

OVERVIEW OF VIETNAM'S BUSINESS ENVIRONMENT

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1. Introduction

As one of the most dynamic developing economies in the ASEAN region, Vietnam is considered a country with an attractive business environment. However, the overall attractiveness of Vietnam still needs to be improved in comparison with regional countries. This article aims to analyze the strengths and weaknesses of Vietnam's business environment and the influencing factors - this will provide helpful information for the government in improving the quality of the business environment and enterprises when making investment decisions. The research results are based on the analysis of various international business environment ranking indexes such as the Global Competitiveness Index (CGI 4.0) by the World Economic Forum (WEF), Ease of Doing Business (EoDB) by the World Bank (WB), Global Innovation Index (GII) by the World Intellectual Property Organization (WIPO), International Property Rights Index (IPRI) by the Property Rights Alliance (PRA), Economic Freedom Index (EFI) by The Heritage Foundation and The Wall Street Journal; Corruption Perceptions Index (CPI) by the Transparency International, Logistics Performance Index (LPI) by the WB; E-Government Development Index (EGDI) by the United Nations and Global Cybersecurity Index (GCI) by the International Telecommunication Union.

2. Advantages of doing business in Vietnam

In recent years, Vietnam's business investment environment has continuously improved, reflected in the ranking increase in various business environment indicators (**Table 1**).

In WEF's CGI 4.0 ranking, Vietnam was in the middle position - 67th out of 141 economies in 2019, increased by 3.5 points (from 58 to 61.5), higher than the global average score (60.7) and increased 10 places (from 77 to 67); and was rated as the economy with the best score improvement and ranking globally (WEF, 2019). With the EoDB index in 2020, Vietnam ranked 70/190 - up nearly 30 places within 6 years, from the 99th position in 2014 to 70th in 2020 (World Bank, 2020). WIPO's GII ranking showed that, in 2022, Vietnam ranked 48/132, second among 36 low-middle-income group economies. Along with China, India, Iran, and the Philippines, Vietnam had the fastest innovation rate (WIPO, 2022). Regarding IPRI, according to the PRA's ranking, Vietnam reached 4,497 points in 2022, ranked 82/129, up 2 places compared to 2021 (PRA, 2022). In the EFI, in 2022, Vietnam ranked 84/177 economies - 7 places higher than the previous year (The Heritage Foundation, 2022). Vietnam was noted for its policy reforms to promote economic freedom and create an enabling environment to facilitate trade and encourage business activities. Although Vietnam was rated poor in the CPI ranking, the government has improved the state's legal and institutional system over the years to create a more transparent and fair

investment environment. According to Transparency International, in 2022, Vietnam increased 3 places compared to 2021, ranking 77/180 countries (Transparency International, 2022). In addition, the analysis of other indicators, such as LPI, EGDI, and GCI, showed an improving tendency in Vietnam's ranking position (ITU, 2020; UN, 2022; World Bank, 2021).

Table 1. Ranking of Vietnam's attractiveness by several international indicators

No	Index	2016		2017		2018		2019		2020		2021		2022	
		S	R	S	R	S	R	S	R	S	R	S	R	S	R
1	GCI 4.0	-	-	57.9	74	58.1	77	61.5	67	-	-	-	-	-	-
2	EoDB	63.8	82	67.93	68	68.36	69	69.8	70	-	-	-	-	-	-
3	GII	35.4	59	38.3	47	37.9	45	38.8	42	37.12	42	37	44	34.2	48
4	IPRI	4.655	84	4.930	77	5.075	76	5.053	83	5.132	78	4.995	84	4.497	82
5	EFI	54.0	131	52.4	147	53.1	141	55.3	128	58.8	105	61.7	91	60.6	84
6	CPI	33	113	35	107	33	117	37	96	36	104	39	87	42	77
7	LPI	2.98	64	-	-	3.27	39	-	-	-	-	-	-	-	-
9	EGDI	0.593	89	-	-	0.514	88	-	-	0.667	86	-	-	0.678	86
10	GCI	-	-	0.263	100	0.693	50	-	-	94.59	25	-	-	-	-

