

Legal Frameworks and Risk Governance in Multi-Level Marketing in Developing Countries: A Comparative Study of Vietnam and ASEAN Nations

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ABSTRACT

In recent years, multi-level marketing (MLM) has emerged as a popular business model in developing countries, particularly in ASEAN. However, its complexity and potential for abuse have raised significant concerns regarding consumer protection, regulatory adequacy, and fraud prevention. This article provides a comparative legal analysis of the regulatory frameworks governing MLM in Vietnam, Thailand, the Philippines, and Indonesia. It also evaluates the effectiveness of risk governance mechanisms in managing MLM-related fraud and proposes legal reform directions for Vietnam based on best practices in the region..

Keywords: Multi-Level Marketing (MLM), Consumer Protection, Legal Framework, Risk Governance, Vietnam, ASEAN, Comparative Law, Public Policy, Fraud Prevention, Regulatory Refor

1. INTRODUCTION:

The proliferation of multi-level marketing (MLM) schemes in developing countries has presented a paradoxical landscape on one hand, offering new channels for entrepreneurship and income generation, and on the other, exposing significant regulatory vulnerabilities and consumer risks (Keep & Vander Nat, 2014). Nowhere is this duality more pronounced than in Southeast Asia, where emerging economies have become fertile ground for MLM operations due to relatively underdeveloped regulatory infrastructures and large populations of economically vulnerable individuals (ASEAN Secretariat, 2022; Rasool, Mahmood, Rauf, & Yee Yen, 2025).

In Vietnam, the MLM sector has undergone considerable expansion over the past two decades. According to Pham (2020), while the number of licensed MLM firms has increased, the country has also seen a disturbing surge in fraudulent MLM schemes masquerading as legitimate enterprises. Notable scandals such as the Lien Ket Viet case where over 60,000 victims lost approximately VND 1.9 trillion have cast a long shadow over the sector and raised urgent questions about the effectiveness of Vietnam's regulatory apparatus (Nguyen, 2021). These high-profile cases illustrate not only the legal ambiguity between MLM and illegal pyramid schemes but also the weaknesses in enforcement mechanisms, inter-agency coordination, and public awareness.

Despite regulatory progress, such as the issuance of **Decree No. 40/2018/ND-CP** by the Ministry of Industry and Trade, Vietnam continues to face substantial implementation gaps. Existing frameworks often fall short of proactively identifying, mitigating, and punishing MLM-related risks, particularly those involving consumer deception and financial fraud (Ministry of Industry and Trade, 2018; Pham, 2020). This is further exacerbated by low transparency in MLM operations and limited regulatory capacity at the local level.

By contrast, some ASEAN neighbors most notably the Philippines and Thailand have developed more comprehensive legal regimes and risk governance tools to regulate MLM effectively. These include real-time monitoring systems, independent auditing mandates, and clearer definitions to differentiate MLM from pyramid schemes (Department of Trade and Industry, 2021; Office of the Consumer Protection Board, 2020).

Given this regional context, this article aims to address the following core questions:

Firstly, How does Vietnam's legal framework for MLM compare to that of other ASEAN countries?

Secondly, What risk governance mechanisms have been implemented in these jurisdictions to safeguard consumers and the public interest?

Thirdly, What legal and policy reforms could enhance Vietnam's ability to regulate MLM effectively?

2. LEGAL FOUNDATIONS AND RISK GOVERNANCE

The legal classification and governance of multi-level marketing (MLM) schemes have been a matter of considerable debate in both academic and regulatory circles. While MLM is a legitimate business model in many jurisdictions, its structural resemblance to illegal pyramid schemes has led to confusion, misclassification, and inconsistent regulation (Keep & Vander Nat, 2014; Taylor, 2019). This section clarifies the legal definition of MLM and outlines the conceptual framework for risk governance, with particular focus on consumer protection in emerging economies.

2.1. Legal Nature of MLM: Between Enterprise and Exploitation

Multi-level marketing is defined as a sales strategy in which individuals earn income both by selling products directly and by recruiting others to join the network (Seow, 2022). The legal distinction between MLM and pyramid schemes hinges on the source of income: while

legal MLMs prioritize product value and end-user sales, illegal pyramid schemes reward recruitment regardless of product utility (Lewis, 2022).

