WWW.IJRPR.COM

International Journal of Research Publication and Reviews

Journal homepage: www.ijrpr.com ISSN 2582-7421

Assessing the Impact of the Global Minimum Tax on Vietnam's FDI Competitiveness

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DOI : https://doi.org/10.55248/gengpi.6.0425.1380

ABSTRACT:

This research examines the implications of the Global Minimum Tax (GMT) on Vietnam's investment environment, identifying both challenges and opportunities for foreign direct investment (FDI). The study highlights the necessity for the Vietnamese government to formulate effective policies that ensure continued investment attractiveness while complying with international tax regulations. Key recommendations include the establishment of a National Investment Support Fund, which would utilize additional corporate income tax revenues under the GMT framework to offer financial incentives to affected multinational enterprises (MNEs). Furthermore, the research suggests redesigning investment incentives, incorporating non-tax competitive factors such as infrastructure, legal stability, and workforce development to enhance Vietnam's long-term investment appeal. Additionally, the study proposes import tax exemptions and reductions as a supplementary incentive for businesses subject to GMT, aiming to mitigate the impact of reduced corporate tax incentives. To actively attract MNEs, the research advocates for the creation of a Vietnam Investment Advisory Center, responsible for engaging with potential investors and facilitating investment processes. The findings underscore that while GMT may diminish the effectiveness of traditional tax incentives, Vietnam can leverage structural economic advantages and policy innovations to maintain its competitiveness. The study concludes that a balanced approach—aligning with GMT requirements while fostering a favorable investment environment—will be critical for Vietnam's economic growth and FDI sustainability in the coming years.

Keywords: Global Minimum Tax, foreign direct investment, Vietnam Tax for multinational enterprises.

1. Introduction

We are currently in an era of strong integration and globalization. According to the General Statistics Office, the total registered foreign direct investment (FDI) in Vietnam as of January 31, 2025, reached 4.33 billion USD, marking an increase of 48.6% compared to the same period last year (Anh Nhi, 2025). This illustrates that international economic integration has become an inevitable trend, laying the foundation for the development of multinational corporations in both quantity and scale of operations through outward investment activities. It is also due to these factors that global trade and economic development in Vietnam are progressing vigorously. Foreign Direct Investment (FDI) serves as a crucial source of capital that supplements the development of the economy, allowing countries to access new technologies, improve management practices, expand export markets, and restructure the economy.

Developing countries often implement preferential policies to attract FDI, especially tax incentives related to corporate income tax rates. This is an area that multinational companies highly desire, and because of this, developing nations continuously lower tax rates. However, this has led to the phenomenon of tax base erosion due to tax avoidance and profit-shifting activities by multinational companies. Recognizing the severity of the issue, in June 2013, the Organization for Economic Co-operation and Development (OECD) initiated the Base Erosion and Profit Shifting (BEPS) project, which was endorsed by the G20 leaders (Van Tuan, 2023). After years of negotiations, in June 2021, the G7 countries reached a consensus on the principle of a global minimum corporate tax rate of at least 15% for large companies, with specific rates to be determined by individual countries, aiming to create a level playing field and prevent tax avoidance and tax evasion (Rishi Sunak, Member of British Parliament). However, the implementation of this tax rate could have varying effects on different countries, particularly for developing nations like Vietnam.

Vietnam is a rapidly developing country with a growing economy, attracting a significant amount of foreign direct investment (FDI). Since first receiving small amounts of FDI in 1988, FDI has contributed greatly to Vietnam's economic development over the past 37 years. Vietnam's relatively low corporate tax rates and other financial incentives have been major attractions for foreign investors. The Global Minimum Tax could potentially alter the structure of corporate taxation in Vietnam and affect the investment benefits for foreign companies, especially in the context where FDI plays a crucial role in Vietnam's current economy.

The Global Minimum Tax aims to curb profit-shifting strategies used by multinational corporations and ensure that they pay a fair share of taxes. However, the question arises as to how this will affect the FDI landscape in developing countries, which often leverage tax incentives to attract foreign investment. The specific impact of the Global Minimum Tax on FDI in Vietnam has yet to be fully and thoroughly researched. In Vietnam, many pressing questions have been raised: Will the Global Minimum Tax diminish Vietnam's competitiveness in attracting FDI? How will foreign companies react to this new tax policy? And how can Vietnam adjust its tax policies to maximize the benefits of FDI?

Since the Global Minimum Tax regulations were adopted, numerous studies have been conducted both globally and within Vietnam to analyze issues related to the impact and role of the Global Minimum Tax, particularly its effects on a country's ability to attract FDI. This study will build on this knowledge and further explore the impact of the Global Minimum Tax on foreign direct investment, specifically in Vietnam, under the topic: "Assessing the Impact of the Global Minimum Tax on Vietnam's FDI Competitiveness"

2. Theoretical Foundation and Empirical Research

2.1. Overview of the Global Minimum Tax

In response to the reality of the tax reduction race among developing countries, the Organization for Economic Co-operation and Development (OECD) initiated and received approval from G20 leaders for the Base Erosion and Profit Shifting (BEPS) initiative. This comprehensive action plan was introduced by the Group of 20 major economies (G20) after the OECD released its first report on "Addressing Base Erosion and Profit Shifting" in February 2013. The 15 key action plans in this report were discussed and officially issued in October 2021. As of now, the Global Minimum Tax has garnered the consensus of 142 countries worldwide, with the tax expected to be officially implemented in 2024. The OECD/G20 BEPS program consists of two main "pillars":

- Pillar 1: Focuses on redefining the right to tax in the digital age. This pillar aims to clarify the taxation rights of countries when businesses have a strong online presence but no physical presence. It also includes reallocating some tax rights from countries where companies are headquartered to the countries where they earn profits.

