

THE CURRENT SITUATION OF ATTRACTING FOREIGN DIRECT INVESTMENT INTO VIETNAM

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ABSTRACT

The study examined the current situation of foreign direct investment (FDI) attraction to Vietnam in the period 1988 - 2019. Data compiled from the reports of the Foreign Investment Department and the General Department of Statistics showed that FDI inflows into Vietnam experienced a positive change between 1988 and 2009, notably the continuous increase of total investment capital and the number of newly registered projects in Vietnam since 2015. Based on the findings, the authors also proposed a number of solutions to enhance the attraction of foreign direct investment to Vietnam by 2030.

Keywords: foreign direct investment, foreign investment, FDI, Vietnam

1. Situation of attracting foreign direct investment into Vietnam in the period from 1988 to 2019

1.1. Scale of foreign direct investment

On December 29, 1987, the National Assembly approved the Law on Foreign Investment in Vietnam, which can be considered as a major turning point in economic thought because it has created the foundation of a legal corridor for Vietnam's investment cooperation with foreign countries. It has been 30 years since the Law on Foreign Investment was enacted and took effect (now the Law on Investment), Vietnam has attracted a large amount of Foreign Direct Investment (FDI). This capital contributes a significant part to the total investment capital of the whole society, helping Vietnam promote economic growth and integrate deeply into the world economy. From 1988 to 2019, Vietnam attracted 30,943 foreign direct investment projects licensed for investment with a total registered capital of 363,309.7 million USD. The average size of a project is 11.74 million USD. The disbursed capital is 211,472.9 million USD, accounting for 58.2% of the total registered capital.

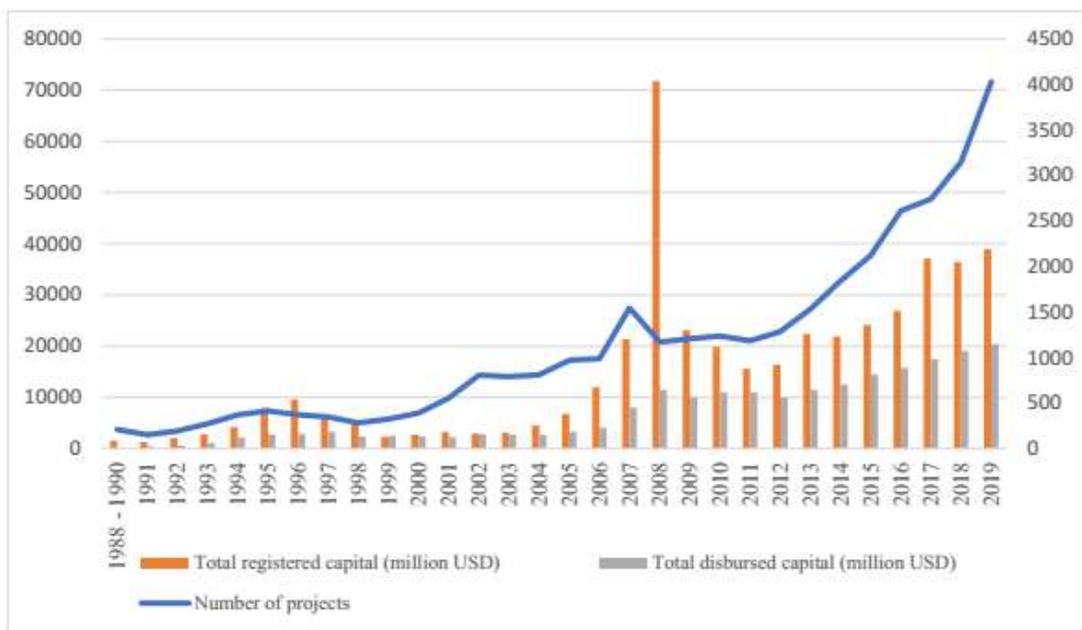


Figure 1.1: Foreign direct investment into Vietnam in the period from 1988 to 2019

(Source: General Statistics Office)

After the Law on Foreign Investment in Vietnam was passed by the National Assembly in 1987, in the first three years of 1988-1990, the results of FDI attraction were still limited, with only 211 projects with a total registered capital of 1,603.5 million USD. This is the first stage of the opening process and our country is under the

embargo of many countries, so the amount of attracted FDI is still limited. In the period 1991-1996, the wave of foreign investment became stronger. The number of projects and registered capital has increased rapidly. In 6 years, the number of projects increased by 8.6 times compared to the previous period (1,824 projects), the total registered capital was 28 billion USD, an increase of 17.4 times. The amount of registered capital reached the highest level in 1996 with 9,635.3 million USD. The annual growth rate of registered capital is quite high. Especially in 1995, it experienced an increase of 85.9% compared to 1994. The rate of disbursed capital reached 36%. The average capital size of each project is 15.3 million USD/project.

