



Vietnam

Compliance Risk Profile

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Summary

Vietnam is the 21st largest exporter and 21st largest importer in the world.¹ It is strategically located in the center of ASEAN, near major markets in Asia such as China, and has direct access to the South China Sea. It is estimated that \$3.5-5 trillion USD worth of global trade passes through the South China Sea every year.

The World Economic Forum's (WEF) Global Competitiveness Report (WEF GC Report)² ranks Vietnam at 67th out of 141 countries analyzed for overall economic competitiveness. According to the WEF GC Report some of the relative strengths of doing business in Vietnam include shareholder governance, energy regulations, airport and liner shipping connectivity, fiber internet, and internal labor mobility.² Some of the more problematic factors for doing business in Vietnam were incidence of corruption, IP protection, conflict of interest regulations, road infrastructure, air transport efficiency, vocational training quality, prevalence of non-tariff barriers, and labor tax rates.² While still considered areas of weakness, Vietnam has made some improvements in the rule of law, regulatory quality, government effectiveness, and bribery and corruption areas in recent years. Even with improvements, corruption remains a high-risk area for Vietnam due to its relatively inefficient government and weakness in the overall rule of law.

Multi-national companies operating in Vietnam should have strong local internal controls in-place as well as periodic monitoring and independent auditing to ensure compliance with Customs and anti-corruption laws.

General Country Information

Vietnam has a total population of 93.6 million² with a demographic composition of 85% Kinh (Viet), 1.9% Tay, 1.8% Thai, 1.5% Muong, 1.5% Khmer Krom, and 8.3% Other¹. Vietnam has two cities, Hanoi and Ho Chi Minh City, with more than a million people, 33 cities between 100,000 and 1 million, and 52 cities between 10,000 and 100,000 people.¹ Most of the population (66%) lives in rural areas.¹ The official language is Vietnamese and is the language spoken by a majority of the population¹. Vietnam has a GDP of \$220.4 Billion USD (\$2,354 USD per capita)² and it encompasses about 322,698 sq. km of land.¹

Governance and Regulatory

Legislation

The State Securities Commission of Vietnam launched the first Vietnam Corporate Governance Code of Best Practices for Public Companies in August 2019.³ The Code includes best practices that go beyond the minimum legal requirements.³

All efforts have been taken to ensure there is no conflict between the Code and other laws and regulations. However, if a conflict should arise, then the other laws and regulations prevail.³

Environment

The World Bank's 2020 Ease of Doing Business² Report (EDB Report) ranks Vietnam overall 70 out of 190 countries analyzed for regulations that are conducive in fostering business activities and those that constrain it.

The World Bank's 2018 Worldwide Governance Indicator (WGI)⁴ for Regulatory Quality (RQ), with -2.5 being weak and +2.5 being strong governance performance, gave Vietnam a score of -0.39 which resulted in a ranking of 133 out of 203 countries analyzed. This represented an improvement from the 2009 score of -0.62 and a ranking of 151 (tied with Lesotho) out of 201 countries that were analyzed. The RQ indicator "*Reflects perceptions of the ability of the government to formulate and implement sound policies and regulations that permit and promote private sector development*"⁴.

The 2018 WGI Rule of Law (RL) indicator gave Vietnam a score of 0.00 which resulted in a ranking of 96 out of 209 countries analyzed. This represented a significant improvement from the 2009 score of -0.54 and a ranking of 134 out of 209 countries. The RL indicator "*Reflects perceptions of the extent to which agents have confidence in and abide by the rules of society, and in particular the quality of contract enforcement, property rights, the police, and the courts, as well as the likelihood of crime and violence*"⁴.

The 2018 WGI Government Effectiveness (GE) indicator gave Vietnam a score of 0.00 which resulted in a ranking of 98 out of 209 countries analyzed. This represented an improvement in performance from the 2009 score of -0.26 and ranking of 109 out of 207 countries. The GE indicator "*Reflects perceptions of the quality of public services, the quality of the civil service and the degree of its independence from political pressures, the quality of policy formulation and implementation, and the credibility of the government's commitment to such policies*"⁴.

Enforcement

There have been several securities law enforcement cases in 2019, including among others, administrative sanctions against investment funds, individuals, and a design and urban development consulting company.³ In 2019, the State Securities Committee sanctioned 93 public companies that violated their reporting and disclosure obligations with a total fine of VND 12.6 billion (approx. US\$500,000).³

GCSG's Compliance Risk Index (CRI) analyzed eight independent factors to score the **governance and regulatory area compliance risk**⁵ level for Vietnam as **Moderate**.

