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PHÂN TÍCH CÁC ƯU ĐÃI THUẾ CỦA SINGAPORE TRONG THU HÚT FDI:

BÀI HỌC KINH NGHIỆM CHO VIỆT NAM

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Tóm tắt

Đầu tư trực tiếp nước ngoài (FDI) đóng vai trò quan trọng trong việc thúc đẩy tăng trưởng kinh tế và công nghiệp hóa tại các nền kinh tế đang phát triển. Nghiên cứu tập trung phân tích khung ưu đãi thuế của Singapore trong thu hút FDI, từ đó rút ra bài học cho Việt Nam trước thách thức từ Thuế tối thiểu toàn cầu (GMT). Các chính sách của Singapore, đã thúc đẩy làn sóng FDI bằng cách chuyển từ miễn thuế rộng sang ưu đãi thuế tập trung, tuân thủ GloBE cho các lĩnh vực về số hóa và bền vững. Mặt khác, mặc dù chỉ số FDI của Việt Nam tăng nhờ việc thực thi các chính sách giảm thuế thu nhập doanh nghiệp nhưng phải đối mặt với rủi ro từ việc áp dụng Thuế tối thiểu toàn cầu. Qua phân tích so sánh, nghiên cứu đề xuất Việt Nam cải cách chính sách thuế bằng việc luật hóa Thuế tối thiểu nội địa bổ sung đạt chuẩn (QDMTT), chuyển sang ưu đãi dựa trên chi phí, đồng thời nâng cấp cơ sở hạ tầng, chất lượng lao động và minh bạch thể

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ché. Việc tham chiếu các giải pháp của Singapore có thể giúp Việt Nam củng cố vị thế là điểm đến đầu tư hấp dẫn trong tương lai.

Từ khóa: FDI, ưu đãi thuế, thuế thu nhập doanh nghiệp, thuế tối thiểu toàn cầu

ANALYSIS OF SINGAPORE'S TAX INCENTIVES IN ATTRACTING FDI: LESSON LEARNED FOR VIETNAM

Abstract

Foreign Direct Investment (FDI) plays a vital role in fostering economic growth and industrialization, especially in emerging economies. This report focuses on analyzing Singapore's tax incentives for attracting FDI to draw lessons for Vietnam amid the potential challenges from applying Global Minimum Tax (GMT). Singapore's evolving policies, from the 1980s Pioneer Certificate to the 2024 Refundable Investment Credit, have driven FDI surges by shifting from broad exemptions to targeted, GloBE-aligned incentives, fostering transitions to high-value sectors like sustainability and digitalization. Meanwhile, although Vietnam's FDI index has risen due to corporate income tax reduction policies, it also faces challenges from GMT implementation. Through comparative analysis, the study proposes Vietnam to reform its tax policy by adopting Qualified Domestic Minimum Top-Up Tax (QDMTT), shifting toward cost-based incentives, as well as enhancing infrastructure, labor quality, and institutional transparency. By learning from Singapore's adaptive approach, Vietnam can strengthen its positions as an appealing investment destination in the future.

Keywords: FDI, tax incentives, corporate income tax, global minimum tax

1. Introduction

FDI has long been recognized as a critical driver of economic development, particularly for emerging economies to enhance industrial capacity. In this context, tax incentives have become one of the most widely used policy instruments to attract FDI. Among countries that have successfully implemented tax incentives into investment policy, Singapore stands out as a model. Since the 1980s, Singapore has continuously refined its tax regime to respond to shifting economic and global conditions. Early initiatives such as the Pioneer Certificate and Development and Expansion Incentive granted up to 15 years of tax exemption or reduced tax rates for value-added industrial activities, especially in manufacturing sectors like electronics, chemicals, and precision engineering (Economic Development Board, 2024; IMF, 2000). These incentives significantly contributed to the surge in FDI, which accounted for over 60% of total investment in manufacturing by the late 1980s (International Monetary Fund, 2000).

When it comes to Vietnam's scenario, the tax incentive framework still relies heavily on corporate income tax reductions. While this approach has helped Vietnam emerge as a regional manufacturing hub, it has also revealed several structural weaknesses. Moreover, Vietnam now faces further challenges with the upcoming enforcement of the Global Minimum Tax. The tax authority estimates that approximately 112 multinational enterprises operating in Vietnam will be affected, including major investors such as Samsung, Intel, LG, and Bosch. The loss of competitiveness in tax-based incentives may significantly reduce Vietnam's attractiveness as an investment destination, particularly for large-scale, high-tech projects.