Note: S: Score; R: Rank

Decreased Increased <10 places Increased >=10 places

Source: Compiled by authors

Various factors determine the attractiveness of Vietnam's business environment. Vietnam has a favorable geostrategic location for foreign business activities, from the supply of input materials to the distribution and exchange of goods to major markets globally. Furthermore, Vietnam has a large market with a high growth rate. With a population of nearly 100 million people and stable economic growth over the past decade, Vietnam is considered one of the most dynamic economies in the region. Among GCI 4.0 pillars, Vietnam's Market Size index ranks the highest, increasing by 3 places, from 29th in 2018 to 26th in 2019 (Figure 1). Moreover, with the free trade agreements (FTAs) currently signed with ASEAN, South Korea, Japan, and Australia, ... and the membership of CPTPP, EVFTA, and UKVFTA, businesses in Vietnam can access the large and fast-growth regional market.

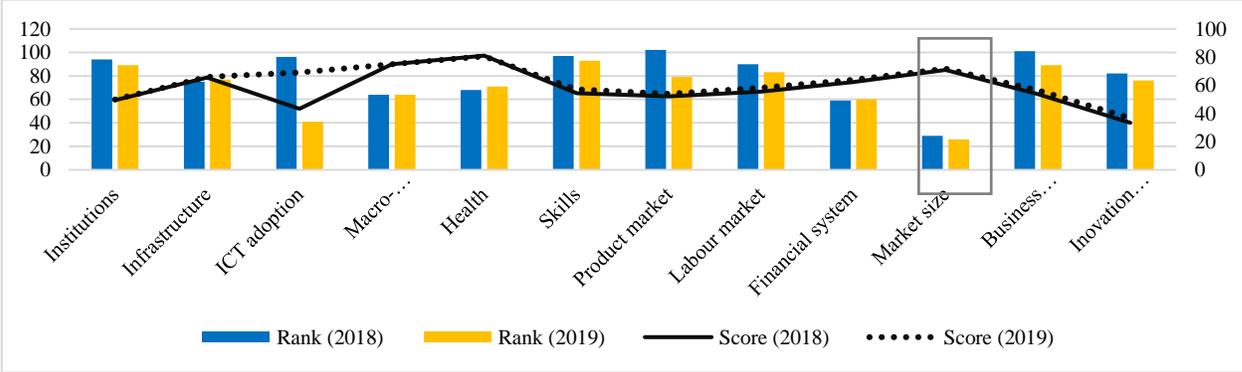


Figure 1. Vietnam's GCI 4.0 competitiveness pillars

Source: WEF (2018, 2019)

Vietnam has abundant labor resources and more competitive costs than other countries in the region. Laos and Myanmar have lower wages but poorer infrastructure

quality than Vietnam. Due to inferior labor productivity performance, Indonesia has a lower starting minimum salary. India has a lower starting salary but a more complex business environment, unstable political security, and bureaucracy (Samuel, 2020).

Regarding labour quality, Vietnam has a golden population structure, with more than 52% of the working-age population and about 97% of them literate. The proportion of trained workers increased from 14.8% in 2009 to 26.12% in 2021 (GSO, 2022). Currently, the Government has also made some efforts to boost labour quality, such as expanding vocational and technical training to meet the needs of high-skill industries. Vietnam's labor productivity growth rate in 2011-2020 was 5.11%, higher than the ASEAN average of 3.49% and most ASEAN countries (**Figure 2**).

