

Tax Incentives and FDI Attraction: A Perspective from Institutions, Absorptive Capacity, and The Development of Vietnamese Enterprises 2015-2025 Period

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Abstract—

This study examines the role and effectiveness of tax incentives in attracting foreign direct investment (FDI) to Vietnam during the 2015–2025 period, drawing on an analysis of tax and investment policies, legal frameworks, official reports, and international studies. The findings indicate that tax incentives have contributed to enhancing Vietnam's investment attractiveness, particularly for large-scale and high-technology projects, as well as projects operating in priority sectors and locations. In 2024, Vietnam attracted USD 38.23 billion in registered FDI, while disbursed FDI reached USD 25.35 billion; the FDI sector accounted for approximately 72% of the country's total exports. However, the scale of FDI has not been accompanied by commensurate spillover effects. The share of foreign value added in exports increased from 36% in 2005 to 48% in 2020, reflecting substantial reliance on imported inputs and persistent limitations in linkages with domestic enterprises. The study argues that the effectiveness of tax incentives depends not only on the generosity of the incentives themselves but also on the quality of institutions, infrastructure, human resources, supporting industries, and the absorptive capacity of domestic firms. In the context of the global minimum tax, Vietnam needs to move beyond the paradigm of “providing incentives to attract FDI” towards “designing incentives to generate domestic value added,” thereby improving the quality of FDI and strengthening the economy's endogenous capacity.

Keywords—tax incentives; FDI; global minimum tax; absorptive capacity; domestic enterprises.

I. INTRODUCTION

Taxation is an important variable in international investment decisions, but it is by no means the only one. Investors consider tax rates and the duration of tax exemptions and reductions, while also weighing the quality of infrastructure, human resources, market access, logistics costs, and, above all, the stability and predictability of policy.

This has become increasingly evident over the 2015–2025 period, as Vietnam has integrated more deeply into the global economy, joined a growing number of next-generation free trade agreements, and emerged as a notable destination in the restructuring of global supply chains. FDI has become an important driver of exports, manufacturing, and employment creation. In 2024, realized FDI reached approximately USD 25.35 billion, while total registered FDI stood at USD 38.23 billion.

Yet the success reflected in capital inflows raises a broader question about quality. An FDI project may generate thousands of jobs and make a substantial contribution to exports, but its long-term impact remains limited if most raw materials, components, and technologies continue to be imported, while Vietnamese enterprises are confined to low-value-added activities.

The question, therefore, is no longer simply whether “tax incentives help attract FDI,” but rather: “What types of FDI do tax incentives enable Vietnam to attract, how much domestic value do they create, and how far do they help Vietnamese enterprises advance along global value chains?”

The issue has become even more pressing with the implementation of the global minimum tax. With a minimum effective tax rate of 15% applying to in-scope multinational

enterprises, the advantage conferred by traditional tax incentives is being narrowed. Under such circumstances, some of the tax incentives granted by Vietnam to investors may no longer determine the multinational group's actual tax burden, while the government budget may nevertheless continue to bear the opportunity costs associated with those incentives.

This calls for a reassessment of how Vietnam competes for FDI. Tax incentives remain necessary under certain circumstances, but they cannot substitute for an investment environment characterized by transparent institutions, integrated infrastructure, a high-quality workforce, and a sufficiently capable business ecosystem to participate in supply chains.

II. LITERATURE REVIEW AND RESEARCH GAP

International studies generally indicate that taxation affects cross-border investment decisions, although the magnitude of this effect depends on the industry, project scale, and characteristics of individual countries. De Mooij and Ederveen (2003) argue that tax differentials can influence FDI, but their effects cannot be considered independently of other location-specific factors. According to Dunning (1993), tax advantages constitute only one component of a broader set of location advantages, alongside markets, infrastructure, labour, and institutions.

For host economies, the more important question is whether FDI generates spillover effects. Javorcik (2004) shows that linkages with foreign firms, particularly through relationships with domestic suppliers, can generate positive effects for local enterprises. Such effects, however, do not arise automatically. Domestic firms must possess sufficient technological, managerial, and human-resource capabilities to absorb and exploit new knowledge.