- Pillar 2: Refers to the establishment of a global minimum tax to prevent profit shifting and base erosion. The purpose of this pillar is to prevent companies from using tax strategies to shift their profits to countries or regions with low or no taxes.

Both pillars aim to create a fairer international tax system, where profits are taxed where they are actually generated, and companies cannot use strategies to reduce their tax liabilities. The Global Minimum Tax falls under the provisions of Pillar 2. Multinational Enterprises (MNEs) are subject to this tax and will be required to pay additional taxes on any shortfall if their effective tax rate is lower than 15%, provided they have consolidated revenues of at least EUR 750 million over the previous two years in the four consecutive years prior to the review, based on the group's financial reports.

Content of the Global Minimum Tax:

- Income Inclusion Rule (IIR): This regulation allows the parent country to tax the ultimate parent company on the income of its subsidiaries in other countries where the effective tax rate is below the minimum threshold of 15%. The effective tax rate is calculated for the subsidiary or group of subsidiaries operating in an investment-receiving country (after offsetting gains and losses between the companies) and is adjusted according to regulations.

- Undertaxed Payment Rule (UTPR): This rule is designed to supplement the IIR. It applies when the country of all parent companies has not implemented the IIR; in this case, the countries where intermediary companies of the group are located have the right to tax the intermediary parent company on the income of its subsidiaries in other countries where the tax rate is below 15%.

- Qualified Domestic Minimum Top-up Tax (QDMTT): Under this regulation, countries with a corporate income tax rate lower than 15% have the right to implement legal regulations to claim the right to collect additional tax under the QDMTT before other countries (countries applying the IIR and UTPR regulations above). The issuance of these regulations must ensure that they meet the "standards" set by the OECD guidelines.

2.2. Channels through which the Global Minimum Tax impacts Foreign Direct Investment (FDI)

The Global Minimum Tax (GMT) can significantly affect foreign direct investment (FDI) through various channels. While the goal of the global minimum tax is to combat the shifting of profits by multinational companies to low-tax jurisdictions, it can also alter the dynamics and investment strategies of companies. Below are some of the key channels through which the global minimum tax impacts FDI, according to the *World Investment Report 2022: International tax reforms and sustainable investment*, Chapter 3: *The Impact of a Global Minimum Tax on FDI*, including four factors: Location of investment, Tax competition, Scale of investment, and profit shifting.

2.2.1. Location of investment

Before the GMT takes effect, taxes influenced the choice of location for foreign investors, as businesses often seek environments with low tax costs to maximize profits. Even when profits from investments vary between locations, investors might choose to base themselves in locations with lower profits if the tax difference is large enough. After the GMT is implemented, generally, the total tax amount that MNEs must pay is expected to increase in most countries, especially in those that do not meet the minimum 15% tax rate. This means that the GMT will diminish the competitive advantage of countries that previously used low tax rates and special tax incentives to attract FDI, leading investors to prefer countries that generate larger profits rather than countries that produce low profits but offer preferential tax rates. As a result, countries with higher tax rates and greater competitive advantages will become more attractive compared to countries relying solely on low tax rates; thus, the GMT will lead to a reallocation of investment from previously low-tax countries to higher-tax countries.

A key concept in assessing the location effect of tax is the Average Effective Tax Rate (AETR), which is used in cross-country comparisons of the tax cost of investments and is, therefore, a crucial factor in analyzing the impact of Pillar II. In the context of international tax reforms, such as the OECD's Pillar II framework (focused on establishing a global minimum tax rate), understanding the AETR is critical. Pillar II seeks to ensure that multinational companies are taxed at a minimum level, which can influence their location choices based on the tax burden in each jurisdiction.

2.2.2. Tax competition

Over the past decade, there has been a race to reduce corporate income taxes to attract foreign investors, particularly in developing countries with fewer non-tax competitive advantages. Many countries have taken actions to increase (or protect) their tax base by choosing tax strategies that best align with their interests, often disregarding the potential harms and unfairness this may cause to other countries. With the implementation of GMT, tax competition through tax incentives will be limited, and the tax rate differences between countries will reduce, leading governments to shift toward competing through other policy incentives, such as subsidies, credits, or non-tax policies.

Tax competition occurs when countries adjust their tax policies—particularly tax rates and incentives—to attract businesses, capital, or investment. This competition can take various forms. For example, beyond just lowering tax rates, countries may offer additional tax incentives to attract specific types of investment. These may include:

- Investment allowances or tax credits for capital expenditure, research, or development (R&D)
- Reduced tax rates for certain sectors (like tech, energy, or manufacturing)
- Establishment of Special Economic Zones (SEZs) where businesses benefit from preferential tax treatment, lower compliance costs, and other investment-friendly policies.

Over the past few decades, many countries have developed and expanded these preferential tax schemes as they compete for international business and investment. The result has sometimes been a race to the bottom, where countries drastically reduce tax rates or offer overly generous incentives to attract foreign investments. This is particularly common in smaller countries or those with limited domestic markets that rely heavily on foreign investment.

2.2.3. Scale of investment

Corporate income tax is one of the important factors that influence the decision regarding the scale of capital investment by investors. When the Global Minimum Tax (GMT) is applied, it will increase the total amount of tax that MNEs must pay, meaning that more profit must be generated to offset the tax costs. An investor always seeks to maximize their after-tax return, which is the actual profit after accounting for taxes. The tax rate applied to different types of investment income—interest, dividends, or capital gains—affects how much of the investment's returns are retained.