However, in many developing countries, this distinction becomes blurred due to:

Lack of detailed statutory definitions;

Weak enforcement mechanisms;

Consumer unawareness about the business model's risks;

As Epstein (2010) notes, MLM enterprises often operate in a legal gray area, exploiting regulatory loopholes and socio-economic vulnerabilities, especially among low-income populations seeking alternative income sources.

2.2. Risk Governance: A Theoretical Overview

Risk governance refers to the institutionalized processes by which societies manage uncertain and potentially harmful outcomes (Renn, 2008). Unlike traditional risk management, which focuses on mitigation after harm occurs, risk governance emphasizes proactive, anticipatory systems that engage multiple stakeholders.

In the context of MLM, risk governance encompasses:

Legal tools such as licensing, registration, and disclosure requirements

Administrative controls like audits, inspections, and public blacklists

Public engagement strategies, including consumer education and awareness campaigns

Sanctions (both administrative and criminal) to deter fraud

According to the OECD (2019), a risk-based regulatory approach is essential in sectors where information asymmetry and rapid expansion pose threats to public welfare as is the case with MLM in many ASEAN countries.

2.3. Why MLM Requires Special Regulatory Attention

Firstly, MLM operates across a wide social base, often targeting rural and economically disadvantaged populations who are less likely to evaluate risk accurately (Rasool, Mahmood, Rauf, & Yee Yen, 2025). This creates a moral hazard where vulnerable consumers become both victims and unknowing perpetrators of unethical recruitment.

Secondly, MLM structures scale quickly due to network dynamics, which makes regulatory delay especially costly a single fraudulent operation can involve tens of thousands of individuals before detection (Pham, 2020).

Thirdly, the cross-border nature of many MLM firms complicates enforcement, especially when companies are registered in one country and operate in others through digital platforms (Miranda, n.d.).

Lastly, a failure to regulate MLM effectively has broader public policy implications: erosion of public trust in the market, loss of savings, increased litigation burden, and even social unrest as seen in the Vietnamese Lien Ket Viet scandal (Nguyen, 2021; Ministry of Industry and Trade, 2018).

A comprehensive legal framework alone is insufficient if it is not supported by a robust system of risk governance. Effective MLM regulation requires not only clear legal definitions but also integrated enforcement, real-time risk monitoring, and active public engagement. The next section explores how these dimensions are implemented in Vietnam and other ASEAN countries.

3. VIETNAM'S LEGAL FRAMEWORK

3.1. Regulatory Evolution and Legal Basis

Vietnam formally recognizes multi-level marketing (MLM) as a legal business model, but one that requires strict regulation to prevent misuse and protect consumers. The key legal instrument governing MLM activities is Decree No. 40/2018/ND-CP, which replaced the pre-existing Decree 42/2014/ND-CP and defines both MLM activities and requirements for compliance under Vietnamese law (Ministry of Industry and Trade, 2018; turn0search14). Under Decree 40, MLM refers to a marketing system where participants earn commissions and bonuses based on both personal sales and the sales performance of their recruits, but only when tangible goods are involved services are explicitly excluded (turn0search21).

Furthermore, Decree 40 outlines stringent participation rules, including the prohibition of advance deposits or mandatory product purchases to qualify as an MLM participant, and the prohibition of misleading information regarding earnings, benefits, or product quality (turn0search22; turn0search21). These provisions reflect Vietnam's intent to differentiate legitimate MLM from illegal pyramid schemes a task that remains a central challenge for regulators (turn0search16).

Responding to the increasing sophistication of digital and cross-border MLM operations, the Vietnamese Government also enacted Decree 18/2023/ND-CP, which amended Decree 40 to tighten conditions for registration and control over online MLM activities (turn0search6; turn0search27). These legal reforms aim to close regulatory gaps and expand government oversight in a rapidly evolving marketplace.

3.2. Licensing and Reporting Requirements

Under Decree 40, an enterprise must obtain a multi-level marketing registration certificate from the Ministry of Industry and Trade (MoIT) to operate legally in Vietnam. This registration, valid for five years, requires compliance with specific criteria, including adequate capital, a transparent network management system, and an information system for participant complaints (turn0search21). Companies must also submit semi-annual reports detailing participant numbers, revenue, commissions, and training activities a measure designed to enhance transparency and data collection for regulatory purposes (turn0search9).

These reporting requirements are critical because they enable the MoIT to monitor market dynamics and identify emerging risks. The availability of such data supports evidence-based policy evaluation and enforcement actions.

