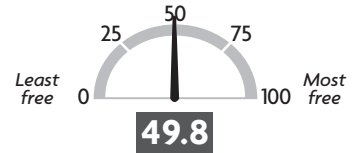




VIETNAM

Economic Freedom Score



World Rank: **144**

Regional Rank: **33**

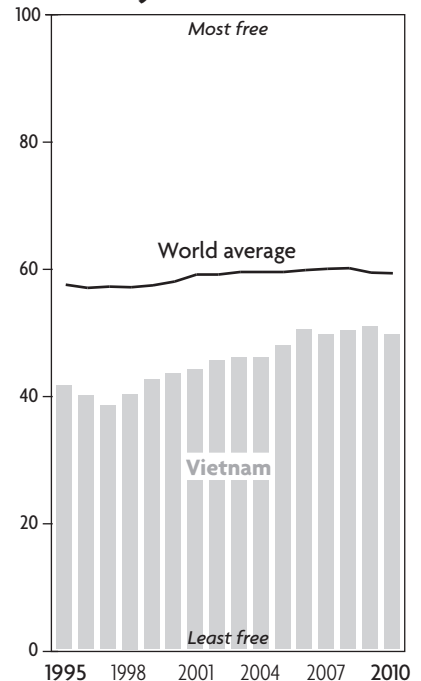
Vietnam's economic freedom score is 49.8, making its economy the 144th freest in the 2010 *Index*. Its score has decreased by 1.2 points since last year, reflecting reduced scores in five of the 10 economic freedoms. Vietnam is ranked 33rd out of 41 countries in the Asia-Pacific region, and its overall score is lower than the world and regional averages.

Vietnam's gradual integration into global trade and investment systems has facilitated its transition to greater economic freedom and has built momentum for growth, which has averaged almost 8 percent over the past five years. The overall entrepreneurial environment has slowly become more efficient, encouraging the emergence of a more dynamic private sector. Reforms have included partial privatization of state-owned enterprises, liberalization of the trade regime, and increasing recognition of private property rights. A tax reform package that reduces rates for both individuals and corporations has been implemented.

Vietnam's overall economic freedom, however, is limited by several key institutional factors. The regulatory environment is not fully efficient and transparent. Investment is hindered by non-transparent bureaucracy and an unreliable legal system. State owned-enterprises still account for about 40 percent of GDP. The judiciary is weakened by widespread corruption, which inhibits the effective enforcement of contracts.

BACKGROUND: The Socialist Republic of Vietnam is a one-party authoritarian regime that has embarked on the path of economic liberalization only recently, starting with its doi moi reforms in 1986. In 2007, the country joined the World Trade Organization. Vietnam now boasts one of Southeast Asia's fastest-growing economies, which is driven primarily by tourism and exports. The government is slowly liberalizing key economic sectors, including financial institutions, but political repression and the lack of respect for basic human rights remain serious concerns.

Country's Score Over Time



Quick Facts

Population: 86.2 million

GDP (PPP): \$240.1 billion

6.1% growth in 2008

7.8% 5-year compound annual growth

\$2,785 per capita

Unemployment: 2.4%

Inflation (CPI): 23.1%

FDI Inflow: \$8.1 billion

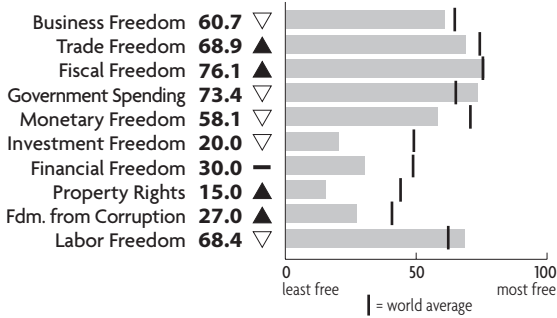
2008 data unless otherwise noted

Data compiled as of September 2009

How Do We Measure Economic Freedom?

See page 457 for an explanation of the methodology or visit the *Index* Web site at heritage.org/index.

