

Original Article

Proposal for Attracting Foreign Direct Investment (FDI) into Vietnam

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Abstract: Vietnam ranks 12th out of 66 emerging economies in *The Economist's* 2020 economic wellness ranking, which includes the group of economically prosperous countries post-COVID-19 pandemic. This presents a significant opportunity for Vietnam to attract Foreign Direct Investment (FDI) as multinational corporations seek safe destinations to re-establish their production bases after the COVID-19 pandemic. This article assesses the current state of foreign direct investment attraction in Vietnam during the period from 2010 to 2019 and proposes solutions for attracting FDI in the post-COVID-19 era. Within the scope of the article, the author focuses on addressing three issues: (i) The basis for evaluating the consequences of drawing foreign direct investment; (ii) The current situation of attracting foreign direct investment in the period from 2010 to 2019; (iii) Opportunities and challenges in attracting FDI in the post-COVID-19 period. Based on these, the author puts forward some recommendations to enhance the effectiveness of attracting FDI into Vietnam.

Keywords: FDI, Vietnam, Attraction.

I. BASIS FOR EVALUATING FDI ATTRACTION RESULTS

FDI is defined as: "Long-term investment associated with the interest and long-term control of an investor in one country (foreign direct investor or parent company) in an enterprise in another country (foreign direct investment enterprise or affiliate)" (UNCTAD, 2012). In a country, the attraction of FDI is evaluated through criteria such as capital scale, project scale, and capital structure.

A) Capital Scale

According to the World Bank (2016), capital scale refers to the total developed capital in cash or ethically owned assets, retained earnings, and other forms of capital of foreign investors. People with foreign nationalities belong to foreign investors and associations formed according to international law that conduct foreign direct investment activities in Vietnam. The FDI capital scale is classified into registered capital and implemented capital depending on the implementation method.

a. Registered Capital

Registered capital is the capital amount that foreign investors have registered to invest directly, as indicated in the investment registration certificate, establishment and operation permit according to specialized laws (for enterprises with foreign direct investment capital established and operated according to specialized laws), notices of meeting the capital contribution conditions, share purchase, or repurchase of capital contributions by foreign investors, investment contracts under the public-private partnership model signed with competent state authorities, and other documents proving that the capital contribution of foreign investors complies with the provisions of the law.

The registered capital scale reflects investors' expectations and confidence and the host country's attractiveness.

b. Implemented Capital Scale

The implemented capital scale is the actual capital that foreign investors have invested in the host country. Foreign investors must make cash capital investments in Vietnam by transferring funds to a direct foreign investment capital account, that is, a foreign currency or Vietnamese dong account opened by foreign investors at authorized banks to carry out transactions associated with foreign direct investment activities in Vietnam.

The amount of executed capital illustrates the efficacy of the investment promotion efforts, state administration mechanism, and enforcement effectiveness of the legal documents.



B) Project Scale

Project scale refers to the ratio of capital scale to the number of projects. This is a criterion for assessing the size of FDI projects in the host country. The larger the project scale, the more foreign investors continue to maintain and develop their investment capital in the host country, reflecting the positive response of investors and vice versa.

C) Capital Structure

Capital structure is a term used to indicate the proportion of a country's capital that comes from investment sources, which reflects the growing pattern of Foreign Direct Investment (FDI) flows. A few frequently employed indicators for evaluating capital structure consist of the following:

a. Investment Form:

This refers to the manner in which foreign investors invest capital in the host country, including:

- The founding of 100% foreign-owned economic organizations is a traditional and widely used form of FDI.
- The formation of partnerships among domestic and foreign investors is a common practice around the world.
- Investment through business cooperation contracts, contracts signed between investors to cooperate in business and share the profits and goods, are generated without establishing a legal entity. Brands, ownership of intellectual property rights, technological advances, abilities, and procedures are all examples of this type of investment.
- BOT, BTO, and BT contract forms are investment forms implemented through contract signatures exchanged between competent state officials and foreign investors.
- Investment in stock purchases or mergers or acquisitions.

b. Investment Fields:

These are the industries where foreign investors make investments in their home country. The following investment fields are classified in Vietnam: high technology, information technology, supporting technology, agriculture, environmental protection, infrastructure construction, education, culture, society, sports, healthcare, science and technology, electronics, mechanics, material production, and other sectors. Attention is given to securing FDI in information technology, high technology, supporting technology, mechanics, healthcare, education, and training sectors amid a robust Industrial Revolution 4.0.