3.3 Market Structure and Recent Trends

Vietnam's MLM industry has undergone notable changes in recent years, both in scale and regulatory compliance patterns. According to statistics from the Ministry of Industry and Trade, the number of licensed MLM businesses has declined from 67 in 2016 to approximately 15–20 active firms by 2025, reflecting stricter enforcement and regulatory withdrawal of non-compliant operators (turn0search3; turn0search26). Despite the reduction in firms, **total sector revenue has grown significantly**, with figures around **VND 16,866 billion (roughly USD 663 million)** in 2023 underscoring the continued economic relevance of MLM within Vietnam's consumer market (turn0search26).

Participant dynamics also show shifts: while estimates suggested around **768,283 individuals engaged in MLM activities in 2023**, this represents a significant contraction compared to earlier years when participation was substantially higher (turn0search26). Other reports have highlighted **634,567 active participants in the first half of 2025**, indicating fluctuations likely tied to regulatory pressures and market restructuring (turn0search4).

These statistics reveal two important trends: **Regulatory tightening has narrowed the number of active businesses**, likely weeding out high-risk or non-compliant operators, and; **Revenue growth suggests that licensed and compliant enterprises are consolidating market share**, thus becoming more prominent in terms of economic contribution.

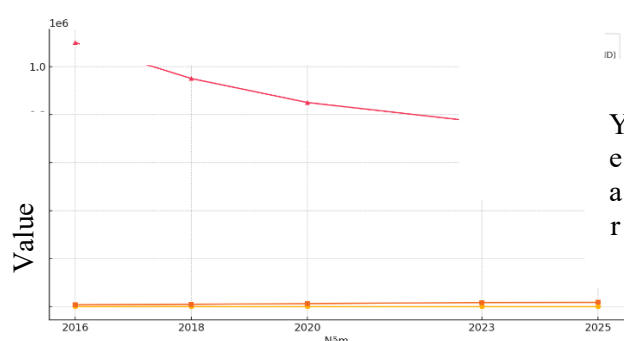


Figure 1. Trends in MLM operations in Vietnam (2016–2025).

Source: Ministry of Industry and Trade (MOIT), aggregated from official reports.

3.4. Enforcement and Consumer Protection Challenges

While the regulatory framework has matured, enforcement remains a persistent challenge. Historical data shows that in past enforcement drives (e.g., 2015–2016), authorities penalized a large number of MLM firms 64 out of 65 violation cases resulting in fines totaling approximately VND 11 billion (turn0search2; turn0search8). Provincial departments similarly imposed sanctions, demonstrating multi-level engagement in regulatory oversight (turn0search2).

However, high-profile cases continue to emerge, often linked to deceptive practices and inadequate consumer protection measures. These issues remain particularly acute among **unlicensed operators**, which exploit loopholes and weak local enforcement to attract

participants with promises of high returns (turn0search11; turn0search19). The presence of these unlicensed entities emphasizes the ongoing challenge of enforcement in peripheral and online marketplaces.

3.5. Consumer Awareness and Structural Safeguards

Vietnam's legal regime incorporates **consumer disclosure and contract safeguards** as structural protections. For example, MLM contracts must clearly identify parties, compensation plans, product details, and dispute settlement mechanisms provisions aimed at reducing informational asymmetry and enhancing participant protection (turn0search5). Collectively, these regulatory elements reflect increasing institutional emphasis on consumer rights and transparency.

3.6. Summary: Strengths and Remaining Gaps

Vietnam's MLM legal framework represents a *significant regulatory effort* to structure MLM operations, protect consumers, and separate legitimate business practices from fraud. The decline in the number of authorized firms and the introduction of regular reporting requirements underscore progress toward regulatory clarity and market stability.

Nevertheless, enforcement gaps, the persistence of unlicensed operations, and the ongoing evolution of digital marketing models indicate that the system remains reactive rather than fully preventive. Bridging these gaps will require not only legal refinement but also capacity building, real-time data monitoring, and enhanced public education.

4. ASEAN COMPARISONS

A regional comparative approach provides valuable insights into the effectiveness of different legal regimes in governing multi-level marketing (MLM) operations. While Vietnam has made significant strides in constructing a legal framework for MLM, it remains at a relatively early stage in terms of enforcement and risk governance. By contrast, several ASEAN countries including Thailand, the Philippines, and Indonesia have implemented more advanced or diversified regulatory strategies that offer important lessons for Vietnam.

