

CHARACTERISTICS OF THE UNDERGROUND ECONOMY IN VIETNAM

CARACTERÍSTICAS DA ECONOMIA SUBTERRÂNEA NO VIETNÃ

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Vietnã para identificar e propor algumas recomendações para melhorar a eficiência da gestão da economia subterrânea.

Palavras-chave: Economia clandestina. Economia. Características. Impacto. Direito.

Abstract: In Vietnam, due to the influence and impact of natural, economic, social, and political conditions, underground economic activities have relatively different characteristics compared to other countries in the world. Therefore, identifying the underground economic's features is crucial for the state's management and ensuring its participants adhere to the law. The article researches the characteristics of the legal and characteristics economic perspective of the underground economy in Vietnam to identify and propose some recommendations to improve management efficiency for the underground economy.

Keywords: Underground economy. Economy. Characteristics. Impact. Law.

Resumo: No Vietnã, devido à influência e impacto das condições naturais, econômicas, sociais e políticas, as atividades econômicas clandestinas têm características relativamente diferentes em comparação com outros países do mundo. Portanto, identificar as características da economia clandestina é crucial para a gestão do estado e garantir que seus participantes cumpram a lei. O artigo pesquisa as características da perspectiva legal e econômica da economia subterrânea no

1. INTRODUCTION

“At present, together with the flow of the global economy, Vietnam has been a member of organizations such as ASEAN, APEC, ASEM, WTO, CPTPP, EVFTA, etc” (Hung, N. V et al., 2022). On the other hand, the market economy in Vietnam is being formed and developing more and more vibrantly. Along with that, economic relations are increasingly diverse and more complicated. The underground economy component (shadow economy, ghost economy, parallel economy, or informal economy) is integral to Vietnam's economy. Research shows that “the underground economic sector in Vietnam is too large, which, according to a research by Fulbright University, can amount to 23-30% of GDP” (Financial magazine, 2019). In essence, the underground economy is economic activity that creates wealth and income for the performers, but peoples conducting underground economy often don't register with the State and “it is difficult to accurately estimate underground economic activity” (Pham Quang Vinh, 2011, pp. 20). Or “the underground economy is economic activities conducted to generate profits for the implementing subjects without report or register with state management agencies” (Nguyen Vinh Hung, 2020, pp. 53 - 54). Or “the underground economy is part of a gross domestic product that is ignored because it is underreported or not reported in official statistics” (The Journal of Global Business Management, 2019). Not only Vietnam but most countries worldwide have also acknowledged the existence of the underground economy. “Every country always has two economies, a formal economy, and an underground economy” (National Center for Socio-Economic Information and Forecast, 2011). However, for Vietnam, due to the impact and influence of different factors typically like “higher tax rate, the State promulgates too many regulations etc” (Worldbank, 2019), the expression of the underground economy is quite different from other countries in the world.

2. LITERATURE REVIEW

The underground economy is a topic that attracts the attention of many scientists in Vietnam. On the other hand, the underground economy is also a long-standing research topic in the world. Therefore, within the scope of research in Vietnam and in some countries around the world, some typical research works on the underground economy can be mentioned: Nguyen Đình Cung (2003) - *Underground economic “iceberg”*; National Center for Socio-Economic Information and Forecast (2011) - *Identifying the underground economy in Vietnam currently*; Pham

Quang Vinh (2011) - *Macroeconomic*; Financial magazine (2019) - *Bringing the underground economy to light will bring benefits to the economy*; Nguyen Vinh Hung (2017) - *Economic management function of the state of Vietnam in phase of international integration*; Nguyen Vinh Hung (2019) - *Impact of underground economy on the economy, society, and law*; Nguyen Vinh Hung (2020) - *Managing the “underground economy” in Vietnam at present*. Some research in the world on the underground economy: Friedrich Schneider and Robert Klinglmaier (2004) - *Shadow economies around the world: What do we know?*; The Journal of Global Business Management (2019) - *Crime and the underground economy in Malaysia: Are they related?*; Worldbank (2019) - *Underground Economy: Causes and Size*; Economichelp (2019) - *Underground Economy - definition, problems and causes*; Britannica (2019) - *Underground economy*.

3. METHODOLOGY

To study the characteristics of the underground economy in Vietnam, the author have used a combination of traditional research methods of the social sciences and legal sciences such as legal analysis method, the legal efficiency evaluation method, and comparative legal method to achieve the objectives of the research.

In general, the above research methods are used in close and harmonious combination by the authors to achieve the research objectives of the article.

