tax policies profoundly affect foreign investors' strategies. When other investment conditions are equal, income tax incentives effectively guide foreign investment. These policies also considerably shape the total volume, structure, and quality of FDI(Han et al.2011). Businesses engaged in cross-border investments must systematically manage tax risks. This involves closely monitoring changes in the international tax environment throughout the entire investment lifecycle, from initial decision-making and ongoing operations to eventual exit(Wang et al.2012). Initiatives like the Belt and Road Initiative expose businesses to risks such as anti-tax avoidance investigations, double taxation, and disputes due to differing tax systems and information asymmetry among participating countries. Even though China has signed tax treaties with most nations, businesses often fail to fully benefit from preferential treatment, which in turn increases the tax burden of "going global."(Zhao et al.2016). External risks, including the instability of host country tax systems and a lack of competitiveness in domestic tax systems. Internally, weak risk awareness and the absence of robust risk management systems exacerbate vulnerabilities for investors. In essence, tax policies not only guide investment decisions through costs and incentives, but their complexity and enforcement effectiveness also become critical factors determining the safety of cross-border investments(Liu et al.2022). The impact of FDI on the economic growth of Vietnam's coastal economic zones. This analysis summarized the unique challenges these zones face. While FDI inflows have reached historical highs in these areas, their "spillover effects and value-added" remain limited. Stakeholders and the public often perceive that FDI has not met expectations, despite achieving significant success in attracting it(Ruan et al.2023).

3.Tax-based analysis of Vietnam's appeal for foreign investment and environment

Vietnam has significantly improved its investment landscape, becoming more attractive to foreign investors. This success largely stems from systematic adjustments to its corporate income tax policy, a core tax category that directly impacts businesses' profits after tax. Vietnam's dynamic tax rate adjustments and innovative incentive designs have become key tools for drawing foreign capital. Since the 1990s, Vietnam's corporate income tax rate has steadily dropped from a high of 25%-45%, settling at a unified 20% in 2016. This rate, now below the regional average, has significantly boosted its international competitiveness. The country has also implemented differentiated tax rates, tax holidays, and regional preferential policies, like exemptions in economic zones, to make these incentives even more targeted. In 2024, Vietnam proactively adapted its strategy to address the challenge of the OECD's global minimum tax rate of 15%. This involved shifting towards non-tax incentives, such as zero land rent and R&D subsidies. This approach helps Vietnam maintain its appeal to foreign investment while avoiding international compliance risks, showcasing a deep alignment between its tax policy and the overall investment environment. Simultaneously, Vietnam has strengthened cross-border tax source supervision by revising its Tax Administration Law, for example, by requiring foreign e-commerce companies to register and pay taxes directly. This ensures tax sovereignty while optimizing the business environment and enhancing policy transparency and predictability. Details of this reform process are available in Table 1. From an accounting perspective, Vietnam follows Accounting Standard No. 17 for recognizing deferred tax assets and liabilities. This allows companies to use policies like tax loss carryforwards to smooth their tax burdens, indirectly bolstering the financial stability of long-term investments. Vietnam's tax system, which applies global taxation for resident enterprises and territorial taxation for non-resident enterprises, balances tax fairness with the goal of incentivizing foreign investment. Vietnam's experience demonstrates that continuously optimizing corporate income tax incentives, through rate reductions and differentiated exemptions, combined with innovative non-tax incentives, can effectively enhance a host country's investment environment competitiveness. Moving forward, dynamically adjusting policy tools amid global tax reforms will be a crucial challenge for developing countries seeking to attract foreign investment.

Table 1. The Evolution of Corporate Income Tax Reform in Vietnam

Year	Tax Rate/Adjustment Details	Main Policy Context/Impact
1990s	25% to 45% progressive tax rates	Initial establishment of the corporate income tax system, adopting a progressive tax structure
1997	Establishment of a systematic tax regime	Standardized the corporate tax collection system, refined taxation rules
2004	Reduced to 28%	First significant reduction in the unified tax rate to attract foreign investment and boost economic development
2009	Lowered to 25%	Response to the global financial crisis, aimed at enhancing business vitality
2014	Reduced to 22%	Further optimization of the business environment, supporting SME development
2016	Unified standard rate of 20%	Significant improvement in international competitiveness, approaching regional low-tax levels
Post-2016	Introduction of differentiated rates and regional tax incentives	Targeted incentives for specific industries (e.g., high-tech, environmental protection), special economic zones, or remote areas
2024	Response to OECD global minimum tax (15%)	Avoided international tax competition, maintained foreign investment appeal, compensated for narrowed tax incentive space through non-tax measures

Note: Data source:(Ministry of Planning and Investment of Vietnam)