After-Tax Return = Gross Return × (1 − Tax Rate)

Therefore, the GMT will impact the scale of investment by creating a gap between pre-tax and after-tax profits of an investment. The larger this gap, the more likely investors will reduce the scale of their investment. The Marginal Effective Tax Rate (METR) is a key measure that reflects the impact of taxation on the scale of an investment project. It essentially measures the extra burden of taxation on the return of an additional (marginal) investment, comparing the pre-tax return of the project with the investor's required after-tax return. The METR directly affects how much an investor is willing to invest. If the tax system in a particular location results in a high METR, it reduces the net returns of investment, leading to a reduction in the scale of investment. The investor would require higher returns to compensate for the higher tax burden.

2.2.4. Profit Shifting

Profit shifting occurs when profits generated by an investment in one location (typically where the actual economic activity takes place) are declared in another location with a lower tax rate (such as a tax haven or low-tax jurisdiction). This can be achieved through various strategies, such as manipulating transfer prices between subsidiaries of multinational corporations, or by allocating profits to intellectual property (IP) or intangible assets that are owned by entities in low-tax jurisdictions.

Profit shifting can have significant impacts on both the location and scale of FDI. First, the incentive to shift profits influences the choice of investment location, as profits generated from investment activity in one location may be shifted and reported for tax purposes in other locations (with lower tax rates). Additionally, MNEs tend to choose countries with low tax rates as locations for profit shifting, which can increase the scale of investment in countries with preferential tax rates. For example, if profits generated in a high-tax country are declared in a low-tax country, the overall Average Effective Tax Rate (AETR) becomes lower than the tax rate in the country where the investment is physically located. This happens because the lower-taxed profits reduce the overall effective tax rate. As a result, the company pays less tax overall than it would have if the profits were declared and taxed where the economic activity took place.

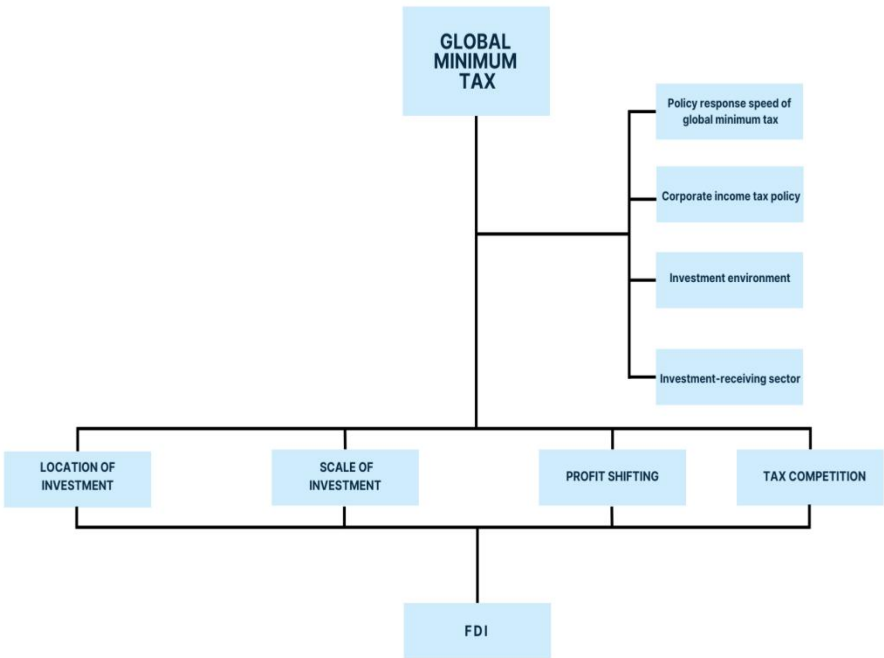
However, the application of a common tax rate of 15% through the GMT mechanism in most countries will reduce the tax rate disparity, and the diminishing total benefits from this behavior will erode the profit-shifting incentives of MNEs. Therefore, the GMT will negatively impact the flow of FDI into low-tax countries through this channel. At the same time, these countries will become less attractive as they lose their advantage in attracting MNEs that tend to seek locations for profit shifting.

3. Research Methodology

Figure 1 illustrates the impact of the Global Minimum Tax (GMT) on Foreign Direct Investment (FDI) through four mechanisms: the scale of FDI enterprises, investment location, profit shifting, and tax strategy. This paper relies on secondary data collected from credible electronic news sources, government agency websites, reports from the General Statistics Office, Ministry of Finance, Ministry of Planning and Investment of various countries, as well as publications from UNCTAD, OECD, and relevant research papers, articles, and documents both domestically and internationally.

The study employs research methods such as analysis, synthesis, descriptive statistics, and comparative statistics to analyze the impact of the Global Minimum Tax on specific industries and sectors in Vietnam and compare the tax systems and investment environments between Vietnam and other ASEAN countries. From this comparison, the study will derive the advantages and disadvantages in attracting FDI to Vietnam when applying GMT.

Figure 1: Analytical Framework



4. Analysis of the Impact of the Global Minimum Tax on FDI in Vietnam

4.1. Location of investment

The official implementation of the Global Minimum Tax (GMT) will affect countries that have used tax incentives as a "lever" to attract FDI projects, including Vietnam. At this point, countries with more attractive investment environments will have a competitive advantage. Additionally, limiting international tax competition may lead to a reallocation of investments to countries with higher tax rates (UNCTAD, 2022), which raises an urgent issue for Vietnam in improving its investment environment to retain "large investors."