VIETNAM'S TEN ECONOMIC FREEDOMS



BUSINESS FREEDOM — 60.7

The overall freedom to start, operate, and close a business is limited under Vietnam's regulatory environment. Starting a business takes 50 days, compared to the world average of 35 days. Obtaining a business license takes less than the world average of 18 procedures and 218 days. Bankruptcy proceedings can be burdensome and lengthy.

TRADE FREEDOM — 68.9

Vietnam's weighted average tariff rate was 10.6 percent in 2007. The government continues to make progress toward liberalizing the trade regime, but some import bans and restrictions, services market access barriers, import taxes, import licensing requirements, non-transparent regulations, state trade in some commodities, weak enforcement of intellectual property rights, corruption, and customs inconsistencies add to the cost of trade. Ten points were deducted from Vietnam's trade freedom score to account for non-tariff barriers.

FISCAL FREEDOM — 76.1

Vietnam implemented tax reforms in January 2009. The top income tax rate was lowered from 40 percent to 35 percent, and the top corporate tax rate was reduced from 28 percent to 25 percent. Oil and gas are subject to a separate taxation scheme. Other taxes include a value-added tax (VAT) and a tax on the transfer of property. In the most recent year, overall tax revenue as a percentage of GDP was 23.2 percent.

GOVERNMENT SPENDING — 73.4

Total government expenditures, including consumption and transfer payments, are moderate. In the most recent year, government spending equaled 29.8 percent of GDP. Progress in privatization or restructuring of state-owned enterprises has been modest.

MONETARY FREEDOM — 58.1

Inflation has been very high, averaging 18.1 percent between 2006 and 2008. The government influences prices through regulation, subsidies, state-owned enterprises, banks, and utilities. Fifteen points were deducted from Vietnam's monetary freedom score to account for policies that distort domestic prices.

INVESTMENT FREEDOM — 20

All foreign investment projects must be screened and approved. Foreign investment is prohibited or subject to additional restrictions in certain sectors. Other deterrents include an unwieldy bureaucracy, non-transparent regulations, corruption, and an unreliable and cumbersome legal system. Frequent changes in the investment-related laws as the government continues to reform the investment regime cause inconsistent and non-transparent implementation of regulations. Residents and non-residents may hold foreign exchange accounts, subject to restrictions and some government approvals. Payments and transfers are subject to restrictions. Most transactions in money market and capital instruments, derivatives, commercial credits, and direct investments require government approval. All land is owned by the state.

FINANCIAL FREEDOM — 30

Despite reforms aimed at creating a more market-based system, the state remains heavily involved in Vietnam's underdeveloped financial sector. Lending by state banks is driven by government policy toward large state-owned enterprises, and interest rates may be subsidized. The four primary state-owned banks control most lending. Regulations, supervision, and transparency fall short of international standards, and the share of non-performing loans is estimated to be far higher than the reported rate of about 2 percent. Banking consists of a large number of small banks that are vulnerable to external shocks. In 2008, four foreign banks were permitted to launch fully owned subsidiaries. Capital markets are very small.

PROPERTY RIGHTS — 15

Only the rudiments of a system to protect property rights have been established. The judiciary is not independent, and corruption is common. Contracts are weakly enforced, and resolution of disputes can take years. All land belongs to the state, but the Land Law of 2003 allows foreign title holders to conduct real estate transactions, including mortgages. Foreign investors may lease land for (renewable) periods of 50 years, and up to 70 years in some poor areas. Starting in 2009, foreigners who meet certain criteria may own apartments. Infringement of intellectual property rights is widespread, and enforcement is problematic.

FREEDOM FROM CORRUPTION — 27

Corruption is perceived as widespread. Vietnam ranks 121st out of 179 countries in Transparency International's Corruption Perceptions Index for 2008. In December 2008, the government of Japan announced that it was suspending low-interest loans until Vietnam takes "meaningful" steps to eliminate corruption in public works programs.

LABOR FREEDOM — 68.4

Vietnam's labor regulations are relatively inflexible. The non-salary cost of employing a worker is moderate, but dismissing an employee is difficult. The government has increased the minimum wage in domestic and foreign-invested enterprises, partly to ease labor unrest.