

**MANAGING TRANSFER PRICING
BEHAVIOURS OF MNEs IN VIETNAM**

Protecting tax base while seeking to attract FDI

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Abstract

Along with the globalisation, the economy witnessed the rapid emergence of new crucial business pattern, *Foreign Direct Investment (FDI)*, which helps entrepreneurs expanding its value chain over the borders, transfers goods in the global flows and generates wealth for economies. However, FDI companies always find and use flexible techniques to gain as much profits as they can in the host countries that abusing transfer pricing to avoid tax duty is the most popular and effective method. The practical reality shows different perspectives, contribution of FDI sector to the nation is under expectation. A study conducted by Do and Cao (2015) argued that the negative situation occurring in Vietnam is a result of transfer pricing abuse.

This research investigates on studying (i) the current situation of FDI sector in Vietnam, following is (ii) the rise of the transfer pricing abuse and tax avoidance and (iii) the regulation on investment policies of Vietnamese Government in order to tighten up these issues. The topic is examined under qualitative approach and conducted interviews with local government officials, economists and foreign investors operating in Vietnam.

In brief, the research uncovers that FDI is a crucial important trend to both entrepreneurs and countries even it has any disadvantages. However, the governments are also in trouble with the fact that benefits gained from FDI in practice less than what they deserve due to transfer pricing abuse partly. Therefore, government should improve their current legislation and concern some other potential measures to enhance administrative system on this issue.

Key words: Foreign Direct Investment, transfer pricing, tax avoidance, FDI, regulatory framework, Vietnam, government.

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Protecting tax base while seeking to attract FDI

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List of Abbreviations

APA	Advance Pricing Agreement
BEPS	Base Erosion and Profit Shifting
CPTPP	The Comprehensive and Progressive Trans-Pacific Partnership
FDI	Foreign Direct Investment
FPI	Foreign Portfolio Investment
MNEs	Multinational Enterprises
OECD	Organisation for Economic Co-operation Development's
OFDI	Outbound Foreign Direct Investment
USA	United State of America
USD	United State Dollar
WTO	The World Trade Organization

Chapter 1 – Introduction

1.1 Introduction

The rise of both international integrations of nations and multinational enterprises (MNEs) have been more popular than ever and become the major global economic phenomenon in the recent decades (Li, 2005)¹. Companies involve themselves in international business trend due to the benefits of new market, which positively offers unlimited opportunities for expansion, development and gaining huge profits rather than doing business within a country only (Czinkota et al., 2009). Meanwhile, countries also break their boundaries to participate in the global market in order to increase their economic power, improve the living quality of residents (Czinkota et al., 2009) and take advantage of advanced technologies, financial capital and skills of management, technique and marketing² (Moosa, 2002).

Hence, MNEs transfer numerous quantities of their products, resources, technology and services among affiliations in many countries (Li, 2005). Transfer pricing is a mechanism assists that transferring process. However, since this mechanism is exploited for negative purpose, it has been creating significant tax and managerial issues on the budget revenue of countries (Bartelsman, 2000).

This dissertation aims to examine whether there are any gaps in the transfer pricing monitoring of Vietnamese Government by reviewing the previous related literatures on the field and compare to practical implementation of FDI attraction and political monitoring regulations by local authorities. Consequently, research will propose some ameliorative measures for government to forbidden this matter.

1.2. Background on the Research topic

Nowadays, globalisation is a well-known process that push economies toward global commonality (Levitt, 1983), create greater mutual awareness among political, social and economic elements (Peng and Meyer, 2011) and melt down the nations' borders through time. In order to improve quality of living life for citizens and increase national economic

¹ Also indicated in Erns and Young (1999) '*Transfer Pricing 1999 Global Survey*'. London: Ernst and Young International and Leitch, A. R. and Barrett, S. K. (1992) 'Multinational transfer pricing: Objectives and constraints'. *Journal of Accounting Literature*, 11, pp. 47-92.

² However, Moosa also states that some foreign companies may borrow from local financial institutions to raise funds, which means they unnecessarily get into the movement of financial capital (Moosa, 2002).

influence, nations attempt to involve in the global market (Czinkota et al., 2009). Not stay apart from that movement, Vietnam has engaged themselves with the international integration since the introduction of the open door policy in 1986, which Bartram et al. (2009) states as the renovation tool to restructure the whole economy. As the result, Vietnam has witnessed significant changes in not only economic wealth (Thomas et al., 2005) but also the dramatic entry of foreign investors and the significant improvement of the living quality.

1.2.1 Concept of FDI and transfer pricing phenomenon in Vietnam

1.2.1.1 The importance of FDI to the development of Vietnam

As mentioned above, Vietnam has welcomed a huge wave of FDI thanks to their plentiful and cheap workforce (Bartram et al., 2009) since the nation transacted to “a socialist-oriented market economy” (Pham, 2013). For years, Vietnam has initiatively intergrated into world economy, fostered free trade and investment by establishing diplomatic relations with many nations³ and participating in several international political and economic organisations⁴ to boost their position worldwide, especially the latest partnership, the CPTPP⁵. The results are: creating new markets in the region, enhancing integration of production, upgrading border clearance and facilitating service and investment (Duong, 2018).

Locating in the dynamic economic zone, ASEAN, Vietnam enjoys favourable advantages for developing that their economic growth rate increase continuously at high level in comparison to the region and worldwide⁶. For example, there is a downward trend of OFDI from USA to ASEAN 4⁷ while this figure seems remain stable in Vietnam.

³ Laos (1962), Thailand (1976), Malaysia (1973), Singapore (1973), Philippines (1976), China (1950), Japan (1973), Korea (1992), UAE (1993), Canada (1973), USA (1995) Russia (1950), Switzerland (1971), Austria (1973), Italy (1973), Finland (1973), France (1973), UK (1973), Germany (1975), Spain (1977), Ireland (1996), Australia (1973), and etc...

⁴ UNESCO in 1976, United Nation (UN) in 1977, Association of Southeast Asian Nations (ASEAN) in 1995, Asia – Europe Meeting (ASEM) in 1996, Asia Pacific Economic Cooperation (APEC) in 1998, World Trade Organisation (WTO) in 2007, Asean Economic Community (AEC) Comprehensive and Progressive Agreement for Trans-Pacific Partnership (CPTPP) in 2018, enrolling in 12 free trade agreements (FTA) and etc.

⁵ Vietnam officially approves the CPTPP on 12/11/2018 which is expected to attract more inbound FDI and gain advantages and opportunities for domestic companies; This partnership aims to foster free trade among eleven Pacific countries: Vietnam, Canada, Australia, Malaysia, Mexico, Brunei, Chile, Peru, Japan, New Zealand and Singapore and predicted to remove tariffs on 95% of goods trading among its members, create free trade area (the CPTPP legal text)

⁶ In 2017, the GDP rate reached over 6.8% and accounted for the highest position in the ASEAN region.

⁷ Indonesia, Malaysia, Thailand and Philippines

	2009	2010	2011	2012	2013	2014	2015	2016
ASEAN	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0
Singapore	71.9	71.1	74.2	79.1	81.7	84.5	84.6	84.5
Indonesia	8.0	7.3	7.5	6.2	5.4	5.1	4.5	4.8
Malaysia	8.0	8.2	7.2	5.9	6.0	4.2	5.1	4.5
Thailand	7.7	9.0	7.4	5.9	4.5	4.1	3.6	3.8
Philippines	3.8	3.7	3.0	2.2	1.8	1.5	1.8	1.9
Vietnam	0.6	0.6	0.6	0.6	0.6	0.6	0.4	0.5
Others	0.1	0.1	0.1	0.1	0.0	0.0	0.0	0.0

Table 1: Accumulated OFDI capital structure of USA in ASEAN, 2009 – 2016 (%)

(Source: Department of USA Commerce, Minister of Planning and Investment - 2018)

Also, the integration effort of Government has brought significant results that the scale of foreign capital attracted and national budget gained from FDI sector has grown for years.

Year	Number of new FDI Projects	Total registered investment capital (mil USD)	Total implemented capital (mil USD)	Budget revenues from FDI (mil USD)
2013	1,530	22,352.2	11,500	5,297.2
2014	1,843	21,921.7	12,500	5,895.3
2015	2,120	24,115.0	14,500	6,557.2
2016	2,613	26,890.5	15,800	7,606.3
2017	2,741	37,100.6	17,500	7,786.5

Table 2: Statistics of FDI attracted and its contribution in Vietnam (GSO, 2019)

After 30 years of “Doi Moi”, Vietnam has attracted over 24,000 FDI projects with registered capital of 342 bil USD which makes FDI account for approximate 23% of total investment capital of the whole society⁸. Recently, there are many huge FDI enterprises investing in Vietnam, such as Coca-Cola, Unilever, Pepsi, Samsung, Bosch, Intel, Honda, P&G, etc... Fuller and Phelps (2004) consider FDI as a buffer to not only economic performance, but also opportunities of employment and growth, advanced information, technology, management experiences and cooperation opportunities (Moosa, 2002). These positive effects encourage countries calling more FDI flows by taking part in international partnerships, removing barriers (tax, labour policies, administration, etc.) (Cazacu, 2015).

FDI has contributed to Vietnamese economy significantly as accounting for 21% of Gross Domestic product (GDP), 4.5% of workforce and contributing approximately 70% export value⁹ and about 15% of total national budget collection. However, even Vietnamese Government has offered lots of investment incentives and preferential policies for investors like tax exemption¹⁰, the achievements are under the expectations (UNIDO, 2012).

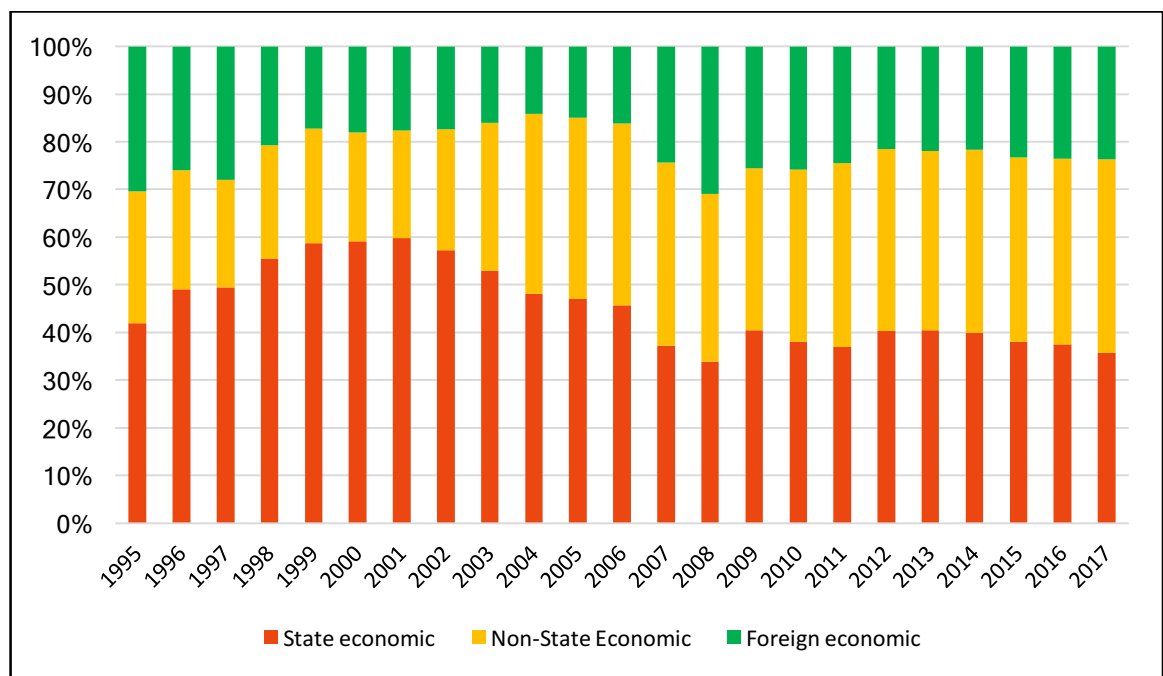


Figure 1: Investment structure of economic sectors in Vietnam (GSO, 2019)

⁸ Statistics of General Statistic Office

⁹ Do, T.A.T. (2018) *Transfer pricing base erosion and profit shifting Review of the role of FDI in Vietnam*. Vietnam: Vietnam Fulbright University

¹⁰ Tax exemption on land rental, revenue... for specific years

Particularly, international integration force Vietnamese government upgrade infrastructure, revise various regulation about customs, tariffs, trade, labour and intellectual property according to the commitment, for example, cut down tariffs. These regulations might put the country under challenge of tax base injury, in which the approached removal and reduction of import tariffs and free trade will cause a decrease of national revenue.

When Vietnam cuts down tariffs to a minimum, the FDI flows into Vietnam will increase significantly as the business environment is more favourable than before. However, the rise in foreign investment capital goes along with potential costs such as the rise of tax avoidance by MNEs.

1.2.1.2 Transfer pricing abuse and tax avoidance issues in Vietnam

However, those mentioned efforts above also cause the rise of negative effects that transfer pricing abuse is a highlight issue. Host countries, especially Vietnam, are being under pressure of the practice that most of multinational corporations (MNCs), the firms indulge in FDI exploit the gaps in investment laws, particularly transfer pricing regulations, for tax avoidance purpose (Moosa, 2002). Besides, there are some other issues that make FDI under Government's expectation, for example, level of technology transfer, environmental matters, jobs and recruitment, low in budget collection and so on. According to Do (2018), there is the tax avoidance phenomena in Vietnam using transfer pricing mechanism by many MNEs, included top brands.

The frequency of loss enumerating situation

According to annual reports of VCCI¹¹, there are about 40% to 50% FDI enterprises enumerate loss in business every year in Vietnam, especially, some enterprises are loss in continuous years. For instance, there was up to 37.9% FDI enterprises reported loss (VCCI, 2018). From 2012 to 2016, over a half of FDI enterprises reported losses on their businesses. By the end of 2016, there were up to 61% FDI enterprises stated losses in their annual reports (General Statistical Office, 2016). Despite of being loss, those enterprises are still running and even expanding business scale. The loss situation occurs in variety economic fields and industry but commonly in manufacturing, garment, retails, and etc.

Tax avoidance through transfer pricing in Vietnam is complicated and extremely serious. The tax avoidance happens every year at the high level, which not only harms the national

¹¹ Vietnam Chamber of Commerce and Industry

competitive environment but also causes losses to budget revenues (Do, 2015). These phenomenon happens due to the loopholes in transfer pricing policies. Moreover, calculating the price transfer is still difficult to state agencies as price given is not really exact such as estimated figures or adjusted figures. Therefore, taxation administrators rely on their experience and practical situation to estimate the price.