Economic and financial experts have noted that the GMT will not diminish Vietnam's attractiveness and competitiveness in attracting FDI in the near future, as Vietnam possesses numerous economic and social advantages beyond taxes (Ministry of Industry and Trade, 2023). However, this may be significantly affected if certain countries in the region have a more favorable investment environment compared to Vietnam.

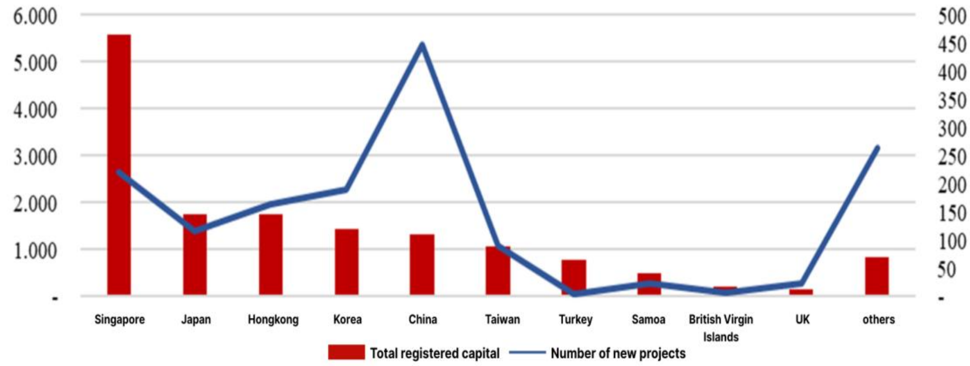


Figure 2: Foreign investment configuration basis for the first 6 months of 2024 by partner

Source: Ministry of Planning and Investment (2024)

Regarding investment partners, among the 84 countries and territories investing in Vietnam in the first half of the year, Singapore led with a total investment of nearly USD 5.58 billion, accounting for approximately 36.7% of total investment, an 86% increase compared to the same period in 2023. Japan ranked second with more than USD 1.73 billion, accounting for 11.4% of total investment, a 21.6% decrease compared to the same period. Following Japan were Hong Kong (China), South Korea, and China. In terms of project count, China was the leading partner in new investment projects, accounting for 29.1% of the total foreign direct investment (FDI) projects in Vietnam in the first two quarters of the year (Anh Nhi, 2024).

According to expert forecasts, many FDI enterprises may seek alternative markets instead of Vietnam for investment due to increased corporate income tax costs. Some FDI enterprises may even consider reducing their investments or withdrawing from the market. This could lead to a decline in FDI inflows to Vietnam in the near future if the country does not implement policy adjustments to compensate for and attract FDI in the new context.

Group of countries with better advantages than Vietnam: Singapore currently has the lowest statutory tax rate and attracts the most FDI in the ASEAN region. However, the country's advantage mainly stems from having been rated as the world's best investment environment for many consecutive years, significantly surpassing Vietnam (Economist Intelligence Unit, 2023). Therefore, the research team believes that the Global Minimum Tax will not significantly impact investors' decisions when choosing between Singapore and Vietnam as investment locations.

Group of countries with similar advantages to Vietnam: Some countries such as Indonesia, Malaysia, Thailand, and the Philippines are currently Vietnam's competitors in attracting FDI, as corporate income tax rates and FDI inflows to these countries do not differ significantly. Malaysia and Thailand are currently rated higher than Vietnam in terms of business environment (World Bank, 2020). Furthermore, except for the Philippines, which is not a member of the Organisation for Economic Co-operation and Development (OECD) and has not committed to applying the Global Minimum Tax, the other mentioned countries have already implemented tax policy changes and measures to maintain incentives for ongoing projects and retain foreign investors (Ánh Tuyết, 2023).

Group of countries with weaker advantages than Vietnam: The remaining countries, including Laos, Cambodia, Myanmar, and Brunei, are assessed by the research team as being at a disadvantage compared to Vietnam in attracting FDI due to lower business environment ratings (World Bank, 2020), unstable market size, and economic growth potential. In particular, Myanmar currently faces a complex political situation. A general assessment by the Southern Investment

4.2. Tax competition

According to Clause 6, Article 1 of the amended 2013 Corporate Income Tax Law, the average corporate income tax rate in Vietnam is 20%, lower than the ASEAN regional average of 22%.

In ASEAN countries, tax incentives are primarily focused on corporate income tax, which is a direct tax imposed on income or calculable profits accumulated by a business. ASEAN nations have established different standard corporate income tax rates, determined by various factors depending on government priorities, development levels, and the nature of the economy (Shira & Associates, 2018). The average corporate income tax rate in ASEAN has been decreasing, from 25.1% in 2010 to 22.6% in 2015 and further down to 21.7% in 2020.

Laos and Thailand experienced the most significant reductions in standard corporate income tax rates over the past decade (2010-2020), dropping from 35% to 20% in Laos and from 30% to 20% in Thailand. Indonesia reduced its rate to 22%, while Malaysia lowered it to 24% for taxable income exceeding 500,000 Ringgit. Malaysian enterprises with capital contributions of 2.5 million Ringgit or less enjoy a reduced tax rate of 19% on the first 500,000 Ringgit of taxable income. Singapore maintains the lowest corporate income tax rate in ASEAN at 17%, unchanged for the past decade, while Brunei follows with 18.5%.