Bribery and Corruption

Legislation

The major legislation regulating corruption within Vietnam is found within the 2015 Penal Code as amended by Law No.12/2017/QH14 (effective January 1, 2018).⁶ The Government Inspectorate, police and prosecutors have the authority to investigate corruption domestically.⁷ The new Penal Code includes several corruption offenses, including the giving and promising of bribes as well as the criminalization of bribery in the private sector. Criminal liability now applies to individuals working within corporations and other non-governmental organizations.⁷ The 2019 Anti-corruption Law (effective July 1, 2019) regulates that some state entities (such as, State officials, Commissioned officers of police, Nominees for the National Assembly delegates, etc.) are required to declare their assets and income.⁷

Environment

Transparency International's 2019 Corruption Perceptions Index⁸, with zero being the most corrupt and 100 being the least corrupt, gave Vietnam a score of 37 which resulted in a ranking of 96 out of 198 countries surveyed. This represents a slight improvement in score and ranking to that found in the 2014 CPI with a score of 31 and ranking of 119 out of 183 countries surveyed.

Trace International's 2019 Bribery Risk Matrix⁸, with 100 being the most corrupt and zero being the least corrupt, gave Vietnam a score of 65 which resulted in a ranking of 160 out of 200 countries surveyed. This represents an improvement in performance from the 2014 score of 82 and ranking of 188 out of 197 countries surveyed.

The 2018 WGI Control of Corruption indicator⁴, with -2.5 being weak and +2.5 being strong governance performance, gave Vietnam a score of -0.49 which resulted in a ranking of 130 out of 209 countries. This represented a slight improvement in performance from the 2009 score of -0.54 (tied with Albania and Guyana) and a ranking of 138 out of 210 countries.

The 2016 WEF Enabling Trade Report¹⁰ (WEF Trade Report) listed corruption at the border (3rd) as one of the top three most problematic factors for importing into Vietnam.

Enforcement

Communist Party General Secretary Nguyen Phu Trong has recently pushed for a crusade against corruption. Over recent

years there have been some high-profile corruption cases in Vietnam including, but not limited to, a former politburo member, a state oil firm executive, and several officials and executives from PetroVietnam.

The Vietnamese courts have dealt with many major bribery and corruption cases recently. In particular, some senior state officials were recently awarded a life sentence for accepting few million US dollars in bribes to push for the illegal transactions.⁹

GCSG's Compliance Risk Index (CRI) analyzed four independent factors to score the **bribery and corruption area compliance risk**⁵ level for Vietnam as **High**.

Trade

Legislation

The Vietnam National Assembly updated the Customs law in 2014 and the import and export standards are set out under Law No. 54/2014/QH13.⁹ The Customs Department regulates import and export clearance in Vietnam.⁹ Prohibition or Suspension list exports require licensing by MOIT.⁹ Vietnam is a member of the WTO (2007) and ASEAN.¹⁰ After one and half decades of promulgation and implementation, the 2005 Commercial Law is still in full force and is the main legal document guiding commercial activities conducted in the territory of Vietnam.¹⁰

Environment

Facilitation. The WEF Trade Report¹⁰ gave Vietnam an overall score of 4.26, with 6.0 being the best and 2.9 being the worst scoring country in the index. This ranks Vietnam 73rd out of 136 countries that were evaluated for trade facilitation performance. The 1st and 2nd most problematic factors for importing, noted in the WEF Trade Report, included burdensome import procedures and tariffs and non-tariff barriers. Identifying potential markets and buyers, technical requirements and standards abroad, and difficulties in meeting quality/quantity requirements of buyers were the top three most problematic factors for exporting from Vietnam. The EDB Report² ranks Vietnam 100 out of 190 countries for "trading across borders" which includes evaluating the time and cost to export and import.

In 2017, Vietnam exported \$220B and imported \$204B.¹ Its exports have grown at an annualized rate of 13.5% the last five years. Vietnam's top export destinations were the USA, China, Japan, South Korea, and Germany¹ and its top exports were broadcasting equipment and telephones.¹ Vietnam's two (2) major maritime ports are Da Nang Port and Saigon Port.¹¹

Compliance. While the US and EU have sanctions in place against individual persons and organizations throughout the world, neither has comprehensive country-level economic sanctions programs in place against Vietnam.¹² Vietnam is experiencing export growth from companies diversifying their supply chains along with increased issues related to falsification of country of origin (in order to avoid tariffs) for products transshipped from China through Vietnam for entry into the United States.^{13,14} Vietnam is a party to the BWC and CWC but is not a member of the multi-lateral export control regimes Nuclear Suppliers Group (NSG), Wassenaar Arrangement, Australia Group, or Missile Technology Control Regime (MTCR).¹⁵

Enforcement

The Vietnam Customs Department has been focusing on stopping and preventing the fraudulent mislabeling of foreign products as Vietnamese origin. One example was an import case of 2,000 electric rice cookers from China that were labeled as Vietnamese origin.³ In addition, Vietnam is also trying to control violations related to e-commerce activities.¹⁰

GCSG's Compliance Risk Index (CRI) analyzed five independent factors to score the **trade compliance area risk**⁵ level for Vietnam as **Low**.