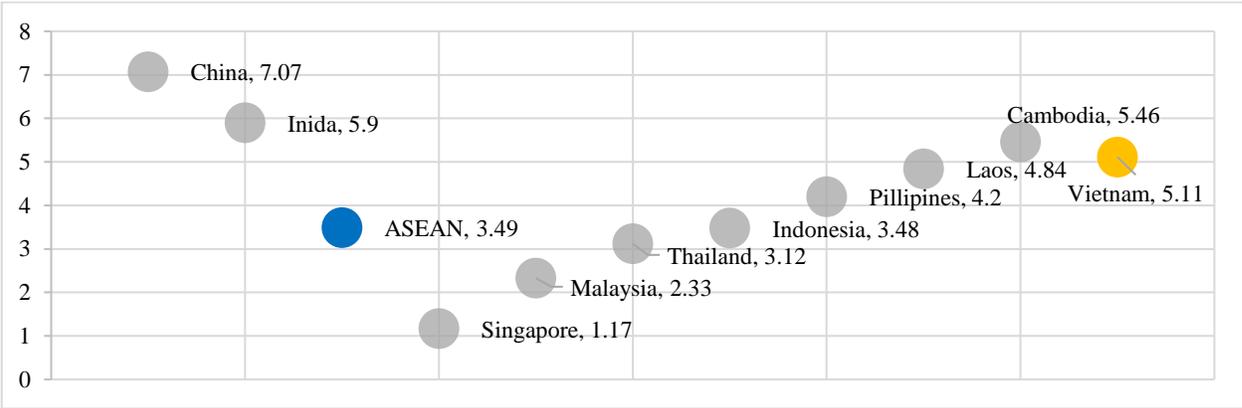


Figure 2. Labor productivity growth rate of some selected countries, 2011-2020 (%)

Source: Pham et al. (2021)

In addition, along with the economic development process, infrastructure, especially transport infrastructure, has been significantly invested in and developed. The aggregate result from WIPO (2022) shows that Vietnam's infrastructure index improved from 2011-2022. The Logistics Performance component index is ranked the highest (38th) (**Figure 3**) - this represents the quality of operations and logistics infrastructure for business investment activities.

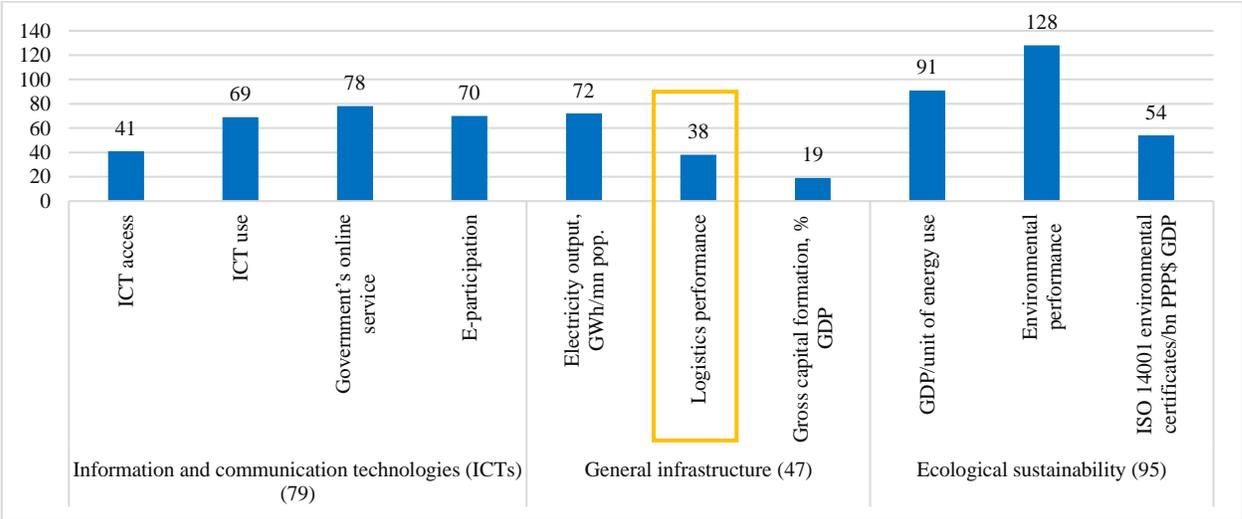


Figure 3. Sub-indices of the GII's Infrastructure Index - Vietnam

Source: WIPO (2022)

Finally, political stability is a crucial advantage of doing business in Vietnam. The country has formed a resilient and open economy with a solid willingness to integrate into the global economy through many FTAs. Thus far, Vietnam has signed and ratified 15 FTAs, and 2 more agreements are under negotiation. Moreover, the Vietnamese government has been making timely and practical guidelines and policies to improve the quality of the business environment, such as Investment Law 2020 and Enterprise Law 2020. These changes have brought more certainty about regulation, thus creating greater confidence for investors when considering long-term investments in the country.