Given these challenges, this research seeks to analyze Singapore's tax incentive model as a case study to evaluate its evolution, effectiveness, and adaptability, and draw practical lessons for Vietnam. Through a comparative policy analysis, this study aims to inform Vietnam's ongoing efforts to reform its tax incentive framework, particularly in light of global tax reform and shifting investor preferences.

2. Theoretical framework

2.1. OLI Paradigm theory

The OLI Paradigm, also known as the Eclectic Paradigm, first introduced by John Dunning in 1977. This paradigm provides a holistic explanation for the decision of firms to engage in international production and emphasizes three core categories of advantages: Ownership (O), Location (L), and Internalization (I). According to Dunning (1977), Ownership advantages refer to firm-specific assets such as proprietary technology, brand reputation, or managerial expertise that provide a competitive edge in foreign markets. Location advantages, on the other hand, suggest that a particular geographical area has significant advantages to attract investment. These can include economic conditions (market size, labor costs), political stability, infrastructure quality, and fiscal policy tools as tax incentives. When it comes to Internalization advantages, this term is used to explain why firms choose to internalize operations through direct investment rather than licensing or partnerships.

The OLI Paradigm is particularly applied to analyze the role of tax incentives as a locational determinant of FDI. Tax policies can shape the perceived attractiveness of a host country, especially for efficient and strategic investments. By lowering the effective tax burden and reducing compliance costs, tax incentives can enhance the L component of the OLI framework and make a location more appealing. In the case of Singapore, and that of other countries such as Ireland, the country's strategic use of tax incentives has been a critical factor in strengthening its location advantages, thereby attracting a high volume of FDI across sectors (Wint, A. G., & Williams, D. A. (2002).

2.2. Institutional theory

As stated by Lawrence and Shadnam (2008), institutional theory serves as a foundational framework for analyzing social (particularly organizational) phenomena, emphasizing the central role of institutions in shaping behavior. Institutions, which are defined as enduring rules, practices, and structures, are embedded within the social order and operate as frameworks to guide the actions of individuals and organizations. They provide stability and predictability by establishing expectations for appropriate behavior. Deviations from institutional norms are typically discouraged through various forms of social control. By making noncompliance more difficult and costly, institutions can not only establish the bounds of appropriate behavior but also reinforce conformity.

Institutional theory posits that institutions shape and constrain the behavior of actors within a given social context (Greenwood et al., 2008). These institutions can be either formal or informal and exert powerful influence by creating the conditions for legitimacy and providing cognitive frameworks to guide decision-making.

Institutional contexts vary significantly across countries and regions, meaning what attracts investment in one place may not in another. Tax incentives do not operate in isolation; their effectiveness depends on the broader institutional framework. For example, a tax holiday may be appealing in countries with strong rule of law and regulatory transparency but viewed skeptically in contexts marked by corruption, legal ambiguity, or inconsistent policies.

Besides, institutional environments also exert pressures for conformity, both through formal and informal mechanisms. Businesses that do not meet institutional standards face the risk of higher transaction costs, decreased access to vital resources and loss of legitimacy. In this sense, institutional theory helps explain why MNEs often prefer investment locations with stable and predictable policy environments, including well-designed tax regimes that align with broader governance structures.

3. Literature review

3.1. Tax incentives as a location factor in attracting investment - global examples to Southeast Asia cases

Governments have long used tax incentives to attract FDI, especially in developing economies aiming for global integration and industrial upgrading. While their effectiveness is debated, well-designed, targeted incentives within strong institutional frameworks prove valuable (Nam et al., 2021; ADB, 2024). Success relies more on alignment with national goals and administration than generosity. Performance-linked incentives tied to jobs, technology

transfer, or regional development yield sustainable benefits, unlike broad, unmonitored incentives that risk revenue loss and low-quality investment (OECD, 2024; UNCTAD, 2000; Stotsky, 2024).

Some studies suggest incentives aren't decisive for location choices; for example, stimulus spending drove US investment during the Great Recession (Katitas & Pandya, 2024). Yet, incentives can tip decisions in competitive regions (Qiong & Ismail, 2024). Policymakers may overestimate their impact due to biases and lack of data, highlighting the need for professional agencies and coordinated policies (Danzman & Slaski, 2022).

In Southeast Asia, tax incentives like CIT holidays and reduced rates are common but vary in effectiveness by governance and targeting. Singapore stands out for its structured, selective, performance-based approach, centrally managed with strict criteria (PwC, 2024). It also offers enhanced R&D deductions and support for outbound expansion, aligning with innovation goals.