3.1.Implicit investment environment risks under tax policies

While Vietnam's tax incentives and investment environment are attractive, it's crucial to acknowledge the associated investment risks related to taxation. One significant challenge involves information reporting risks. Vietnamese regulations mandate that companies provide precise and comprehensive financial data, including annual financial statements. Yet, in practice, inadequate or delayed internal audits can lead to non-compliance issues regarding information disclosure. Companies also face tax filing risks. Although close collaboration with tax authorities is necessary, the substantial discretionary power tax authorities hold over tax provisions can result in differing interpretations of the same tax matter, increasing filing uncertainty. A third area of concern is tax treaty application risk. Vietnam is party to numerous free trade agreements and bilateral tax treaties, such as the Regional Comprehensive Economic Partnership Agreement. However, local tax authorities' discretionary authority in interpreting and applying these treaty provisions can impact a company's ability to fully enjoy intended treaty benefits. Furthermore, tax penalty risks are a real threat. Vietnam can impose fines for non-compliant filings, incomplete information, or untimely submissions. The severity of these penalties, which may include late payment fees, additional taxes, or even litigation, escalates with the severity of the violation. For foreign contractors, limited tax incentives for non-resident enterprises can also drive up tax costs. Finally, Vietnam places considerable emphasis on related-party transactions and transfer pricing. Companies must report these promptly and provide ample supporting documentation. The country strictly enforces transfer pricing rules on multinational enterprises, conducting frequent audits, particularly targeting those receiving tax incentives. This increases compliance costs and review risks for businesses. In summary, as a rapidly developing nation, Vietnam faces growing tax-related risks and complexities. Despite this, Vietnam's tax system is increasingly internationalized. Its numerous bilateral tax treaties effectively reduce the risk of double taxation for cross-border investments, ultimately creating a more favorable investment environment for foreign capital.

3.2.The Impact of Corporate Income Tax Policies on Investment Regions

Vietnam has systematically categorized its zones for corporate income tax preferences. These divisions are based on a multifaceted set of criteria, which includes geographical location, strategic functional orientation, the local level of socioeconomic development, and the designated policy function of each area. The four primary categories are: economic zones (which encompass general gateway economic zones), high-tech zones, industrial zones, and export processing zones. Each of these zones is associated with a specific framework of tax incentives. Economic zones, for instance, are eligible for a preferential tax rate of 10%. This favorable rate is applicable over a substantial 15-year period. In addition to the reduced rate, these zones benefit from a four-year period of complete tax exemption, which is then followed by a nine-year period during which a 50% tax reduction is applied. Similarly, high-tech zones are granted a comparable suite of policy supports. They too receive a preferential tax rate of 10% for a duration of 15 years. This is accompanied by an initial four-year period of full tax exemption, followed by a nine-year period where a 50% tax reduction is provided. For ordinary industrial zones, the incentive structure is calibrated differently. While these zones do not qualify for an additional preferential tax rate, they are still supported by a targeted exemption and reduction policy. This policy includes a two-year period of full tax exemption, followed by a five-year period with a 50% tax reduction. Further details regarding these incentive structures can be found in the accompanying Table 2, which provides a comprehensive overview of the policy specifics.

Table 2. Table of preferential policies for enterprise income tax in special areas

No	Description	Economic Zone (including General Gateway Economic Zone)	High-tech Zone	Industrial Zone	Export Processing Zone
1	CIT tax rate	10% within 15 years	10% within 15 years	20%	20%
2	CIT exemption period	Within 4 years	Within 4 years	Within 2 years	not
3	Reduce CIT duration	Halve within 9 years	Halve within 9 years	Halve within 5 years	not
4	Summarize	The CIT (Corporate Income Tax) rate becomes applicable from the first year of profit-making; CIT relief becomes applicable from the first year of taxable income. If there is no taxable income within the first three years, CIT relief starts from the fourth year.	The CIT (Corporate Income Tax) rate becomes applicable from the first year of profit-making; CIT relief becomes applicable from the first year of taxable income. If there is no taxable income within the first three years, CIT relief starts from the fourth year.	The CIT (Corporate Income Tax) relief begins to apply from the first year of obtaining taxable income. If there is no taxable income within the first three years, the CIT relief starts from the fourth year. However, enterprises listed in the economic and social advantage categories do not enjoy this benefit.	CIT exemption does not apply to all export processing zones, and it depends on the specific situation of the enterprise.

Source: "Tax Guide for Chinese Residents Investing in Vietnam"

Income tax exemptions are not applicable to all export processing zones and are determined based on the specific circumstances of each enterprise. Differentiated preferential measures for corporate income tax in different regions have created an open and vibrant investment environment with clear incentives and multi-directional development in each region, attracting foreign investors.