3. Disadvantages of doing business in Vietnam

Although Vietnam is considered a country with a favorable business environment, there are still many limitations. The ranking indicators have improved significantly but are still low, especially in comparison with some ASEAN countries.

Vietnam's CGI 4.0 ranking (67th) indicates that the country's competitive advantage is inferior to some regional economies, including Singapore, Malaysia, and Thailand. Notably, Vietnam's gap (67th) with Indonesia (50th) makes it challenging for the Vietnamese Government to achieve the goal of being in the region's top 4 most competitive countries. Vietnam's ranking in 2022 has decreased by four places compared to 2021, in which 4/8 of the pillar indexes have decreased in rank (3/5 of input indexes and 1/2 of output indexes). In addition, up to 4/7 indexes dropped in scores, including Human Capital and Research, Market Sophistication, Business Sophistication, and Knowledge and Technology Outputs (**Figure 4**).

In the IPRI ranking, in 2022, Vietnam's position is almost the lowest among ranked ASEAN country, only higher than the Philippines, with a negligible difference (**Figure 5**). It is worth noting that the Physical Property Rights Protection index ranked very low (87th), much lower than Thailand (63rd), Indonesia (48th), Malaysia (28th), and Singapore (1st).

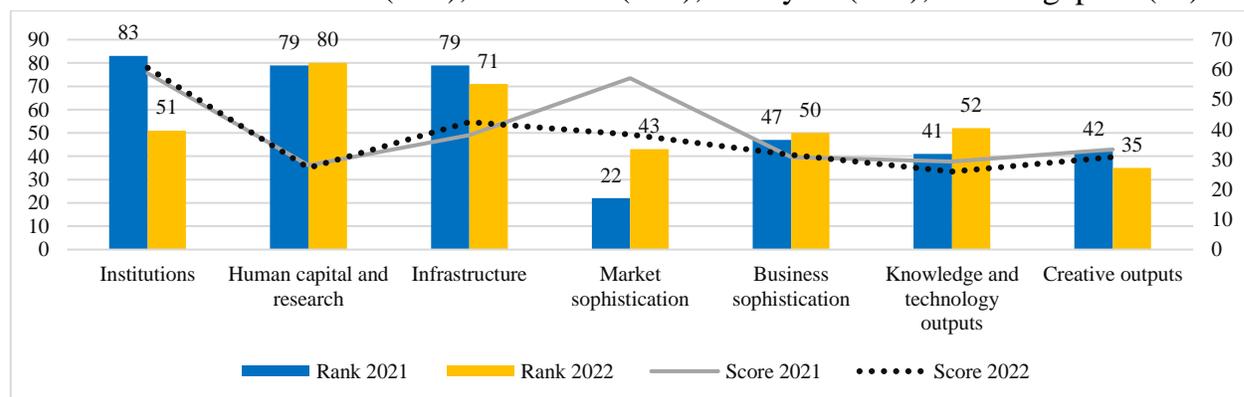


Figure 4. Vietnam's Global Innovation Index Rankings and Scores

Source: WIPO (2021, 2022)