Cohen and Levinthal (1990) refer to this capability as absorptive capacity—the ability to recognize, assimilate, and apply external knowledge. This represents a particularly important link in the Vietnamese context. Given the same FDI project, a locality with good infrastructure, a technically skilled workforce, and a well-developed network of supporting enterprises is more likely to generate substantial spillover effects than one lacking these conditions.

Vietnam's experience demonstrates the substantial presence of the FDI sector, yet its linkages with domestic enterprises remain disproportionate to its scale. The OECD assesses that FDI has generated significant benefits in terms of capital, employment, exports, and market access, but backward linkages with domestic firms remain weak. The share of foreign value added in Vietnam's exports rose to 48% in 2020, reflecting considerable dependence on imported inputs.

These observations suggest that the research gap lies no longer primarily in asking whether taxation affects FDI, but in determining under what conditions tax incentives generate net benefits for the economy. Three factors therefore need to be considered simultaneously: tax incentives, the quality of FDI inflows, and the absorptive capacity of Vietnamese enterprises.

From this perspective, policy effectiveness should not be measured solely by the volume of registered capital. A sound policy framework must address more demanding questions: How much domestic value added does FDI generate? How many Vietnamese enterprises become suppliers? To what extent are technology and managerial skills transferred? And are the resulting socioeconomic benefits commensurate with the fiscal costs of the incentives provided?

This provides the basis for moving from a mindset of “attracting FDI through incentives” towards “selecting high-quality FDI and creating the conditions for FDI to become more deeply embedded in the Vietnamese economy.” As tax advantages continue to narrow, Vietnam's sustainable competitive advantage will not lie in offering greater incentives, but in its ability to build an economy attractive enough for investors to come, expand, and increasingly seek value within Vietnam itself.

III. LEGAL FRAMEWORK FOR TAX INCENTIVES FOR INVESTMENT IN VIETNAM

Viewed through the evolution of policy over the 2015–2025 period, tax incentives in Vietnam should not be regarded as a standalone policy operating outside the broader investment strategy. Rather, they form part of an ongoing process of institutional adjustment aimed at balancing three objectives: attracting capital, safeguarding the economy's competitiveness, and maintaining fiscal discipline. Notably, as foreign direct investment (FDI) inflows have expanded, the State's approach to tax incentives has gradually evolved—from an emphasis on the generosity and duration of exemptions and reductions towards greater attention to investment conditions, priority sectors, the transparency of tax administration, and the actual quality of investment projects.

During the early years of the period under review, the Law on Corporate Income Tax and Decree No. 218/2013/ND-CP played a central role in establishing preferential tax rates, tax exemption and reduction periods, and the scope of incentives applicable to investment-promoted sectors and locations.

Decree No. 218/2013/ND-CP was promulgated to provide detailed provisions and guidance for the implementation of the Law on Corporate Income Tax and was subsequently supplemented by implementing instruments issued by the Ministry of Finance.

TABLE I. INSTITUTIONAL REFORM AND THE TAX-INVESTMENT LEGAL FRAMEWORK, 2015–2025

Period / Year	Key Policy Areas / Principal Legal Instruments	Core Content and Policy Objectives
Early period (2013–2016)	- Law on Corporate Income Tax - Decree No. 218/2013/ND-CP - Law No. 107/2016/QH13 on Export and Import Duties (effective 1 September 2016)	Establishing preferential tax rates and exemption/reduction periods by sector and location; providing import duty exemptions for machinery, equipment, and raw materials used in eligible investment projects.
Strengthening tax administration and addressing transfer pricing (2017–2020)	- Decree No. 20/2017/ND-CP and Decree No. 132/2020/ND-CP - Law No. 38/2019/QH14 on Tax Administration (effective 1 July 2020) - Law No. 61/2020/QH14 on Investment (effective 1 January 2021)	Strengthening control over related-party transactions and transfer pricing; enhancing modern tax administration capacity; establishing clearer links between the lists of investment-incentivized sectors and locations and tax incentive policies.
Responding to economic volatility and the Global Minimum Tax (2023)	- Resolution No. 101/2023/QH15 and Decree No. 44/2023/ND-CP - Resolution No. 107/2023/QH15 (effective 1 January 2024)	Flexibly deploying VAT reductions as a macroeconomic support measure; introducing top-up corporate income tax provisions to align with global anti-base-erosion rules and the 15% Global Minimum Tax.
Institutional transition (2024–2025)	- Law No. 48/2024/QH15 on Value-Added Tax (effective 1 July 2025) - Law No. 67/2025/QH15 on Corporate Income Tax (effective 1 October 2025) - Decree No. 320/2025/ND-CP - Law No. 66/2025/QH15 on Special Consumption Tax (effective 1 January 2026)	Establishing a new legal architecture for the post-2025 period; shifting the policy orientation from tax incentives in isolation towards a closer alignment between economic effectiveness and fiscal discipline.