4. DISCUSSION

From the legal and the economic perspective shows that the essential characteristics of the underground economy are as follows:

4.1. From the legal perspective, the underground economy has the following characteristics:

- *The subjects conducting underground economy often do not register with the state management agencies:*

Unlike economic activities; in which the subjects must register with the State, and only after the State has licensed them can business subjects carry out production and business activities; subjects conducting underground economic activities do not register with the State but still conduct activities to make a profit. However, if the underground economy subjects' activities cause adverse effects on the economy and society, they will be prohibited by law and handled for violations.

- *The subjects who conduct the underground economy usually do not pay taxes and other financial obligations to the State.*

Because the underground economy is managed by the State more loosely than the formal economy, many subjects operating in the underground economy benefit from loopholes in the law. At the same time, it is difficult to accurately determine the income of people who conduct underground economic activities because the subject needs to register and declare with the State, so they usually do not pay taxes. The author believes this is unreasonable, and it is necessary to have a solution to deal with those who conduct underground economic activities with a pretty high income to ensure fairness and equality for all subject to the Law on Personal Income Tax.

- *The underground economy is an activity that generates profits for the subjects who conduct.*

With its nature as an economic activity, the underground economy generates income for the subjects who conduct. However, unlike normal economic activities, the underground economy does not only appear in the market for goods and services but also in special environments. For example, the leaders of agencies and organizations in the State apparatus who can recruit or assign positions to others can receive material benefits such as money, houses and vehicles etc. These are the acts of accepting bribes. Doctors and lecturers receive “thanks-money” for helping patients, graduate students, etc. The common point of these cases is that the recipient of these economic benefits does not declare and does not fulfill financial obligations to the State. Therefore, the environment where underground economic activities occur can be very special and very different from the formal economic activities in the goods and service markets.

- *The underground economy is more complicated than normal economic activity:*

In Vietnam, the underground economy doesn't have to be illegal activities, but it must be affirmed that the underground economy is very diverse and complicated. In particular, many activities of the underground economy could take place against the law. For example, currently, Vietnamese law does not allow prostitution to become a legal profession. Acts that create economic value but are prohibited by law such as “drug trafficking, stolen goods trafficking, smuggling, illegal gambling, and fraud” (Britannica, 2019). Therefore, the underground economy has a variety of activities and can have legal or illegal activities. It can cause adverse effects on the economy and society. “Lost tax revenue; permit the consumption of harmful goods; low health and safety standards; the underground economy can also increase the power of criminal gangs; erosion of social trust and tax losses; poor information to the Government - leading to incorrect policy” (Economichelp, 2019). “Create a business environment that is unequal, unreliable, detrimental to honest business people, detrimental to the formal sector; creating unstable factors,

not taking into account all risks when deciding to invest; discourage and promote creativity, discourage long-term investment, large-scale investment, investment in human resource development etc” (Nguyen Dinh Cung, 2003). This is a very clear difference between the underground economy compared to normal economic activities.

4.2. From the economic perspective, the characteristics of the underground economy:

- The underground economy is often associated with rural areas, but there is a definite shift for urban areas or densely populated areas with increasing demand for goods and services:

Most people in Vietnam live in rural areas, with agriculture as the main activity. The production activities of agriculture, forestry, and fishery... are inherently familiar to most people. However, because these activities are carried out regularly and do not cause adverse effects on society or violate the law, State often encourages them to proceed. On the other hand, they create jobs for many people. Therefore, most people who conduct underground economy often do not have to register with state management agencies. From an economic point of view, these are considered legitimate underground economic activities. However, with the economy's and society's vigorous development, urban areas and big cities were formed quickly. Along with that was the demand for all kinds of goods and services by the people is more extensive. Some people in rural areas have been shifting their labor from agricultural production to trading goods and services in big cities. For example, people selling iced tea on the sidewalk, technology motorbike-taxi, shippers, lottery tickets, porters, builders, security guards, serving restaurants, and karaoke... more and more in big cities. Even to meet social needs, many support services such as supporting documents for those who must register administrative procedures (for example, notarization, tax declaration, customs...). These people work or business goods and services that they have income but do not declare and usually do not pay taxes to the State. In addition, in many cases, buyers and sellers deliberately undervalue goods and services to reduce taxes or not pay taxes.

In addition, many people engage in economic activities but have conducted illegal activities for profit. For example, prostitution, illegal trading of drugs, gambling, smuggling... Although these activities also provide income for those who perform them, they are unlawful and significantly affect society's life, health, and safety. Therefore, these are identified as illegal underground economic activities and are always strictly prevented and handled by the law.

