

LEGAL BRIEFING

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ESG in Vietnam's Global Supply Chains: Burden and Opportunity For Suppliers

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Introduction

In our previous articles, we focused on M&A transactions and due diligence. However, ESG - environmental, social, and governance - factors are no longer limited to the M&A space. They have quickly evolved from soft principles into binding business expectations, particularly in the context of global supply chains. For Vietnamese suppliers, this development can be seen either as a burden or as an opportunity to take a substantial step forward. As multinational corporations increasingly shift or expand their sourcing operations to Vietnam, compliance with ESG standards has become a key requirement to enter or remain in high-value, cross-border supply chains. Foreign buyers now routinely evaluate not only product quality or delivery timelines, but also how Vietnamese vendors manage their workforce, environmental risks, and business ethics.

This article discusses the rising importance of ESG in supply chain relationships and contract obligations in Vietnam. It also highlights how ESG-related regulations - whether domestic or foreign - can create compliance pressure, while at the same time offering strategic value for Vietnamese vendors seeking broader market access.

Although most international or foreign ESG standards do not apply directly to Vietnamese suppliers, they often become binding in an indirect way. When a multinational buyer is subject to ESG requirements in its home jurisdiction - or is commercially compelled to follow them due to pressure from clients or investors - it is likely to impose the same expectations on its supply chain, including Vietnamese vendors.

From a business perspective, this trend is not surprising. Ambitious brands - especially in consumer goods - are paying close attention to ESG not only for compliance but also for growth. According to a 2023 joint study by McKinsey and NielsenIQ, products in the U.S. that carried ESG-related claims achieved an average cumulative growth rate of 28% over a five-year period, compared to 20% for products without such claims. While the study does not prove a causal link between ESG claims and purchase behavior, the performance gap is large enough to influence strategic decisions. In the

same study, brands generating more than half of their sales from ESG-marketed products also recorded 32–34% repeat purchase rates—indicating a meaningful impact on consumer loyalty.¹

The ESG Imperative: Burden and Opportunity for Vietnamese Suppliers

The rise of ESG obligations presents a mixed reality for Vietnamese suppliers. On the one hand, international buyers and regulators are imposing stricter ESG requirements, increasing the compliance burden on vendors. Exporters, manufacturers, and even small sub-suppliers are now expected to meet higher standards in environmental management and labor conditions. Multinational companies operating in Vietnam often conduct ESG-related due diligence or KYC assessments, requiring local suppliers to address any deficiencies. Vendors who cannot meet these expectations risk being excluded from current or future sourcing arrangements.

On the other hand, these obligations also present an opportunity. Suppliers that take the initiative to enhance their ESG performance can set themselves apart and become preferred partners for global buyers. Early compliance reduces the risk of disqualification and increases access to higher-value, long-term contracts. Embracing ESG practices also strengthens a company's appeal to foreign investors. By aligning with international standards, Vietnamese suppliers can present themselves as credible alternatives to competitors in other regions and improve their reputation in the global market.

In short, ESG is no longer just about ethics—it is now a competitive factor. Companies that invest in compliance and sustainability may gain a strategic edge, while those that fall behind may miss important commercial opportunities and market access.

Vietnam's ESG Legal Framework for Sustainable Supply Chains

Vietnam does not yet have a standalone “ESG” law. However, ESG principles are increasingly reflected in multiple areas of domestic regulation. In recent years, the Vietnamese government has taken important steps to align with global commitments, including its pledge at COP26 to achieve Net Zero emissions, and it has issued various national policies on sustainable development and green growth. As a result, exporters, FDI enterprises, and listed companies are now subject to a growing network of laws that incorporate ESG-related obligations—and these affect their supply chains as well.

Some of the most relevant regulations include:

- The Law on Environmental Protection 2020, which establishes legal requirements on waste treatment, emissions control, and environmental permitting;
- The Labor Code 2019, which protects labor rights, prohibits child and forced labor, and requires workplace safety measures;
- The Anti-Corruption Law 2018, which sets governance and compliance obligations that also apply to supply chain integrity.

Other rules on occupational safety and hygiene, corporate transparency on stock market, and environmental impact assessments further reinforce the ESG agenda under Vietnamese law. For suppliers, the message is clear: ESG obligations are no longer just external pressure from foreign buyers - they are also being internalized into the domestic regulatory environment. Non-compliance

¹ <https://tinyurl.com/mckinsey-sustainability>

can lead to legal penalties, reputational harm, and suspension of business operations, even before considering contractual or cross-border consequences.

At the same time, compliance is not just about Vietnamese law. Vendors are often asked to follow international ESG standards or home-country regulations of their buyers. For Vietnamese firms that aim to participate in international supply chains, this means staying informed and responsive to ESG laws and industry expectations abroad.