Source: Compiled from legal and regulatory instruments (Laws, Decrees, and Resolutions).

From a policy research perspective, the critical issue is not simply the tax rate applicable to an enterprise, but the deeper question of how far such incentives alter investment decisions and whether they generate economic value commensurate with the public resources forgone by the State. This is precisely where research on tax incentives needs to move beyond a purely legalistic approach. A policy may appear highly generous on paper yet have limited effects in practice if infrastructure is inadequate, administrative procedures are cumbersome, labour quality is low, or linkages with the domestic business sector remain weak.

Law No. 107/2016/QH13 on Export and Import Duties added another important layer to the policy framework for investment projects, particularly through provisions granting import duty exemptions for certain categories of machinery, equipment, and raw materials subject to statutory conditions. The Law took effect on 1 September 2016.

Another notable shift occurred in the administration of related-party transactions. Decree No. 20/2017/ND-CP established a tax administration framework for enterprises engaged in related-party transactions and was subsequently amended and replaced in terms of its regulatory mechanism by Decree No. 132/2020/ND-CP; in 2025, Decree No. 20/2025/ND-CP further amended Decree No. 132. This

evolution demonstrates that tax incentive policy cannot be considered independently of transfer pricing controls, the protection of the tax base, and the need to ensure that the benefits of investment are not shifted out of the host economy through intra-group transactions.

Law No. 38/2019/QH14 on Tax Administration, effective from 1 July 2020, established an additional institutional layer for modern tax administration, covering tax registration, filing, payment, inspection, examination, and the administration of tax obligations. At the same time, Law No. 61/2020/QH14 on Investment, effective from 1 January 2021, further defined the sectors and locations eligible for investment incentives, thereby providing a legal basis for linking investment policy with tax incentives.

Changes from 2023 onward demonstrate that tax policy has increasingly been deployed with greater flexibility as an instrument of macroeconomic support. VAT reduction measures were implemented on the basis of resolutions adopted by the National Assembly and decrees issued by the Government, including Decree No. 44/2023/ND-CP, which provided for VAT reductions pursuant to Resolution No. 101/2023/QH15. It is important, however, to distinguish clearly between investment-related tax incentives and tax reduction measures designed to support the macroeconomy. Although both may reduce enterprises' tax liabilities, their objectives, target beneficiaries, and transmission mechanisms are not identical.

By 2025, the policy framework entered a new phase. Law No. 67/2025/QH15 on Corporate Income Tax was promulgated on 14 June 2025 and took effect on 1 October 2025; subsequently, Decree No. 320/2025/ND-CP, providing detailed provisions and measures for implementing the Law, was promulgated on 15 December 2025. Law No. 48/2024/QH15 on Value-Added Tax took effect on 1 July 2025, while Law No. 66/2025/QH15 on Special Consumption Tax took effect on 1 January 2026. Accordingly, 2025 should be viewed as an institutional transition point rather than merely the endpoint of the 2015–2025 policy sequence.

Taken as a whole, these developments suggest that the effectiveness of tax incentives should not be assessed solely on the basis of the volume of registered FDI or the number of years for which enterprises receive tax exemptions or reductions. The policy needs to be examined in relation to project quality, employment creation, technology transfer, linkages with Vietnamese enterprises, fiscal contributions following the incentive period, and the capacity to develop long-term productive capabilities. In other words, a unit of tax forgone has genuine economic significance only if it generates a greater unit of value added for the economy. This is the criterion that policy research should consistently pursue.