II. CURRENT SITUATION OF ATTRACTING FDI IN THE PERIOD FROM 2010 TO 2019

During the period from 2010 to 2019, FDI inflows into Vietnam showed an increasing pattern in the total number of projects, enrolled capital, and implemented capital, particularly from 2016 to 2019.

A) Capital Scale

FDI's registered capital and its implemented capital inflows exhibit comparisons with the Vietnamese integration procedure and policy changes to attract FDI.

In terms of registered capital, as of 2019, there were 3,883 investment projects registered in Vietnam with a total registered capital of \$38.02 billion, representing a 214% increase in the number of registered projects and a 91.2% increase in registered capital compared to 2010. Regarding implemented capital, \$20.38 billion has been invested in Vietnam, showing an 85.3% increase compared to 2010, and this is the highest level of implemented capital during the 2010-2019 period.

The FDI capital scale in Vietnam from 2010 to 2019 can be divided into two periods:

2010 - 2014: During this time, assignments increased steadily. In particular, the total number of assignments decreased by 4% in 2011 before rising steadily from 8% to 20% until 2014. However, the capital scale showed significant fluctuations and instability. This period followed the global financial crisis 2008, characterized by economic difficulties, volatile capital flows, and increased unemployment.

The economy of the world as an entire, and emerging countries in particular, encountered numerous challenges during this period. After reaching a growth rate of 5.1% in 2010, the global economy sharply declined to 3.9% the following year and further decreased to 3.6% by 2014. The growth rate was less than the 5% average before the financial crisis. The economic growth rate in developing nations ranged from 4.7% to 7.3% during this period. This was the main reason affecting FDI inflows into various countries, including Vietnam.

2016 - 2019: The number of projects consistently increased throughout these years. The total number of projects rose by 5% to 23%, registered capital rose by 5% to 38%, and the implementation of capital rose by 7% to 11%. During this period, the global economy did not experience significant improvements in growth rates, ranging from 3.1% to 3.7%. This was an era of increased profound integration with the rest of the world and advances in investment-related policies for Vietnam. Among the significant events that occurred during this period were the following:

In 2015, Vietnam concluded negotiations on four free trade agreements (FTAs) with the Eurasian Economic Union, the European Union, South Korea, and the Trans-Pacific Partnership (TPP), bringing the total number of FTAs Vietnam participated to 14. Additionally, establishing the ASEAN Economic Community (AEC) on December 31, 2015, provided a platform to support Vietnam's integration process.

In 2016, Vietnam successfully hosted high-level meetings such as ACMECS-7, CLMV-8, and WEF Mekong and actively participated in regional and international forums.

In 2017, Vietnam successfully hosted APEC 2017, making Vietnam the center of attention on the world stage.

In 2018, the National Assembly ratified the Comprehensive and Progressive Agreement for Trans-Pacific Partnership (CPTPP), the third-largest free trade agreement in the world.

In 2019, Vietnam and the EU signed the EU-Vietnam Free Trade Agreement (EVFTA) and the Investment Protection Agreement (IPA). The Political Bureau issued Resolution No. 50-NQ/TW on August 20, 2019, outlining directions to improve the institutional until 2030 structure regulations and improve foreign investment cooperation's standard and efficacy.

B) Project Scale

In contrast to the capital scale's growth rate, the average project scale declined progressively between 2010 and 2019. In 2019, the average registered capital per project was \$9.8 million, a decrease of 39 percent from 2010. In 2019, the average carried out capital per project was \$5.25 million, a 41% reduction from 2010. The average project scale reached its lowest value during the 2010-2019 period.