However, FDI into Vietnam in the period 1997-1999 tended to slow down and decrease in both project size and registered capital. Generally, in 3 years, the country attracted 961 projects, with a total registered capital of 13.1 billion USD. The rate of FDI attraction has decreased over the years. In 1998, the total registered capital was 81.8% of 1997. In 1999, it was only 46.8% of 1998.

Then, in the period 2000-2005, FDI into Vietnam started to recover but the speed was still slow. Total registered FDI capital reached 23.5 billion USD (up 1.8 times compared to the period 1997-1999) with 4,326 projects. In 2000, registered FDI capital reached 2,762.8 million USD, an increase of 21% compared to 1999. In 2001, it continued to increase by 18.2% compared to 2000. In 2002, registered capital decreased, by 91.7% in 2001. In the next 3 years, FDI into our country increased. Compared to 2002, the registered capital in 2003 increased by 6% (3,172.7 million USD) and increased to the highest in 2004 and 2005 with a growth rate of 43% and 58%, respectively. Disbursed capital reached 16,241.2 million USD, accounting for nearly 69% of total registered capital.

In the period 2006-2011, the trend of FDI fluctuated wildly. In this period, both the number of registered projects and registered capital increased sharply. In 2006, registered capital increased by 75.5% compared to 2005. In 2007, after Vietnam joined the WTO, it immediately welcomed Intel's "billion USD" project. Total registered capital reached 21.3 billion USD, increased 1.78 times compared to 2006. In 2008, registered FDI capital reached the highest level ever, 3.3 times higher than 2007 with 71.7 billion USD. Due to the impact of the global financial crisis, FDI inflows in the years 2009-2011 decreased significantly.

In the period 2012-2019, FDI into Vietnam has increased again. Compared to the previous period, the total registered capital in this period increased by 36% (224 billion USD) with a total of 19,309 projects. The average capital size for a project decreased to 11.6 million USD/project. The rate of disbursed capital reached 54%. From 2012 to 2014, the registered FDI capital increased slightly from 16.3 billion USD in 2012 to 21.9 billion USD in 2014. After Vietnam joined the bilateral free trade agreements (FTAs), FDI has increased continuously and strongly from 2015 to 2019. In 2015, the whole country attracted 2,120 projects with 24.1 billion USD of registered capital, an increase of 10% compared to 2014. In 2016, the total registered capital was 26.8 billion USD with 2,613 projects. Notably, disbursed FDI in 2016 reached 15.8 billion USD (accounting for 58.7% of disbursed capital), an increase of 9% compared to 2015, reaching the highest FDI disbursement ever. In 2017, the total registered FDI capital increased 38% compared to 2016, reaching 37.1 billion USD, disbursed capital reached 17.5 billion USD (up 10.7%) with 2,741 projects.

1.2. Foreign direct investment capital by economic sectors

Industry and construction is an economic sector that attracts the most FDI with 16,474 projects. The total registered capital is 256,424.8 million USD, accounting for 70.6% of the total registered FDI capital into Vietnam. The processing and manufacturing sector attracted 14,463 projects, with a total registered capital of 214,610.4 million USD, accounting for 83.7% of FDI registered in the industry and construction sector and accounting for 59.1% of total FDI registered in Vietnam. According to many experts, the processing and manufacturing industry is still an area that attracts the attention of foreign investors in the coming time.

Table 1.1: Registered FDI by economic sectors
(Accumulation of projects valid until December 31, 2019)

No.	Economic sectors	Number of projects	Total registered FDI (million USD)	Percentage (%)
1	Agriculture, forestry and fisheries	449	3,518.0	0.9
2	Industry and construction	16,474	256,424.8	70.6
2.1	Mining	108	4,897.5	1.9
2.2	Manufacturing and processing industry	14,463	214,610.4	83.7
2.3	Production and distribution of electricity, gas, hot water, steam and air conditioning	132	23,653.8	9.2
2.4	Water supply, management and treatment of waste and wastewater	75	2,857.4	1.1
2.5	Construction	1,696	10,406.0	4.1

3	Service	13,970	103,366.9	28.5
3.1	Real estate	871	58,439.0	56.5
3.2	Accommodation and food	842	11,990.2	11.6
3.3	Other services	12,257	32,937.7	31.9
Total		30,943	363,309.7	100

(Source: General Statistics Office)

The second place in FDI attraction is the service industry with 13,970 projects, with a total registered capital of 103,366.9 million USD, accounting for 28.5% of the total registered FDI in Vietnam. In the service industry, the field that attracts the most FDI is the real estate business with 871 projects, the total registered capital is 58,439.0 million USD, accounting for 56.5% of FDI registered in the service industry and 16.1% of total FDI registered in Vietnam.