In Laos, investors who reinvest their net profits into additional activities or qualifying investments are exempt from tax on profits for the following accounting year. In Myanmar, businesses are exempt from corporate income tax if the profits generated from investment activities are reinvested into the same business or a similar business within one year. Additionally, in Myanmar, corporate income tax exemptions are only granted to approved service projects. The tax exemption period across ASEAN countries varies between 5 to 20 years, with an average duration of approximately 12 years. Specifically, small and medium-sized enterprises in high-tech industrial parks in Brunei may receive a total tax exemption for up to 20 years. Depending on new investment capital levels, Indonesia's Ministry of Finance may approve a maximum exemption period of up to 20 years from the fiscal year when a company begins commercial operations. After the tax holiday ends, these businesses receive a 50% reduction in corporate income tax for the following two years.

Some Countries Reduce Standard Tax Rates to Attract Investment

In recent years, many countries have reduced standard corporate income tax rates to enhance competitiveness and attract investment. Member countries of the Organisation for Economic Co-operation and Development (OECD) have lowered their average corporate income tax rates from 32% in 2000 to 26% in 2008 and 25% in 2015.

Since 2013, the United Kingdom has reduced its standard corporate income tax rate four times, from 24% to 19%, with a planned reduction to 17% from April 1, 2020. Additionally, since April 2016, the United Kingdom has reduced the capital gains tax rate and eliminated fuel revenue taxes. Finland lowered its corporate income tax rate from 24.5% to 20% on January 1, 2014. Portugal reduced its rate from 25% to 23% on January 1, 2014, and further to 21% on January 1, 2015. Spain decreased its rate from 28% to 25% on January 1, 2016. In 2017, several European countries also cut their corporate income tax rates, such as Slovakia from 22% to 21%, Italy from 27.5% to 24%, and Norway from 25% to 24%.

In Asia, Japan reduced its corporate income tax rate from 25.5% to 23.9% on April 1, 2015. Bangladesh lowered its rate from 27.5% to 25% on July 1, 2015. Malaysia reduced its rate from 25% to 24% in 2016, while Israel decreased its rate from 25% to 24% in 2016 and further to 23% in 2017.

Additionally, Canada lowered the tax rate for small businesses from 11% to 9% over a four-year period: 10.5% in 2016, 10% in 2017, 9.5% in 2018, and 9% in 2019. Egypt reduced its rate from 25% to 22.5% on August 21, 2015.

4.3. Scale of investment

Deputy Director General Đặng Ngọc Minh affirmed that among approximately 36,500 FDI enterprises in Vietnam, not all are subject to the Global Minimum Tax (GMT). Currently, only about 1,017 FDI enterprises in Vietnam have parent companies that fall under the scope of the Global Minimum Tax. More than 30,000 FDI enterprises continue to benefit from the corporate income tax incentives as before (Đình Trường, 2023).

Regarding the assessment of the impact of the Global Minimum Tax, Mr. Lưu Đức Huy, Director of the Policy Department at the General Department of Taxation, stated that for the 1,017 FDI enterprises whose parent companies are headquartered abroad and have consolidated revenues exceeding 750 million euros, the General Department of Taxation has categorized them into two groups for ease of evaluation:

- The first group consists of multinational corporations with only one subsidiary in Vietnam.

- The second group comprises multinational corporations with multiple subsidiaries operating in Vietnam.

According to the proposal from the Ministry of Finance, there are currently 122 FDI enterprises in Vietnam that are required to pay additional taxes under the Global Anti-Base Erosion (GloBE) regulations. Among these 122 enterprises, FDI capital primarily originates from Asian countries, accounting for 73.71%. Notably, Japan holds the largest share at 31%, with 35 enterprises, followed by major investors from South Korea (16%) and China (13%).

For European countries, Germany has 12 affected enterprises (9.83%), France has 7 enterprises (5.73%), while from the Americas, the United States has 9 enterprises subject to the additional tax obligation (7.37%). Furthermore, as these enterprises mainly originate from developed nations, the research team predicts that the implementation of the Global Minimum Tax will have the most significant impact on the investment scale of enterprises from these countries.