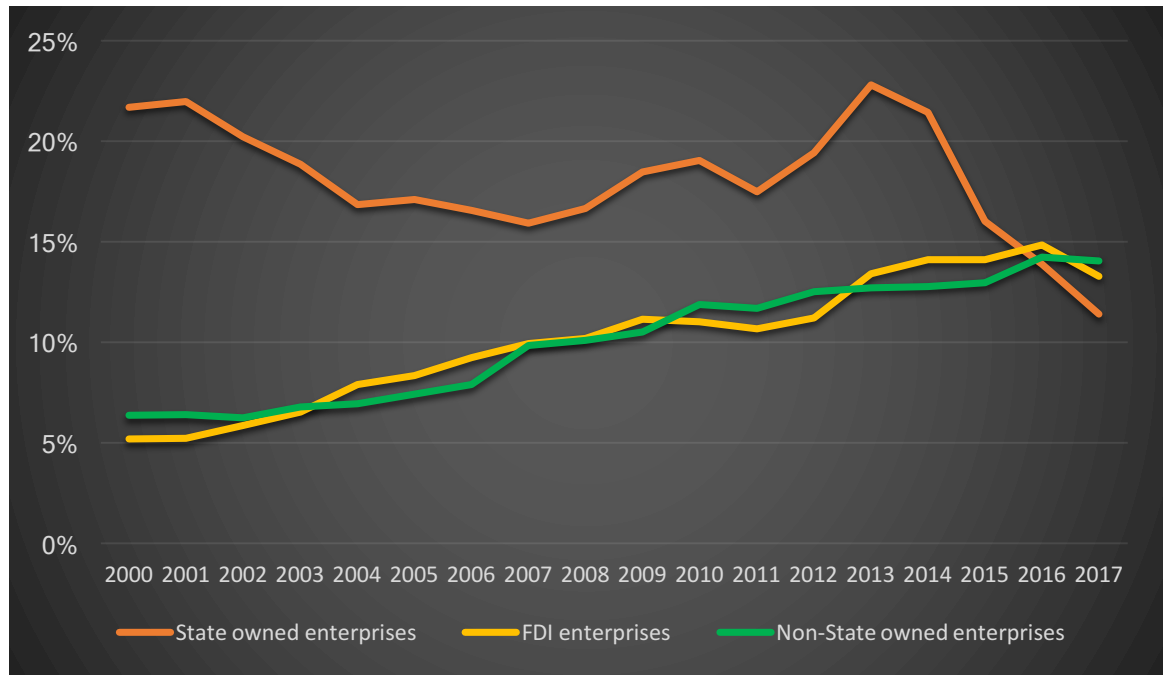


Figure 2: Percentage of tax contribution of economic sectors to the national budget revenue (Based on GSO (2019))

The issues are more strengthened when Vietnam enforces the CPTPP agreement¹² in 2018. The agreement makes the investment market more dynamic with the appearance of FDI enterprises from developed countries such as Canada, New Zealand, Japan and etc. Conversely, Vietnam is compelled to remove tax barriers as well as open its market and trade policies for investors from ten other partners (the CPTPP, 2018), which may cause magnify the gaps in the transfer pricing policies. Simultaneously, it also rises the threats of transfer pricing abuse and tax avoidance due to the giant MNCs have greater skills and experience on these techniques and they consider these techniques as crucial tools of maximizing their profits (Akpojevwa, 2014).

¹² The Comprehensive and Progressive Agreement for Trans-Pacific Partnership, also called TPP-11, included: Australia, Brunei, Canada, Chile, Malaysia, Vietnam, Singapore, Peru, New Zealand and Mexico.

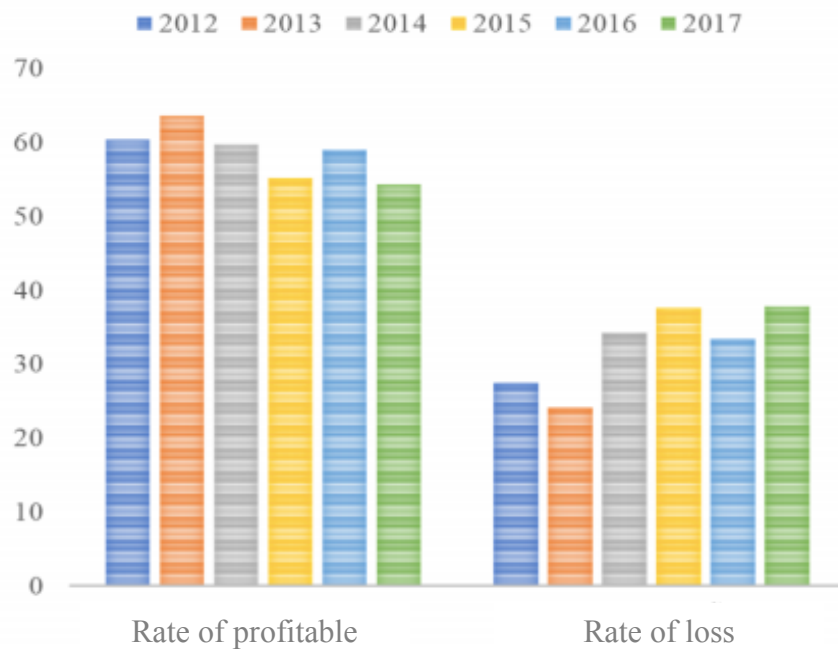


Figure 3: The loss enumeration situation of FDI (%) (Source: VCCI)

The case of loss enumeration

There are some famous cases of loss enumeration of MNEs in Vietnam recently as Coca-Cola and Suntory Pepsi. While Coca-Cola had constantly reported loss situation from 1992 to 2012, their production has increased by 25% per year and invested capital has been still poured into Vietnam affiliation. According to report of Taxation Department in Ho Chi Minh city, their accumulated loss reached 179.43 bil USD by 2012 but they still added 210 mil USD for expansion in 2014. The same situation is happened at Suntory Pepsi. Obviously, tax authorities and specialists regard those brands with suspicion of accuracy of those reports. However, it is undeniable that it is difficult to prove those suspicion due to the professional experience of MNEs as well as the gap in monitoring policies.

1.2.2 The regulatory framework for monitoring transfer pricing in Vietnam

In the recent year, Vietnamese government invests huge efforts on controlling the transfer pricing of foreign companies, for instance, there were 29 transfer pricing audit implemented with total revenue adjustments of approximate \$ 415 million (General Department of Taxation, 2016). Another example is the retailer Metro Cash & Carry Vietnam was charged \$23.6 million back taxes after government found they exploited transfer pricing. Recent reports from Vietnam General Department of Taxation show that

there were 720 FDI enterprises over 870 inspected enterprises had the sign of tax avoidance in 2014.

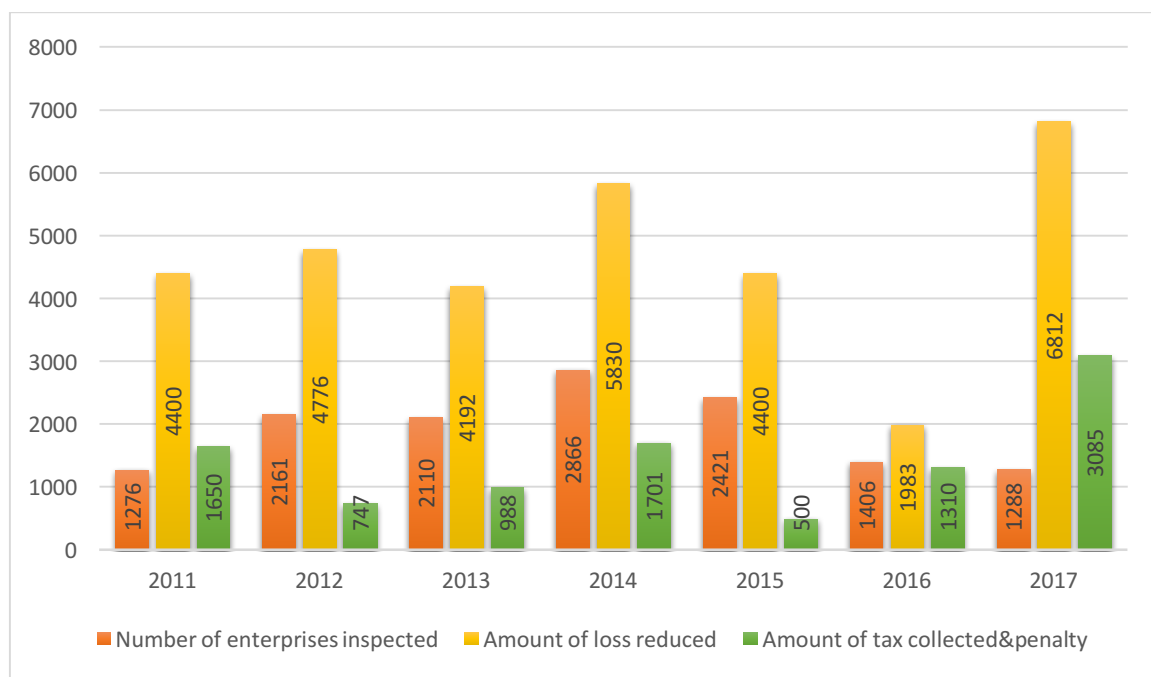


Figure 4: Result of inspections about transfer pricing in Vietnam (Do, 2018).

To monitor those serious matters, Vietnamese Government has been taking several actions:

Firstly, Taxation Departments actively conduct comprehensive inspections at FDI enterprises every year whoever have a suspicious sign of transfer pricing abuse¹³. The results are highlighted that 43/575 inspected enterprises engaging in tax avoidance in 2010 and in 2017, taxation authorities adjusted loss downward by 6,812 bil VND (approximate 309 mil USD).

Secondly, many specialized departments were established to focus on study, analyse and monitor the transfer pricing and tax avoidance actions of firms. The transfer price monitoring unit was formed in 2015 under controlling of National Taxation Department. This Unit has discovered lots of tax avoidance cases (see figure 4). In 2015, Ministry of Finance founded Department of Transfer Price Inspector to specialize inspection actions. Thanks to the specialization in management, the number of inspections increases considerable along with the improvement of their quality.

Thirdly, Vietnamese government has been improving the legal corridor while doing international integration to combat revenue losses and enhance transparency in the

¹³ Modes of sign: enterprises engage in related transaction, continuously enumerate loss, expand business even getting loss, and etc.

local investment environment. In detail, the Decree No.20/2017/ND-CP¹⁴ is the latest document which lay down the taxation rules applied for enterprises with related transactions. The decree improves the loopholes existing on available regulations as well as indicates new concepts in accordance to the Organisation for Economic Co-operation Development's (OECD) guidelines for fighting Base Erosion and Profit Shifting (BEPS) tax avoidance strategies (Mate and Cazacu, 2017). Circular No. 201/2013/TT-BTC is about guiding the application of advanced pricing arrangement in tax administration, Circular No.66/2010/TT-BTC to help determine market prices in business transactions among associated parties and etc...

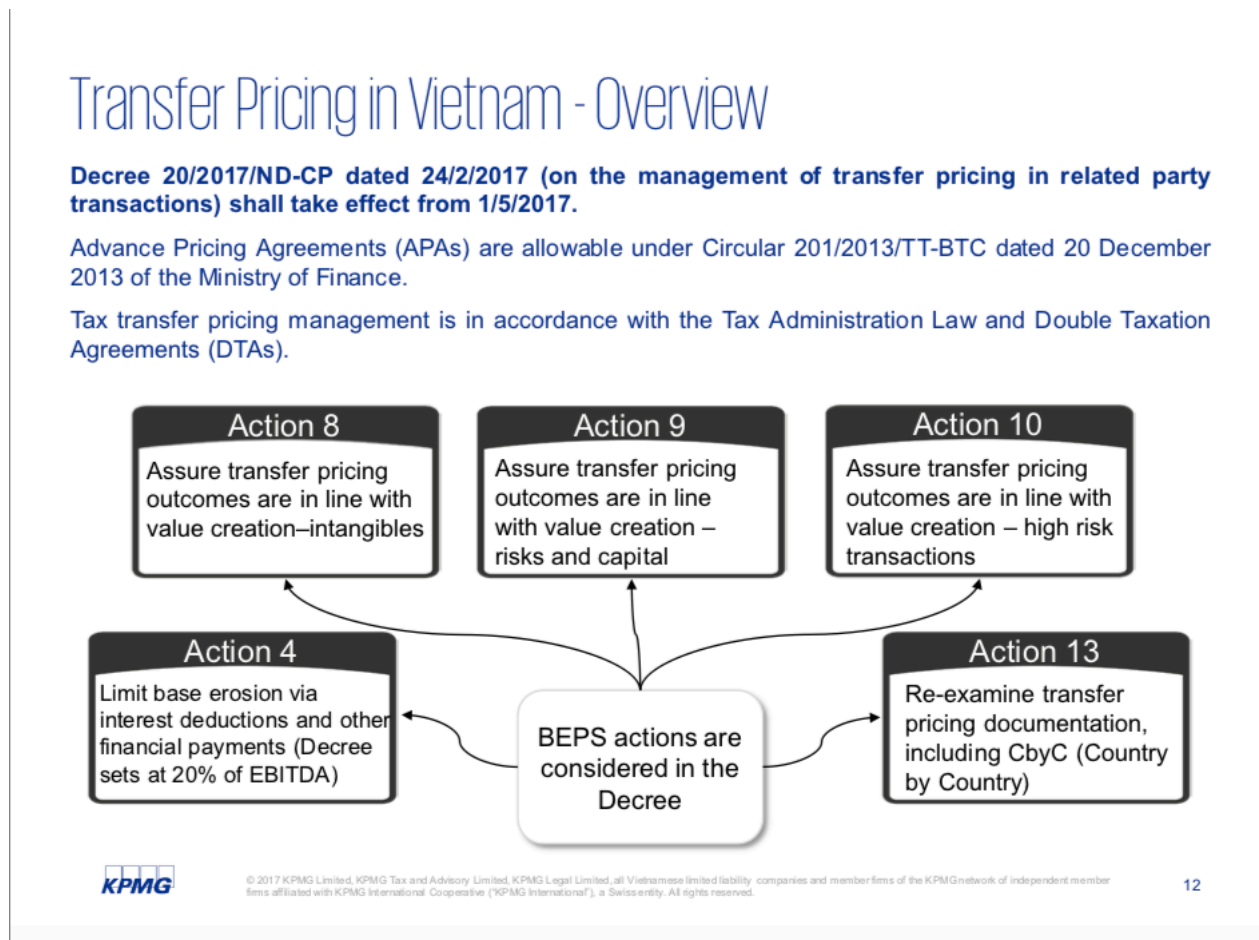


Figure 5: BEPS actions are considered in the Decree 20 (KPMG, 2017)

However, those documents are only the provisional solutions that they only guide taxation authorities how to implement their professional competence and take action in each transfer pricing concrete case. In fact, these documents are just only guidance rather than

¹⁴ Providing tax administration applicable to enterprises having controlled transactions

political regulations. Therefore, these regulatory framework is not strong enough to cope with the MNEs (Do, 2018) whose skills in transfer pricing are perfectly professional.

One considerable issue when implementing the transfer pricing regulations is Vietnam has quite low corporate income tax, which is 20% applied to all enterprises in the economy (Harrison, 2018). This rate creates big incentives and friendly investment environment for foreign investors, however, it also strengthens the transfer profit activities of MNEs. Consequently, the contribution of FDI enterprises is showned with low proportion and it is not proportional to the favored treatment that Vietnamese government offers them.

1.3 Justification for the Research

It cannot be denied that the effect of FDI to the development of both host countries and the investing country is extremely important. In case of Vietnam, the FDI sector positively boost local income as well as social welfare (Moosa, 2002). However, its contribution is still under expectation. Therefore, there raises the motivation for studying on the issues related to FDI process which commonly occurs in every country.

Transfer pricing is not a new topic but its topicality still exists and makes not only authorities but also entrepreneurs anxious. In case of Vietnam, the transfer pricing abuse is detected and considered in the recent years. However, Government actions have not been really effective that needs to be review and adjust comprehensively. There are many extensive literatures on FDI and transfer pricing, which deeply review the topics from theories such as the macroeconomic and microeconomic theories of FDI (Eden, 1975). Some other studies focus on determining and analysing modes of transfer pricing engaged by MNEs in practice as the case in Indonesia (Anggriyani, 2017), the situation in Ghana (Agana et al., 2018), firms in Kenya (Boro, 2013), the comparative study about New Zealand, Australia and China (Li, 2005). Many others examine exactly tax avoidance abuse from the viewpoint of government (Zilio, 2017; Popa et al., 2016) and so on. Those studies successfully clarify the importance of FDI to the development of both enterprises and countries, which prove countries needed to attract foreign capital even FDI could bring some drawbacks. Also, latest studies clearly point out the techniques that enterprises, especially MNEs, use to exploit the gap in transfer pricing regulations so as to limit their tax duty.