1.3. Foreign direct investment capital by major investment partners

After 32 years of attracting FDI, nearly 130 countries and territories have invested in Vietnam. In general, the 10 largest FDI investors in Vietnam accounted for 83.9% of the total registered capital and 80.7% of the total projects. Korea is the country with the largest FDI investment, which is 68,102.3 million USD, accounting for 18.74% of the total registered capital with 8,504 projects, accounting for 27.4% of the total number of projects. Although the average size of investment capital is 8 million USD/project, lower than the average capital size of an FDI project in Vietnam of 11.7 million USD, typical Korean FDI enterprises such as Samsung, LG, Lotte, etc. always play an important part in our country's economy. Many leading Korean corporations such as Samsung, LG, Hyundai Motor, SK, Lotte, POSCO, CJ, Hanwha, LH Corp have highly appreciated the results of improving the investment environment of the Vietnamese Government in recent years. They affirm that Vietnam is a strategic investment market and commit to continue to expand investment and business activities in Vietnam.

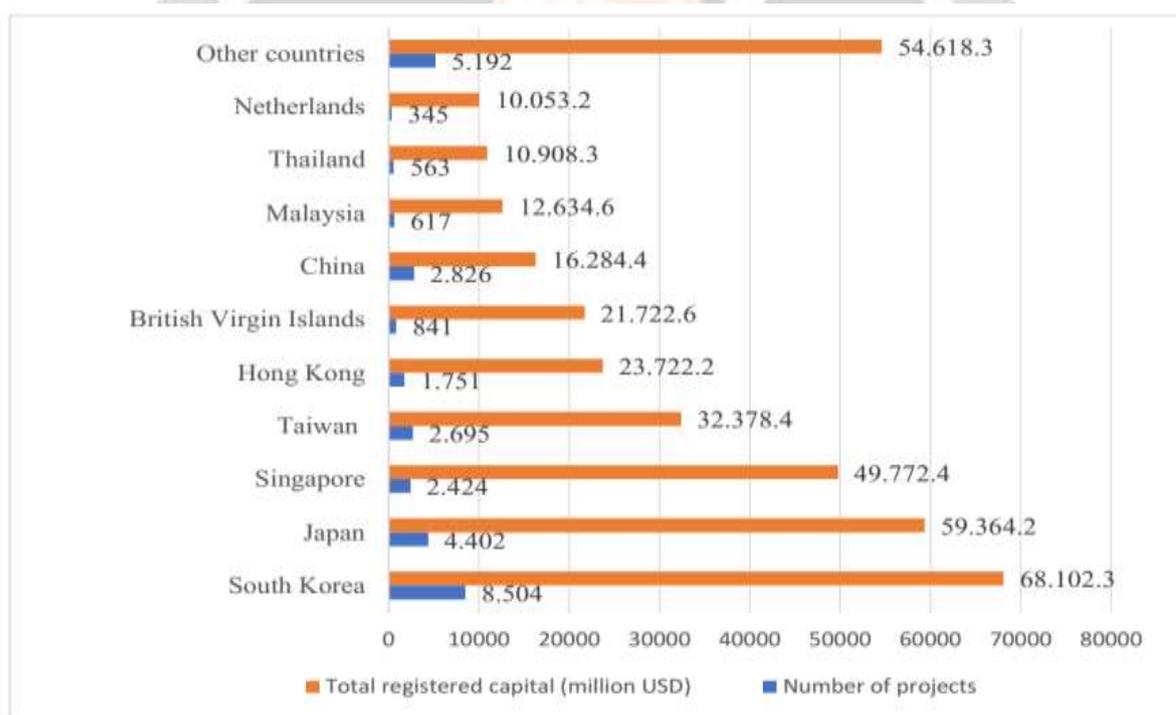


Figure 1.2: Registered FDI by major investment partners in the period from 1988 to 2019

(Source: General Statistics Office)

The second largest investment partner of Vietnam is Japan with 4,402 projects and total investment capital of 59,364.2 million USD, accounting for 16.3% of total registered FDI capital. The average investment capital is 13.48 million USD/project. Japanese enterprises are considered to be efficient and serious, complying well with the laws of Vietnam, contributing to creating jobs and promoting economic growth. Up to now, many large Japanese corporations have been present in Vietnam with prestigious, competitive and high-tech products. There are many products replacing imported goods and participating actively in exports. Major Japanese corporations investing in Vietnam include Canon, Sony, Matsushita, Sumitomo, Sanyo, Toyota, Honda, Isuzu and Suzuki, etc.