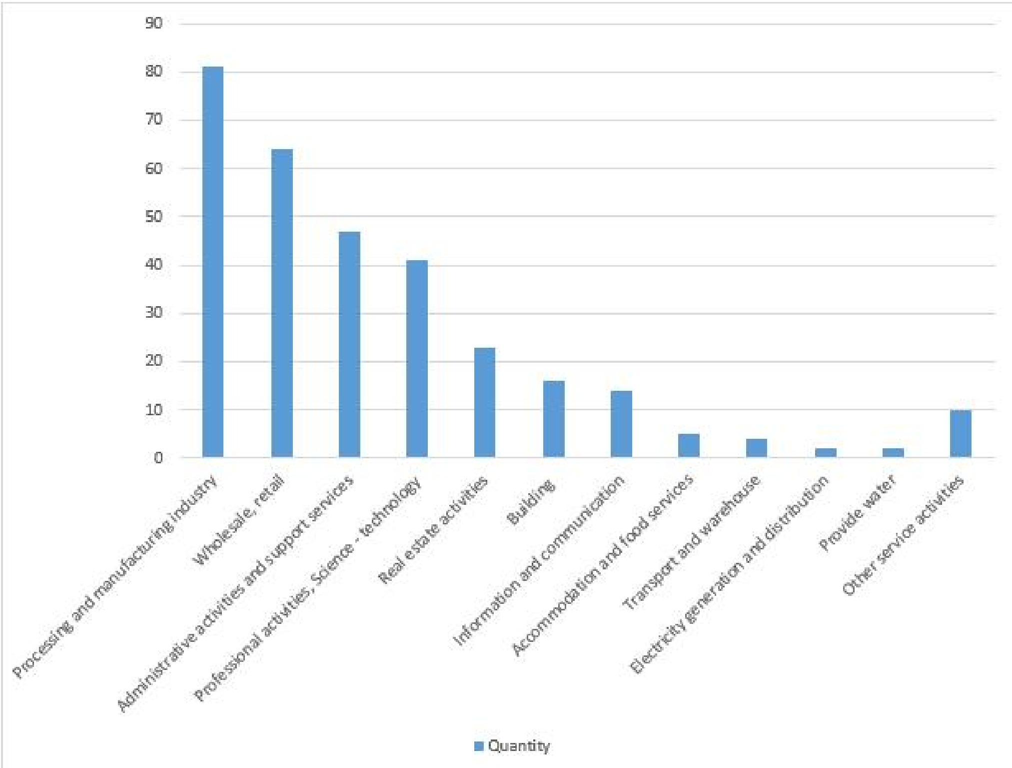


Figure 3: Statistics and classification of 122 businesses affected by GMT

Source: Ministry of Finance Report (2023)

Manufacturing and Processing Industry: The manufacturing and processing industry has consistently demonstrated its significance by attracting the highest amount of foreign direct investment (FDI), primarily due to corporate income tax incentives. Although the number of projects in this sector is not extensive, they generate substantial ripple effects, creating a “domino effect” that attracts additional "satellite" investors into the supply chain for production, consumption, and services. Given that this sector exhibits high tax elasticity concerning investment, the implementation of the Global Minimum Tax—rendering tax incentives ineffective—is expected to significantly impact decisions regarding the expansion of existing projects and the attraction of new investments into Vietnam in the future.

Wholesale and Retail Industry: Despite possessing numerous competitive advantages in attracting FDI—such as market size, population, income levels, consumer spending, and labor force availability and costs—the wholesale and retail industry in Vietnam remains highly sensitive to changes in corporate income tax rates. With an average additional tax obligation of approximately 7.3% for the 122 affected enterprises, companies in this sector will effectively pay nearly twice the previous tax amount following the implementation of the Global Minimum Tax. As a result, investors may reconsider their capital allocation, potentially reducing investment scale or shifting capital to alternative locations.

Professional, Scientific, and Technical Services Industry: Changes in corporate income tax are expected to have minimal impact on high-tech activities and research and development (R&D). Foreign investors in this sector are primarily driven by non-tax competitive advantages such as labor quality, human resources, infrastructure, and scientific and technological advancements (Nguyễn Thy Nga, 2023). Therefore, even when tax incentives become ineffective under the Global Minimum Tax, multinational enterprises (MNEs) investing in this sector are unlikely to alter their investment scale significantly.

Renewable Energy Industry: Vietnam currently offers the highest corporate income tax incentives for renewable energy and green energy projects, making investment capital requirements in this sector substantial. However, according to HSBC (2021), Vietnam’s attractiveness as the leading investment destination for renewable energy in ASEAN stems from its abundant natural resources for hydropower, wind power, solar energy, and biomass energy. Consequently, despite the discontinuation of tax incentives, Vietnam will remain an appealing destination for FDI in the renewable energy sector due to its natural resource advantages.

4.4 Profit Shifting

In Vietnam’s foreign direct investment (FDI) sector, tax evasion and profit shifting have become increasingly sophisticated and complex. Many FDI enterprises initially choose Vietnam as an investment destination to benefit from tax incentives. However, after generating profits, they often transfer funds back to jurisdictions with low or zero corporate income tax rates to minimize their tax liabilities (Nguyễn Văn Phụng, 2023).

Statistics in recent years indicate that approximately 50% of FDI enterprises in Vietnam report losses. According to tax authorities, companies that frequently declare business losses are concentrated in labor-intensive industries such as garment processing, footwear manufacturing, tea export production, and the processing industry (Quỳnh Nga & Lan Anh, 2018). The Ministry of Finance has assessed that, despite overall revenue and pre-tax profit growth over the years, the persistent high proportion of loss-making enterprises, cumulative losses, and capital erosion suggests ongoing transfer pricing practices and tax evasion. These activities cause significant revenue losses for the national budget and create an unfair tax environment.

To address the increasingly sophisticated and complex nature of transfer pricing and tax avoidance by FDI enterprises, the implementation of the Global Minimum Tax (GMT) is seen as a viable solution in Vietnam. With a minimum tax rate of 15%, GMT establishes a common tax rate across jurisdictions, including Vietnam, thereby reducing tax rate discrepancies and minimizing the attractiveness of tax havens. This discourages multinational enterprises (MNEs) from shifting profits to low-tax jurisdictions. As a result, MNEs will be required to pay taxes in the countries where they generate profits, ensuring tax revenue for Vietnam and other nations. Additionally, GMT promotes fairness in the international tax system and fosters healthy competition among countries in attracting FDI based on economic fundamentals rather than tax advantages.