Conversely, Vietnam, Indonesia, and the Philippines rely more on broad, loosely monitored incentives. Vietnam's tax holidays boosted FDI but also enabled tax avoidance and revenue losses due to weak oversight (Van, 2019). A regional study (The Prakarsa, 2024) found Singapore and Malaysia use targeted approaches, while others depend on broad cuts with limited transparency. Lack of clear reporting on beneficiaries and costs hampers policy improvement across the region.

3.2. Singapore's FDI and tax policy

Singapore's unique status as a developed ASEAN economy is reinforced by strategic policies and a business-friendly environment (Dang & Nguyen, 2021). Debate exists on whether tax incentives or broader factors like ease of doing business and geopolitical stability drive its FDI success (Valderrama & Balharová, 2021; Sudsawasd, 2010).

Singapore maintains one of the region's lowest corporate tax rates at 18%, down from 40% in 1986, reflecting fiscal responses to global shifts including the 1997 financial crisis (Prime, 2012). Tax incentives evolved since the 1960s, including pioneer status and M&A incentives, aligning with competitiveness and resilience goals (Hsu, 2012). Investment in human capital and trade openness further boost FDI appeal (Ridzuan et al., 2017). However, reliance on FDI intensifies income inequality due to MNCs' preference for skilled labor (Lee & Vivarelli, 2006).

Singapore's policy agility supports resilience; despite a 3.3% spending cut in 2016, GDP grew 3%, illustrating how targeted fiscal policies sustain growth. Past cost-cutting and

resistance to market interventions reflect commitment to long-term competitiveness (Prime, 2012).

3.3. Research gap

While previous studies establish Singapore's distinct success with targeted, performance-linked tax incentives administered within a robust institutional framework, and contrast this with Vietnam's reliance on broad, loosely monitored incentives (Van, 2019; The Prakarsa, 2024), a critical void remains. Existing studies either:

(i) Detail Singapore's incentive design and governance (e.g., PwC, 2024; Hsu, 2012) without operationalizing its transferability to developing ASEAN contexts; or

(ii) Diagnose Vietnam's systemic challenges - revenue leakage, weak oversight, and misaligned incentives (Van, 2019) - without proposing actionable solutions derived from proven regional models.

No research systematically examines how Vietnam can adapt Singapore's institutional mechanisms to its own governance structure and development goals. This study bridges the gap by developing a contextualized adaptation roadmap, translating Singapore's evidence-based approach into feasible reforms for Vietnam.

Research questions

1. How have tax incentives contributed to Singapore's success in attracting foreign direct investment (FDI) over time?
2. To what extent are Vietnam's current tax incentives effective in attracting FDI, particularly in less developed sectors and regions?
3. What lessons can Vietnam learn from Singapore's experience in designing and implementing tax incentive policies, especially under the context of the GMT?

4. Singapore's Tax Incentives for FDI

4.1. Overview of Investment Environment in Singapore

Singapore's investment environment in 2025 remains strong despite global challenges like geopolitical tensions, economic volatility, and protectionism. The country benefits from political stability, transparent institutions, and a strategic central Asian location, serving as a gateway to a rapidly growing regional economy expected to make up 60% of global GDP by 2030 (Economic Development Board, 2024; Woo et al., 2025). Its solid legal framework and efficient regulations contribute to high ease-of-doing-business rankings (Woo et al., 2025).

Supported by world-class infrastructure, including one of the busiest ports and airports, Singapore offers access to 99% of global shipping routes within three days and connectivity to over 380 cities. Its 27 free trade agreements, including the CPTPP, enhance market access

(ASEAN Briefing, 2023). The manufacturing sector is recovering with uneven growth across clusters, bolstered by initiatives like the Jurong Special Economic Zone (CBRE, 2025).

Investor confidence is high, with nearly two-thirds of business leaders planning to boost investments in 2025, focusing on sustainability, AI, and supply chain resilience. Corporate real estate and industrial investments are growing strongly, with commercial real estate transactions up 16% year-on-year in Q1 2025. Recent Monetary Authority reforms have expanded retail investors' access to private markets, improving liquidity and funding for startups and SMEs (RSBU, 2025; Woo et al., 2025).

4.2. Overview of Singapore's Tax Incentives for Investment

Singapore's tax incentive framework is governed primarily by the Income Tax Act 1947 and the Economic Expansion Incentives (Relief from Income Tax) Act, with administration by the Economic Development Board (EDB) and the Inland Revenue Authority of Singapore (IRAS) (IBFD, 2019). The country maintains a competitive corporate tax rate of 17%, the lowest in ASEAN, supplemented by generous tax incentives targeting strategic sectors to attract high-value investments (IBFD, 2019).