International ESG Due Diligence Laws Shaping Supply Chains

Across key markets, ESG-related laws are tightening - and these developments affect Vietnam's exporters directly. In the EU, the proposed Corporate Sustainability Due Diligence Directive (CSDDD) will require large EU companies, and certain non-EU companies with EU operations, to identify and address ESG risks throughout their entire value chain. In practice, this means that an EU-based buyer with suppliers in Vietnam will have to assess and, where needed, mitigate ESG risks in its Vietnamese operations.²

Some EU countries have already adopted domestic legislation ahead of the CSDDD. For example, Germany's Supply Chain Due Diligence Act, effective since 2023, imposes a legal duty on large companies to conduct ESG due diligence on their direct and indirect suppliers.³ Similar frameworks exist in France, the Netherlands, and the UK, although they differ in scope⁴. The EU's Green Deal and related measures, including the Carbon Border Adjustment Mechanism (CBAM) and product-specific sustainability requirements, also signal that ESG compliance will become a prerequisite for future market access.

In the U.S., similar developments are taking shape. The U.S. Securities and Exchange Commission (SEC) has proposed new rules (between 2022–2023) requiring publicly listed companies to disclose climate-related risks, greenhouse gas (GHG) emissions, and, where material, ESG impacts that arise from their supply chains⁵. Although these rules are not yet finalized as of July 2025, they are already prompting large U.S. companies to strengthen ESG monitoring in their global sourcing operations. Many are introducing supplier codes of conduct, ESG-related data requirements, and contractual obligations for sustainability. Vietnamese vendors may therefore find themselves bound to U.S. ESG standards through contracts, even without being directly regulated.

In summary, global markets are exporting ESG compliance through supply chain contracts. Vietnamese companies that adapt to these expectations will retain and expand access to key markets, while those that do not risk exclusion from international trade.

ESG Obligations in Supply Contracts: The New Normal

Legal reforms are quickly becoming practical contract terms. Today, most multinational buyers no longer rely on basic representations of compliance with local law. Instead, they embed ESG requirements directly into their supplier contracts. These clauses are increasingly detailed and enforceable.

Common provisions include:

² <https://www.vietnam-briefing.com/news/eu-due-diligence-vietnam.html/>

³ <https://www.nortonrosefulbright.com/en/knowledge/publications/ff7c1d04/the-german-supply-chain-act>

⁴ <https://tradebeyond.com/the-list-of-global-supply-chain-due-diligence-laws-keeps-growing/>

⁵ <https://tinyurl.com/sec-climate-disclosure-rules>

- Compliance with labor and social standards;
- Environmental and safety commitments, such as compliance with emissions or chemical use regulations;
- Anti-corruption clauses that incorporate standards;
- Buyer audit rights, including third-party ESG audits or on-site inspections;
- Adherence to a supplier code of conduct covering ESG principles.

In this context, Vietnamese suppliers may be required to establish internal ESG policies, invest in new systems or reporting tools, or even modify production practices. These requirements can be demanding, but they also offer credibility and long-term partnership opportunities with global clients.

More importantly, non-compliance is no longer just a reputational issue. It can lead to immediate legal consequences - such as breach of contract, loss of orders, indemnity obligations, or exclusion from vendor lists.

The Business Case for ESG Compliance

Despite the cost and effort required, ESG compliance offers several clear commercial benefits for Vietnamese companies:

- **Global market access:** Meeting ESG criteria opens doors to supply chains of large international corporations. Many buyers now conduct ESG screening as part of vendor selection.
- **Commercial differentiation:** Compliant vendors can distinguish themselves from peers, especially in industries where ESG is critical for brand or regulatory reasons.
- **Eligibility for trade incentives:** Vietnam's participation in agreements like EVFTA or CPTPP includes ESG-related chapters. Suppliers that comply are more likely to benefit from tariff preferences and smoother customs procedures.
- **Operational improvement:** Strong ESG practices - such as energy efficiency or fair labor policies - can also lead to cost savings, higher worker retention, and better internal controls.

By contrast, failing to comply may result in serious consequences. A supplier could be removed from a buyer's approved vendor list, denied access to tenders, or held liable if its conduct triggers violations for the foreign partner. In short, ESG is now a commercial threshold—not an optional commitment.

Conclusion

ESG compliance is no longer just a principle—it is becoming a practical requirement for doing business in global supply chains. For Vietnamese suppliers aiming to reach or maintain international markets, the pressure to comply comes not only from law, but also from clients, investors, and public expectations. At the same time, early adoption of ESG practices can help local businesses move up the value chain, win trust from multinationals, and become more resilient over time.

The legal frameworks—both domestic and international—are shifting quickly, and companies that align with these trends now will be better placed to benefit in the years to come. Those that do not may find themselves falling behind as sustainability becomes central to cross-border commerce.

Other relevant articles:

1. <https://www.lntpartners.com/legal-briefing/esg-in-vietnam-from-inevitable-trend-to-sustainable-competitive-advantage>
2. <https://www.lntpartners.com/legal-briefing/esg-in-vietnam-m-a-the-critical-role-of-due-diligence-and-valuation>
3. <https://www.lntpartners.com/legal-briefing/esg-in-vietnam-m-a-navigating-regulatory-approvals-and-compliance>

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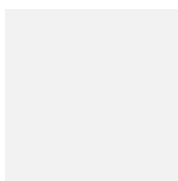
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