4.5. Overall Assessment of the Impact of the Global Minimum Tax on Vietnam

4.5.1. Positive Impacts

a. Increased Tax Revenue

The Global Minimum Tax can enhance Vietnam's tax revenues from multinational companies. With GMT in place, MNEs operating in Vietnam will be required to pay a minimum tax rate regardless of whether they shift profits to lower-tax jurisdictions. Furthermore, GMT reduces tax optimization strategies, which many corporations use to lower their tax liabilities by transferring profits to countries with lower tax rates. By setting a minimum tax threshold, GMT limits the effectiveness of these strategies. Importantly, it helps Vietnam mitigate corporate tax revenue losses resulting from profit shifting. This creates a more stable and predictable tax revenue stream, enabling the government to plan and allocate resources more efficiently, thereby strengthening domestic tax revenues.

b. Restricting Tax Optimization by FDI Enterprises

GMT prevents companies from seeking the lowest-tax jurisdictions to shift their profits. Additionally, it curbs transfer pricing—an approach used by MNEs to shift profits from high-tax to low-tax jurisdictions by manipulating internal pricing for goods and services. GMT also enhances transparency and fairness in the global tax system. This not only boosts tax revenues for countries like Vietnam but also fosters a more equitable business environment where all enterprises are subject to fair tax obligations.

c. Establishing a Fair Business Environment

GMT ensures that all FDI enterprises, regardless of their country of origin, are subject to a uniform tax rate. This reduces opportunities for MNEs to exploit international tax structures to move profits to low-tax jurisdictions. Consequently, the business environment becomes more competitive, where firms compete based on innovation, productivity, and product quality rather than tax advantages. By eliminating tax-driven investment decisions, companies will prioritize factors such as operational efficiency, workforce capabilities, and technological advancements when choosing investment locations.

d. Encouraging Sustainable Investment

Before GMT, MNEs could optimize tax liabilities by shifting profits and assets to low-tax countries. However, with GMT in effect, the financial benefits of profit shifting diminish, compelling companies to focus on genuine and sustainable business investments rather than short-term tax advantages. Moreover, GMT establishes a global minimum tax standard, reducing uncertainty in international tax policies. This fosters a stable business environment, attracting long-term and sustainable investments.

e. Strengthening Anti-Tax Evasion Measures

GMT provides an opportunity for countries to enhance their tax administration capabilities. By setting a global minimum tax rate, it offers clear guidelines for tax authorities on how to tax MNEs effectively. This reduces ambiguity and improves efficiency in tax collection. Additionally, by ensuring that all companies are subject to fair taxation, GMT promotes corporate accountability toward the communities and societies in which they operate.

4.5.2. Negative Impacts

a. Reduced FDI Attraction

The Global Minimum Tax (GMT) may set a corporate tax rate higher than Vietnam's current rate, requiring Vietnam to increase its tax rates to comply. This could impact investment decisions by multinational corporations (MNCs), making Vietnam a less attractive investment destination. While other countries are also raising their tax rates to comply with GMT, this could create a global business environment where tax-based competition diminishes.

b. Potential Capital Outflow from Vietnam

If Vietnam increases its tax rate due to GMT, it may reduce the potential profitability of MNCs operating in the country. As a result, companies might decide to shift their investment capital to other countries with equivalent or lower tax rates. This could lead to a decline in FDI inflows, potentially slowing economic growth and reducing employment opportunities in Vietnam.

c. Increased Illegal Investment Activities

GMT could create a riskier environment for non-transparent or illicit business operations. Higher tax rates may make illegal tax planning strategies—such as using tax havens or engaging in other tax evasion schemes—less attractive. However, it may also encourage businesses to seek alternative methods to minimize tax liabilities through unregulated financial practices.

d. Slower Economic Growth, Reduced Exports, and Lower Tax Revenues from FDI

A decline in FDI could negatively impact Vietnam's economic growth, export volume, and government tax revenues. According to data from the General Statistics Office, FDI has significantly contributed to Vietnam's economy between 2019 and 2023, as shown in Table 1.

Year	**GDP (%)**	**Export (billion USD)**	**Share in total exports (%)**	**Proportion in total State budget (%)**
2019	19.91	185.28	70.1	13.66
2020	20.00	204.43	72.3	13.84
2021	20.24	246.88	73.4	13.65
2022	20.46	276.76	79.1	13.41
2023	22.1	259.1	73	N/A

Table 1: FDI contribution to Vietnam's economy from 2019 to 2023

Source: Vietnam Statistical Yearbook 2023

Over the five-year period from 2019 to 2023, the average contribution of Foreign Direct Investment (FDI) to economic growth was 20.54%. The average export value of FDI enterprises reached $234.5 billion, accounting for nearly 74% of the country's total export turnover. Additionally, FDI enterprises contributed 14.4% of the total national budget revenue.

If FDI inflows into Vietnam decline, all these key indicators will be negatively affected. Specifically, a reduction in FDI would lead to a decrease in its contribution to economic growth, export value, and tax revenue for the national budget. This includes corporate income tax, value-added tax, import tax, land use tax, and other levies.

Moreover, several intangible benefits that are difficult to quantify financially would also be impacted. These include job creation for workers, technology transfer, and the enhancement of domestic production capabilities.

5. Recommendations

It can be said that the Global Minimum Tax (GMT) presents certain challenges but also brings opportunities for the investment environment in Vietnam. The crucial aspect is that both the Government and businesses must carefully consider measures to effectively respond and adapt to these changes. From the Government's perspective, participation in GMT regulations necessitates addressing critical issues such as how to implement GMT effectively while retaining major foreign direct investment (FDI) enterprises and maintaining the competitiveness and attractiveness of the investment environment compared to other countries in the region and worldwide.

The following solutions and recommendations can be applied individually or simultaneously to transform challenges into opportunities for attracting FDI to Vietnam, especially when GMT regulations take effect from the fiscal year 2024.

5.1. Establishment of a "National Investment Support Fund"

The additional corporate income tax (CIT) revenue generated by the implementation of GMT could be used to establish a "National Investment Support Fund" as a new investment support policy to replace and compensate investors when CIT incentives below 15% no longer apply. However, the new investment support policy must meet the following criteria:

- Compliance with the regulations of the Organisation for Economic Co-operation and Development (OECD);

- Feasibility and alignment with Vietnam's practical conditions;

- Avoidance of negative impacts on state budget revenues after implementing the new investment support policy;

- Application to FDI enterprises affected by additional tax costs due to the implementation of GMT rules in Vietnam.