IV. RESEARCH METHODOLOGY

A. Research Design

The study adopts a qualitative research design, with documentary analysis and thematic analysis serving as its principal methods. This approach is well suited to the objective of identifying changes in policy thinking, the mechanisms underlying incentive design, and the institutional conditions that determine whether tax incentives can be translated into tangible investment outcomes. Bowen (2009) argues that legal documents, policy reports, and official data sources can serve

as important sources of evidence in qualitative research when they are systematically selected, appraised, and cross-checked.

The documentary sources comprise four main groups: (i) laws, decrees, circulars, and resolutions relating to taxation and investment; (ii) official reports, statistics, and other materials produced by government authorities; (iii) reports and studies by international organizations concerning investment, taxation, and the business environment; and (iv) academic studies addressing tax incentives, FDI, and spillover effects on domestic enterprises.

Documents were selected not merely on the basis of accessibility, but according to three criteria: official status, relevance, and verifiability. Legal instruments were cross-checked by reference to their identification numbers, dates of promulgation, and effective dates. Claims concerning economic effects were compared across domestic sources and academic research to minimize the risk of drawing overly broad inferences from any single source.

B. Analytical Procedure

The analysis proceeded in four stages. First, the relevant policy instruments were catalogued and systematized chronologically to identify major changes in the tax incentive framework. Second, the documentary materials were coded according to the following themes: the scale of incentives; eligibility conditions; priority beneficiaries and sectors; tax administration and compliance; transfer pricing; institutional quality; and effects on FDI and domestic enterprises.

Third, the themes were compared across different periods to identify shifts in policy thinking. Thematic analysis enables the study to uncover recurring patterns across documentary materials rather than merely summarizing individual legal instruments in isolation (Braun & Clarke, 2006). Fourth, the findings were cross-validated against legal documents, official reports, and research literature in order to distinguish clearly between legal provisions, empirical evidence, and the author's interpretation.

C. Analytical Framework

The analytical framework is structured around the following causal logic: tax incentives → changes in investment incentives and costs → investment location and scale decisions → quality of FDI inflows → linkages with the domestic economy → effects on productivity, technology, and the capabilities of domestic enterprises.

Within this chain, tax incentives represent only one variable. Infrastructure, labour quality, market size, and institutional quality may either enhance or diminish the effectiveness of tax incentives. This is also why the study does not regard an increase in FDI as sufficient evidence to conclude that tax incentive policy has been successful.

D. Reliability and Research Limitations

The reliability of the study is strengthened through source triangulation, consistency checks across legal instruments, and the use of multiple categories of documentary materials. Nevertheless, qualitative policy research has an inherent limitation: it can provide considerable insight into why a policy is designed in a particular way and through what mechanisms it may generate effects, but it cannot, by itself, establish causal relationships in a statistical sense.

Accordingly, the study's conclusions are presented in explanatory and interpretive terms rather than being overstated as definitive causal claims. In my view, such caution does not weaken the study; on the contrary, it enables a transparent distinction to be maintained between evidence, interpretation, and policy judgment.

V. RESEARCH FINDINGS AND DISCUSSION

A. Salient Characteristics of FDI Inflows and Tax Incentive Policies

TABLE II. TRENDS IN FDI SCALE AND THE STRUCTURE OF KEY SECTORS, 2015–2025

Indicator / Period	2024	First 6 months of 2025	First 10 months of 2025
Registered FDI	USD 38.23 billion	USD 21.51 billion (up 32.6% year-on-year)	USD 31.52 billion (up 15.6% year-on-year)
Realized FDI (disbursed)	USD 25.35 billion	USD 11.72 billion	USD 21.30 billion (up 8.8%; highest level in five years)
Contribution to exports	The FDI sector accounted for approximately 72% of total export turnover.	—	—
Leading sector (manufacturing and processing)	—	—	New registered capital reached USD 5.61 billion, accounting for 55.9% of total newly registered capital. New and adjusted capital combined accounted for approximately 62.5% of total FDI.