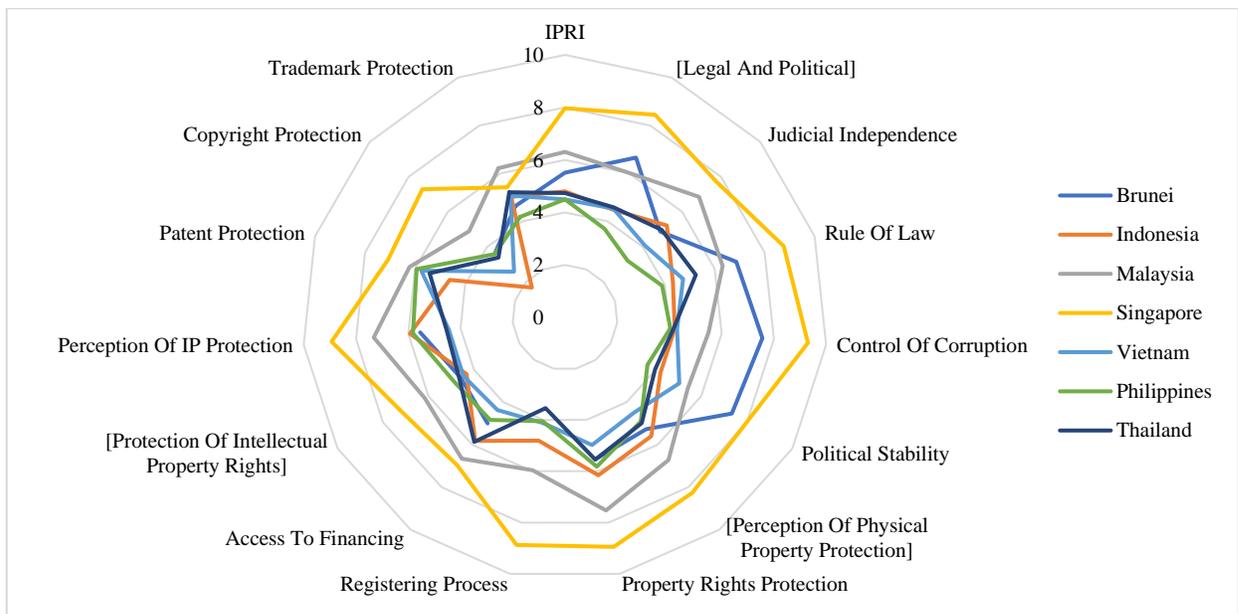


Figure 5. Comparison of Vietnam's IPRI scores with some ASEAN countries

Source: PRA (2022)

Many factors are considered weak points in Vietnam's business environment. Labor quality still needs to improve, with a low percentage of trained workers and trained skills not meeting the needs of the labor market. Although Vietnam has a high growth rate of labor productivity, the increase needs to be faster to close the gap with other countries. Vietnam's labor productivity in 2020 is 7 times lower than that of Malaysia, 4 times that of China, 3 times that of Thailand, 2 times that of the Philippines, and 26 times that of Singapore (Pham et al., 2021). In the GII ranking, the Human Capital and Research index dropped the most points (5.1). This result is similar to WEF's approach in GCI 4.0, in which Workers' Skills were ranked at the lowest level (93rd).

In addition, Vietnam's infrastructure quality still needs to be improved. Compared with top 4 most competitive countries in ASEAN, Vietnam's ranking on the infrastructure component of the GII index is still very low (**Figure 6**). The country does not have a synchronous and modern transport infrastructure system, especially compared with international criteria (high-speed road network, high-speed railway, airport, seaport).

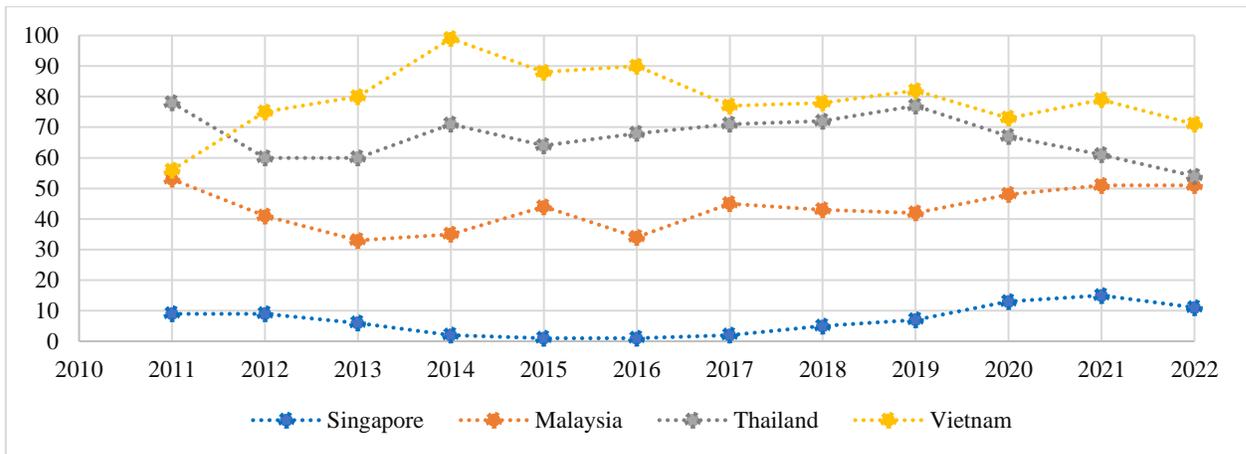


Figure 6. Ranking of GII infrastructure component of Vietnam and selected ASEAN countries