In term of Vietnam, there is fewer academic and professional researches seriously study on the transfer pricing field. Besides the academic researches directly discuss the transfer pricing reality like studies of Do (2018), there are many researches generally analyze the FDI context which partly considering transfer pricing as a cause of ineffectiveness (Vu, 2006). However, the amount of these kind of studies are small while the others are non-official or basically short discussed documents of single event.

Most of mentioned researches are discussed from the view of business organisations rather than government perspective. Moreover, it is also quite lack of studies focus on Vietnam case and review from Government viewpoint. Hence, it is needed to have a deeply research which ambitiously fills in the gap in this area and analyse the transfer pricing matters in Vietnam from the view of local authorities.

1.4 Research Aim

This research will explore the transfer pricing mainly from the viewpoint of government while the Foreign Direct Investment process is the environment for the existence and central purpose of these terms. Firstly, to determine the importance of FDI to the development of both countries and enterprises, thence, reasons why FDI is encouraged even it might bring many unexpected drawbacks would be pointed out clearly. Secondly, the research will examine the practical situation of tax avoidance used transfer pricing mechanism by MNEs in Vietnam. Consequently, the main target of the whole paper is discovering any gaps in monitoring regulations on transfer pricing of Vietnamese political system and propose government appropriate solutions whether there are any gaps.

1.4 Research Objectives

With the desire of addressing and proposing possible solutions to enhance the quality and effectiveness of recently transfer pricing monitoring regulatory framework, this dissertation attempts to answer the main question: *Which solutions should be applied to protect tax base of Vietnam from transfer pricing while seeking to attract more FDI?* And the second main question: *Why does Vietnam allow firms conducting transfer pricing mechanism even it carries drawbacks?*

In order to answer that research question, there are some sub-research questions could be addressed to support the main idea:

- i) What are the definition of FDI, MNEs?
- ii) Why do firms engage in the FDI process?
- iii) What is the purpose of host countries in attracting FDI?
- iv) What is transfer pricing from the view of firms?
- v) What is transfer pricing from the view of governments?
- vi) Which transfer pricing issues is Vietnam facing with?
- vii) How important the regulatory policies on transfer pricing are?
- viii) How is the current situation of attracted FDI and transfer pricing in Vietnam?
- ix) Which political actions has Vietnamese government taken to control the transfer pricing mechanism? How about their effectiveness?

By answering those research questions, the research aims to achieve the five key objectives, included:

1. To ascertain the importance of FDI to the host countries.
2. To investigate the motivations for firms engaging in FDI.
3. To determine whether there are any considerable challenges and issues Vietnam facing due to legalising transfer pricing mechanism of MNEs.
4. To evaluate the qualification of regulatory framework and management of government on transfer pricing actions.
5. To discover the effective measures and policy for Vietnamese Government to tighten up the transfer pricing usage and improve contribution of FDI sector.

1.5 Dissertation structure

The dissertation includes six main chapters followed by references and appendices.

The first chapter will shortly introduce the topic and purpose of the research, it explores the context of Vietnam in term of attracting FDI and existing transfer pricing issues, generally discusses the advantages and drawbacks of FDI to the development of country. While transfer pricing will be considered as a strong reason causes the inefficiency of FDI sector, the Vietnamese regulatory framework on these issues will be discussed. The justification for the research is also clarified in this chapter. Moreover, research question

as well as supported sub-questions will be addressed. Consequently, structure of the whole dissertation is indicated clearly at the end.

Chapter two focus on reviewing some existing literatures in the areas of FDI and transfer pricing. Three main discussed theories in this chapter are: (i) FDI and its role to nations and firms; (ii) transfer pricing and its role from different viewpoints and (iii) importance and modes of regulatory framework for transfer pricing.

Third chapter focuses on methodology is used to conduct this dissertation. It firstly demonstrates appropriate method conducted, then ethical issues related to the implementation of the dissertation will be raised. Finally, the chapter ends with the show of limitations and suggested alternative solutions.

Chapter four analyses the data collected from the real interviews. Data is classified and analysed independently under two separate sections: responses of entrepreneurs and responses of government. The sum will be taken to help this chapter seamless.

Chapter five specifies research findings and links them with the objectives of the research. It also discusses the limitations interfere the implementation of the whole dissertation.

Final chapter concludes all findings of the research and makes some appropriate recommendations for future research as well as personal learning statement are indicated.

Chapter 2 – Literature Review

2.1 Introduction

The literature critical review provides foundation for building the research (Saunders et al., 2016). This helps researchers to clearly understand any previous relevant studies as well as reveal the trends in the studied area that have emerged. Linking to the topic, the literature review attempts to investigate existing literature regarding the field of FDI and transfer pricing to help researcher have an overall view. Besides, previous researches will be summarized and organized systematically, thence, pointing out any gaps, themes and trends emerging from those studies.

2.2 Introduction to Literature

As mentioned above, the proposal desires to explore the transfer pricing and tax avoidance from two viewpoints: MNEs and government in the context that Vietnam is attempting to attract more foreign capital for development. FDI has been central to the development strategy of Vietnam over 30 years (OECD, 2018) which in turn creates jobs, transfers technologies and production knowledge and enriches the economy (Dunning and Lundan, 2008). The academic literature review is divided into three sections as below.

2.3 Review on theories of Foreign Direct Investment

2.3.1 Definition of FDI and MNEs

Foreign Direct Investment is the most popular and common business process in the world modern economy that many specialists as well as academic organisations make their own definition of FDI. To determine the theories of FDI, massive researched have been conducted under varying hypotheses (Moosa, 2002), included: (i) theories assuming perfect markets, which combined by the differential rates of return hypothesis¹⁵; the portfolio diversification hypothesis¹⁶ and the market size hypothesis¹⁷; (ii) theories assuming imperfect markets which includes the industrial organisation hypothesis¹⁸, the

¹⁵ studied by Agarwal (1980), Weintraub (1967) and Yang (1999)

¹⁶ tested by Tobin (1958) and Markowitz (1959)

¹⁷ studied by Balassa (1966), Jorgenson's (1963), Chenery (1952)

¹⁸ developed by Hymer (1976), continued by Kinderberger (1969) and Caves (1982), Dunning (1988)

internationalisation hypothesis¹⁹, the location hypothesis²⁰ and the eclectic theory²¹, the Product life cycle hypothesis²² and the oligopolistic reactions hypothesis²³; (iii) other theories presents four hypotheses as the internal financing hypothesis, the currency areas hypothesis and the effect of exchange rate, the hypothesis of diversification with barriers to international capital flows, the Kojima hypothesis (Kojima, 1973, 1975, 1985); (iv) theories regarding to other variables concerning political risk and country risk, tax policies, trade barriers, government regulations, strategic and long-term factors; (v) theories of entry mode.

Moosa (2002) considers FDI as a process that residents from one country can possibly invest and acquire the ownership in other country to control the production, distribution and many other activities of a business in that country. In this case, the term of “control” is particularly emphasized that investor has the right to make discretionary decision about management policy and strategy. The meaning of “control” to FDI concept is also stated in the study of Anggriyani (2017) that FDI involves “cross-border investment” and “controlling entities”. To clarify the essence of FDI, author analyses FDI under two different perspectives which belong to the investor and the host country. The investor perspective are supported by the study of Caves (1971) who divides FDI into three dimensions of horizontal FDI, conglomerate FDI and vertical FDI²⁴. This hypothesis is supported and discussed again by Peng and Meyer (2019) that horizontal FDI occurs within a value chain, while vertical FDI occurs among different value chains in a host country. Meanwhile, FDI from the perspective of the host country is formed in three other modes: import-substituting, export-increasing and government-initiated FDI²⁵. However, these theories seem equating all investment outside national border with Foreign Direct Investment.

On the other hand, a few scholars pay their attention on foreign investment that FDI is just a mechanism of foreign investment. These studies partly fill in the deficiencies in the literature about FDI, help later researchers distinguish between foreign investment and

¹⁹ raised by Coase (1937), supported by Buckley and Casson (1976) and Dunning (1977)

²⁰ applied by Horst (1972b)

²¹ developed by Dunning (1977, 1979, 1988)

²² developed by Vernon (1966)

²³ found in researches of Knickerbocker (1973), Vernon (1973)

²⁴ Horizontal FDI means FDI taken to expand horizontally in order to produce the similar products in the host country as in the original one; Vertical FDI is applied for the term of either using raw materials or approaching customers by acquiring distribution outlets; Conglomerate FDI is the combination of two above methods (Caves, 1971).

²⁵ Import-substituting FDI: goods previously imported are now produced in host country; Export-increasing FDI: host country step up export raw materials and intermediate products; Government-initiated FDI: occurs for macro purpose as adjusting a balance of payment (Moosa, 2002).

FDI. Accordingly, Foreign Investment involves foreign direct investment (FDI) and foreign indirect investment, or foreign portfolio investment (FPI) (Anggriyani, 2017; Wu et al., 2012), but the second mechanism gets fewer attention than FDI (Li and Filer, 2007). According to these theories, FDI pattern is the long-term investment thanks to its favourable effect in comparison to FPI's (Anggriyani, 2017).

In general, the methodologies to approach FDI are varying and employed from diversified fields like international business, strategic management, international economic and international political economy (Rajan, 2014). Those approaches concern in elements affecting the movement and performance of FDI. Previous scholars found out that FDI performance closely relates to political conditions and governance environment of the host countries (Moon, 2015; Wu et al., 2012), the stability of macro-economy and politic, tax regulations, the development of infrastructure and the quality and quantity of resources (Anggriyani, 2017).

On the other hand, MNEs appear and directly engage in FDI for the purpose of exploiting the imperfections in global markets (Elliott, 1999). There are many literature name firms involving in FDI and operating in multiple nations as “multinational enterprises” (Peng and Meyer, 2019), “multinational corporations” (Moosa, 2002). In sum, even there are variety ways to call the type of those firms, they are all have the same meaning that indicate firms becoming multinational (or transactional) once they undertake FDI (Moosa, 2002). Hence, within this research, these kind of firms would be unanimously called “MNEs”.

2.3.2 Why firms engage in FDI?

The question for motivation encourages firms engaging in FDI movements has been discussed and answered in many academic literatures. Dunning (1981 and 1988) used the eclectic approach, which based on theories in industrial organisation, location and market failure (Elliott, 1999), to examine the determinants determine the involvement of enterprises in FDI. The result shows that ownership, location and internationalisation advantages (OLI paradigm) are three conditions induce enterprises to engage in FDI (Peng and Meyer, 2019).

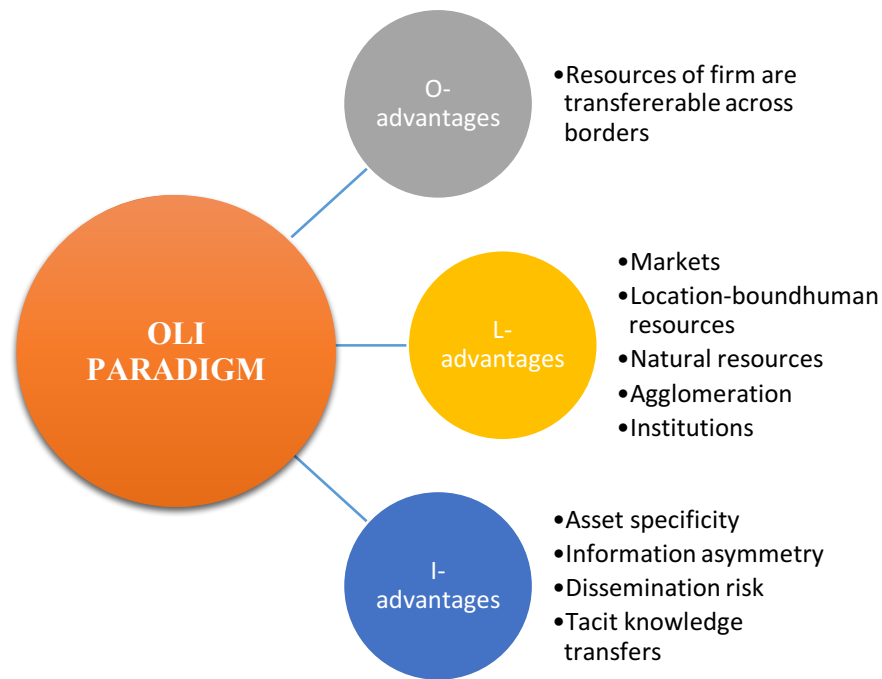


Figure 6: the OLI paradigm

(Source: based on description in Peng, M. and Meyer, K. (2019))

Also, Porter (1990) supports the idea that final goal of firm participating in international business is profits maximizing, gaining more competitive advantage and business growth (Enright, 2016). Therefore, when firm meet the ceiling of production, expansion and operation in the home country, they will look for internationalizing to conquer new resources (materials, human capital, skill labour and etc.), markets and advantages which in turn bring them more profits and production efficiencies (Enright, 2016; Gilmore et al., 2003).

2.3.3 Benefits of FDI to the development of host countries

Scholars have fiercely debated about the benefits and costs of FDI to the host country for many years. While countries expect FDI to bring positive effects to the economy and society, many economists warn about its costs to host economies (Peng and Meyer, 2019). Regarding to advantages of FDI, Moon (2015) argues that host country gained benefits from FDI flow regarding to the well-being of both labour and capital and the budget revenue gained from MNEs. However, this study does not mention about the effect of FDI on other development norms such as the level of developing infrastructure, transfer of advanced technology and etc.

Other study of Moosa (2002) analyses and classifies the effects of FDI on the host country into three groups: economic, political and social effects. Regarding to social aspect, FDI

helps the host country enhancing income and social welfare, creating jobs and improving labour skills (Moon, 2015). From economic aspect, both micro and macro-economic variables are benefitted by FDI like production outcome, market structure and the balance of payments in the host country (Moosa, 2002). Finally, previous literature points out the effects of FDI to political dimension can be tax revenue, national competitive advantage.

	Benefits of FDI	Negative effects of FDI
Customers	<ul style="list-style-type: none"> - approach quality products and international brands - get lower prices 	<ul style="list-style-type: none"> - reduce traditional local brands - potential monopoly prices
Suppliers	<ul style="list-style-type: none"> - improve productivity thanks to advanced technology - potential international suppliers 	<ul style="list-style-type: none"> - crowded
Competitors	<ul style="list-style-type: none"> - technology spillovers - upgraded and innovative competition 	<ul style="list-style-type: none"> - overwhelming competition
Workers	<ul style="list-style-type: none"> - more jobs - higher labour standards - skills and knowledge 	<ul style="list-style-type: none"> - less labour-intensive production
Government	<ul style="list-style-type: none"> - budget revenues - economic growth 	<ul style="list-style-type: none"> - costs of subsidies and other incentives
Natural environment	<ul style="list-style-type: none"> - advanced environment standards 	<ul style="list-style-type: none"> - highly polluting activities of MNEs whether regulations are less stringent

Table 3: Potential advantages and disadvantages of FDI for the host country (Peng and Meyer, 2019).

Moreover, some protecting actions are also taken simultaneously to prevent backwards of FDI damage their economy and society. Regarding to Peng and Meyer (2019), they critically analyse benefits and costs of FDI from different views that consumers, suppliers, competitors, workers, governments and natural environment are the discussed elements. This nearly a comprehensive analysis that concerns main component parts of a country.

2.4 Review on theories of transfer pricing

Along with the raise and development of international business, especially FDI, some widespread phenomena of transfer pricing application (Rahmiati and Sandi, 2016) appear and attract attention of economists and scholars.