3.3.The impact of regional corporate income tax incentives on FDI

The most direct data to measure the attractiveness of Vietnam's corporate income tax incentives to foreign investors is foreign direct investment (FDI). FDI is regarded as an emerging and important resource for the country's socio-economic development. The contribution of FDI to Vietnam's economy has significantly increased, from 6.3% of GDP in 1995 to 20.1% in 2021, fully reflecting its growing importance. By analyzing the data on the total amount of new registered capital of FDI in eight major provinces and cities in Vietnam, namely Ho Chi Minh City, Binh Duong Province, Dong Nai Province, Hanoi City, Haiphong City, Tay Ninh Province, Ba Ria-Vung Tau Province, and Bac Giang Province, over the years from 2011 to 2024 (as shown in Figure 1), it is verified that corporate income tax preferential policies have a positive impact on attracting foreign investment to investment regions.

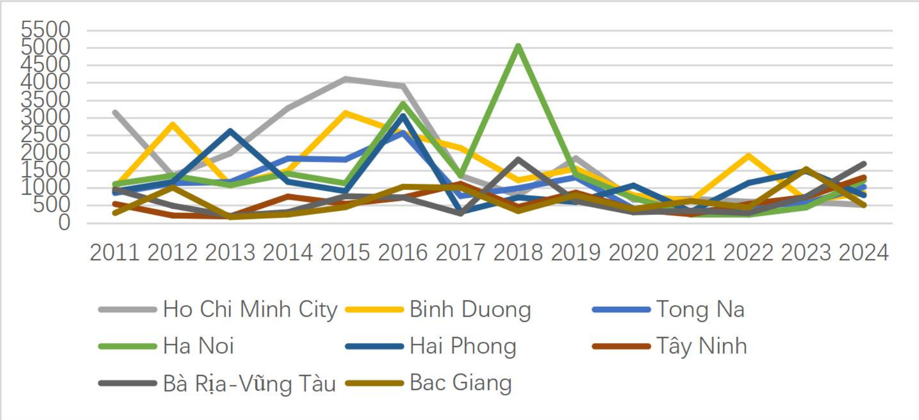

Figure 1. Changes in total new registered capital of foreign direct investment (millions of US dollars) in major provinces of Vietnam from 2011 to 2024
Source: Ministry of Planning and Investment of Vietnam
https://www.mpi.gov.vn/en/Pages/default.aspx

Based on FDI data, Ho Chi Minh City attracted a substantial amount of FDI at the beginning of the analysis period, reaching $3.1446 billion in 2011 and peaking at $4.1002 billion in 2015. However, starting from 2016, there was a noticeable and concerning downward trend in newly registered FDI capital, which plummeted to $1.3423 billion in 2017 and further decreased to $784.8 million in 2018. Although it rebounded briefly to $1.8413 billion in 2019, the downward trend persisted overall, reaching a low of $511.2 million by 2024. Despite being a leading economic center and having implemented policies specifically targeting high-tech and export-oriented industries with "the highest legal tax incentives" as early as 1992 and 2002, Ho Chi Minh City's newly registered FDI capital exhibited a sustained and significant decline in the latter half of the analysis period (2016-2024). This trend suggests that while tax incentives may be effective in the initial stages, they may not be sufficient to maintain a high growth rate of new FDI registrations in a mature urban economy. This implies that in mature and developed economic centers like Ho Chi Minh City, factors other than corporate income tax incentives may become more important in influencing new FDI decisions. These factors may include rising operating costs, such as land costs, labor wages, and overall business costs, which may be higher than those in emerging provinces. Additionally, existing industrial parks and high-tech parks may be nearing saturation, or other provinces (such as Binh Duong Province and Bac Giang Province) may be offering more competitive prices or newer parks that are attracting new investments.

Binh Duong Province has consistently demonstrated strong and generally high FDI figures throughout the analysis period. The province experienced significant FDI peaks in 2012 with $2.7984 billion, 2015 with $3.1286 billion, and 2016 with $2.5504 billion. Despite a temporary decline in 2020-2021, the province's FDI rebounded strongly in 2022, reaching $1.9091 billion, and maintained a good level of $843.4 million in 2024, indicating its continued attractiveness. Binh Duong Province's proactive, comprehensive, and sustained long-term preferential tax policies, especially the incentives reintroduced in 2021, appear to have greatly contributed to its ability to attract and retain significant FDI. The sustained high FDI figures, coupled with the strong rebound in 2022, directly confirm its long-term commitment to creating an attractive investment environment, further evidenced by its high industrial park occupancy rate of 94%. The timing of the policy updates in 2021 coincides with the strong rebound in FDI in 2022.