- The underground economy often occurs spontaneously with a simple and small organizational scale:

The underground economy in Vietnam often happens spontaneously and with a small organizational scale because “Vietnam has always been an agricultural country... a society that specializes in agricultural production” (Le Tai Trien et al., 1972, pp. 03). “Vietnam's economy lasts long in a natural and self-sufficient state. Agriculture is the economy's foundation, and industry and commerce development depend on agriculture and economic activities for agriculture. Industry and trade class is too small compared to the whole country's population” (Nguyen Tri Dinh et al., 2007, pp. 285). Conversely, “ Vietnam's infrastructure is an economy that depends too much on agriculture, so... agricultural production is outdated, scattered and fragmented” (Nguyen Minh Doan, 2011, pp. 52 - 53). Vietnamese people have been familiar with small and straightforward production and business activities for a long time. Therefore, many people in rural areas have moved to the city to work or borrow a little capital to open their establishments, providing goods and services on a small scale, such as selling gas and services, internet service, pawnshop, hairdressing, car wash... However, most people who conduct underground economic activities are often not adequately trained. Their participation is mainly due to being lured, manipulated, and blinded by the potential to earn much money quickly. In many cases, the field or industry they are participating in requires them to understand its vital issues fully, or they will never make ends meet. This problem may lead to illegal production and business. Or due to following the “trends”, sometimes they “producing too many goods leads to cancellation because the demands can't keep up with it” (Vnexpress electronic newspaper, 2021)”. This causes heavy losses to the producers and businesses but also causes significant losses and waste to society.

- The underground economy attracts a large number of people to participate:

“Underground economy, which contains several economic activities, prevalent in the economic and social life and always attracts the participation of many people” (Nguyen Vinh Hung, 2019, pp. 106). This reality takes root in the culture, as Vietnamese people prefer working directly; and learning as they do the job; to studying, researching, and learning methodically and thoroughly before doing the job. Most people desire to get rich quickly so others can lure and manipulate them. Therefore, it is necessary that the implementer rapidly carry out the work to generate income. In fact, not only people of working age but also teenagers who are still sitting in school to those who are overworking age are also enthusiastically participating in fields and professions such as Real estate brokerage, car care, salespeople... This is also a positive point because it stimulates production, contributes to economic growth, and generates more income for those who perform. However, there are also cases in which, just for profit, business people

do not pay attention to the profits or health and safety of customers, leading to producing and trading of unsafe goods and services for food sanitation. Another example is that quite a few people involved in real estate brokers have deliberately inflated prices and set prices to disturb the actual value of the real estate, making it impossible for buyers and sellers to perform in many cases. Therefore, in these cases, even if it is legal underground economic activities, the conduct of the performer has infringed on the healthier or interfered with other transactions. However, it must be affirmed that the underground economy can attract many people to participate because it is relatively convenient to conduct activities, is not limited by business registration procedures, and is not subject to administrative regulations.

- The underground economy happens frequently and almost everywhere:

Research shows that “at present, in Vietnam, underground economic activities are taking place complicatedly” (Nguyen Vinh Hung, 2020, pp. 53). Because the underground economy can grow widely and strongly in many different areas and regions because as long as people live, there will be activities related to the underground economy; after all, the underground economy is also an essential source of income for many people. Therefore, the level of influence and impact of the underground economy is considerable in Vietnam.

On the other hand, “underground economic development over time” (Friedrich Schneider et al., 2004, pp. 04) and in the context of the industrial revolution 4.0 and the influence of the digital economy, many forms of production and business on social networks are becoming increasingly popular. For example, on social networks such as Youtube, Facebook, Zalo, Viber, and TikTok, many people have been producing entertainment or learning content which many people watch. It is worth mentioning that “the income of content creators on social networks is substantial compared to the average income in Vietnam” (Youth electronic newspaper, 2021). Also, the content of production programs is sometimes “unsuitable for the fine customs and traditions of the nation's culture” (World & Vietnam electronic newspaper, 2020). In addition, many performers also “evade taxes on the State” (Vietnam net newspaper, 2020). This happens because tax declaration, management, and collection for business, trading, and advertising objects in cyberspace are often complicated. Thus, although they are legal underground economic activities, they lead to a violation of tax laws. The number of people involved in production and business on social networking platforms in Vietnam is rapidly increasing. This requires stricter management by the State to avoid loss of tax revenue and ensure fairness for producers and business people who have fully declared and paid taxes.

In summary, underground economic activities in Vietnam are very diverse and attract many participants. Therefore, identifying and accurately capturing the characteristics of the underground economy, from which appropriate management to promote and exploit the advantages and limit the negative impacts of the underground economy, becomes very important.