4.1. Thailand: Centralized Oversight and Consumer Protection Integration

Thailand's MLM sector is governed by the Direct Sales and Direct Marketing Act B.E. 2545 (2002), which has since been amended to strengthen consumer protection and digital oversight. The primary regulatory authority is the Office of the Consumer Protection Board (OCPB), which maintains a centralized licensing system, monitors advertising content, and enforces transparency in commission structures (Office of the Consumer Protection Board, 2020).

One distinguishing feature of Thailand's model is its emphasis on proactive public risk communication, including:

A publicly accessible blacklist of sanctioned MLM entities

Consumer complaint portals with real-time tracking

Coordination with the Thai SEC for cases with investment fraud elements

These tools enable early detection of deceptive schemes and empower consumers to make informed decisions. Furthermore, OCPB regulations require MLM firms to submit audited financial statements and comply with product return policies, ensuring accountability and fairness in consumer transactions.

4.2. The Philippines: Multi-Agency Regulation and Market Education

The Philippines employs a multi-agency regulatory model, where both the Department of Trade and Industry (DTI) and the Securities and Exchange Commission (SEC) oversee MLM operations. DTI handles licensing and compliance under the Consumer Act of the Philippines, while SEC focuses on financial aspects, including the prevention of pyramid schemes and investment fraud (Department of Trade and Industry, 2021).

Key elements of the Philippines' approach include:

Clear regulatory definitions differentiating MLM from illegal schemes

Mandatory disclosure of income representations

Consumer education campaigns launched in partnership with civil society organizations

Unlike Vietnam, the Philippines imposes criminal liability on MLM operators who intentionally mislead participants or use unlawful recruitment tactics. In 2020, SEC shut down several large MLM firms that violated these rules, demonstrating the efficacy of active monitoring and enforcement.

4.3. Indonesia: Disclosure-Oriented Framework and Localized Enforcement

Indonesia regulates MLM under Regulation No. 70/M-DAG/PER/9/2013, which mandates the registration of compensation plans, product information, and marketing systems with the Ministry of Trade. MLM companies must also undergo third-party auditing to maintain transparency (Ministry of Trade, 2013).

Indonesia's model is relatively decentralized, with local trade departments responsible for conducting routine inspections. While this ensures tailored enforcement, it also creates inconsistency in implementation across provinces.

The strength of Indonesia's framework lies in its documentation and verification requirements, which include:

Certification of product legality

Evaluation of training programs for distributors

Public reporting of violations

However, Indonesia still faces challenges in cross-border fraud detection, particularly as many MLM schemes operate online and target rural populations via social media.

4.4. Comparative Matrix: Vietnam vs ASEAN Counterparts

Regulatory Dimension	Vietnam	Thailand	Philippines	Indonesia
Primary Regulator	Ministry of Industry and Trade	OCPB	DTI & SEC	Ministry of Trade
Legal Clarity on MLM vs Pyramid	Moderate	Strong	Strong	Moderate
Licensing System	Centralized	Centralized	Multi-agency	Centralized
Auditing Requirements	Partial	Mandatory	Mandatory	Mandatory
Public Risk Communication	Limited	Advanced (blacklists, portals)	Moderate (public warnings)	Basic
Consumer Education Campaigns	Limited	Moderate	Strong	Limited
Enforcement Capacity	Reactive	Moderate	Proactive	Inconsistent
Cross-Border Monitoring	Weak	Weak	Moderate	Weak

4.5. Implications for Vietnam

The comparative findings suggest that Vietnam can strengthen its MLM governance system by adopting the following best practices from ASEAN neighbors: Develop proactive public warning systems, including blacklists and complaint portals (Thailand model); Introduce mandatory third-party audits and financial reporting (Indonesia, Philippines); Enhance consumer education via media, schools, and civil society collaboration (Philippines); Clarify legal definitions and improve prosecutorial capacity for fraud-related MLM cases; Promote inter-agency collaboration between trade, police, and cybercrime units for cross-border cases.

By learning from regional peers, Vietnam can transform its MLM oversight system from a reactive model into a resilient, risk-based regulatory regime that promotes trust, transparency, and consumer protection.

5. Comparative Analysis

The comparative regulatory review of multi-level marketing (MLM) across selected ASEAN countries

reveals key similarities, critical divergences, and lessons that can inform Vietnam’s policy development. This section synthesizes the comparative data and examines how regulatory design, enforcement models, and institutional coordination shape the effectiveness of MLM governance in developing Southeast Asian economies.