Financial

Legislation

The 2012 Law on Prevention of Money Laundering was adopted, and as a result, the Penal Code has been recently revised to include, among others, an updated money laundering offense and penalties.¹⁶ Vietnam is a member of the Asia / Pacific Group on Money Laundering (APG)¹⁷.

Environment

Access to Finance. The WEF Trade Report¹⁰ gave Vietnam a score of 3.9 (1-7 best) and a ranking of 79 out of 136 economies for access to finance.

Financial Secrecy and Money-Laundering. The latest Financial Secrecy Index (FSI)¹⁸ gave Vietnam an overall score of 299.30, with 1,575 being the most secret and 12 being the least secret country in the index. This FSI score indicates a moderate concern for financial secrecy.

The 2020 International Narcotics Control Strategy Report¹⁹ (NCSR) lists Vietnam as a country of concern for money laundering activities. The NCSR report on Vietnam said, “Vietnam has made some progress in reducing the risks of money laundering over the last year. This includes new revisions to the penal code and increased international cooperation. However, impressive economic growth; increased international trade; long, porous borders; inadequate customs enforcement; and several newly licensed casinos all suggest Vietnam’s exposure to illicit finance will increase...Vietnam remains a predominantly cash-based economy. Customers routinely purchase high value items with cash, including real estate, investment stakes, and luxury vehicles, with few questions asked. Foreign entities can transfer significant amounts of money into Vietnamese financial institutions without significant hurdles. The banking system is at risk for money laundering through false declarations, including fictitious investment transactions. Customs fraud and over- and under-invoicing of trade are common and are indicators of trade-based money laundering.”¹⁹

Enforcement

Vietnam prosecuted four individuals for money laundering charges in 2018.¹⁹ This was only their second money laundering prosecution.¹⁹ The NCSR believes Vietnam’s anti-money laundering (AML) laws are adequate but their enforcement of AML laws needs to improve. In 2019, Vietnamese courts tend to handle money laundering in economic and corruption cases.¹⁹

GCSG’s Compliance Risk Index (CRI) analyzed two independent factors to score the **financial area compliance risk**⁵ level for Vietnam as **Moderate**.

Data Privacy

Legislation

Vietnamese law does not have a specialized law regulating data privacy. Nonetheless, regulations on data protection are provided in a patchwork of legal documents, such as: 2015 Civil Code, 2010 Law on Protection of Consumers’ Rights, 2005 Law on Electronic Transactions, 2006 Law on Information Technology, 2015 Law on Cyberinformation Security.

Environment

The DLA Piper data protection laws comparison world graphic lists Vietnam as “Moderate” for data protection laws and enforcement.²¹ Comparitech’s assessment of privacy protection and the state of surveillance did not rank Vietnam in its ranking of 47 countries.²¹

The Global Cybersecurity Index (GCI) 2018 lists Vietnam in Table 1 which indicates a high level of commitment to the five cybersecurity pillars rated in the index with a score of 0.693 and global rank of 50 out of 175 countries analyzed.²¹ The National Cyber Security Index (NCSI) gives Vietnam a score of 33.77 and a global rank of 79 out of 152 countries. NCSI is “a global index, which measures the preparedness of countries to prevent cyber threats and manage cyber incidents.”²¹

Notwithstanding, Vietnamese spend average of US\$21 daily via e-wallet, which allows people to pay bills swiftly and simply without the worry of losing sensitive information.²¹

Enforcement

Non-compliance with the data protection laws can be subject to both administrative penalties and criminal penalties. Additionally, any person who suffers damages caused by an infringement of the data protection law is entitled to compensation from the infringing party.²²

GCSG’s Compliance Risk Index (CRI) does not score **the data privacy and cyber security area compliance risk**⁵ level.

Country Risk Rating

GCSG’s Compliance Risk Index (CRI) analyzed 19 independent factors to score the **overall compliance risk**⁵ for Vietnam at **6.60** (1-10 Highest). This score assigns an overall **Moderate** compliance risk level for multi-national businesses operating within and/or conducting cross-border trade with entities operating within Vietnam.

Note: GCSG’s third-party risk ranking tool (assesses risk at the entity level), and our due diligence reports can be used to further drill down on risks posed by your supply channel and sales channel third parties. Click [here](#) to learn more.

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