Key incentive schemes include the Pioneer Certificate Incentive (PC) and Development and Expansion Incentive (DEI), which offer concessionary tax rates ranging from 0% to 10% for qualifying projects. These schemes focus on encouraging companies to introduce advanced technologies, expand operations, and contribute to local economic development through skilled employment and R&D activities (IBFD, 2019). The Finance and Treasury Centre (FTC) Incentive grants an 8% tax rate on income from qualifying regional treasury activities, fostering Singapore's status as a financial hub.

Sector-specific incentives support manufacturing and sustainability. The Manufacturing Remission Scheme provides up to 60% property tax rebates to companies adopting Industry 4.0 technologies, while the Automation Support Package offers enhanced tax deductions on robotics investments, driving significant growth in manufacturing FDI (EDB, 2023). Sustainability-focused incentives such as the Carbon Credit Trading Incentive and Energy Efficiency Grant align with the Singapore Green Plan 2030, promoting renewable energy and carbon trading activities (National Climate Change Secretariat, 2024).

These incentives are designed to foster innovation, capability development, and productivity across growing industries, R&D, and sustainability sectors, reinforcing Singapore's position as a global investment hub with high FDI retention and technology transfer outcomes (EDB, 2024).

4.3. Evaluation the effectiveness of Singapore's tax incentives

Evaluating the effectiveness of Singapore’s tax incentives in attracting FDI requires a comprehensive analysis that integrates the historical development of tax policies with empirical data on FDI inflows across sectors and time periods.

1980s - 1990s

During the period from 1980 to 1991, Singapore experienced a marked increase in FDI, particularly in manufacturing, driven by a combination of strategic tax incentives and favorable macroeconomic conditions. The introduction and implementation of the Pioneer Certificate and Development and Expansion Incentive played a central role in shaping this trend. These incentives granted up to 15 years of corporate tax exemption or reduced tax rates between 5% and 15% for companies introducing pioneering or value-added industrial activities (EDB, 2024).

According to data from the IMF (2000), FDI accounted for over 60% of total investment in manufacturing - a sector that included electronics, chemicals, and precision engineering, all of which were heavily targeted by these incentives. As shown in Figure 1, FDI inflows during the 1980s rose steadily, correlating closely with the period of tax policy expansion and industrialization.

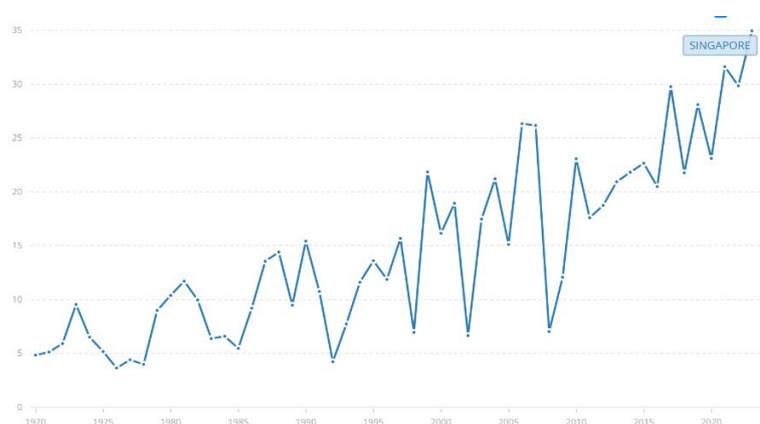


Figure 1: FDI Inflows to Singapore, 1970 - 2022

Source: World Bank

This period aligns with what scholars have referred to as Singapore’s “High Growth and Sustainable Development” stage, marked by robust GDP growth averaging 7.6% between 1980 and 1985, and the manufacturing sector peaking at 30% of GDP in 1980 (Thangavelu, 2023).

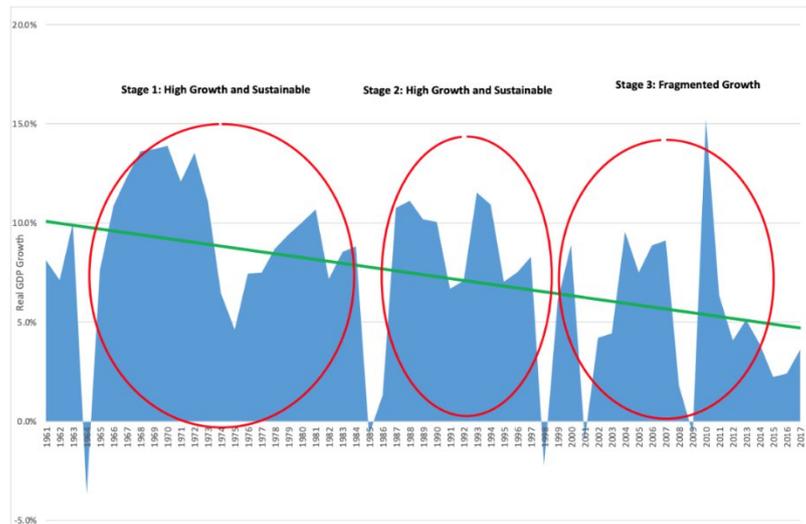


Figure 2: Singapore's GDP Growth by Stage (Thangavelu's Three-Stage Model)