To study about transfer pricing, scholars have adopted variable methods of approaching. For example, empirical dimension exams the practice of firms by using surveys, but, this method ignores their operation in internal and external environment. Conversely, theoretical studies concentrate on previous theories rather than the practicalities of transfer pricing in the real business (Elliott, 1999).

2.4.1 The definition of transfer pricing

Transfer pricing is known as the process of determining the prices of products and services by the parent companies to their subsidiaries and vice versa (Moosa, 2002; Anggriyani, 2017). This theoretical definition is supported by later papers as Agana et al. (2018) consider transfer pricing as “the act of placing values on goods and services that are transferred between members of the same group domicile in different countries”. According to those previous papers, it can be concluded that transfer pricing is an activity occurs within internal corporations which operating in multiple countries, or so called MNEs, transactional enterprises and etc. Transfer pricing strongly affects the managerial decision making of a firm when they think of internationalization. Firms use transfer pricing mechanism in order to obtain competitive advances (Cazacu, 2017), evaluate submit performance, improve the worldwide operation efficiency, maximize global profit, encourage management effort (Anggriyani, 2017). In the century of globalisation, the existence of intra-group transactions creates propitious conditions for transfer pricing issues to expand (Anggriyani, 2017) and become more complicated. Li (2005) summarizes the basic model of transfer pricing process from previous literature as below:

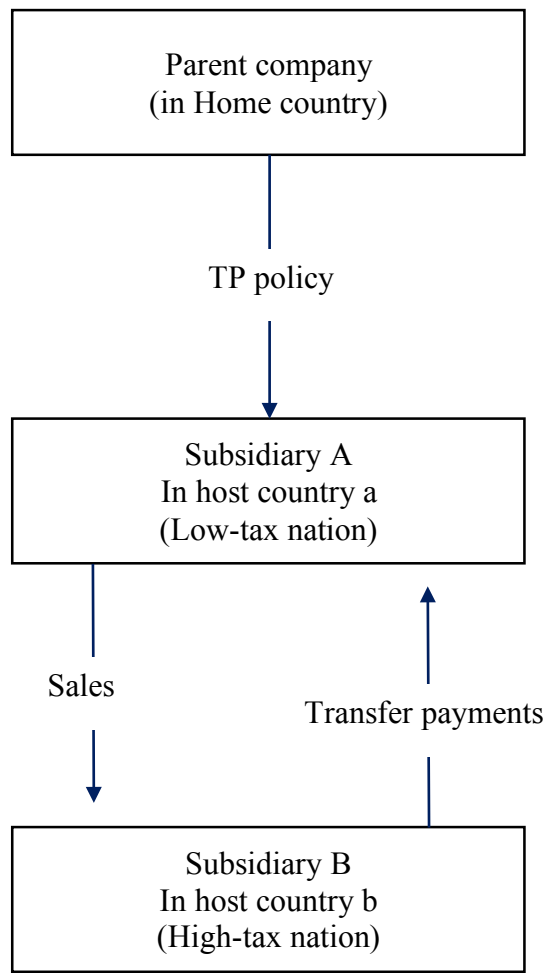


Figure 7: Simplified transfer pricing model (Li, 2005).

However, why transfer pricing exists? This question was solved in the paper of Agana et al. (2018) who approach this area from practical viewpoint. There are two issues happen in practice that indicate clearly the relationship between MNE's investment decision, host country and transfer pricing mechanism. The first matter related to location, MNEs invest in emerging countries where have weak tax systems in order to shift their income and avoid tax duty. The second matter explains that some governments approve for firms freely repatriate profit²⁶ so as to boost their FDI inbound flows (Agana et al., 2018).

In today's business world, the meaning of transfer pricing is derogated as MNEs use transfer pricing to minimize their tax burden. In details, MNEs may make corrupt use of transfer pricing to avoid tax duty and shift profit by freely valuing transfer price high or low. Tax avoidance happens when firms, for instance, bring products made in high-tax countries to sell in other subsidiaries in low-tax countries at under market prices (Hamilton and Webster, 2009). Many papers examine the practice of using transfer

²⁶ As a term in the bilateral investment treaties

pricing as a tax avoidance tool and detect these issues in developed country like USA, Germany and the UK (Agana et al., 2018).

2.4.2 Transfer pricing from Entrepreneur perspective

The rise of globalisation makes it easier for MNEs to minimize the tax they hand over to government. Beside the tax purpose, firms also use transfer pricing to reduce and evaluate risk (Moosa, 2002; Li, 2005). Due to the secretive characteristic, transfer pricing has been a crucial and necessary portion in the operation of MNEs. It is considered as legitimate business opportunities for MNEs to reduce the risk of faulty audits and prevent double or more taxation (Cazacu, 2015). Hence, transfer pricing well plays its role of minimization of worldwide tax income and import duties, avoidance of financial restriction, managing currency fluctuations and winning host-country government approval (Mueller et al., 1997).

Similarly, Elliott (1999) believes firms apply transfer pricing as a tool to take advantage of market imperfections and incentives, so as to maximize location-specific advantages. Additionally, Agana et al. (2018) suggest that MNEs utilize transfer prices to reduce their foreign exchange risk²⁷. This judgement is supported by Burns (1980) and Garrison and Noreen (2000). Other aim of transfer pricing is motivating market entry and competition. Firms set the underprices to make its affiliate easily access the new market and against their competitors (Burns, 1980). The other purpose of engaging in transfer pricing is improving firms' liquidity position and managing cash flow problems (Burns, 1980; Agana et al., 2018).

²⁷ move profit from a country with weak currency to other nation where has stronger and stable currency.

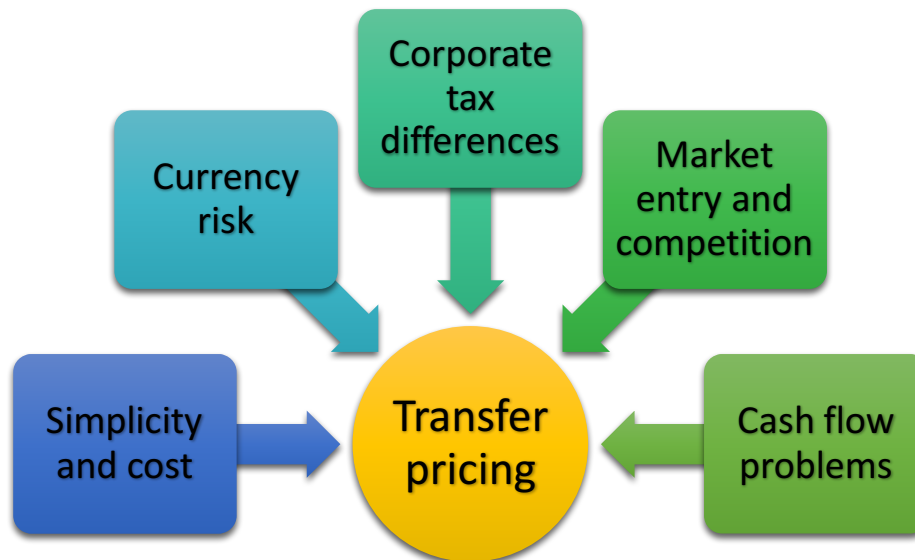


Figure 8: Motivations for firms engaging in transfer pricing (Agana et al., 2018)

Hence, firms engage in transfer pricing mechanism for many different purposes rather than only tax avoidance, the choices for this engagement depend on characteristics of organisation, invested environment, corporate objectives, operation and business strategies.

2.4.3 Transfer pricing from Government perspective

The effects of international transfer pricing are beneficial to not only MNEs but also host countries as it attracting more FDI into the market. The countries with favorable transfer pricing and tax policies would attract more FDI, in turn, these trends equip host countries with innovative technology, management skill, gainful employment, working experience and contribute to the positive shift of local living standard (Akpojevwa, 2014). The study of Mooij de and Sjef (2003) suggests that whether one percentage point in tax rate is reduced, the FDI in-flows potentially increases by 3.3 percent. Therefore, it can be explained that the low tax rates help country attract more foreign investors and obviously those countries are the potential location for profit shifting via transfer pricing mechanism.

There are harmful impacts on the host countries' economies when MNEs exploit transfer pricing to shift profit. The local authorities find it is difficult to control the transfer pricing process of MNEs as firms report their business with reluctance and unguaranteed information (Moosa, 2002). Moreover, MNEs seem to hide information regarding to their transfer pricing practices in the financial reports (Muhammadi et al., 2016).

Consequently, huge tax revenue is lost due to MNEs annually report losses caused by over-invoice transferred sources and goods (Akpojevwa, 2014). Therefore, many tax authorities indicate transfer pricing mechanism as the shape-shifting of their tax duty (Rahmiati and Sandi, 2016) or the form of tax avoidances by MNEs (Muhammadi et al., 2016).

2.5 The regulatory framework for transfer pricing

2.5.1 Importance of regulatory policy on transfer pricing

It is proved that FDI flows have contributed significantly to the economy of the host country, including Vietnam. However, some of them exploit the local preferential treatment to transfer pricing and tariff, which causes huge losses on state budget revenue as well as augment unfair competition in the market. These losses might be indicated under variety way like: the loss of national tax revenue, the loss of domestic shareholders' profit, the loss of worker (wages) and the loss of consumers (prices) (Moosa, 2002). Therefore, governments increasingly concern the losses of tax revenues due to transfer pricing abuses (Li, 2005). Additionally, Li (2005) summarise potential negative effects of transfer pricing revealing in many papers and researches as: tax losses; Difficulty in auditing and evaluating enterprises and potential creation of monopolised market led by MNEs.

To deal with these issues, the states try to adopt effective measures to avoid tax revenue drained away (Matei and Cazacu, 2017). For instance, when New Zealand face the increasingly losses of MNEs, taxation authorities seriously focus on the perspective of intercompany transfer pricing abuses and introduced new controlling rules to prevent that prospect (Li, 2005).

Hence, due to the potential drawbacks of transfer pricing, countries must think about monitor this mechanism in order to protect their tax revenues and economic wealth. The supportive evidence for importance of governmental control on transfer pricing is the study of Muhammadi et al. (2016) as they surveyed government officials and conclude that it is useful for minimizing transfer pricing manipulation to develop a standardized transfer pricing policy and mandate risen disclosures about effects of transfer pricing on tax liabilities and subsidiary profit indicated in the financial reports of MNEs.

2.5.2 Comprehensive methods for tightening up the transfer pricing abuse and tax avoidance of FDI enterprises

Various comprehensive actions and regulations have come into force by governments in order to tighten up these abuses such as tax audits (Li, 2005). Many previous studies reviews utilizing the practical approach and/or theoretical approach to find and suggest the perfect methods for governments in monitoring transfer pricing abuse and tax avoidance behaviour of MNEs.

The requirement for MNEs quoting an arm's-length²⁸ or competitive prices is a normal regulation that authorities have applied (Moosa, 2002). This regulation plays an important role in setting up a fair market-based prices for every parties in the economy. The importance of these regulations have been proved and mentioned in several papers which concluded based on practical analysis and theoretical reviews as the weaker political environment is, the more FDI poured into the country. Wu et al. (2012) state that foreign investors prefer to directly invest in the country where public protection is ineffective to protect their assets through private means²⁹.

Li (2005) suggests that tax authorities should strictly audit multinational transfer pricing arrangements of MNEs. Unfortunately, many scholars virtually ignore the impact of auditing on MNEs, except Borkowski (1997b), who consider tax audit as a significant environmental factor influencing transfer pricing.

Based on studying varying literature, Li (2005) also find out that the transfer pricing issues in developing countries are more detrimental than in developed countries due to their knowledge of transfer pricing mechanism is limited, lack of information, low in ability of expertise and staffs to detect and prevent transfer pricing abuse, for instance, China and Vietnam. Therefore, quality enhancement of these people could be a good ideal for improving the governmental monitoring system on transfer pricing and MNEs' behaviours.

²⁸ The arm's-length prices are "comparable uncontrolled prices in the sense that uncontrolled sales are considered comparable to controlled sales if the physical property and circumstances involved in the uncontrolled sales are identical to the physical property and circumstances involved in controlled sales" (Moosa, 2002).

²⁹ They classified governance environment into two categories: a rule-based governance environment which typically found in the most developed societies; a relation-based governance environment regarding to nations where public rules are less fair like Vietnam (Li, 2009).

2.5.3 Potential improvement measures for Vietnamese Government

To comprehensively tighten transfer pricing up, possible and essential solutions must be address.

Firstly, Vietnam continues recent efforts and policies to control transfer pricing and tax avoidance. The application of those policies also follow the OECD principles while implementing the policies, especially the Decree 20, comprehensively and effectively. These regulations can be changed due to the adjustment in the integration policies and the changes of economic environment.

Secondly, develop FDI enterprises database that is a necessary and effective data source for taxation administrators to control and evaluate transfer pricing. These database is built not only from the information that Vietnamese Government owns, but also the shared information of cooperated countries.

Thirdly, re-establish the list of preferential treatment factors to distinguish the actual FDI enterprises with FDI abusers, to identify the essential investment sectors and human resources.

Fourthly, make tax incentive and transfer pricing regulations more transparent to prevent tax avoidance.

Fifthly, review the MNC's transfer pricing documentation. It might be better if the MNCs, especially from CPTPP region, have obligation to hand on their data about income, international paid taxes and business activities to all authorities (Cazacu,2015).

Sixthly, apply safe harbours in the transfer pricing field. These require taxpayers use a certain transfer pricing method to fix their transfer prices, and comply with information reporting conditions on controlled transactions (Matei and Cazacu, 2017).

Finally, conduct sudden and frequent inspections of FDI enterprises about their procurement, asset and resources management and compliance with Vietnamese laws, especially tax avoidance as a main focus.

2.6 Conclusion

The literature review has made an attempt to explore the remarkable sides of transfer pricing activities of FDI enterprises that are roles and impacts of transfer pricing to both enterprise and host countries, particularly Vietnam. Recent studies bare the gaps that while FDI enterprises exploit transfer pricing to avoid taxes, tax collected revenue from

FDI segment is quite low, countries, Vietnam as a sample, still focuses on attracting more FDI flows. There are several researches investigate the purpose of Vietnam calling for FDI, and the attempts of governments to prevent tax avoidance.

Due to resources' limitation, this primary research initially uses qualitative method to analyse the phenomena as well as other studies rather than applying quantitative method. Consequently, based on the analysis and observation, the solutions are proposed to help authorities controlling transfer pricing issue comprehensively.

The following mind map shows the conclusion of this literature review section:



Figure 9: The concluded mind map of literature review on transfer pricing and FDI

Chapter 3 – Research Methodology

3.1 Introduction

Saunders et al. (2016) define research methodology as the theory of how research must be carried out. While the research methods basically refer to the techniques and procedures employed to collect and analyze data, like questionnaire; The methodology mainly focuses on the choice among qualitative, quantitative or mixed methods.

This chapter will indicate the research design chosen by author which mostly based on “research onion” concept (Saunders et al, 2016). While research objectives (go along with research questions) and justification for the research are indicated clearly in the first chapter, this chapter will demonstrate the philosophy as well as research approaches, data collection and analysed method would be taken. Then, any potential ethical issues will be discussed, followed by the limitations to the research which might be obstacle in the accomplishment of the thesis. Finally, some alternative approaches will be proposed and conclude the whole chapter.

3.2 Research methodology

The research onion model introduced by Saunders et al. (2016) is used in this research to depict the research process as well as choice of data collection and analysis methods. By peeling away each layer of the onion, the research step-by-step discusses and explains any methods used to indicate those layers, also, the limitations, pros and cons of each chosen methodology will be identified clearly.