Dong Nai Province experienced a notable peak in FDI following the implementation of its proactive policies. FDI inflows reached $1.8327 billion in 2014 and $2.5623 billion in 2016. After 2016, however, there was a sharp and sustained decline in new registered capital, which dropped to significantly lower levels. FDI was $405 million in 2020 and $295.4 million in 2021. The initial FDI surge can be directly linked to the province's proactive measures in 2014, when it led the way in reducing the corporate tax rate for enterprises in industrial parks and introduced a "2+4" preferential period to attract foreign manufacturing investment. These policies had an immediate positive effect, accounting for the peaks seen in 2014 and 2016. A rebound in FDI was observed in 2024, with inflows reaching $1.025 billion. This resurgence highlights the impact of new incentives introduced by the Vietnamese government that year, which targeted investments in high-tech parks, including the Ho Lac High-Tech Park in Dong Nai Province.

Ha Noi's FDI data is highly volatile. While some years saw moderate FDI, a significant peak occurred in 2018, reaching an astonishing $5.0411 billion. Other strong years included 2016 with $3.390 billion and 2024 with $1.2116 billion. Conversely, FDI was notably lower from 2021 to 2023.As Vietnam's capital, Hanoi's FDI composition is heavily influenced by the large, single peak in 2018. This suggests that FDI inflows in Hanoi rely on attracting large, possibly one-time, high-value projects rather than consistent, widespread investments driven by general regional incentives. Data from that period shows several major projects contributed to the 2018 peak: Japan's Sumitomo Corporation invested in a smart city project, IT and manufacturing giant Samsung established its first large-scale R&D center, and the Lotte Group invested in a commercial entertainment complex.

Hai Phong City's FDI data showed significant peaks, reaching $2.6145 billion in 2013 and $3.0432 billion in 2016. After a downturn from 2017 to 2019, the city demonstrated a strong recovery. FDI rebounded to $1.0641 billion in 2020, continued to grow through 2022 and 2023, and reached a robust $1.4787 billion in 2023. In 2024, it stabilized at $787.2 million. Despite these fluctuations, Hai Phong's FDI performance consistently shows resilience and strong growth during critical periods. A key factor behind this success is the establishment and continuous expansion of its major economic zones, specifically the Dinh Vu-Khe Economic Zone in 2008 and the Southern Coastal Economic Zone in 2024. These zones are supported by preferential corporate income tax policies. This demonstrates a long-term commitment to creating a comprehensive and attractive investment environment that goes beyond simple tax incentives. The establishment of the Dinh Vu-Khe Economic Zone in 2008 directly contributed to the FDI surges observed in 2013 and 2016. Hai Phong's success in attracting and retaining FDI is the result of a comprehensive regional development strategy that combines regional corporate income tax incentives, clear industry priorities, and strategic geopolitical positioning.

FDI inflows into Xi Ning Province exhibited significant volatility during the analysis period. Although FDI volumes were relatively small in most years, there was a notable peak in 2017, reaching US$1.112 billion. This was followed by another high of S$860.2 million in 2019, and a new high of S$1.2938 billion in 2024. Xining Province is home to the Ling

Zhong Processing and Export Zone established in 2002, the Fudong Industrial Park established in 2008, the Mu Bai Border Economic Zone established in 2009, and several new industrial projects located in economically disadvantaged areas as defined in the revised 2014 Vietnamese Investment Law. Its FDI data showed significant peaks in 2017 and 2024, confirming the appeal of corporate income tax incentives in border economic zones and economically disadvantaged areas to specific types of investors. Xi Ning Province's corporate income tax incentives are implemented within the framework of national policies, leveraging its natural resource advantages to offer preferential treatment to different regions, proving effective in attracting specific types of foreign direct investment.

Bà Rịa-Vũng Tàu Province experienced generally low FDI from 2011 to 2017, with annual inflows typically below $500 million. A significant surge occurred in 2018, reaching $1.8035 billion, before declining to $621.3 million in 2019. FDI then dropped to lower levels from 2020 to 2022. However, it showed a strong rebound in 2023 and 2024, reaching $747.9 million and $1.6832 billion, respectively. The considerable fluctuations in FDI, particularly the peaks in 2018 and 2024, are closely tied to the province's tax policy changes. Prior to 2014, the province lacked tax preferential zones, which explains the generally low FDI during that period. In 2014, certain areas were designated as underdeveloped regions and industrial zones, allowing them to begin benefiting from regional corporate income tax incentives. This laid the groundwork for subsequent FDI growth. The proposed establishment of a free trade zone outside Cai Mep City in 2023, which aimed to attract investors through specific corporate income tax policies, provides a clear explanation for the strong FDI rebound seen in 2023 and 2024. This suggests that the province's FDI inflows are largely influenced by large, infrequent project registrations tied to new policy initiatives.