5.1. Shared Regional Challenges

Despite differences in administrative structure and legal traditions, Vietnam, Thailand, the Philippines, and Indonesia all face common regulatory dilemmas in managing MLM:

Blurring boundaries between legal MLM and pyramid schemes: All four countries continue to struggle with clear differentiation, particularly as hybrid business models evolve in digital markets (Lewis, 2022; Keep & Vander Nat, 2014).

Vulnerability of economically disadvantaged populations: MLM continues to disproportionately target lower-income groups, often through promises of financial freedom and self-employment, leading to widespread participation with minimal safeguards (Rasool et al., 2025).

Cross-border fraud and digital expansion: MLM companies increasingly exploit online platforms and operate across jurisdictions, complicating enforcement and detection, particularly in rural and digitally underserved areas (Miranda, n.d.).

These shared risks suggest that a regional or harmonized policy response could be beneficial, particularly in the context of ASEAN’s consumer protection framework (ASEAN Secretariat, 2022).

5.2. Structural Differences in Legal and Governance Models

While the challenges are common, the regulatory responses vary significantly across countries:

Dimen sion	Vietnam	Thaila nd	Philippi nes	Indonesi a
Legal Frame work	Decree- based	Statuto ry Act	Multi- legislativ e	Ministeri al Regulati on
Regulat or Type	Single ministry (MoIT)	Consu mer protecti on authori ty	Dual regulator s (DTI & SEC)	Central + local agencies
Enforce ment Model	Adminis trative sanction s	Hybrid enforce ment	Adminis trative + criminal	Decentra lized inspectio ns
Monito ring Tools	Periodic reporting	Real- time compla int	Public disclosur es	Product/s ystem registrati on

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Vietnam's model emphasizes administrative licensing and reporting, but lacks integration with real-time monitoring tools or cross-agency enforcement.

Thailand and the Philippines have adopted more dynamic oversight mechanisms, including financial audits, consumer education, and blacklisting tools, providing more agile and responsive systems (Office of the Consumer Protection Board, 2020; Department of Trade and Industry, 2021).

Indonesia’s localized enforcement creates adaptability but sacrifices national consistency and standardization (Ministry of Trade, 2013).

These differences illustrate Vietnam’s need to evolve from a rule-based approach toward a governance-based model, which aligns enforcement with risk prioritization and public accountability.

5.3. Gap Analysis: Where Vietnam Stands

Based on the comparative findings, Vietnam’s current MLM regulation shows strength in formal structure but reveals gaps in:

Operational monitoring: Unlike its peers, Vietnam lacks digital tracking tools for complaints, fraud alerts, or audit submission platforms.

Consumer protection enforcement: Sanctions remain largely administrative, with limited deterrence against high-value fraud or repeat offenses.

Public transparency: Vietnam’s absence of publicly accessible violation records or company ratings weakens consumer decision-making capacity.

Inter-agency coordination: While MoIT leads, there is insufficient collaboration with financial regulators, police, or provincial departments.

These gaps reflect a reactive regulatory posture, where enforcement often follows rather than prevents market failures.

5.4. Toward a Resilient Regulatory Architecture

To bridge these gaps, Vietnam should consider a risk-based regulatory model that combines the strengths of its ASEAN counterparts:

Institutional diversification: Create inter-ministerial working groups involving MoIT, Ministry of Public Security, and cybercrime units.

Data-driven monitoring: Establish digital platforms for MLM reporting, public complaints, and transparency disclosures.

Public engagement mechanisms: Launch education campaigns similar to the Philippines, increasing financial literacy and consumer vigilance.

ASEAN alignment: Participate in regional dialogues to harmonize MLM definitions and cross-border enforcement protocols.

By embedding these comparative insights, Vietnam can transform its MLM oversight system into a more agile,

preventative, and accountable regime capable of safeguarding consumers while enabling legitimate business activity.

6. Policy Recommendations

Based on the comparative findings and gap analysis in the preceding sections, this paper proposes a set of actionable policy recommendations aimed at strengthening Vietnam's regulatory capacity in managing multi-level marketing (MLM) operations. These recommendations draw from best practices across ASEAN and integrate principles of risk-based regulation, public accountability, and consumer empowerment.