Source: WIPO (2022)

Institutional quality is still considered a factor reducing the attractiveness of the Vietnamese market. With the GCI 4.0, WEF (2019) suggests that Vietnam should continue to improve the business environment by simplifying legal procedures and reducing the problem of bureaucracy and corruption. The EFI 2022 also shows that the economy is limited by many institutional factors, such as Government Integrity, Judicial Effectiveness, and Investment Freedom (**Figure 7**). These factors are hindering market efficiency and business operations in Vietnam.

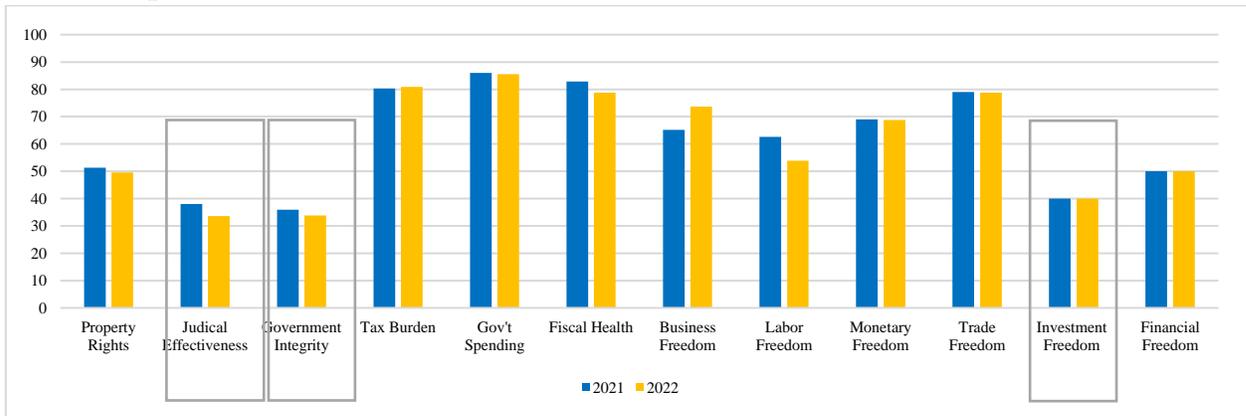


Figure 7. Component Scores of the EFI of Vietnam (2021-2022)

Source: The Heritage Foundation (2022)

Regarding corruption, the analysis of GCI 4.0, EoDB, EFI, and CPI shows that this is one of the bottlenecks for Vietnam's national competitiveness. Although Vietnam's CPI ranking in 2022 has increased compared to 2021, it only reached 42/100 points, ranking 77/180 countries. From the WB's point of view in the EoDB index, the corruption problem in Vietnam (shown in the Governance index) still needs to be controlled as it scores low and belongs to the category of poor governance. The score of the corruption control component of the IPRI is also the weakest of the ranked ASEAN countries. In the EFI rating, the corruption index, as shown as Government Integrity, was also the component that scored the lowest.

4. Conclusion

Analyzing business environment indicators shows that Vietnam has significantly improved its ranking and has become an attractive business location. However, the overall attractiveness of Vietnam to domestic and foreign investors still needs to be improved compared to some ASEAN countries. The ranking of EoDB, CGI 4.0, GII, IPRI, and other indexes is still far from that of leading countries such as Singapore, Malaysia, or Thailand. This indicates that the Vietnamese Government's objective of entering the top 4 countries in ASEAN with the best business environment is still challenging, requiring many efforts to improve the quality of regulations, laws, infrastructure, and labor to facilitate business activities.

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