Source: Thangavelu, 2023

In addition to tax incentives, the global economic context further accelerated FDI inflows. Following the 1979 oil shock, global capital began shifting towards Asia, where emerging economies offered competitive labor and expanding domestic markets. Singapore, with its political stability, port infrastructure, and open investment policies, emerged as a prime destination. The liberalization of global trade under GATT and the surge of global supply chain fragmentation also played enabling roles (UNCTAD, 1992; Athukorala, 2003).

Year	GDP per capita (2000 constant \$)	GDP growth (five year averages)	Life expectancy (years at birth)	Population growth rate	Manufacturing (share of GDP)	Services (share of GDP)	Agriculture (share of GDP)
1965	2,733	--	66	2.4	--	--	--
1970	4,531	12.6	68	1.6	--	--	--
1975	6,417	9.9	70	1.5	23.2	64.0	2.3
1980	9,043	7.6	71	1.3	30.0	60.3	1.6
1985	10,866	7.0	73	0.1	22.6	62.9	1.0
1990	14,658	6.7	74	3.9	27.3	64.9	0.4
1995	19,359	8.9	76	3.0	26.5	64.7	0.2
2000	23,019	6.7	78	1.7	27.7	64.3	0.1
2005	26,886	5.4	80	2.4	26.9	68.9	0.1
2010	32,538	2.9	81	1.8	22.2	71.7	0.04

Figure 3: Summary of Selected Growth Performance Indicators, Singapore, 1965 - 2010

Source: Singapore Department of Statistics

Despite these macro factors, the role of tax incentives remains central. They not only reduced after-tax investment costs but also served as a signal of policy stability and long-term industrial planning. FDI inflows responded positively to these fiscal advantages, reflected in both absolute capital growth and sectoral restructuring. By 1985, the manufacturing sector,

which had accounted for just 23.2% of GDP in 1975, peaked at 30% in 1980, and although it tapered slightly to 22.6% by 1985, it remained a dominant economic pillar.

1990s - 2010s

Between 2001 and 2011, Singapore's financial sector saw strong FDI growth, reinforcing its status as a global financial hub. This coincided with the Finance and Treasury Centre (FTC) Incentive, which offered a reduced corporate tax rate of 5% or 10% for up to ten years on qualifying income from intercompany treasury and financial activities (EDB, 2024). The incentive also provided withholding tax exemptions on qualifying interest payments, lowering financing costs and encouraging global companies to centralize treasury operations in Singapore, generating steady FDI inflows into financial services.

As shown in Table 2, FDI stock in the financial and insurance services sector rose significantly from 76.4 billion SGD in 2001 to 289.7 billion SGD in 2011. The most notable increase occurred within investment holding companies, whose share of the sector's FDI rose from 77.6% to 83.8%. In contrast, the share of banks declined from 11.5% to just 5.1% over the same period, indicating a strategic pivot in foreign investment from traditional financial institutions to more tax-advantaged, capital-aggregating entities (Singapore Department of Statistics, 2013).

Sector/Industry	2001	2003	2005	2007	2009	2011
	S\$ Billion					
Financial & Insurance Services	76.4	86.4	121.7	195.4	239.3	289.7
Financial Services	73.7	82.9	116.0	187.9	231.4	280.3
Banks	8.8	8.9	9.7	11.3	14.3	14.7
Investment Holding Companies	59.3	67.3	95.3	161.9	197.8	242.9
Other Financial Services	5.6	6.6	10.9	14.7	19.2	22.7
Insurance Services	2.7	3.5	5.7	7.4	8.0	9.4
	Per Cent (%)					
Financial & Insurance Services	100.0	100.0	100.0	100.0	100.0	100.0
Financial Services	96.5	95.9	95.3	96.2	96.7	96.7
Banks	11.5	10.3	8.0	5.8	6.0	5.1
Investment Holding Companies	77.6	77.9	78.4	82.9	82.6	83.8
Other Financial Services	7.4	7.7	9.0	7.5	8.0	7.8
Insurance Services	3.5	4.1	4.7	3.8	3.3	3.3

Figure 4: FDI stock in Financial & Insurance Services Sector by sub-sector (2001–2011)

Source: Singapore Department of Statistics

In addition to favorable tax conditions, global developments also boosted financial-sector FDI. The early 2000s saw accelerated financial globalization, regulatory easing in Asia, and rising demand for centralized liquidity and risk management. However, significant shocks like the 2001 dot-com bubble burst and the 2008 global financial crisis caused volatility and temporarily disrupted FDI worldwide (UNCTAD, 2009). Despite this, Singapore continued to

attract long-term financial investments due to the FTC framework’s fiscal predictability and structural efficiency. Its renewal mechanism, tied to expansion performance, helped maintain investor confidence during macroeconomic stress.