FDI inflows into Bac Giang Province have shown a significant upward trend, particularly in recent years. While FDI was relatively low in 2011 ($281.3 million) and 2013 ($164.3 million), the province experienced substantial growth in 2012 ($1.0072 billion), 2016 ($1.0285 billion), and 2017 ($1.0024 billion). Although there was a decline from 2018 to 2020, FDI rebounded to $621.8 million in 2021 and reached a peak of $1.5295 billion in 2023, demonstrating strong investor appeal. The significant growth, especially the 2023 peak, is directly linked to the corporate income tax incentives available to the province. Bac Giang is designated as a region with "difficult" or "particularly difficult" socioeconomic conditions, and these incentives aim to redirect investment toward underdeveloped areas to promote balanced regional development. The province has continuously established and expanded multiple industrial parks, such as the Ting Zhan Industrial Park (2003), the He Fu Industrial Park (2022), and the Yi Xing Industrial Park (approved in 2025). This provides the essential industrial infrastructure and cluster effects needed to attract FDI. In 2014, more areas were designated as difficult regions, further broadening the reach of these preferential policies.

Differentiated preferential measures for corporate income tax in different regions have created an open and vibrant investment environment with clear incentives and multi-directional development in each region.

3.4.The Impact of Regional Corporate Income Tax Preferences on GRDP

GRDP (Gross Regional Domestic Product) is a core indicator for measuring the economic scale and growth of a region, reflecting its industrial structure and economic vitality. Linking GRDP to regional corporate income tax incentives can achieve a closed-loop system of "economic indicators—policy tools—development outcomes." The GRDP data for representative regions in Vietnam from 2011 to 2023 is shown in Figure 2:

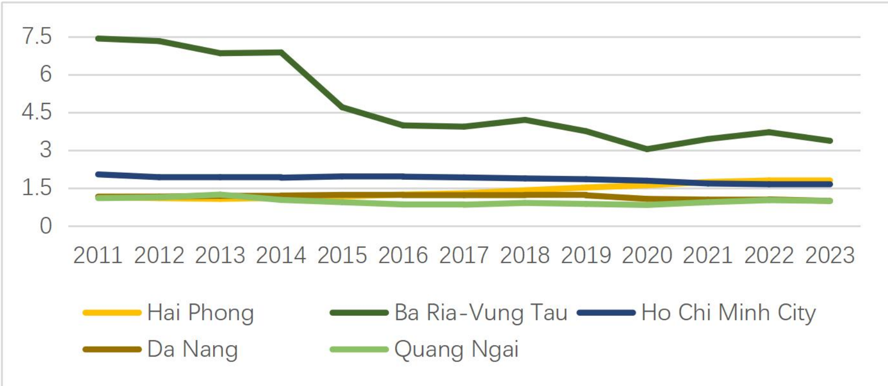

Figure 2. Comparison of Vietnam's per capita GRDP and national per capita GDP from 2011 to 2023

Source: Ministry of Planning and Investment of Vietnam

https://www.mpi.gov.vn/en/Pages/default.aspx

Ho Chi Minh City, a key economic hub in Vietnam, has historically maintained a high per capita GRDP relative to the national average. However, this figure has been declining, falling from 2.05 in 2011 to 1.67 in 2023. This indicates a slowdown in its relative growth. This trend highlights that tax incentives are becoming less effective in mature economic regions. Although Ho Chi Minh City's GRDP remains high, its slowing relative growth suggests that maintaining growth requires new strategies. These strategies must move beyond tax incentives and instead focus on broader, comprehensive measures and internal dynamics. Relying on policies that have worked in other, less-developed regions is no longer sufficient.

Hai Phong City has shown a strong and sustained upward trend in its per capita GRDP ratio, which grew from 1.15 in 2011 to 1.83 in 2023. This indicates that its economic growth has significantly surpassed the national average. Da Nang City, a comparable coastal city, initially had a higher per capita GRDP ratio. However, after 2016, the two cities' economic trajectories diverged. This is primarily because of Hai Phong's early and well-developed economic zones and associated tax incentives. For example, the Dinh Vu-Cat Hai Economic Zone was established as early as 2008. This was followed by the gradual development of deep-water ports and industrial zones. These economic zones typically receive the most favorable corporate income tax incentives. When combined with clear industrial priorities and strategic geopolitical positioning, these factors create a powerful synergistic effect. In contrast, Da Nang City faced delays in implementing its own regional corporate income tax incentives. Its most significant tax incentive—being designated as Vietnam's first Free Trade Zone (FTZ)—was only formally approved and established after 2024. Additionally, Da Nang's economy, renowned for its tourism and service industries, is more vulnerable to external shocks. Consequently, after 2016, Da Nang's GRDP trend did not keep pace with Hai Phong's. This was partly because its more attractive tax incentive measures had not yet fully taken effect and translated into economic output. Hai Phong's economic outperformance of

Da Nang is therefore a result of the combined effects of mature, long-standing economic zone tax incentives and well-developed infrastructure.