6.1. Strengthen Legal Clarity and Classification Mechanisms

Firstly, Vietnam should revise and refine legal definitions to more clearly distinguish between legitimate MLM operations and illegal pyramid schemes. Current definitions under Decree 40/2018/ND-CP, though improved, remain vulnerable to exploitation by hybrid or digital MLM models that obscure revenue sources and recruitment mechanisms (Nguyen, 2021; Lewis, 2022).

Recommendation: Adopt statutory language that defines key criteria such as income dependence on recruitment vs. product sales, level of inventory loading, and transparency in compensation schemes (Keep & Vander Nat, 2014).

Impact: This would enable regulators and courts to more effectively classify and sanction deceptive practices.

6.2. Institutionalize Risk-Based Regulation and Monitoring

Secondly, Vietnam's MLM oversight should move beyond periodic reporting and toward real-time risk monitoring tools, as demonstrated in Thailand and the Philippines (Office of the Consumer Protection Board, 2020; Department of Trade and Industry, 2021).

Recommendation: Develop digital dashboards integrating complaint data, transaction audits, and distributor demographics to flag high-risk behavior patterns.

Impact: Enables proactive intervention before systemic harm occurs, reducing consumer loss and restoring market trust.

6.3. Enhance Inter-Agency Coordination and Enforcement

Thirdly, the fragmented enforcement structure in Vietnam limits the effectiveness of existing legal provisions.

Recommendation: Create a National MLM Oversight Taskforce composed of the Ministry of Industry and Trade (MoIT), Ministry of Public Security, Ministry of Information and Communications, and financial regulators.

Impact: Strengthens cross-functional enforcement, particularly for digital MLM schemes, financial fraud, and transnational operations (Miranda, n.d.; Rasool et al., 2025).

6.4. Expand Transparency and Public Access to Information

Public access to accurate and timely information is critical for consumer protection and ethical business conduct.

Recommendation: Publish a public MLM registry that includes company performance reports, regulatory violations, and consumer reviews.

Impact: Empowers consumers to make informed decisions and incentivizes firms to maintain compliance and good conduct.

6.5. Invest in Consumer Education and Financial Literacy

Given the high participation rates among economically vulnerable groups, education is a key preventive tool.

Recommendation: Implement nationwide consumer education campaigns through schools, television, and social media, modeled after the Philippines' multi-stakeholder approach (Department of Trade and Industry, 2021).

Impact: Reduces susceptibility to deception, enhances financial decision-making, and promotes long-term economic resilience.

6.6. Promote ASEAN Regional Cooperation on MLM Regulation

Lastly, Vietnam should leverage ASEAN platforms to harmonize MLM definitions, share best practices, and coordinate enforcement across borders.

Recommendation: Propose the creation of an ASEAN MLM Regulatory Framework, including data-sharing agreements and joint investigations.

Impact: Enhances collective capacity to manage cross-border MLM schemes, and aligns Vietnam with regional regulatory standards (ASEAN Secretariat, 2022).

2. CONCLUSION

The regulation of multi-level marketing (MLM) presents a complex policy challenge for developing countries, particularly in the dynamic socio-economic context of Southeast Asia. This study has demonstrated that while Vietnam has made meaningful progress in formalizing its legal framework through instruments such as Decree No. 40/2018/ND-CP and its subsequent amendments it continues to face critical implementation and enforcement gaps.

Through a comparative analysis with Thailand, the Philippines, and Indonesia, the study reveals that Vietnam lags behind in areas such as real-time risk monitoring, consumer protection enforcement, inter-agency coordination, and public transparency. In contrast, its regional peers have introduced innovative mechanisms such as blacklists, complaint tracking portals, mandatory audits, and targeted public education campaigns, which collectively enhance regulatory responsiveness and consumer resilience.

To move forward, Vietnam must transition from a compliance-based to a risk-based regulatory model, one that empowers institutions to act preventively rather than reactively. The recommendations outlined from strengthening legal definitions and institutional coordination to launching nationwide education initiatives

are not merely administrative adjustments but strategic shifts toward a more robust governance architecture.

Finally, as MLM operations increasingly transcend national borders, Vietnam's regulatory efforts must be complemented by deeper ASEAN-wide cooperation. Only through collaborative frameworks can the region hope to combat cross-border fraud, harmonize legal

standards, and promote ethical and sustainable MLM practices.

By learning from its neighbors and committing to institutional innovation, Vietnam can position itself as a regional leader in MLM governance protecting consumers, restoring public trust, and fostering a more transparent business environment.

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