The enduring strength of financial FDI is also reflected in sectoral comparisons. As shown in Figure 3, the share of total FDI stock allocated to financial and insurance services rose from 35.3% in 2001 to 43.1% in 2011, surpassing manufacturing, which declined from 37.5% to 20.4% over the same period. This transition underscores a broader structural shift in Singapore’s economy, supported by strategic tax policies aimed at attracting value-added, service-oriented capital.

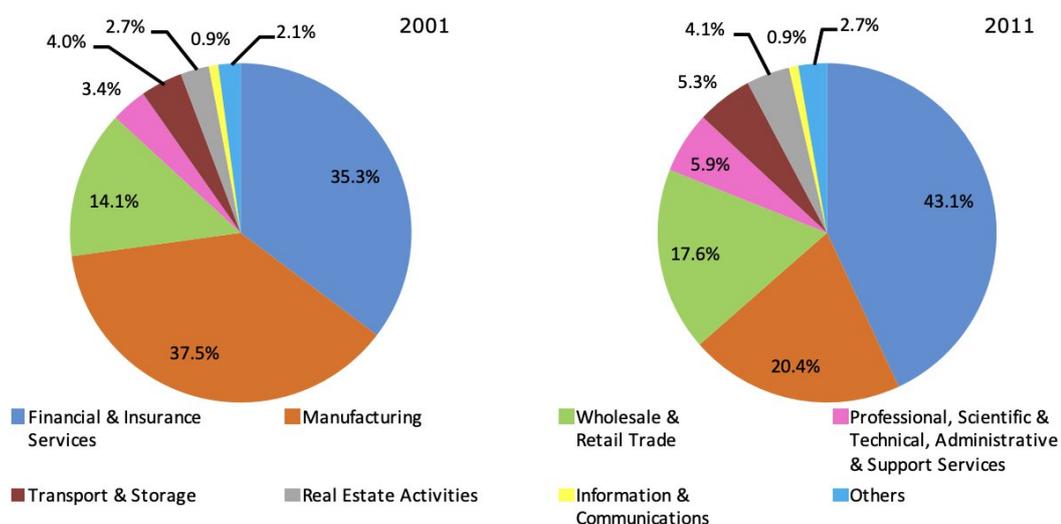


Figure 5: Singapore outward FDI stock by major sector, 2001 and 2011

Source: Singapore Department of Statistics

2010s - Present

From 2011 to 2024, Singapore adjusted its tax policies to stay competitive as a global investment hub while aligning with international tax standards. These reforms shifted from broad, cost-based incentives to performance-linked, innovation-driven tools.

An early change was the 2011 Foreign Tax Credit Pooling system, allowing companies to consolidate foreign tax credits across jurisdictions, attractive for regional headquarters (Singapore Ministry of Finance, 2024). The Productivity and Innovation Credit (PIC) scheme, offering enhanced deductions for innovation-related expenses, supported steady investment in R&D and automation. Between 2015 and 2017, FDI inflows into information and communications nearly doubled from SGD 4.6 billion to 9.2 billion, reflecting strong digital sector growth (Singapore Department of Statistics, 2018). Total FDI stock rose from SGD 744.6 billion in 2011 to SGD 1.25 trillion by 2021 (Singapore Department of Statistics, 2023).

Post-PIC, Singapore refined its tax regime to meet substance requirements, updating fund management incentives and introducing the Enterprise Innovation Scheme in 2024.

The major development came with the 2024 launch of the Refundable Investment Credit (RIC), offering refundable tax credits up to 50% for qualifying investments in advanced manufacturing, clean energy, and digital transformation (IRAS, 2024). That year, Singapore recorded its highest annual FDI inflow of SGD 192 billion - a 69% increase - driven mainly by semiconductors, green hydrogen, and solar energy investments (AINVEST, 2025). Solar energy investment alone jumped from USD 66 million in 2023 to USD 384 million in 2024, dominating green capital in Southeast Asia (The Straits Times, 2025). RIC supports companies investing in green hydrogen, solar, AI, and semiconductor fabrication, aligned with Singapore's sustainability and digital goals.