The "National Investment Support Fund," sourced from GMT revenues and other lawful sources, can help stabilize the investment environment and encourage strategic investors and multinational corporations impacted by GMT regulations.

The Government should also develop clear criteria and guidelines to identify FDI enterprises directly affected and eligible to benefit from the "National Investment Support Fund." Additionally, there should be periodic evaluations of the incentive packages granted to FDI enterprises affected by GMT to make necessary adjustments, ensuring the feasibility of support policies in line with international commitments, global best practices, and Vietnam's economic reality.

The "National Investment Support Fund" may provide direct incentives to affected FDI enterprises similar to those outlined in Article 18 of the Investment Law No. 61/2020/QH14, dated June 17, 2020 (hereinafter referred to as the "Investment Law 2020").

5.2. Introducing New Support Packages and Incentive Policies

Vietnam should reassess its existing support packages and design new incentive policies that take into account the new minimum tax rate to accommodate two groups of investors:

- Existing FDI enterprises operating in Vietnam;
- FDI enterprises planning to invest in Vietnam from 2024 onwards.

The support measures should achieve three key objectives:

- Ensure real and substantial benefits for investors;
- Comply with international commitments that Vietnam is a signatory to;
- Adhere to the rules of Pillar Two of the OECD's global tax framework.

Since existing tax incentives remain effective for enterprises outside the scope of GMT—particularly small and medium-sized enterprises—adjusting incentives should balance the interests of different investor groups to prevent tax system imbalances or favoritism toward a specific group.

5.3. Development of Non-Tax Factors

To retain existing investors and attract new ones, Vietnam must continue enhancing non-tax factors to improve competitiveness, including infrastructure, workforce quality, legal framework, investment environment, and institutions. Strengthening these areas will build investor confidence and reduce reliance on tax advantages to attract FDI.

For example, investing in transportation infrastructure (roads, railways, seaports, and airports) can lower logistics costs and improve market connectivity. Developing a well-established and transparent legal framework will create a fair and comprehensible business environment, ensuring legal security for investors. Additionally, simplified, efficient administrative procedures can reduce costs and processing time for businesses, making investment and business operations smoother. Vietnam should also leverage its existing advantages, such as geographic location, land availability, labor resources, and economic openness, to enhance the investment climate genuinely.

5.4. Import Duty Exemptions and Reductions

Since existing CIT incentives may no longer be effective for some FDI enterprises subject to the GMT 15% minimum tax, introducing import duty exemptions and reductions for businesses required to pay additional CIT under GMT rules could be a viable policy option to attract FDI.

To offset the additional CIT burden due to GMT, the Government could consider applying import duty exemptions under the Investment Law 2020 and the Law on Export and Import Taxes. Specifically:

- Expanding the eligibility for import duty incentives to multinational enterprises required to pay additional CIT at the 15% minimum tax rate;

- Granting import duty exemptions for raw materials, supplies, and components used in investment projects, with a minimum exemption period of five years or longer for items not yet produced domestically. The level of import duty exemption or reduction should align with the budget capacity of the "National Investment Support Fund."

5.5. Proactive Engagement with Potential Multinational Investors

Instead of waiting for FDI enterprises to approach Vietnam for investment, the Government should consider establishing an Investment Advisory Center for Vietnam to serve as a bridge between foreign investors interested in direct investment in Vietnam. This center should actively engage, negotiate, and invite multinational corporations and potential FDI investors to invest in Vietnam.

The Investment Advisory Center for Vietnam could collaborate with diplomatic agencies (embassies and consulates of various countries in Vietnam and Vietnamese embassies and consulates abroad), domestic and foreign business associations, investment promotion agencies, reputable investment consultancy firms, international and domestic law firms, banks, and investment funds to compile a list of companies meeting investment criteria and potential for Vietnam. The center could then actively engage and "extend a red-carpet welcome" to these enterprises to invest in Vietnam.

It is essential to communicate to potential FDI investors that they can access the Investment Advisory Center for Vietnam for free consultation services, including legal advice, investment consultancy, and other support services, funded by the "National Investment Support Fund."

5.6. Other Solutions

Tax incentives, including CIT reductions, have been a key factor in attracting FDI to Vietnam. The implementation of GMT may impact Vietnam's ability to attract FDI. However, beyond tax incentives, the attractiveness of Vietnam's investment environment depends on multiple other factors in which Vietnam has a competitive advantage, such as geographic location, land availability, labor resources, and extensive free trade agreements that facilitate global supply chain integration.

Therefore, alongside incorporating GMT into domestic regulations, Vietnam should develop mechanisms and policies to retain existing investors and attract new ones by focusing on significant and substantive improvements to the business environment and competitiveness, particularly by:

- Enhancing institutional frameworks;
- Investing in infrastructure connectivity;
- Developing a high-quality workforce.

These fundamental factors play a crucial role in FDI enterprises' investment decisions in Vietnam. As a developing country with a highly open economy, Vietnam is committed to attracting foreign investment for economic development. Therefore, Vietnam must adjust its policies to adapt to the new context while ensuring alignment with GMT's global principles, maintaining an attractive investment environment for FDI, and balancing investor benefits with Vietnam's tax revenue interests. As the implementation of GMT may have a significant impact on FDI in Vietnam, the above-referenced solutions should be carefully considered to comprehensively evaluate their benefits and limitations before execution.

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