Source: Compiled from official government statistics and FDI situation reports.

Analysis of legal instruments, government reports, and statistical data reveals a relatively clear picture: Vietnam has continued to maintain its attractiveness to FDI during the 2015–2025 period, even amid substantial volatility in the international investment environment. During the first ten months of 2025, total registered foreign investment reached USD 31.52 billion, an increase of 15.6% year-on-year, while realized FDI reached USD 21.3 billion, up 8.8% and representing the highest level recorded for the same period in five years.

The first six months of 2025 likewise recorded USD 21.51 billion in registered FDI, an increase of 32.6% year-on-year, while realized FDI reached USD 11.72 billion. Notably, this strong increase was driven not only by new projects but also by additional capital committed to existing projects and capital contributions and share purchases.

From the perspective of this study, however, these figures should not be hastily interpreted as direct evidence of the effectiveness of tax incentives. FDI inflows are the outcome of multiple, interrelated drivers. Tax incentives may reduce investment costs and improve expected returns, but investors also consider infrastructure, labour quality, market access, institutional stability, logistics costs, and Vietnam's position within regional supply chains.

The structure of FDI in 2025 reinforces this assessment. During the first ten months of the year, processing and manufacturing continued to occupy the leading position; newly registered capital in this sector alone reached USD 5.61 billion, accounting for 55.9% of total newly registered capital. When

new and adjusted capital are combined, processing and manufacturing accounted for approximately 62.5% of total FDI.

This indicates that Vietnam is attracting a relatively distinctive form of FDI—investment closely tied to production, exports, and international supply networks. Tax policy provides important support, but its effects are difficult to disentangle from Vietnam's geo-economic advantages and the ongoing restructuring of global supply chains.

B. Tax Incentives and FDI Attraction: From “Incentive Levels” to “Investment Environment Quality”

Analysis of the various tax policy instruments shows that corporate income tax incentives remain the most important component of Vietnam's investment incentive framework. Tax exemptions, reductions, and preferential rates differentiated by sector, location, and project type provide a particular advantage for projects characterized by long investment horizons and high capital costs.

Nevertheless, a comparison of policy developments with FDI trends reveals a notable shift: tax advantages are gradually becoming less decisive, in relative terms, than they were in the past. This is attributable not only to the fact that economies across the region increasingly use tax incentives to compete for FDI, but also to the emergence of the global minimum tax. Vietnam enacted Resolution No. 107/2023/QH15 on top-up corporate income tax under the global anti-base erosion rules, effective from 1 January 2024.

Against this backdrop, the issue is no longer simply one of “cutting taxes to attract capital.” If an enterprise falls within the scope of the global minimum tax and is subject to the prescribed minimum effective tax rate, offering an additional few percentage points of tax relief in Vietnam may no longer generate a commensurate competitive advantage. This represents a structural change.

In my view, this is precisely the moment for Vietnam to reconsider the underlying philosophy of its incentive policy. Tax incentives have value only when they generate additional investment or economic value that would otherwise be difficult to create in their absence. If firms invest primarily because of market opportunities, supply-chain considerations, labour availability, and Vietnam's geo-economic position, incentives beyond what is necessary may simply become foregone government revenue.

With respect to VAT, reductions implemented during particular periods can support aggregate demand and improve corporate cash flows. They should, however, be clearly distinguished from selective tax incentives targeted at investment. The entire effect of VAT reduction measures should not be attributed to FDI investment decisions.

C. The Downside of Tax Incentives: Transfer Pricing Risks and the Quality of Tax Revenue

One notable finding from the documentary analysis is the simultaneous occurrence of two seemingly contradictory phenomena: FDI continues to expand, while the number of loss-reporting FDI enterprises remains remarkably high.

According to the Ministry of Finance, among 28,918 FDI enterprises for which financial statement data were available in 2023, 16,292 reported losses, while as many as 18,140 reported

accumulated losses. Total losses in 2023 amounted to approximately VND 217.464 trillion, even as the total assets of the sector continued to increase by 6.8%.