Importantly, RIC complies with OECD's Global Anti-Base Erosion (GloBE) rules under BEPS 2.0, which require multinational enterprises with over 750 million euros in revenues to pay a minimum 15% tax in each jurisdiction. Without compliance, Singapore entities could face top-up taxes elsewhere, reducing their appeal as headquarters. By aligning with GloBE, Singapore maintains local tax benefits while preserving investor confidence and credibility (OECD, 2021; PwC, 2024).

These reforms led to a notable rise in both FDI volume and quality. By 2024, clean energy and digital sectors accounted for over 30% of new projects approved under EDB schemes (EDB, 2025), confirming that targeted, globally aligned tax incentives safeguard compliance and boost Singapore's appeal in critical future industries.

5. Policy Gaps in Vietnam

5.1. Overview of Vietnam's Tax Incentives for FDI

For nearly 38 years since the Foreign Investment Law, Vietnam has developed tax policies and incentives to attract FDI, especially in manufacturing, high technology, renewable energy, and R&D. These incentives target corporate income tax rates, tax exemptions, import duties, and land rental, and are periodically revised in line with economic strategies and international commitments.

Under the 1997 Corporate Income Tax Law, domestic enterprises faced a 32% tax rate (Article 10.2, Law on Corporate Income Tax 1997), while FDI firms were taxed at 25% (Article 10, Decree No. 30/1998/ND-CP), with incentives including a two-year exemption and a 50% reduction for the next two years, extendable to four years for qualifying projects. The 2003 CIT Law set the standard rate to 28% for all, with FDI firms eligible for preferential rates of 10%,

15%, or 20%, tax exemption up to four years, and 50% reduction for nine subsequent years depending on the project (Nam Ha & Partners Law Firm, 2021).

Vietnam's WTO accession in 2007 aligned its laws with global standards. The 2008 CIT Law lowered the standard rate to 25%, with preferential rates of 10% and 20% for incentivized projects. Projects at a 10% rate could get up to four years exemption and nine years of 50% reduction; disadvantaged areas received up to two years exemption and four years of 50% reduction.

From 2012 to 2016, disbursed FDI rose from nearly USD 10.5 billion to USD 15.8 billion, supported by the 2013 CIT Law (No. 32/2013/QH13) with rates reducing from 22% in 2014 to 20% in 2016. Tax incentives adjusted to 10%, 15%, and 17% for 10-15 years, with exemptions and reductions varying by sector and location (Van, 2019).

Between 2016 and 2023, Vietnam prioritized high-tech, innovation, and sustainable industries through policies like Decision No. 29/2021/QĐ-TTg. Projects with capital over VND 30 trillion qualify for a 9% CIT rate for 30 years; large-scale R&D and level-1 high-tech projects over VND 3 trillion get 7% CIT for 33 years; the most favorable 5% CIT rate for 37 years applies to national innovation centers and level-2 high-tech projects (Tcct, 2022).

From January 1, 2024, Vietnam adopted the Global Minimum Tax (GMT) under OECD's Pillar Two, imposing a 15% tax on MNEs with revenues exceeding 750 million euros, potentially reducing the competitiveness of Vietnam's lower tax incentives. This may challenge enforcement and attractiveness for manufacturing FDI in high-demand sectors (Hoi et al., 2024). To address this, the government plans an Investment Support Fund targeting enterprises with capital over VND 12 trillion or revenue over VND 20 trillion; and projects in chip manufacturing, semiconductors, or AI data centers with lower thresholds (Economy and Forecast Review, 2024).

5.2. Challenges in Vietnam's approach

Despite Vietnam's longstanding efforts to attract FDI through tax incentives, several policy gaps hinder their effectiveness. A key issue is the misuse of CIT incentives, leading to unintended fiscal consequences. An estimated 40–50% of FDI enterprises annually report persistent financial losses despite ongoing operations and expansion, raising concerns about tax avoidance strategies like transfer pricing manipulation and aggressive tax planning. The Vietnam Chamber of Commerce and Industry (VCCI) notes that many firms operate at a loss for extended periods, suggesting tax incentives may be exploited rather than attracting productive investment. Such practices result in lost tax revenue, erode tax system integrity, and distort market competition.

Beyond domestic challenges, Vietnam faces external pressure from the Global Minimum Tax (GMT) under OECD rules (2024), which impose a minimum 15% effective tax rate on large multinational enterprises regardless of location. Vietnam's tax holidays and reduced CIT rates, often yielding effective rates below this threshold, will lose significance as home countries can impose "top-up" taxes. Consequently, Vietnam's tax incentives may become less attractive, especially to large MNEs that historically benefited most.