Bà Rịa-Vũng Tàu Province's per capita GRDP ratio, though initially high, has shown significant volatility and an overall downward trend during the analysis period. The fluctuations in the province's GRDP are closely tied to the fact that it only began benefiting from corporate income tax preferential zone policies in 2014. Before this, the province lacked clearly defined tax incentive zones. This policy delay hindered its ability to attract new economic activities and promote industrial diversification from 2011 to 2013.While the province had a high GRDP ratio of 7.43 in 2011, this was primarily due to its existing economic structure, which was dominated by traditional heavy industries like oil and gas. It was not the result of widespread, tax-incentive-driven investments in emerging industries. When these traditional industries faced structural changes or slowed growth, the absence of new, diversified economic drivers led to a significant decline in the GRDP ratio between 2015 and 2017.In 2014, the Vietnamese government designated certain areas of the province as underdeveloped regions and industrial zones. This allowed them to begin enjoying regional corporate income tax incentives, which laid the foundation for future economic growth. Although the GRDP continued to decline from 2015 to 2017, the GRDP ratio rebounded from 3.94% to 4.21% in 2018. This increase reflects a lag effect of the 2014 incentives, as new projects gradually came online and contributed to economic output after receiving investment. The rise of these new economic activities partially offset the negative impacts of restructuring the existing industrial base. The GRDP ratio for Bà Rịa-Vũng Tàu Province rebounded again in 2021 and 2022, reaching 3.45 and 3.72, respectively. The continued impact of the regional corporate income tax policy, combined with the proposed establishment of a free trade zone outside Cai Mep City in 2023, is expected to provide new momentum for GRDP growth. This forward-looking policy aims to attract more high-value-added and diversified economic activities, reducing the province's over-reliance on a few large projects and helping to gradually increase its share of the national per capita GRDP.

The per capita GRDP ratio for Quang Ninh Province initially approached the national average, reaching 1.11 in 2011. However, it remained relatively low in the following years, dropping to 0.84 in 2020 before recovering to 1.0 by 2023.In the early part of the analysis period, Quang Ninh was at a disadvantage. Other provinces with similar regional corporate income tax incentives but better resources, such as larger populations, more favorable geography, and a greater number of preferential zones, attracted more investment. In a move to promote balanced regional development and poverty alleviation, the Vietnamese government designated certain areas of Quang Ninh Province as "difficult" or "particularly difficult" socioeconomic regions in 2018 and 2020. This allowed these areas to benefit from the same special regional corporate income tax incentives as economic zones, leading to a gradual increase in GRDP to the national average. This demonstrates that regional corporate income tax incentives are a governmental tool used to achieve balanced regional development, poverty alleviation, and corporate investment promotion. For underdeveloped regions, comprehensive tax incentives and supporting measures are essential for overcoming development obstacles, attracting more corporate investment, and building a stronger economic foundation.

Vietnam's differentiated regional corporate income tax incentive framework has achieved certain results in promoting regional economic development, which is directly reflected in the growth and structural optimization of GRDP in various provinces, providing a reference for investors to choose different investment regions.

3.5.The impact of corporate income tax policies on investment industries

From an industry perspective, Vietnam's 2014 Investment Law and 2014 Enterprise Law, which were enacted and implemented as early as 2014, clearly prioritize tax incentives for specific sectors such as high-tech, environmental protection, infrastructure development, and agriculture-related projects. High-tech enterprises, environmental protection projects, infrastructure construction (such as water plants, power plants, roads, and ports), and software production enterprises are eligible for a preferential tax rate of 10% for 15 years, along with a four-year full exemption and a nine-year 50% reduction. Agricultural projects involving agricultural product processing, forestry, and aquaculture can enjoy a preferential tax rate of 15% throughout the project's validity period, while also receiving additional tax exemptions based on regional criteria. For details, please refer to Table 3.

Table 3. Preferential Corporate Income Tax Rates for Certain Industries in Vietnam

Industry/Project	Preferential Tax Rate	Tax-free Period	Tax Reduction Period
High-tech research and development, technological advancement	10% within 15 years	Within 4 years	Halve within 9 years
Software product production	10% within 15 years	Within 4 years	Halve within 9 years
People's Credit Fund, small and micro financial institutions	20%	Before 2025	Before 2025
Supporting industries for automobiles, electronics, and textiles	10%	Before 2025	undefined
Agricultural product processing, forestry, and aquatic products	15%	undefined	undefined
Extraction of oil and gas, as well as rare resources	32 %–50 %	undefined	undefined

Note: Data source: (Tax Guide for Chinese Residents Investing in Vietnam,2023)

Since 2020, Vietnam has continued to attract high-quality investment, promote industrial upgrading, and actively explore new incentive methods such as "green bonds" and "carbon credits" in the fields of high-tech, digital economy, green energy, and supply chain, by reducing corporate income tax rates, extending preferential periods, and adding deductions for research and development investment, in order to address the challenges brought by global tax reform and supply chain restructuring. By analyzing the data of new registered capital, capital increase, and total paid in capital of foreign direct investment in Vietnam's manufacturing and processing industry, traditional energy industry, real estate industry, agriculture, forestry, and fisheries, professional scientific and technological activities, mining and quarrying industry, finance, and banking industry over the years, as shown in Figure 3, we verify the impact of corporate income tax preferential policies on the attractiveness of foreign investment industries.