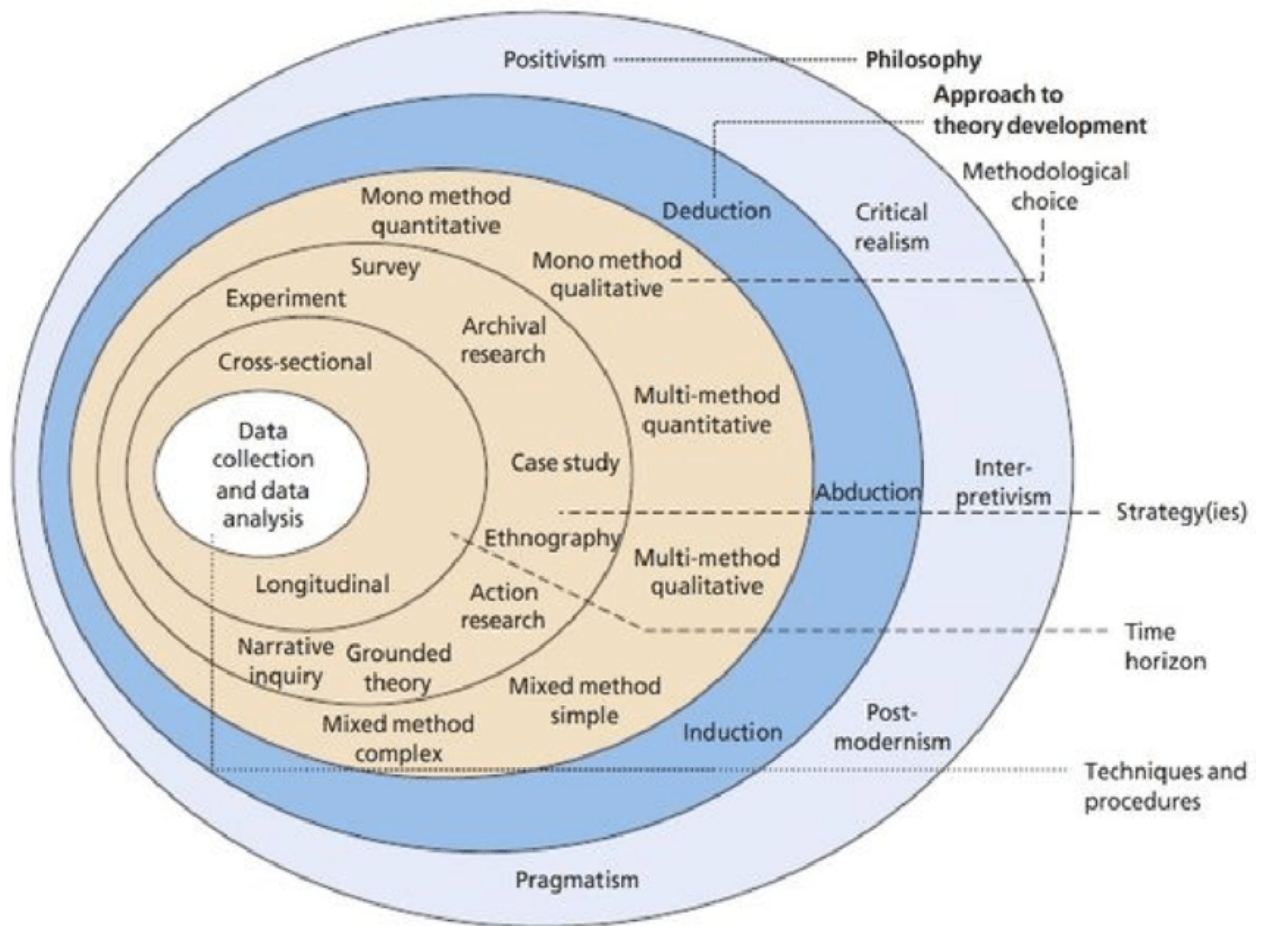


Figure 10: The research onion (Saunders et al., 2016)

3.2.1 Research Philosophy

The term of research philosophy all-embraces beliefs and assumptions that knowledge is developed as well as the nature of that knowledge (Saunders et al., 2016). Therefore, the research philosophy reflects researcher's view and awareness about the particular field.

3.2.1.1 Ontological, epistemological and axiological assumptions

Saunders et al. (2016) distinguished three methods of research assumptions shaping the philosophies and affecting the choice of researcher.

Ontology refers to the nature of social entities (Bryman and Bell, 2015). The ontological assumption shape the way researcher observe and study their objects (Saunders et al., 2016). There are two opposite ontological positions that researcher view the nature of social entities (Enright, 2016) included objectivism and subjectivism (Saunders et al., 2016).

Epistemology concerns the inquiry of what is acceptable knowledge in a discipline (Bryman and Bell, 2015; Enright, 2016). It concerns whether possible or not to explore the social world in the same principles, procedures as the natural sciences. While the positivism encourages applying the methods of natural sciences to study about the social reality, the interpretivism depicts the contrastable view that regards the empathic understanding of actions (Bryman and Bell, 2015).

Axiology regards to the role of values as well as ethics occurring within the research process (Saunders et al., 2016). The axiology has important role as whether researcher knows their own values, they can explain for the decisions they have made (Saunders et al., 2016).

3.2.1.2 Chosen philosophy

As research demonstrates the practical issues and then raises key questions which must be taken and solved during the research, pragmatism is considered as the most appropriate philosophy to accomplishment this paper. The term of pragmatism regarding to philosophy is clearly indicated by Saunders et al. (2016).

Ontology	Epistemology	Axiology	Typical method
Complex, rich, external 'Reality' is the practical consequences of ideas Flux of processes, experiences and practices	Practical meaning of knowledge in specific contexts "True" theories and knowledge are those that enable successful action Focus on problems, practices and relevance Problem solving and informed future practice as contribution	Value – driven research Research initiated and sustained by researcher's doubts and beliefs Researcher reflexive	Following research problem and research question Range of methods: mixed, multiple, qualitative, quantitative, action research Emphasis on practical solutions and outcome.

Table 4: Assumptions about pragmatism philosophy in the business management research (Saunders et al., 2016)

This concept treats reconcilably between objectivism and subjectivism, value and fact and different contextualised experiences. As a pragmatist, researcher studies the transfer

pricing field in both views of government and enterprises, also, compares the perception of transfer pricing mechanism in the theories and practice.

Moreover, practical outcomes and solutions would be taken and proposed for the future practice. Therefore, this research is conducted under multiple viewpoints and constructed by using mixed methods which will be clearly indicated in next sections.

3.2.2 Research approach

3.2.2.1 Types of research approaches

The research approach can be deductive, inductive or abductive (Saunders et al., 2016). The compared typical characteristics of three mentioned approaches are well indicated in the following table:

	Deduction	Induction	Abduction
Logic	In a deductive inference, when the premises are true, the conclusion must also be true	In an inductive inference, known premises are used to generate untested conclusions	In an abductive inference, known premises are used to generate testable conclusions
Generalisability	Generalising from the general to the specific	Generalising from the specific to the general	Generalising from the interactions between the specific and the general
Use of data	Data collection is used to evaluate propositions or hypotheses related to an existing theory	Data collection is used to explore a phenomenon, identify themes and patterns and create a conceptual framework	Data collection is used to explore a phenomenon, identify themes and patterns, locate these in a conceptual framework and test this through subsequent data collection and so forth

Theory	Theory falsification or verification	Theory generating and building	Theory generation or modification; incorporating existing theory where appropriate, to build new theory or modify existing theory
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Table 5: Comparison among three types of research approaches

(Saunders et al., 2016)

3.2.2.2 Chosen research approach

According to Saunders et al. (2016), it is better to choose abductive approach to do a research in the field where related information is rich in one context but far less on the other where researcher studying.

Furthermore, the phenomena of tax avoidance through transfer pricing abuse is not a new practice that has been already discussed in several literatures. However, there remains the lack of academic papers studied on this field in the context of Vietnam. As abduction allows researchers modifying and explaining the themes by linking the phenomenon with the existing theory, it is the appropriate method to approach the field of transfer pricing. Hence, this research will take the abductive approach for more scope and exploring the topic deeply.

3.2.3 Research methodology

3.2.3.1 Methodological choices

To accomplishment the research, it is needed to make a methodological choice that researcher must follow to generate the plan of answering the research questions. The various modes of methodological choice (Saunders et al., 2016) are clearly indicated below:

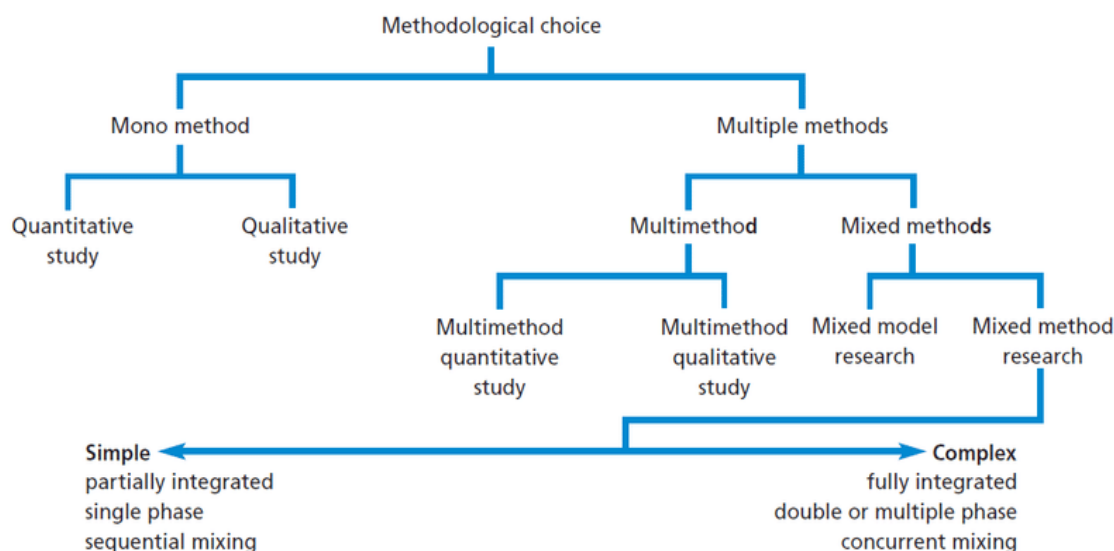


Figure 11: Methodological choice (Saunders et al., 2016)

The qualitative method shows its value when analyse the reality of tax avoidance and its countable impacts to Vietnam, and effects of government in effort of controlling these issues. Meanwhile, the quantitative will effectively exam relationships, trends in this area.

3.2.3.2 Chosen methodology

Saunders et al. (2016) suggest that pragmatism is likely influenced by mixed methods research design as mixture of view positions will help pragmatist to undertake their research. Also, pragmatist, who chooses the mixed methods research design, can use abductive approach to develop theory and hypotheses.

Therefore, to take advantage of those method and link with previous chosen approach, this research will employ sequential mixed methods research, which combines both quantitative and qualitative methods and involves them in two different phases of data collection and analysis. The first phase along with the quantitative method discover the fact of transfer pricing abuse and FDI attraction in Vietnam using the data collected by Government office and other researchers. The second phase uses qualitative data from interviews of economists, officials and entrepreneurs to explain and solve the research questions which raised at the end of first phase.

3.2.4 Research purpose

It is important to clearly recognise the purpose of research project (Saunders et al., 2016) which helps the research implementing in orderly direction.

3.2.4.1 The purposes of research design

According to Saunders et al. (2016), each purpose has different characteristics and nature.

Exploratory studies regard to discover the situation happening, get insights about the research topic and clarify understanding of any phenomenon occurred within that area.

Descriptive studies aim to precise profile of situations. This purpose requires researcher already has knowledge of the studied phenomenon before taking any data collection.

Explanatory studies focus on the relationship between variables by explaining them based on collected data.

Evaluative studies interest in the effectiveness of works, strategy, policies, process or initiative. The evaluate research attempts to assess performance of things, possibly produce theoretical contribution and compare with existing theories.

3.2.4.2 Chosen purpose in design

The research tends to explore the perceptions that different social actors have of transfer pricing and FDI effectiveness. Then, some explanations will be constructed to explain the reason those phenomenon exists and relationship between economical elements. Finally, evaluative study is used to assess the effectiveness of existing regulatory framework and the research concluded by making some recommendation.

Due to those described procedure, the research aims to conduct the combined studies of exploratory, explanatory and evaluative purpose in research design.

3.2.5 Research strategy

3.2.5.1 Different research strategies

According to Saunders et al. (2016), the research strategy indicates the way that researcher will follow to answer their research question(s). Also, Denzin and Lincoln (2011) define it as a methodological link between chosen philosophy and method to collect and analyse data.

There are eight different research strategies have been discussed carefully by Saunders et al. (2016), included: Experiment, survey, archival and documentary research, case study, ethnography, action research, grounded theory and narrative inquiry.

3.2.5.2 Chosen strategy

Saunders et al. (2016) believe that these strategies can be combined together in a research such as combine archival documentary research with grounded theory. Therefore, to the best development of this research, the combination of various strategies will be employed as following:

The survey strategy is used to explore the perceptions of social actors about the studied area. The interviews obviously fall into this survey strategy as a data collection method.

The Archival and documentary strategy makes way for accessing the data collected and generated by others. The potential document sources directly related to research can be: Government sources (national statistics and reports), media sources created by other specialists in the field (articles, journals and etc.).

The case study is indicated by the appearance and discussion about Vietnam practical situation in the worldwide context. Moreover, the research also analyses the sub-case of some transfer pricing phenomena in Vietnam as a sample. Consequently, the trend will be pointed out and explained.

Finally, *the grounded theory strategy* created the foundation for the whole research. This strategy provides a systematic approach to collect qualitative data and analyse.

3.2.6 Time horizon

It is important to determine the time horizon to that the research is designed. Based on two horizons proposed by Saunders et al. (2016), the limitation of duration and researcher's capacity, this research is broken into specific time period. Moreover, even the transfer pricing phenomena occurs for a long period but the governmental regulatory framework as well as action of firms might vary at different point in time. Therefore, it is better to adopt the cross-sectional studies for this research.

3.2.7 Data collection

Data collection, described by Saunders et al. (2016), includes primary and secondary data. Primary data refers to new information collected by researcher while secondary data regards to existing data which has been already collected for other purpose. Depend on the type of data must be obtained, there are different methods to collect those data.

The research intends to analyse the context of transfer pricing in practice of Vietnam based on secondary data collected by Government as well as other scholars. Afterward, some qualitative data collection and analysis methods will be conducted to discover the situations and answer the proposed questions. Research interviews are conducted with the participation of taxation official, economic experts (represented for Government perspective) and MNEs' managers (represented for entrepreneur perspective).

Therefore, to approach as much data as possible to accomplishment the research, some data collection techniques will be combined and conducted as follow.

3.2.7.1 Using secondary data

Secondary data, according to Saunders et al. (2016), concerns existing data already collected for some other purpose. For example, survey carried out by government departments and published under the form of official statistics³⁰ are the popular secondary sources in the modern world.

In this research, secondary data are collected from the official national statistics for years and academic papers of experts and related organisation in the fields (as OCED). Those data are used to analyse the practical situation and effectiveness of FDI in Vietnam and explore the relationship between number of FDI attracted and national budget revenue, MNE's losses and the invested capital.

3.2.7.2 Collecting data using semi-structured, structured interviews and internet-mediated interviews

The interviews may allow researcher collect and gather reliable and valid data which related to their research questions and research objectives (Saunders et al., 2016). Depending on particular research question and objectives, there are many different types of interview can be conducted, included: structured interviews, semi-structured interviews and unstructured (or in-depth) interviews.

Types of research interview

Structured interview mainly uses questionnaires with predetermined and standardised questions that requires interviewees responding on a standardised schedule in order to collect the quantifiable data (Saunders et al., 2016).