In accordance with the General Statistics Office (2020), numerous FDI projects in 2019 were on smaller scales, with some worth less than \$1 million and even as little as \$20,000. These small endeavours frequently involved old technology, particularly when China, Vietnam's next-door neighbor, was minimizing outdated technology within its borders. Furthermore, small FDI enterprises often acted as satellite companies specialized in supplying materials to foreign multinational corporations, posing challenges for domestic enterprises to participate in global value chains.

C) Capital Structure

a. Investment Forms

While previously, in previous years, Foreign Direct Investment (FDI) projects were primarily conducted in the form of 100% foreign-owned capital, in recent years, the trend has shifted towards investing in shares, Mergers and Acquisitions (M&A), and buying existing businesses. Over 86% and 80% of FDI projects with 100% foreign capital acquired licenses in 2015 and 2016, respectively. Yet, in the following years, foreign investors paid more attention to M&A activities, with specific percentages as follows: 17.02% in 2017, 27.78% in 2018, and 56.4% in 2019 of the total registered capital. This is encouraging for Vietnam's FDI influx of capital, increasing partnerships and foreign investor ownership of shares; Vietnamese enterprises increase their chances of acquiring advanced technology, technical expertise, and leadership skills at lower costs than other investment methods by means of direct investments and company operations. There are two primary causes for this pattern: (i) The scale of domestic enterprises meeting the supply source for M&A; (ii) The open-door policy of Vietnam, which has proven successful in luring foreign investment in the past few years, especially the policy to expand "room" for foreign investors.

b. Investment Sectors

The production and manufacturing industries attracted workers from 2011 to 2019, the largest share of FDI capital, ranging from 44% to 69.9% of the total registered capital. Additionally, this industry comprised a sizeable portion of the registered capital for fresh investment initiatives, broadened investment projects, capital investment projects, and stock acquisition projects. With a capital of USD 24.56 billion, or 64.6% of the total registered capital in 2019, the manufacturing and processing sector saw the highest concentration of FDI capital, bringing the total accumulated capital in this sector to USD 214.2 billion, or 59.1% of the total investment capital.

The second-largest sector alternated between real estate and electricity production and delivery for FDI capital inflow during the 2011-2019 period. Regarding the electricity distribution sector, in the years 2011, 2013, 2015, and 2017, upon the processing and manufacturing sector, the entirety of the investment capital made up between 9% and 23.3% of the overall registered investment capital. In the years 2012, 2014, 2018, and 2019, the real estate business sector ranked second in terms of FDI capital investment, accounting for between 9.4% and 14.2% of the total registered investment capital. In 2016, the wholesale and retail sector and automotive and motorcycle repair and sales ranked second with 505 newly licensed projects, total registered capital for new licenses, increased capital, and share purchase reached USD 1.899 billion,

accounting for 7.79% of the total registered investment capital. Specialized scientific, information, and communication activities were also sectors of interest to foreign investors.

Agriculture, forestry, and fisheries projects continued to be few in number and made up a very small portion of the total registered capital each year. In 2019, agriculture, a strength of Vietnam, attracted low FDI capital, reaching 0.26% of the total registered capital. This shows that these industries have not attracted the attention of foreign investors.

According to the data and analysis provided, it can be seen which the processing and manufacturing sector, which primarily requires low abilities, is where the majority of FDI capital is focused. The cause is because foreign investors seek to profit from Vietnam's local marketplace as well as inexpensive labour. The IMF states that the requirements for drawing quality FDI capital are: "Areas of production, advanced technology, and long-term investments receive foreign direct investment." In light of the rapid advancement of the fourth industrial revolution, it is evident that the standard of FDI capital invested in Vietnam continues to have a number of shortcomings and falls short of the current standards for changing towards creativity, science, and inventiveness.

c. Opportunities and Challenges in Attracting FDI in the Post-COVID-19 Period in Vietnam

Starting from concerns about the current COVID-19 pandemic and the US-China trade conflict, many foreign investors have moved their manufacturing chains outside of China to ensure solid and feasible operations for the company. Specifically, 80% of foreign companies leaving China did so due to the trade war, while the remaining 20% did so because of COVID-19 (Julien Chaisee, 2020).