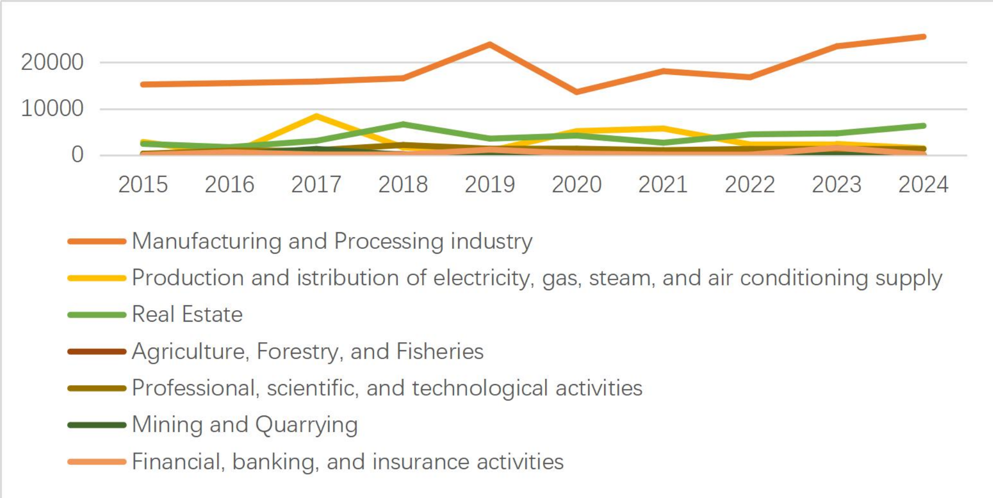

Figure 3. Total amount of newly registered capital, capital increase, and paid in capital of foreign direct investment (millions of US dollars)
Source: Ministry of Planning and Investment of Vietnam
https://www.mpi.gov.vn/en/Pages/default.aspx

The manufacturing and processing industry in Vietnam has shown strong growth, with FDI expanding from $152.3323 billion in 2015 to an estimated $255.7825 billion in 2024. The industry experienced a significant surge in 2019, reaching $23.9034 billion, but saw a decline to $13.60109 billion in 2020 due to the global pandemic. However, it demonstrated a strong recovery and sustained growth after 2020, reaching its highest recorded investment level in 2024.The continued dominance of manufacturing FDI and its rapid post-pandemic recovery are directly linked to Vietnam's long-standing incentives. These include a 10% preferential tax rate for projects involving priority industrial products, high-tech products, and investments in specific regions. This performance highlights Vietnam's fundamental appeal as a global manufacturing hub, driven by factors like competitive labor costs, a strategic geographical location, and consistent policy support, including tax incentives. This strategy has proven both effective and resilient to external pressures. The manufacturing and processing industry is a long-term strategic priority for Vietnam's industrialization and economic development. The sustained high level of FDI confirms that Vietnam has successfully solidified its key position in the global supply chain.

FDI in Vietnam's electricity, gas, steam, and air conditioning sector has been highly volatile. Investment patterns are characterized by large, intermittent projects rather than steady growth. Major peaks occurred in 2017 ($83.74065 billion) and 2020 ($51.42567 billion), followed by sharp declines. These surges correlate with Vietnam's 2020 Investment Law. Appendix II of this law explicitly lists "environmentally friendly energy sources such as new energy, clean energy, and renewable energy" as a "preferential investment business list." This change made these projects eligible for new tax incentives, significantly influencing investment patterns in the traditional energy industry.

The professional science and technology industry has demonstrated a strong and consistent upward trend in FDI. Investment grew significantly from $250.074 million in 2015 to $2.147414 billion in 2018. Since 2019, it has maintained a high investment level of over

$1 billion. The 2020 Investment Law played a key role by broadening the categories of incentivized projects to include corporate income tax incentives for specific high-tech and technology-supporting industries. This aligns with Vietnam's goal of transitioning its economy toward high-value, knowledge-based activities. As a result, even for a developing country, the professional science and technology industry ranks among the top sectors nationwide for FDI.

