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VIETNAM

SUCCESS STORY

Research Shapes Investment Reforms

Officials debate reforms to attract businesses and investment



Photo: USAID

Pham Chi Lan, a member of the Prime Minister's Advisory Board, comments on the study's findings in Hanoi, at a USAID-sponsored Seminar on Investment Incentives.

Vietnamese officials will use USAID-sponsored research to reform the country's tax incentives for businesses with the goal of attracting more investment.

As Vietnam's economy continues to grow rapidly, the government is trying to nurture a climate that encourages business activity and attracts both foreign and domestic investment. Yet existing regulations sometimes cause confusion and uncertainty for businesses and investors. USAID is working with the government, businesses, and academic experts to create and shape policies that address these issues and promote investment.

In 2005, USAID partnered with the Ho Chi Minh National University Economics Department to conduct a study of existing programs that provide tax incentives to businesses. Under these programs, both the national and local governments encourage investment in certain fields or in specific locations. The research was timely, since Vietnam's National Assembly was drafting a new investment promotion law likely to be passed in 2006. The results were presented at a workshop attended by over 300 people.

Existing tax incentives were intended to benefit businesses, but the study showed that they were actually ineffective and extremely costly. For example, over 83 percent of firms surveyed said that the policies had no effect on their investment decisions. In addition, for every dollar of investment, the government subsidizes up to 75 percent. The study concluded that these policies were not the most efficient way to encourage sustainable business development. Participants agreed that the study's findings were enlightening.

The study will be used to advocate for change in the existing system. According to Pham Chi Lan, a member of the Prime Minister's Advisory Board, "the government should focus on other incentives, such as simplifying tax refunds, promoting research and development, and training." Through this innovative research collaboration, Vietnamese policymakers now have a greater awareness of the need to standardize business regulations and harmonize tax incentives.