With FDI accounting for over 70% of Vietnam's export value (Bloomberg Tax, 2024), declining tax incentive effectiveness could seriously impact its economic development. Without timely, adaptive reforms, Vietnam risks losing tax revenue, competitiveness, and long-term investment prospects.

6. Lessons Learned from Singapore's Tax Incentive Framework

Singapore's tax incentive framework offers important lessons for economies like Vietnam, balancing fiscal appeal with long-term strategic goals. A key to Singapore's success is its dynamic alignment of tax policies with evolving priorities such as sustainability and digitalization. The 2024 Refundable Investment Credit (RIC) targets sectors like clean energy and advanced manufacturing, addressing global decarbonization while complying with OECD's Global Anti-Base Erosion (GloBE) rules (OECD, 2021; Singapore Ministry of Finance, 2024). This ensures incentives remain relevant amid changing technological and regulatory landscapes. Singapore's sector-specific focus prioritizes high-value industries through instruments like the Pioneer Certificate and Development and Expansion Incentive (DEI), historically emphasizing advanced manufacturing and R&D. Recent initiatives like the Automation Support Package promote Industry 4.0 adoption, avoiding fiscal inefficiencies of broad tax cuts and ensuring measurable value addition.

Singapore's regulatory coherence highlights the importance of institutional stability. Tax incentives are administered transparently by agencies such as the Economic Development Board (EDB) and Inland Revenue Authority of Singapore (IRAS), fostering investor confidence. Aligning RIC with GloBE reduces risks of double taxation while preserving competitiveness (PwC, 2024). The synergy between tax incentives and infrastructure—world-class ports, free trade agreements, and digital ecosystems—amplifies fiscal benefits, showing that incentives alone cannot replace structural advantages like logistics or market access. Performance-linked conditions, such as tying RIC to job creation and green investments, ensure accountability and align private objectives with public goals, reducing misuse risks.

7. Recommendations for Vietnam's Tax Policy

Vietnam's tax incentive framework needs strategic reforms to improve FDI quality while addressing challenges from the Global Minimum Tax (GMT). Drawing from Singapore's experience and Hoi et al. (2024), Vietnam should prioritize implementing a Qualified Domestic Minimum Top-Up Tax (QDMTT) aligned with GloBE principles to protect fiscal sovereignty and retain taxing rights over multinational enterprises (MNEs). Simultaneously, Vietnam must focus on non-tax factors - improving infrastructure, labor quality, and institutional transparency - leveraging its geographic and economic openness to attract high-quality FDI. Enhancing logistics corridors like the North-South Expressway and expanding renewable energy infrastructure can lower investor costs, complementing fiscal reforms.

Learning from peer economies is vital. Hoi et al. (2024) recommends studying countries with similar conditions to assess GMT impacts, especially on sectors vulnerable to top-up taxes. Engaging affected MNEs, as Singapore does through its EDB, could help refine incentives. Vietnam should shift from tax holidays to cost-based support, such as subsidies for R&D and land rental, to comply with Pillar Two while maintaining investor appeal. These measures should ensure fairness for SMEs and large firms, avoiding market distortions.

Legal and institutional reforms are critical. Updating the Corporate Income Tax Law to incorporate GMT rules would demonstrate commitment to international standards and improve regulatory predictability. Centralizing incentive administration under one agency, like Singapore's EDB, could reduce bureaucratic fragmentation. Finally, Vietnam should support integration into global value chains by encouraging domestic suppliers and vocational partnerships with MNEs, emulating Thailand's successful model. By aligning tax policy, infrastructure, and human capital, Vietnam can position itself as a resilient, high-value FDI destination in the post-GMT era.

8. Conclusion

This study shows Singapore's success in attracting FDI stems from evolving tax incentives—from broad exemptions in the 1980s to targeted, performance-linked schemes like the 2024 Refundable Investment Credit. These incentives drove shifts from manufacturing to finance and now to sustainability and digitalization, helping Singapore stay competitive amid global tax changes. Aligning RIC with OECD's GloBE rules demonstrates how compliance and competitiveness can coexist through thoughtful policy.

In contrast, Vietnam's reliance on CIT reductions and tax holidays has boosted FDI but faces diminishing returns under the Global Minimum Tax. Weak enforcement and incentive overuse threaten fiscal sustainability and investment quality. Learning from Singapore, Vietnam should adopt targeted, conditional, globally aligned incentives supported by stronger

institutions and infrastructure and labor reforms. This is vital for Vietnam to remain competitive and resilient in the evolving global investment landscape.

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