The mining and quarrying industry in Vietnam faces high tax rates, ranging from 32% to 50%. These rates indicate a clear government policy to discourage investment in this sector. This high taxation, combined with a lack of preferential policies, makes it difficult for the industry to attract FDI. This approach is part of a comprehensive strategic plan focused on resource conservation, ecological governance, industrial upgrading, fiscal revenue, and national sovereignty.

Compared to other major industries attracting FDI, the financial sector's investment scale is smaller and more volatile. In 2015, total FDI was a mere $1.123 million. However, Vietnam's 2014 Investment Law and its 2016 revisions made People's Credit Funds, cooperative banks, and microfinance institutions eligible for a 17% corporate income tax rate. This led to a significant increase in financial sector FDI, which reached $582.41 million in 2016. Without further policy changes or market access breakthroughs for the mainstream financial sector, FDI levels then dropped back down in 2017 and 2018.The proposal of the 2020 Investment Law in 2019 raised investor expectations for the financial sector, leading to a significant FDI peak of $1,144.019 million. However, from 2020 to 2022, the law's "List of Preferential Investment Activities" primarily focused on high-tech, R&D, and renewable energy, excluding traditional financial services from the most favorable categories. This redirected capital away from the financial sector, causing a sharp decline in FDI, which fell to just $57.701 million in 2022.A massive surge in FDI, reaching a record high of $1,555.888 million, occurred following the 2023 Insurance Operations Law. This new regulation allows foreign investors to hold 100% equity in Vietnamese insurance and reinsurance companies.

Vietnam's differentiated preferential policies for corporate income tax in different industries have successfully promoted the development of target industries, ensured that natural resource industries do not flow out, guaranteed the steady growth of core industries, and provided investors with a reference for investment industries.

4.Conclusion

Vietnam has created a comprehensive, multi-tiered investment incentive system using differentiated tax policies. Geographically, the country offers varying tax rates for economic zones, high-tech parks, and impoverished areas. This has established a tiered pattern of regional development. Industrially, it provides targeted tax exemptions for key sectors like high-tech, environmental protection, and infrastructure, which effectively steers foreign investment. This "regional and industrial" tax incentive framework significantly reduces initial costs for businesses, making Vietnam a more attractive investment destination within Southeast Asia.

At the same time, Vietnam's tax environment still faces structural contradictions: on the one hand, complex tax incentive provisions and local discretionary authority increase compliance costs for businesses; on the other hand, the combined effect of the global minimum tax policy implemented in 2024 and domestic tax incentives may weaken the incentive effect for certain industries. For investors, three key risks should be closely monitored: First, the risk of interpretative differences in the application of tax treaties; Second, compliance risks associated with transfer pricing reviews; and Third, stability risks in the implementation of regional preferential policies. It is recommended that businesses establish a three-pronged response mechanism combining “dynamic tax burden calculation + regional policy tracking + strengthened compliance management,” particularly under the RCEP framework, to fully leverage origin rules and tax treaty networks to optimize supply chain.

In summary, Vietnam's tax policies have a dual effect on foreign investment and the overall investment environment. On one hand, a multi-dimensional tax incentive system, which combines "region + industry" strategies, significantly lowers initial investment costs for foreign capital. This guides money toward strategic sectors like high-tech, new energy, and infrastructure. Furthermore, Vietnam leverages the tariff advantages of free trade agreements such as RCEP and CPTPP to boost the efficiency of its supply chains. On the other hand, changes in international tax rules—like the 15% global minimum tax rate and BEPS anti-tax avoidance provisions—along with adjustments to Vietnam's domestic policies, have increased compliance complexity. This has reduced the effectiveness of some traditional tax incentives, forcing foreign-invested companies to adopt strategies focused on "technology localization" and "compliance." Overall, Vietnam's tax incentives have created a vibrant and innovative investment environment, and the country remains a popular destination for foreign investment in the short term. For long-term success, however, Vietnam must balance adapting to international rules with maintaining the competitiveness of its domestic industries. Foreign-invested enterprises must also proactively plan their tax structures to navigate a landscape where both policy benefits and risks are present.

This article analyses Vietnam's tax incentive policies and investment environment, with a particular focus on corporate income tax incentives. It examines the differences in sensitivity to tax incentives in different sectors and regions in Vietnam. This can help foreign enterprises to understand the investment environment in Vietnam, reduce tax costs and policy risks, and optimize investment decisions. At the same time, as a representative country in Southeast Asia, this study can also provide insights for other countries in the region to develop more competitive tax policies. While this article focuses on corporate income tax, it does not analyses the impact of different taxes on the investment environment and foreign investment. Furthermore, economic policies are influenced by various factors, which is a limitation of this study. Therefore, further research could provide a more comprehensive analysis of the impact of different taxes on the investment environment and foreign investment in Vietnam.

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