Semi-structured interview refers to a list of themes and some appropriate key questions outlined initially by interviewer. Those questions might be asked in the different order

³⁰ These covers social, demographic, economic and geographic topics

depending on the flow of particular conversation. Moreover, additional questions might be raised during the conversation to allow researcher to explore more details on their researched area.

Unstructured interview is an informal form that allow researcher to discover their interested area in depth. In this case, the interviewees freely talk and discuss about events and their beliefs related to the topic area.

Internet-mediated interviewing is the interview conducted via mobile and internet, which is also considered as electronic interview (Saunders et al., 2016).

Depending on the purpose of research, each type of interview carries out different uses.

	Exploratory	Descriptive	Explanatory	Evaluative
Structured		✓✓	✓	✓
Semi-structured	✓		✓✓	✓✓
Unstructured	✓✓			✓

✓ = less frequent; ✓✓ = more frequent

Table 6: Uses of types of interview for appropriate research purpose

(Saunders et al., 2016)

Chosen interview type

According to Saunders et al. (2016), the terms of semi-structured interview and in-depth interview are often associated with qualitative data collection and analysis, which this research decided to employ. Moreover, it is able to combine such interview types to explore, explain and evaluate the topic area. While semi-structured and in-depth interviews help researcher explore the phenomena of transfer pricing abuse as well as the context of FDI attraction in Vietnam, the structured interview and semi-interview are useful for explaining, evaluating and understanding the relationship among the application of transfer pricing, local regulatory framework and the effectiveness of FDI. Therefore, this research tends to conduct the semi- structured and structured interviews.

Finally, email interview (a form of electronic interview) is also conducted in this research because the face-to-face conversation is unable to be conducted (failed in time arrangement). Moreover, thanks to email interview, the data collected are more reliable and useful as interviewee have time and condition to think and answer carefully.

Although in-depth interview potentially benefits the research a lot, transfer pricing is a wide and complicated topic that free-guided conversation might lead to broader area, different approaches and dimensions. To what extent this research focuses on, it is better to drive the interview in specific dimension that researcher desires to study. Therefore, the in-depth interview was not conducted in this stage.

Data quality issues

The use of semi-structured interviews might face with the appearance of many issues such as reliability, generalisability, forms of bias as well as validity (Saunders et al., 2016).

Reliability and dependability regard to the lack of standardisation in the interviews and other researchers possibly reveal the same information.

Issues of bias include three different types of interviewer bias, interviewee bias and participation bias (Saunders et al., 2016). In term of interviewer bias, some behaviours, comments or attitude of interviewer might create bias cause the limitation on interviewees' responses. The interviewee bias is revealed in the perceptions of interviewees that interviewee participating in the interview avoids to discuss sensitive topic and only share a partial image of the situation.

Cultural difference can affect the scope of data collected and the way to conduct the interviews. In this case of research, some interviewee are Vietnamese who share the same nationality and particularly career path with researcher meanwhile other interviewees are foreigners. These difference require interviewer be flexible and vivacious in conversation and discussion.

Generalisability, in this research, only few interviewees participate in the research that might unfortunately cause the generalizable responses.

Interview structure

The interviews follow the structure as following. After themes, topics and objectives are clearly developed, the interviewees are clearly informed about the topic and interview. The list of potential questions is made up before the interview and that could be changed or ignored during the conversation. Upon the purpose and objectives of this research, the

questions prepared for the interviews are appropriately fail under various modes, such as: Open questions to encourage interviewee define and describe a situation or term like definition of transfer pricing; Probing questions used to explore their explanation about realities, for instance, how they assess the effectiveness of regulatory framework in Vietnam and specific and closed questions to emphasise the question about particular interview situation.

The interviewees are also informed about the secure, protection and usage of such collected information. Whether any disagreement raised by interviewee about the usage and storage of data, interviewer must stop recording, noting and storing data. Also, interviewees have their right to withdraw themselves as well as their shared information from the research without any condition.

3.2.8 Data analysis

Due to the source of data includes two different types of quantitative and qualitative data, the analysis sections will indicate different methods to deal with them.

3.2.8.1 Analysing quantitative data

Although quantitative data (used for this research) is the secondary data³¹ collected from national statistics and other academic sources, it is needed to be analysed carefully and processed to make them useful (Saunders et al., 2016) and suitable for this particular research. Secondary data collected and selected will be entered and allocated in the software (Microsoft Excel) under the form of data matrix, preparing for analysis later. It is necessary to recheck the data as each number or word to avoid any unexpected errors affecting the analysis results. These sources of data then will be explored and presented in the shape of table, line graph or bar chart. These information aims to indicate the context of FDI in Vietnam in the numeric way as well as indicates the trend of transfer pricing abuse and effectiveness of FDI to the economy. Based on the data analysed, researcher make the conclusion for the background of the topics area that is also the driving force for conducting this research.

3.2.8.2 Analysing qualitative data

Qualitative data is richer and more thorough in comparison to quantitative data (Robson, 2002; Enright, 2016). The general strategies of analysing qualitative data refer to analytic

³¹ data of FDI attracted and its contribution in Vietnam, investment structure in Vietnam, auditing results and etc.

induction and grounded theory (Bryman and Bell, 2015). It must consider specific characteristics of qualitative data before analysing them, such as: meanings derived from words and images; non-standardised data requiring to be classify into categories; using conceptualisation to analyse (Saunders et al., 2016).

Firstly, the whole interviews are transcribed and saved in a separate word- processed file for each interview (Saunders et al., 2016). These transcriptions will support later subsequent analysis more detail, but in turn, interviewer have to make sure the transcription is well linked to the contextual information of that interview. There is noted that labelling the transcription file is also important that in this research files are saved under the formula, for example, “Gov3_Dung.docx” which means the transcript of the interview with government official, 3rd interviewee and name of interviewee (Dung).

Next, the data raised from electronic interviews will be prepared, sorted for later analysis. Even they are already in the electronic format, researcher downloads them to the offline version and translate into English as Vietnamese is the original language used in those emails. Data collected must be coded into appropriate categories for further analysis like profile, government perception, enterprise perception.

There are variety approaches to analyse the qualitative data that Saunders et al. (2016) list as: thematic analysis, template analysis, grounded theory method, explanation building and testing, narrative analysis, discourse analysis, content analysis, data display and analysis, using CAQDAS³².

At this stage of research, the explanation building and testing seems to be the most appropriate approach that can be taken for analysing the qualitative collected data. In specific, the pattern matching is the choice of researcher. This approach contains projecting a suitable pattern of findings according to existing theoretical propositions to explain the results that researcher aims to find out from analysing data (Saunders et al., 2016). The procedure to conduct this approach involves the following steps: based on the previous studies and literature, researcher draws the context of analysed topics, then chooses the case to study and develops research questions as well as objectives. Next, data collection questions are listed with some initial codes, following step are data collection based on those framework and code, and analysis the appropriation of those findings to the theoretical proposition.

³² Computer Assisted Qualitative Data Analysis Software (Saunders et al., 2016)

3.3 Ethical issues

It is compulsory that researcher must adhere to the ethical guidelines published by National College of Ireland at any time of doing research. The research ethic is a critical part involved in the research design that mainly focuses on ethical issues associating with the research (Saunders et al., 2016). When conducting this research, the cover letter as well as requesting form of consent are initially sent to all participants that indicate the research procedure, objectives and commitment of researcher on securing their responses (Appendix I).

Saunders et al. (2016) point out many ethical issues and principle that researcher must concern at any stages of the research process, included: objectivity, privacy of participants, voluntary participation, informed consent, researcher safety, confidentiality of data, reporting data, lacking respect and causing harm. For example, MNEs' manager worries their shared opinion on the sensitive topic, transfer pricing, can be harmful their position and organisation.

In this research, transfer pricing is a sensitive topic that both government and enterprises cautiously decide to either participate or not. Therefore, all interviewees are asked three compulsory questions before starting their interview like: Are they willing to participate in the interview? Whether they consent to reveal their identity in the research or not? Do they desire to take a copy of final submitted copy of this dissertation? Moreover, the participants are also informed the purposes of interviews and data collection are for implementing this research only, all data are securely storage and deleted once the research is over. Also, the secondary data as well as reviewed literature conducted in this research are only taken from the official published sources that allow others to freely reference or download from the academic sources where associate with National College of Ireland.

3.4 Research limitations

There are some factor limits the implementation of this research.

As transfer pricing is a mechanism mainly used by MNEs who researcher desires to approach. However, researcher found difficultly to access and convince the appropriate candidates to participate in this research because the reputation and social position of researcher are not strong enough to take their attention.

The second limitation is the generalisation of collected data that due to the sensitive topic, participants tend to provide the broad information rather than the specific and “private” information. Also, the details about transfer pricing abuse and tax avoidance are protected by tax authorities limits the research. This issue hinders researcher analyse the reality accurately.

Unfortunately, even questionnaire may be useful for this research that can, for instance, show how serious transfer pricing abuse be in case of Vietnam by surveying the application of transfer pricing into practical business of MNEs, the transfer pricing is still a sensitive topic that most enterprises are cautiously unwilling to discuss about this field. Therefore, the questionnaire is decided to be unemployed in this research.

Finally, the limitation of implementation duration and size³³ of the dissertation prevents researcher studying deeper on this field.

3.5 Alternative solutions

For the best implementation of this topic, some alternative solutions can be considered:

Use of questionnaires, as mentioned above, the questionnaires will help researcher collect more data and diversify the view of business factors on this field. It is expected that in further research, this questionnaires method would be conducted where applicable.

Participant observation, this advanced method potentially help researcher get in deep the phenomena and then, consequently upgrades the quality of qualitative data collected. According to Bryman and Bell (2011), this method carries many greater advantages compared to qualitative interviewing, such as: researcher ably see the social reality through others’ eye by participating in the same activities as the studied members for such a long time, learn the culture and native language of the organisation and etc. Whether conducting the participant observation by being a part of MNEs and/or taxation department, researcher would be able to identify advantages and difficulty of them relating to transfer pricing manipulation.

3.6 Conclusion

Based on the research onion model proposed by Saunders et al. (2016), the particular onion is drawn that combines all the choice of researcher for accomplishing this research.

³³ maximum number of words is 20.000 words

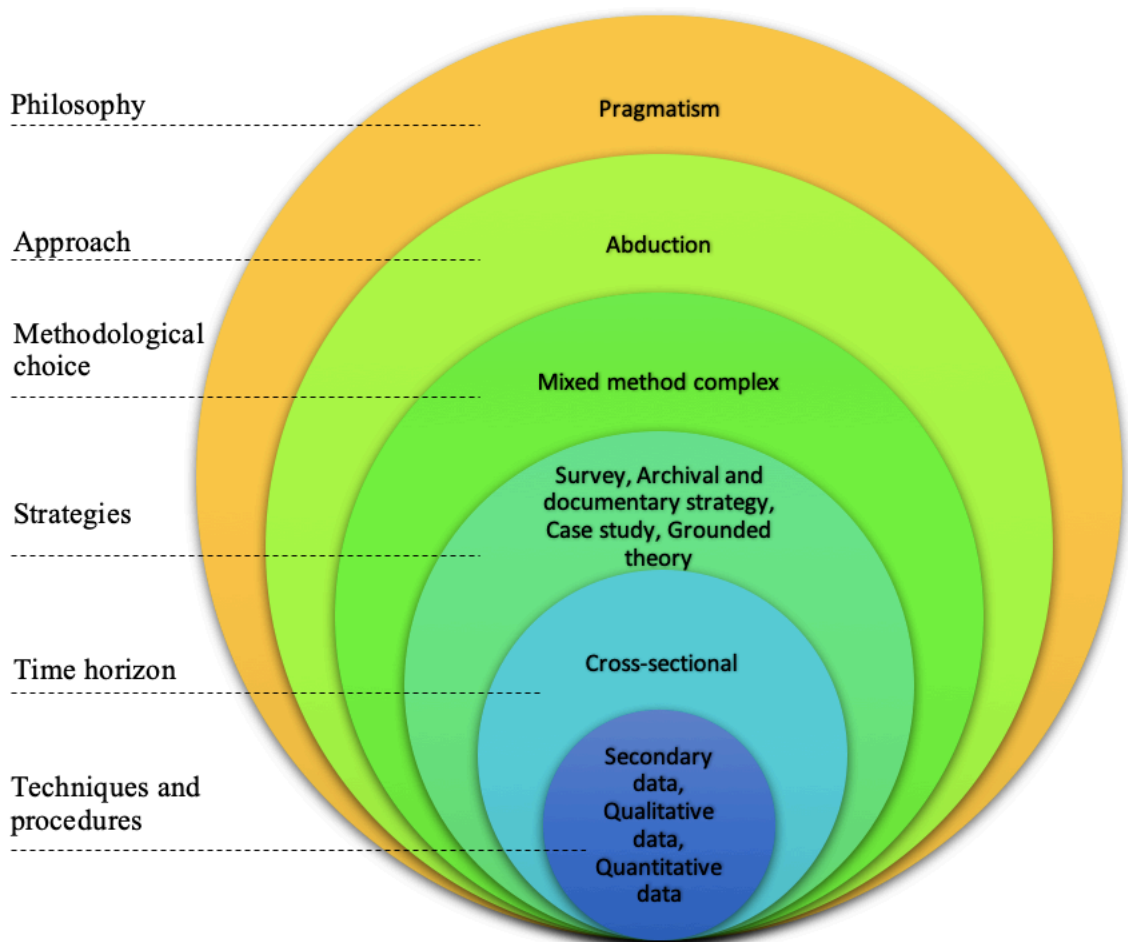


Figure 12: The particular research onion of this research

Moreover, to collect the data, the research conducts some structured interviews, semi-structured interviews and electronic interviews to reach more participants and information sources.

During the research process, there are many ethical issues compel researcher consideration and respect. Those ethical issues may be related to participants' identity or shared information. Therefore, researcher has to inform and offer some commitments and data protection solution to convince the interviewees.

Consequently, due to the power and ability of researcher as well as sensibility of the topics, there are limitations causing difficulty to accomplish this research.

Chapter 4 – Data analysis and interpretation

4.1 Introduction

This chapter aims to demonstrate the real data directly collected for this research as well as the methods of analysis. Based on the theoretical data analysis methods chosen, the primary data collected from interviews will be coded and classified into appropriate categories. Two categories and main codes are established corresponding the grounded theory of FDI and transfer pricing that are deeply reviewed in the second chapter of the research.

4.2 Population and Sampling

There were 06 interviews conducted for this research. The participants came from different and diversified economic sectors, included, taxation authority (Government sector), economists (also economic teacher) and entrepreneur (MNEs' managers).

Thanks to the diversity of interviewees, data collected are greatly abundant and demonstrates different viewpoints, perspectives and perceptions of the topics area. For example, the role of transfer pricing may vary between governmental viewpoint and enterprise viewpoint.

Participants' field	Government sector	Economist	Entrepreneur
Number of participant	2	2	2

Table 7: Categories of participants' group

In this research, those participants are classified into two main categories to be convenient to analyse later, as: Government experts and Entrepreneurs.

4.3 Interview responses of Entrepreneurs

4.3.1 Profile of the interviewees and their organisations

There are two MNE's managers consenting to participate in this research, but, their identities are hidden from this research as a term of privacy and their requirement. The common points of these two interviewees are they both work for a MNE for such a long time and hold the manager position at that organisations. Therefore, they have strong

mind-sets about their organisational culture, operating styles and expert in the Vietnamese investment environment. Those characteristics obviously enrich the information collected during the interviews and benefit the research.

“Participant 1”³⁴ works for a Japanese service and logistic branch which is operating worldwide. The firm entered Vietnamese market a few years after renovation in 1986 that their operation has run along with the development and adjustment of the nation.