These figures alone are insufficient to conclude that FDI enterprises engage in transfer pricing or tax evasion. This point warrants particular caution. Enterprises may report losses because of investment cycles, substantial depreciation expenses, market fluctuations, financing costs, or a range of other legitimate business reasons. However, when persistent loss reporting occurs alongside rising revenues, expanding assets, or business expansion, it becomes a risk signal that tax authorities cannot afford to disregard.

The issue, therefore, is not whether tax incentives are “right” or “wrong”, but rather the capacity to manage enterprises after incentives have been granted. An effective policy must be accompanied by the ability to distinguish between enterprises that genuinely create value and those that exploit gaps in the system to minimize their tax liabilities.

TABLE III. INDICATORS OF CAPITAL FLOW QUALITY, COMPLIANCE RISKS, AND SPILLOVER CAPACITY, 2015–2025

Indicator of Quality and Spillover Effects	Data / Evidence from the Study	Analytical Significance for 2015–2025
Dependence on imported inputs (foreign value added)	Increased from 36% in 2005 to 48% in 2020	Indicates substantial dependence on imported raw materials and components and persistent limitations in establishing backward linkages with domestic enterprises.
Financial conditions and compliance risks in the FDI sector	According to the Ministry of Finance (2023 data): – Enterprises with financial statements: 28,918 – Enterprises reporting losses during the year: 16,292 – Enterprises with accumulated losses: 18,140 – Total losses during the year: approximately VND 217.464 trillion, despite a 6.8% increase in total assets	Persistent loss reporting alongside asset expansion poses a major challenge to post-incentive management, transfer pricing risk control, and the quality of government tax revenue.
Assessment of spillover capacity (World Bank and OECD)	Overall assessment based on national and international studies on Vietnam	Linkages between FDI enterprises and domestic firms remain weak. The technological, managerial, and financial capabilities of Vietnamese enterprises constitute major barriers, meaning that spillover effects do not arise automatically in the absence of policies that strengthen absorptive capacity.

Source: Compiled from data provided by the Ministry of Finance and World Bank/OECD studies cited in this paper.

D. Spillover Effects on Domestic Enterprises: Not a Natural Outcome

Documentary analysis indicates that FDI can generate spillover effects through three principal channels: knowledge and technology transfer, supply-chain linkages, and competition-driven innovation.

Yet a common misconception needs to be avoided: the mere presence of FDI does not automatically translate into benefits for domestic enterprises. World Bank research shows that linkages between FDI firms and domestic enterprises in Vietnam remain limited; product quality, skills, access to finance, and technological capabilities among domestic firms constitute important constraints.

Another World Bank study on FDI spillovers in Vietnam finds that productivity effects are significantly associated with

value-chain linkages, while the magnitude and direction of these effects vary across industries and firms.

This helps explain why major industrial centres such as Bac Ninh, Hai Phong, and Ho Chi Minh City have been better positioned to develop more clearly defined production ecosystems. The issue is not simply how much FDI flows into a locality, but how many Vietnamese enterprises possess the capabilities required to enter the supply chains created by those investment projects.

In my view, this represents the most stringent test of FDI policy. A foreign-owned factory may generate substantial export turnover while importing most of its inputs, relying on few Vietnamese suppliers, and generating very limited technology transfer. Its contribution to the domestic economy is therefore fundamentally different from that of a project capable of building an extensive network of domestic suppliers.

E. Differences across Localities and Industries

FDI continues to be heavily concentrated in major economic and industrial centres with relatively well-developed infrastructure, labour markets, and supporting services. During the first half of 2025, Hanoi attracted nearly USD 3.66 billion in newly registered FDI; major industrial locations such as Bac Ninh and Ho Chi Minh City also ranked among the leading destinations.

This concentration provides important evidence for reconsidering the assumption that tax incentives, by themselves, can determine investment location. If the level of incentives is relatively similar across locations, yet capital flows are concentrated in areas with better infrastructure, an appropriate labour force, and a more favourable business environment, then tax policy constitutes only one part of the equation.

In other words, investors do not choose a tax rate; they choose an entire business ecosystem.

F. Implementation Challenges

The qualitative analysis reveals three major groups of issues.