With the need to explore new markets and activities, the major economic conglomerates from the US, China, and EU, and the advantages of participating in trading pacts (CPTPP, EVFTA, IPA, etc.), effective COVID-19 prevention, Vietnam is thought to possess all the components required to boost its reputation and draw in foreign investors (Times of India, 2020). In addition to these factors, the Vietnamese government released many regulations, including tax reductions, streamlined processes, and advantageous land lease costs, which are optimistic and important steps in improving attraction to foreign investors. Attracting FDI is a major government policy.

In addition to the opportunities mentioned above, attracting FDI in Vietnam currently faces the following challenges:

Firstly, developing economies such as India and Indonesia have also taken positive actions to attract foreign investment, such as building large industrial zones, ensuring investors' needs, offering favourable land rental rates, and applying preferential tax rates.

Second, low-quality FDI inflows into Vietnam have been caused by the recent rapid and non-selective process of attracting FDI. These involve donations that are not sustainable, limited technological applications, and small capital scales.

Thirdly, foreign investors are often concerned about the complex administrative procedures when entering the Vietnamese market. According to a survey by VCCI (2019), 59% of businesses with construction projects in the past two years faced difficulties in handling land clearing and associated procedures. In addition, taxation and social security processes take quite a while to complete.

Fourthly, Vietnam has to quickly settle down, reduce the impact of COVID-19, and move into the phase of its financial recovery. This is the cornerstone for bolstering and boosting foreign investors' faith in Vietnam.

Fifthly, cheap labour and hardworking labour have traditionally been regarded as the allure of foreign investors. However, the nation's workforce must satisfy investor demands in order to draw high-tech assignments. Despite improvements in education and training in Vietnam, policies for developing human resources in the country and policies for developing human resources to serve new FDI projects still need to focus on quality, not just quantity.

III. RECOMMENDATIONS

To effectively capitalize on the opportunity to attract FDI, the following recommendations are put forth with three main objectives in mind: (i) Selectively attract FDI sources; (ii) High-caliber personnel should be the rather than inexpensive labour as before, an attraction for international investors; (iii) Strengthen infrastructure, economic the stability and faster development foreign investor trust. Specifically:

First, in terms of infrastructure, prioritize budget capital to complete ongoing projects. At the same time, select key areas within the country to invest in cutting-edge infrastructure to accommodate investors' various needs. Simultaneously, establish a system of checking on the use of budgetary funds effectively and appropriately for the highest efficiency. Furthermore, to consolidate infrastructure, the state should have policies that are both community service-friendly and transparent to create conditions for attracting FDI into these projects through public-private partnerships.

Second, to build trust among investors, the environment for business in Vietnam needs to be improved. In order to do this, environmentally damaging production facilities must be handled and shut down. Additionally, sanctions must be used to encourage the use of modern, advanced, and clean technologies as well as renewable resources, fuels, methods of production, and technologies.

Third, reducing the process and streamlining administrative processes by guidance documents that are simple to comprehend and use, simplifying the system, clearly defining the responsibilities of each stage and department in the administrative procedure process, especially in areas related to business licenses, labour permits, visa management, customs procedures, and taxes.

Fourth, when issuing preferential policies for FDI sources, the policies should be tiered to prioritize enormous investors with a long-standing connection to Vietnam. Projects involving novel technologies, advanced technology, environmentally friendly methods, contemporary management, significant added value, and impact should also be favoured. Facilitate the connection between domestic enterprises and FDI enterprises, especially in the supply chain.

Fifth, enhance the quality of the domestic labour force by promoting research and financial investment in science and technology in enterprises through specific advantages that are closely linked to how businesses operate. Encourage associations of industries, on-the-job training programs, internal training programs, and self-study programs. Improve students by giving career guidance to match their talents and abilities. Invite and recruit talented individuals to seek employment in the nation. Refresh the educational system by moving toward theory and practice together. The workforce in Vietnam needs to be prepared to meet the demands of foreign investors.

Sixth, to improve technology transfer capabilities, establish standards for technology proficiency, boost capital investment in mergers and acquisitions, share purchases, and business mergers and acquisitions, as well as improve cooperation between domestic and FDI enterprises for venture capital investments in Vietnam. Investors should also be required to make a commitment to technological advances transmission.

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