5. RESULTS AND RECOMMENDATIONS

“From the world context, globalization and international integration have been taking place more and more vibrant, powerful and far-reaching” (Nguyen Vinh Hung, 2017, pp. 43). That's why, existence of the underground economy in Vietnam is an objective necessity of economic and social development. Therefore, not only now and in the future, the underground economy will continue to exist and expand in Vietnam. Thus, according to the author, to manage and promote the strengths as well as limit the negative impacts of the underground economy, the following solutions should be considered:

Firstly, expanding the penalty components and aggravating the penalty framework in the Criminal Code related to the illegal acts of the underground economy:

“Several underground economic activities now contribute to economic development and are the basis for the existence of so many participants and those directly related to it” (Nguyen Vinh Hung, 2020, pp. 55 - 56). Therefore, the State does not need and should not restrict all underground economic activities because it is also a source of income for those who prefer it. In addition, many covert economic activities also serve and meet the needs of production and living in social life. Therefore, only underground economic activities that affect the safety and health of people or violate the law need to be resolutely prevented and thoroughly handled. According to the author, the 2015 Criminal Code (amended and supplemented in 2017) requires expanding more criminal components related to economic fields. At the same time, it is necessary to raise the level of punishment to a higher level. In particular, the author thinks adding the crime of “fraud, tax evasion when producing and doing business in cyberspace” is required because, as analyzed, this type of crime tends to increase quickly, and forecast in the future will be more sophisticated and complex than before.

Secondly, it is necessary to pay more attention to vocational training and retraining for the youth and those living, studying, and working in rural, mountainous, or island areas:

It can be seen that quite a few people who lack proper education and training have engaged in underground economic activities. However, the uneven participation among regions causes job scarcity in some areas, and on the other hand, the financial efficiency could be higher. Because most of these participants can only produce and do business in simple fields that do not require a high level of skilled lab, economic efficiency is not based on the number of participants in the digital economy and knowledge economy. Still, it must be based on employees' abilities, professional qualifications, and skills. To develop a fast arousing economy, it is necessary to rely on high-quality human resources, from which labor productivity and quality of goods and services are increasingly higher. Therefore, the author believes that the State should quickly pay more attention to vocational training and retraining for young people and people living, working, and studying in rural areas, mountains, or islands. Vocational orientation and training should be suitable to the reality and needs of workers depending on the conditions in different places and regions. With this solution, new employees can quickly join and gradually be trained, supplemented, and updated with vital knowledge to improve efficiency and labor productivity. Thereby, it is possible to reduce the situation in which workers conduct underground economic activities in the direction of spontaneity, fragmentation, and smallness, which brings little economic efficiency.

Thirdly, develop more special economic zones and plan to expand more critical industrial zones in provinces and cities to contribute to attracting and evenly distributing population, jobs, and workers:

The author believes it is necessary to quickly research and plan more special economic zones in areas where long-term development conditions converge, to attract workers in big cities gradually, and to return to work and live in the locality with special economic zones. The situation of workers from rural areas flocking to big cities to live and work is mainly due to the need for job demand that the localities can't meet; therefore, according to the author, if the State develops many special economic zones and opens more industrial zones in provinces and cities, it can contribute to the equal distribution of population and jobs. Creating various health, education, and transportation services in these areas is necessary to attract and retain long-term workers. Thereby not only reducing the overload congestion for big cities but also helping locals to have high-skilled labor resources to contribute to the local economic and social development. On the other hand, it also contributes to reducing the situation of workers performing underground economic activities. Or this contributes to making the management of the underground economy more accessible, more convenient, and more effective.

6. CONCLUSION

The underground economy in Vietnam is heavily influenced by natural and social conditions and by the way the economy operates by the State. Being a country with an agricultural economic background, Vietnam's underground economic activities are often associated with rural areas, and people conducting underground economic activities tend to be spontaneous and small, unprofessional. This is reflected in the characteristics of the underground economy. Therefore, the law on underground economic management in Vietnam must have appropriate adjustments to underground economic activities. Compared with the law governing the official economy, the law on management of the underground economy of Vietnam is very different. To enhance management efficiency and promote strengths as well as limit the negative impacts and effects of the underground economy, it is necessary to carry out solutions at the same time as expanding the penalty components and aggravating the penalty framework in the Criminal Code related to the illegal acts of the underground economy; it is necessary to pay more attention to vocational training and retraining for the youth and those living, studying, and working in rural, mountainous, or island areas; and develop more special economic zones and plan to expand more critical industrial zones in provinces and cities to contribute to attracting and evenly distributing population, jobs, and workers.

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