“Participant 2” is a manager of an affiliation of a German company. That company started their business in Vietnam in early 2000s in the retail sector.

Even Vietnam is not their main market, their businesses in Vietnam are considerable and significantly meaningful to their general operation.

4.3.2 Investment environment in Vietnam

In the questions asking about investment environment in Vietnam, each participant demonstrate their own views and comments that some of them are similar but each person also have their other different assessments.

Participant 1 believes that:

“Vietnamese environment is multidirectional. This is a new and young market that they can learn more experiences from other leading countries...”

However, participant also considers some disadvantages of current environment that Vietnam staying in the highly competitive environment which causes many challenges for the country in international negotiations, competition. Furthermore, enterprises and individuals in this market unfortunately face with disadvantages regarding prices, labour force and rights. The regulatory framework in Vietnam, interviewee’s opinion, is still weak and passively depend on international regulations. Consequently, the protection policy and interest group can be considered as causes limit the investment.

Meanwhile, Participant 2 highly appreciate the investment environment in Vietnam that the national has enormous potential for further development. The efforts of government on policy improvement as well as offering intencives successfully attract interstors. However, he mentioned about the existance of corrupting and hidden costs which affect their business badly.

³⁴ researcher named the participants as Participant 1, Participant 2,... due to their requirement of securing their identity.

4.3.3 Comments on local regulatory policies on transfer pricing

The both interviewees agree that the event Vietnamese government legalising the transfer pricing mechanism sets conditions for firms, especially MNEs, to explicitly execute transaction with other partners in their business chain.

Furthermore, they assess the transfer pricing governance policies of Vietnam are fairly similar to the international general regulation, especially when compare to the guideline of OECD³⁵.

However, Participant 2 points out some terms in the Decree 20³⁶ that are unreally rational and unclear such as definition of related transaction(s), the limitation of interest rate of loan and administrative reporting procedure. Those regulations, in his concern, raise the compliance costs as well as difficulty for firm to abide.

4.3.4 Expectation and recommendation of MNEs

The both interviewees suggest some effective solution for government to improve their investment environment, as below:

- Consider streamlining their administrative procedure and documents;
- Distinguish clearly between legal and illegal transfer pricing actions that not equate all of them with tax avoidance;
- Regulations and policies must be precise and concrete, easy for understand and implementation;
- Authorities are needed to be experts in that fields and willing to help, support enterprises.

4.4 Interview responses of government officials and experts

To refer to different viewpoints on studied topics, researcher approached government officials as well as economists, whose preference tend to protect the tax base and development of the country rather than carry wealth of private enterprises. The questions for those interviewees are not similar at all that each person could have a few specific and different questions depending on the flow of that interview.

³⁵ Organization for Economic Cooperation and Development

³⁶ Decree 20/2017/ND-CP dated 24 February 2017 prescribing tax administration for enterprises engaged in transfer pricing

4.4.1 Qualification of participants

Four experts participating in this research come from diversified backgrounds but generally related to the foreign investment as well as transfer pricing and taxation area.

Assoc.Prof. Nguyen Tien Dung (named as Participant 3), principal of University of Economics and Law (Vietnam), who is teaching macro-economy and has broad knowledge of governmental management on FDI attraction, fiscal policy and etc.

Assoc.Prof. Do Phu Tran Tinh (named as Participant 4) is a lecturer and expert in the macro-economic area.

MS. Nguyen Thanh Tien (named as Participant 5), former FDI inspector of Dong Nai Taxation Department, official of State Budget Division at Dong Nai Financial Department and lecturer at University of Economic Ho Chi Minh City, who has long time experience in the fields of auditing, budget management and, especially, transfer prices audit, responsible for managing operation and financial activities of 57 FDI enterprises for many years.

Last participant required to be hidden their identity that, from there, he is named as Participant 6. This participant has been working at General Taxation Department for over 10 years and responsible for legislation.

4.4.2 Assessment of the real situation of FDI in Vietnam

Entire Four interviewees agreed that FDI attraction is an important solution to boost the economy of Vietnam. Especially, Participant 5 emphasized that FDI has significantly contributed to three aspects of the nation: (i) budget revenue (domestic and import-export), (ii) foundation of GDP³⁷ as well as GRDP³⁸ and (iii) employment.

However, there are some drawbacks of FDI still existing in Vietnam that researcher had discovered through the interviews. For example, the rate of disbursement comparing to registered capital is still low and slow; foreign investors (FDI) commonly concentrate their capital in the certain area and fields to enjoy the advantageous incentives; the tax paid inappropriate with firms' scale and etc.

³⁷ Gross Domestic Product

³⁸ Gross Regional Domestic Product

Additionally, Participant 6 gave evidence that around 50% FDI enterprises enumerate losses every year but continuously expanding their business. This evidence raises the question of whether any transfer pricing abuse and illegal issues exist in Vietnam or not.

4.4.3 Views on transfer pricing practice

When discussing about transfer pricing, the four participants considered transfer pricing possibly as a fraudulent act firms use to shift their profit to other overseas party in their transnational system in order to minimise their tax duty and gain more profits.

Participants emphasized their worry about transfer pricing situation in Vietnam that it is extremely complicated and occurs in several economic sectors like financial and insurance industry, textile and car manufacturing (Participant 3), beverage and manufacturing industries (Participant 4), processing (Participant 5) and retail (Participant 6). However, despite of tax avoidance issues and ineffectiveness of FDI, government still legalises the transfer pricing mechanism in practical business for the political purpose (international integration, bilateral and multilateral agreements), social security goal (employment, budget, income) and investigation purpose (management and production knowledge) (Participant 6).

4.4.4 Governance of government and Regulations and policy on transfer pricing

Vietnamese government has been enforcing many acts and regulations in order to prevent firms exploiting transfer pricing mechanism to avoid tax burden and enhance contribution of FDI sector to the national wealth. The Decree 20 can be called as a highlight sample.

Participant 3 believes the Decree 20 as well as Circular 41/2017/TT-BTC play important roles in perfecting regulatory framework, improving auditing quality and implementing the Base erosion and Profit shifting (BEPS) projects³⁹. Moreover, Vietnamese government has been offering several favourable incentives and advantages for investors⁴⁰ rather than competing with other countries for taxation and attracting FDI at all costs.

Meanwhile, Participant 4 argues fiercely about the update of those regulations as it does not keep pace with the changes of businesses and world trend. Different to previous participant, Participant 4 reckon that even no policy of becoming a tax haven, the real practice in Vietnam shows the inverse actuality.

³⁹ BEPS: the action plan proposed by OECD in order to combat tax avoidance behaviour of MNEs by utilising base erosion and profit shifting mechanism.

⁴⁰ Tax remission, land rental, infrastructure supports and etc.

Participant 5 agrees with previous interviewee that governance solutions of Vietnam are just temporary, those regulations are inappropriate with OECD's guideline and ineffectively deal with the root of transfer pricing abuse. However, the same to Participant 3, he unacceptably considers Vietnam as a tax haven for MNEs.

Finally, the last participant 6 shares many detailed comments on Decree 20, which is the main policy managing transfer pricing mechanism in Vietnam, such as: requirement for reporting transnational profit of parent company put pressure on tax payers; short limitation on duration for submitting related documents while volume of those document is heavy.

4.4.5 Challenges for government

The difficult situation Vietnam facing may occur due to many reason and challenges. That can be the imperfection and incomprehensiveness of regulations on transfer pricing and taxation, the lack of particular and distinct policy for tax avoidance forbiddance only, the penalisation and audit mainly rely on negotiating with enterprises rather than self-evaluating the transfer prices (Participant 3); the weakness of governance tools and qualification (Participant 4); unexpected exchange between budget revenue and political purposes (Participant 5); the misunderstanding of transfer pricing concept create barrier for foreign investors and the lack of independent price database for comparison (Participant 6).

4.4.6 Recommendation and suggestion for government

At the end of the interviews, participants had shared their recommendations and suggestion based on their experience and views for tightening up government control on transfer pricing and enhancing contribution of FDI sector.

- Vietnam should focus on attracting FDI in the advanced and high-tech industries corresponding with the 4.0 industrial revolution which carry higher quality and effectiveness (Participant 3 and 6);
- Developing and enforcing the specialized policy on transfer pricing and tax avoidance forbiddance (Participant 3, 5 and 6);
- Formulating strategies to support domestic enterprises in associating with supply chain of MNEs and prevent the loss of capital (Participant 3 and 6)
- Increasing penalty level and strictly tackling offence of tax avoidance phenomena (Participant 3, 5);

- Enhancing acknowledgement of residents, tax payers and qualification of authorities on controlling transfer pricing and MNEs' operation (Participant 4, 5)
- Actively participating in the BEPS Action Plan of OECD, economic forums in transfer pricing and tax avoidance forbiddance with other nations in order to co-ordinate and share related information with other taxation offices worldwide (Participant 6)

4.5 Conclusion




Profession	Number of participants	Discussed topics and focus
Economists		<ul style="list-style-type: none"> • <u>FDI practice in Vietnam</u> • Investment environment of Vietnam • Transfer pricing mechanism • Transfer pricing abuse and tax avoidance in Vietnam • Regulatory framework on transfer pricing • Recommendation and suggestion for Government
Authorities/ Government officials		
Entrepreneurs		

Figure 13: The summary of interviews conducted for this research

Six interviewees had shared their multidirectional and diversified opinions on the topics area. Their responses are well encoded and broken into various categories depending on characteristics and content of that information. In general, they all agreed that FDI has been significantly contributing to the development and renovation of Vietnam in several aspects, which encourages government implementing a great deal measures to attract more foreign investors. However, the practical contribution of FDI is inappropriate as expectations that show the potential of some transfer pricing abuse and tax avoidance issues in the economy. While entrepreneurs indicated their expectation of legalised transfer pricing mechanism and their difficulties when doing business in Vietnam, the government experts made opposite comments on the transfer pricing abuse which harm the economy and a whole nation. Finally, they all gave many useful advices for government in dealing with transfer pricing activities.

Chapter 5 – Research findings and discussion

5.1 Introduction

This investigation aims to explore whether contribution of FDI sector in Vietnam is ineffective or not and if so, find the relationship between transfer pricing and that issue. Once the matter is explored and evaluated clearly, the research tends to propose some favourable advices and recommendations to deal with those existing issues. The research approached topics area from diversified perspectives to answer the research questions.

By analysing the data collected, the research finds out five objectives based on the grounded reviewed theories and initially indicated research questions.

5.2 Research Findings

As mentioned in the Chapter 1, there are five key objectives developed and expected to achieve in this research. The very first objectives generally focus on concept of FDI and transfer pricing then next objectives narrow to analyse specifically a phenomenon in Vietnam related to transfer pricing abuse of FDI sector. Consequently, final objective raises some helpful recommendation on the topics area for Vietnamese government.

Qualitative data collected from the interviews and analysed previously now is compared with the reviewed literatures and themes corresponding to each objective.

5.2.1 Objective 1

“To ascertain the importance of FDI to the host countries”

The data analysis results show that there is no significant difference between theoretical literature and interviews’ responses about the importance of FDI sector that affecting four important aspects of a nation.

5.2.1.1 Economic effects

Economy is the one strongly affected by FDI flow, particularly the MNEs engaging in that flow. The comments of participants about contribution of FDI to the economy consolidate the theory of Moon (2015) and Peng and Meyer (2019), who believe that FDI enhances value of budget revenue.

“FDI attraction has changed effectively in recent years that has contributed significantly to three aspects: budget revenue, foundation of GDP (as well as

GRDP of regions) and solving the huge quantity of employment demand...”
(Participant 5)

5.2.1.2 Political effects

Along with the economic effects, participants reaffirm to some extent the previous studies on political contribution of FDI sector. Participants stated that FDI flow plays important roles on international integration of countries.

“To achieve the political targets of international integration” (Participant 5)

“FDI contributes considerably to GDP, employment, budget and national competitive advance” (Participant 6)

This is keeping with Do and Cao (2015) who also demonstrate the contribution of FDI on “promotion of industrial policy, enhancement of national competitiveness”.

5.2.1.3 Social effects

There is unanimous agreement among interviewees when they were asked about the social effect of FDI. Those responses are also similar to studies of Do and Cao (2015), Peng and Myer (2019) and etc. that FDI creates more jobs for society and improve resident income. However, although participant did not raise objections, they not actually mentioned FDI contribution on workers’ skill improvement.

5.2.1.4 Environmental effects

While Do (2018) warns the negative impact of FDI to the country as firms may import and use the out-of-date technology as well as pollution due to raw material exploitation, other scholar (Peng and Meyer, 2019) and Participant 5 believe that FDI possibly benefits the environment. For example, the environmental protection standard will be increased to meet the global standard.

5.2.2 Objective 2

“To investigate the motivations for firms engaging in FDI and conducting transfer pricing mechanism in their business”

As the research aims to examine the topics area mainly from the perspective of government that motivation for firms engaging in FDI were not deeply discussed during the interviews. Even though, participants demonstrated their views on motive encouraging MNEs conducting the transfer pricing in their business. Those opinions are

obviously in line with other scholars' assertions. Profit shifting and tax avoidance are the first motivation that mentioned by both participants and previous researchers like Moosa (2002) and Li (2005).

“Transfer pricing mechanism facilitate firms to run their international business smoothly” (Participant 6)

Linking to study of Cazacu (2015), Mueller et al. (1997), Agana et al. (2018) and Elliott (1999), the term of “Run international business smoothly” can be corresponded with risk reduction, double taxation forbiddance and etc.

“Our company is in partnership with many other parties in the international supply chain, so, legislation on transfer pricing allows our association to be legal and explicit” (Participant 1)

5.2.3 Objective 3

“To determine whether there are any considerable challenges and issues Vietnam facing due to legalising transfer pricing mechanism of MNEs”

It is cannot denied that there is existence of several considerable issues in Vietnam due to transfer pricing abuse within FDI sector. The phenomena of Vietnam pointed out by interviewees prove reviewed theories accurate. The transfer pricing abuse occurs in several economic factors that four participants listed out many names such as manufacturing, processing, banking and etc.

“Every year, there is approximate 50% companies reporting losses...but they continuously expand broader year to year.” and “...This fact concludes that transfer pricing phenomenon in Vietnam is extremely complicated....” (Participant 6).

Similarly, Do and Cao (2015) indicated that the contribution of foreign enterprises to the state budget is “not too impressive” because the favourable tax incentives that Government offers and the sign of transfer pricing.

Other challenges come along with FDI flow and transfer pricing technique are the entrance of outdated technology and environmental pollution (Do and Cao, 2015).

5.2.4 Objective 4

“To evaluate the qualification of regulatory framework and management of Vietnamese Government on transfer pricing actions”

Participant 3 and 6 highly appropriate the introduction of regulations and actions adjusting behaviour of foreign investors related to transfer pricing. They consider that:

“Decree 20 and Circular 41 are great efforts of Government, specially Ministry of Finance, to improve the regulatory framework for tax and transfer pricing audit and implementation of BEPS Action Plan” (Participate 3)

“Local regulations on transfer pricing regarding to our industry seem clear and similar to OECD regulation” (Participant 1)

This effort is also acknowledged by Do and Cao (2015) and Do (2018) as the inspection based on these regulatory framework has shown positive results, many cases were successful came out and charged for penalty. However, the audit is still ineffective due to weaknesses of both legislation and auditors. The tax audits seem complicated due to it impossibility conduct an in-depth analysis in a few days (Muhammadi et al., 2016).

However, the data collected also indicates a trouble already mentioned by previous scholars that those regulations and policies are failed behind the changes of modern economy. Some noted negative matters of current policy in keeping with reviewed literature are: unclear regulations, lack of database for determining transfer prices, weak experience and quality of taxation authorities and etc.