First is the complexity of the incentive system. When multiple taxes, project types, and eligibility conditions are layered together, the costs of determining and demonstrating entitlement to incentives can increase. The more complex the policy, the greater the potential gap between rules on paper and their implementation in practice.

Second is the issue of post-incentive administration. A project may satisfy the eligibility requirements at the time of investment, while its actual operations may subsequently diverge substantially from its initial commitments. Incentive administration must therefore move beyond verifying entry conditions towards monitoring outcomes.

Third are the risks of transfer pricing and tax-base erosion. The Ministry of Finance’s report on the FDI sector in 2023 indicates that the number of enterprises reporting losses, as well as those with accumulated losses, remained substantial. This is precisely why tax incentive policies must be accompanied by strong capabilities in data governance, risk analysis, and tax information exchange.

VI. CONCLUSION AND POLICY IMPLICATIONS

The qualitative findings lead to a conclusion that differs somewhat from the conventional view: tax incentives do play a role in attracting FDI, but they are neither the sole determinant nor should they occupy a central position in Vietnam's investment-attraction strategy in the new era.

FDI inflows into Vietnam continued to increase in 2025, but the structure of these flows indicates that investors are increasingly concerned with the potential to expand existing projects, participate in production chains, and leverage Vietnam's position within international trade networks.

Based on the analysis, this study proposes five policy directions.

First, Vietnam should shift from competing on the generosity of incentives to competing on the quality of the investment environment. As the global minimum tax narrows the room for tax-rate-based incentives, Vietnam's competitive advantages must increasingly be found in policy stability, infrastructure quality, human resources, logistics, and the predictability of the legal and regulatory environment.

Second, the country should move from condition-based incentives toward outcome-based incentives. The key question should not be limited to how many years of tax exemption or reduction an enterprise receives, but rather what the economy gains after the incentive period: how many high-quality jobs are created, how much domestic value added is generated, how many Vietnamese enterprises become suppliers, and how much technology and know-how are transferred.

Third, the capabilities of domestic enterprises should be regarded as an integral component of FDI policy. FDI policy and domestic enterprise development should not be designed as two parallel policy tracks. If Vietnamese enterprises lack the capacity to absorb technology, fail to meet the standards of multinational corporations, and have limited access to credit, incentives granted to the FDI sector are unlikely to translate automatically into productivity gains for the domestic economy. International evidence and research on Vietnam alike indicate that supply-chain linkages are an important condition for transforming the presence of FDI into meaningful spillover effects.

Fourth, Vietnam should strengthen tax-risk management rather than relying primarily on conventional tax inspections. Tax, customs, investment, and enterprise-registration databases need to be integrated; risk analysis should focus on enterprises exhibiting unusual transaction patterns, persistent losses, or substantial discrepancies between the scale of their operations and their tax liabilities. This is essential to ensure that tax incentives do not become loopholes in public revenue management.

Fifth, tax incentive policies should be evaluated on the basis of long-term cost-benefit considerations. Every tax exemption or reduction represents, in substance, a portion of public resources that the State forgoes. Accordingly, incentives should be maintained only when the social benefits generated by a project are sufficiently large to compensate for the associated fiscal costs. In my view, this should become a guiding principle throughout the reform of investment incentive policies.

Ultimately, the study shows that the limitations of an FDI-attraction model relying heavily on tax incentives have become increasingly apparent. Vietnam does not necessarily need to abandon tax incentives; what is more important is to restore them to their proper role as a complementary policy instrument.

The attractiveness of an economy, in the final analysis, cannot be built on a low tax-rate schedule alone. Investors may come because of tax advantages, but they will stay for the long term only when they find an ecosystem conducive to production, innovation, and expansion. For Vietnam, moreover, the greatest value of FDI should not be measured solely by the amount of registered capital or the number of factories established. It should be assessed in terms of the productive capabilities, technologies, skills, and domestic enterprises that are strengthened after each investment cycle.

That is precisely the point this study seeks to emphasize: tax incentives may open the door for capital inflows, but institutional quality and endogenous capabilities ultimately determine what those capital inflows leave behind for the economy.

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