“The domestic protection policy and interest group practice are the minuses obstruct sustainable investment” (Participant 1)

“The regulations treat unfairly between foreign enterprises and domestics enterprise. Especially, the term of related transaction and control level of interest rate in the Decree 20 are not really rational. Other difference is that Vietnam requires firms to submit their trans-national profit report to the taxation authorities. The Decree 20 also raises the compliance costs of enterprises as an increase number of document needed to report” (Participant 2).

5.2.5 Objective 5

“To discover the effective measures and policy for Vietnamese Government to tighten up the transfer pricing usage and improve contribution of FDI sector”

Before giving possible measures for Government, participants highlight an admonition which is in agreement with Do (2018) that Vietnam should *not attract FDI at all costs*. While the resources (labour, nature, land, mineral...) are almost over and the quantity of FDI projects in Vietnam is big enough, Vietnam should attract selectively potential and valuable projects rather than on a large scale. Also, it is better to minimise investment incentives as well as lay more conditions on MNEs.

The most popular recommendation of participants is *development of specialised law of anti-transfer pricing abuse*. As long as this law published, the taxation authorities would have stronger power and basis to monitor and deal with illegal technique of MNEs.

Consequently, both participants and previous scholars (Do, 2018; Li, 2005; Cazacu, 2015) gave many considerable advices that Vietnamese Government may consider and apply, such as:

- *Advance Pricing Agreement (APAs)*, suggested by Participant 6 and Li (2005), which can be effective way enforce firms pay more tax due to strict lies between taxpayer and authority. This measure can be defined as a negotiation between firm and tax authorities about the advance prices.
- *Comparable Pricing Database*, suggested by Participant 5, Li (2005) and Do (2018), the long-term database that includes comprehensive, continuously updated, topical and homogeneous information about taxpayers, market prices and related information could help taxation authorities actively and effectively conducting transfer pricing audits and adjustments.
- *Information exchange with foreign tax authorities* (Li, 2005; Participant 5), this help authorities access the financial information of MNEs and well manage the flow of profit-shifting to other nations.
- *Safe harbours* (Do, 2018; Matei and Cazacu, 2017), Vietnam is absolutely able to develop a set of criterions encouraging firms well comply with tax legislation.
- *“Well-trained personnel to conduct tax auditing and transfer pricing surveillance”* (Li, 2005; Participant 3, 4,5 and 6), the better qualification of authorities, the more effective that they enforce the legislation and governance firms’ actions.

5.3 Limitation of the research

This current research unfortunately has some limitations that can be considered as opportunities for future research on transfer pricing practice in Vietnam.

Firstly, the research failed to approach the data relating to (i) adequate tax budget collected annually, tax penalties and auditing results conducted by taxation authorities, (ii) revenues, tax payment and profit after tax owned by MNEs. These information is considerable sensitive that both government and firms cautiously divulge their private information relating to operational strategies (Plasschaert, 1979; Li, 2005) to other parties. Unfortunately, those data carry a key that can help researcher get in-depth the situation, discover the gap in law that firms exploit, find out where transfer pricing manipulation concentrates and which part in financial report that firms usually apply transfer pricing technique. Due to lack of those information, this research basically analyses the topics in general rather than get in deep the core of transfer pricing practices.

Secondly, even this is an empirical study, the questionnaire survey has not been conducted while the few interviews have been carried instead with only six samples. This weakness of employed instrument definitely affects the findings of the research. The data collected from interviews may engage with some issues as reliability (Saunders et al., 2016), approach reality from the interviewees' perspectives only (Bryman and Bell, 2011) that research cannot reach the adequate information to comprehensively analyse the topics. For instance, the interviews show the issues MNEs facing with local legislation but only two samples (participants) are not enough to represent for the whole economic backgrounds.

5.4 Conclusion

By analysing the qualitative data collected from the interviews, the research successfully found out the five key objectives regarding to transfer pricing manipulation and FDI practical situation in Vietnam. Those objectives are all developed based on the previous foundation theories and the contribution of interviewees as well as other collected data. Those objectives found and discussed as follow.

Objective	Key finding	Grounded theory reviewed
<p>“To ascertain the importance of FDI to the host countries”</p>	<p>Affecting four key aspects of a nation:</p> <ul style="list-style-type: none"> - Economy - Politic - Society - Environment 	<p>Peng and Meyer (2019)</p> <p>Moon (2015)</p> <p>Do and Cao (2015)</p> <p>Do (2018)</p>
<p>“To investigate the motivations for firms engaging in FDI and conducting transfer pricing mechanism in their business”</p>	<p>Profit shifting</p> <p>Tax avoidance</p> <p>Run international business smoothly</p> <p>Risk reduction</p>	<p>Moosa (2002)</p> <p>Li (2005)</p> <p>Cazacu (2015)</p> <p>Agana et al. (2018)</p> <p>Mueller et al. (1997)</p> <p>Elliott (1999)</p>
<p>“To determine whether there are any considerable challenges and issues Vietnam facing due to legalising transfer pricing mechanism of MNEs”</p>	<p>Occur complicatedly in several economic factors</p> <p>Under-expected budget revenue</p> <p>Entrance of outdated technology</p> <p>Environmental pollution</p>	<p>Do and Cao (2015)</p>
<p>“To evaluate the qualification of regulatory framework and management of Vietnamese Government on transfer pricing actions”</p>	<p>Highly appropriate the launch of Decree 20 and related legislation.</p> <p>Auditing carries positive benefits and weaknesses</p> <p>Outdated and unclear regulations</p> <p>Lack of database</p>	<p>Do and Cao (2015)</p> <p>Do (2018)</p> <p>Muhammadi et al. (2016)</p>

	Weak experience and skill of taxation authorities	
“To discover the effective measures and policy for Vietnamese Government to tighten up the transfer pricing usage and improve contribution of FDI sector”	Selective FDI project attraction	Do (2018)
	Development of specialised law of anti-transfer pricing abuse	Li (2005) Cazacu (2015)
	Advance Pricing Agreement	Matei and Cazacu (2017)
	Comparable Pricing Database	
	Information exchange with foreign tax authorities	
	Safe harbours	
	Well-trained personnel	

Table 8: The research findings

Besides, there are many obstacles in the implementation of this research like not approaching related database (internal organisational information), low of conducted data collection methods.

Chapter 6 – Conclusion and recommendations

6.1 Introduction

This chapter will firstly outline the main conclusion for the whole research, summarise the findings of research, and then recommendations for future studies will be stated and the learning statement of researcher will come at the end.

6.2 Conclusions

Transfer pricing abuse and tax avoidance are complex considerations of international business management, not only occurs in Vietnam but also on over the world that has been a contentious issue between the host country authorities and MNEs for such a long time (Li, 2005). While there are uncountable papers discuss this topic, the number of research specifically focus on Vietnam case is limited. Hence, this research aims to discover the practical situation of Vietnam in context of FDI entrance and transfer pricing manipulation.

The research process can be assumed as a production process that the material inputted is the definition of FDI, transfer pricing and tax avoidance. Then materials are tackled that those terms are put in the specific contexts and relationships. The study attempted to determine the extent to what firms engaging in FDI and employing transfer pricing techniques. Also, the motivation of government on legalisation of transfer pricing was explored. Once the concept is understood, the role of FDI and negative impacts of transfer pricing abuse on the development of Vietnam were discussed. Finally, the output of discussion is created that the comprehensive solutions and recommendations for Vietnamese Government to improve their regulatory framework as well as resources, in order to prevent MNEs exploit the transfer pricing mechanism and enhance contribution of FDI sector to the development of nation. The theories and themes determined from previous literature runs along the process as a shape of machines for processing the materials.

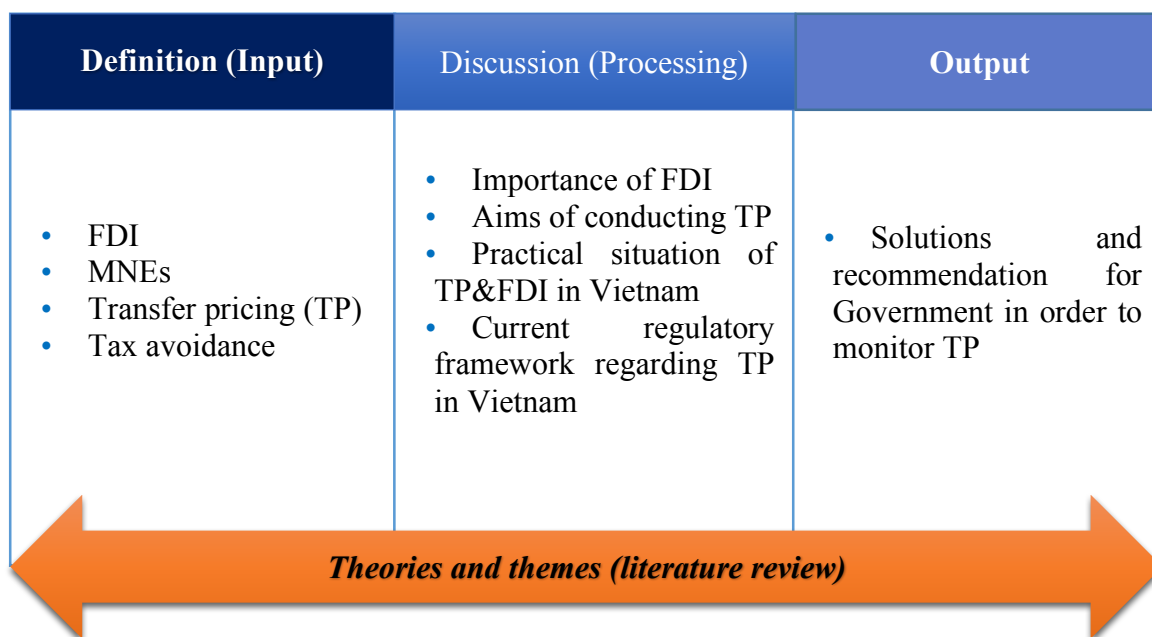


Figure 14: The research process summary.

In this research, the research onion concept of Saunders et al. (2016) was applied that researcher try to peel away each layer of the onion in order to determine the relevant matters of the transfer pricing manipulation. The research employed six interviews with people from variety backgrounds (02 economists, 02 MNEs managers and 02 government experts) by flexibly using structured, semi-structured and electronic interviews. The qualitative data collected from interviews was used to explore perspectives of both government and enterprises about research topics. Meanwhile, quantitative secondary data was also approached to determine the current situation of transfer pricing abuse and FDI contribution practice in Vietnam. Those data came from national official statistics, academic papers and reports of many organisations.

The study findings indicate that majority of interviewees agreed that FDI positively contribute to the wealth of nation that it transforms the economy, raises social well-fare, boosts national competitive position and improve environmental standard. They also warned that MNEs may exploit the transfer pricing mechanism to avoid tax burden that consequently reduces contribution of FDI sector and causes losses of the host country. In the case of Vietnam, the respondents further agreed that the weakness of regulatory framework as well as administrative system are addressed as the mainly causes of existence of transfer pricing abuse.

The research also successfully answered the main research question that there are some comprehensive measures Vietnamese government could employ for transfer pricing

management. For example, development of specialised transfer pricing law and personnel training.

6.3 Recommendations for future research

As mentioned in the previous sections, due to the limitation on this studying stage, the researcher expects to continuously investigate this research further. The quantitative data should be conducted as they mostly clearly indicate the practice of transfer pricing issues and related factors. Also, further research should, if able, get in deep the phenomena by rolling with the studied target people in order to determine the core issues that this research could not approach from the surface. Moreover, recommended solutions must be extensively investigated in order to solve the issues more effectively.

6.4 Personal learning statement

Although the entire research process is quite challenged, it is worth to study as lots of rewarding experiences gained. The author had had limited knowledge of the transfer pricing topics. Before starting research process, the author explored several articles related to the field to get clear insight about the main topic then pointed out the central questions for the research. By dividing the whole research into interconnectable parts and analysing them individually, researcher finally gets the bright understanding about the topic chosen. However, the researcher also reckon that whether it has more time for processing the research, the research will investigate more on data collection and consult academic reviews of professionals in this economic pattern to enhance the quality of the proposal. Moreover, through reading many books on research method, researcher now understand the way to implement an academic paper.

Insum, despite of limitations, the author is quite satisfied with their work result, its contribution to the field and further studied ability that the work brings out.

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Appendix I – Interview Invitation Letter

Dear Sir/ Madam,

Firstly, please take my apology for annoying you. My name is Hoang Thi Le Hang and I am currently pursuing a master's degree in Management at National College of Ireland. I am on the way of doing dissertation and wish to invite you to attend a short interview for the research accomplishment. My topic named "Managing transfer pricing behaviours of MNEs in Vietnam: Protecting tax base while seeking to attract FDI", which approaches and analyses the effects of transfer pricing regulations from the view of both MNEs and Government. Then, suggestions and solutions will be proposed for local Government in order to overcome the difficulties and improve investment environment in Vietnam.

Through this interview, I expect to hear your opinion, discuss and assist with you about the role of transfer pricing to MNEs' businesses as well as your appreciation about local regulations on these fields.

The interview might take you a few minutes to finish, so, I hope you take my apology and will not feel annoyed because of them. We commit to secure your response on my private account and used for this thesis only until the submission deadline as outlined in NCI guidelines. Also, I surely promise to keep your identity as well as company's information in secret unless your permission.

Thank you for your time and attention!

Kind regards,

Hoang Thi Le Hang

MSc. in Management

National College of Ireland

P/s: Please don't hesitate to contact me whether you have any comments or questions regarding this research via: x18102481@student.ncirl.ie (or) hoangtlhang@gmail.com

Appendix II – Core Interview questions for Entrepreneurs

1. Firstly, could you please introduce about your company? How long have your company operated in Vietnam and please share a few achievements that you get during that period?
2. Beside Vietnam, are there any markets that your company operates?
3. Among those markets, which one is your main market?
4. With your experience of working in various different markets, how do you assess the investment environment and regulations in Vietnam?
5. In the context of globalisation, governments offer variety favourable policies and regulations to attract more foreign investors. In there, regulations on transfer pricing are accepted and applied. Hence, how do you think about those regulations? Which advantages that those regulations bring to your international business?
6. Vietnamese regulations and policies on transfer pricing were built in accordance with recommendation basis of OECD (Organization for Economic Cooperation and Development). In comparison to other nations' regulations, do you think there are any differences?
7. Do those differences cause any difficulties and barriers to your business?
8. From the point of entrepreneur, do you have any suggestions and petitions to Government, especially tax authorities to untie barriers and difficulties on transfer pricing action and business operation?
9. Last but not least, do you have any further sharing about these fields?

Appendix III – Core Interview questions for Government Experts

1. Vietnam recently intensifies attracting foreign investors and foreign capital. What is the current extent of FDI attraction in Vietnam? Is contribution of this sector to the country wealth effective?
2. In fact, tax avoidance by means of transfer pricing mechanism is considered as a main cause of budget loss. So, how do you think about transfer pricing? Is this mechanism legal?
3. To your extent, are there any anxiety about transfer pricing abuse of MNEs in Vietnam? And why?
4. There are some arguments that transfer pricing is absolutely tax avoidance. So, according to you, where is the difference between this two concepts? And why do firms engage with transfer pricing?
5. Why does government legalize transfer pricing mechanism despite of its regular drawbacks?
6. Which economic sectors does transfer pricing occur?
7. Vietnamese government has been enforcing many solutions to prevent tax avoidance. From the view of expert, how effective are these control measures?
8. What are the difficulties, barriers and challenges for transfer pricing control in Vietnam?
9. Being an emerging country, Does Vietnam attract FDI at all costs? Is it a tax haven?
10. How does strict control measures on transfer pricing affect quality of FDI attraction?
11. How should the Vietnamese transfer pricing monitoring system be improved?