The third-place belongs to Singapore with the increasing trend of investment in our country. Total registered capital reached 49.7 billion USD, accounting for 13.7% and 2,424 licensed projects. This amount of investment is most concentrated in the processing industry, manufacturing and real estate business. Besides, it is worth

noting the group of British Virgin Islands, Cay-mem Islands and the Netherlands. Although the number of projects from this group accounted for only 4.2% of the total number of projects, the total registered capital accounted for 10.7%. The project scale is relatively large, 29.9 million USD/project, 2.5 times higher than the average size of a project in Vietnam.

1.4. Foreign direct investment capital by provinces

As of 2019, foreign direct investment capital was present in 63/63 provinces and cities nationwide. Ho Chi Minh City attracts the most FDI with 9,202 projects, accounting for 29.7% of total projects and registered capital of more than 47,379.1 million USD, accounting for 13.04% of total FDI capital. Ho Chi Minh City is an economic, scientific and technical centre, a business connection hub of the Southeast region, with the ability to provide high-quality human resources. In addition, the city is also flexible in offering initiatives to reform administrative procedures and creating favourable conditions for investors. Referring to attracting FDI into Ho Chi Minh City, it is impossible not to mention that this city has established export processing zones, such as Tan Thuan export processing zone, which marks the success of FDI attraction activities in Ho Chi Minh City. Specifically, since its establishment in 1991, Tan Thuan export processing zone has attracted more than 100 businesses to invest and is increasingly becoming a model export processing zone because of its production value and very high export proportion. In addition, Ho Chi Minh City is also the investment address of the world's leading investors such as Intel, BP, Samsung, Toshiba, CJ. These factories and research centres of these investors are contributing to Ho Chi Minh City's strong transformation in production and development.

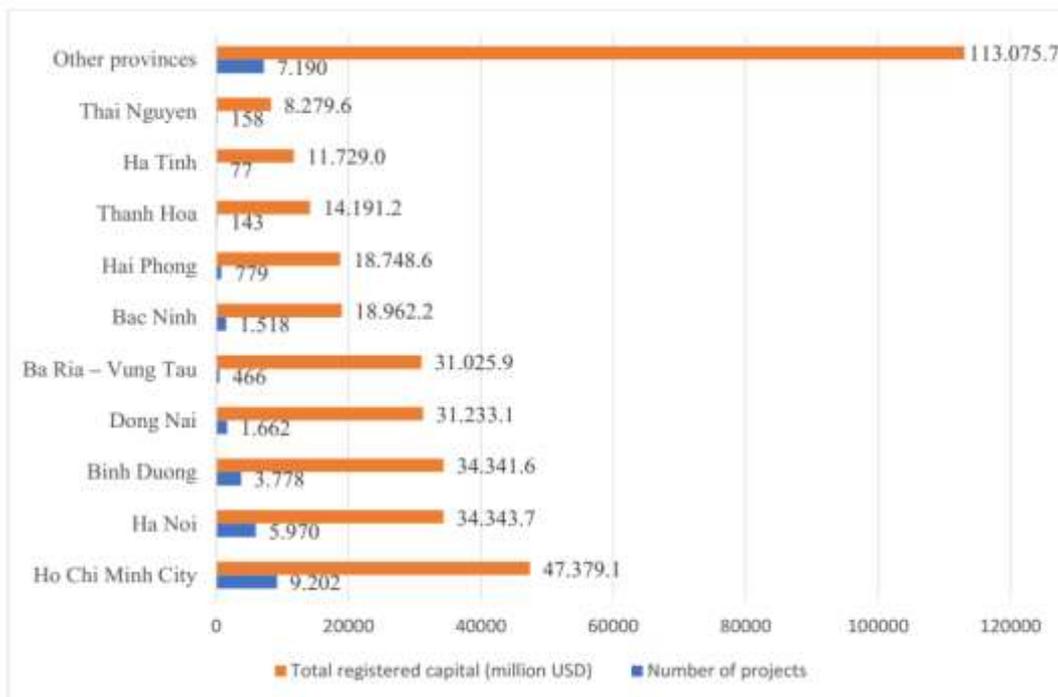


Figure 1.3: Registered FDI by provinces in the period from 1988 to 2019
(Source: General Statistics Office)

The second place belongs to Hanoi with 5,970 projects, accounting for 19.2% of the country's projects, with a total registered capital of 34,343.7 million USD (accounting for 9.45%). Hanoi has the advantage of geographical location and convenient regional linkages. With 17 industrial parks, 01 high-tech park, quality human resources and the dynamism of the city's leaders, Hanoi has always been one of the leading localities that were favoured by foreign businesses.

The third place in FDI attraction is Binh Duong with a total registered capital of 34,341.6 million USD (accounting for 9.45%) and 3,778 projects. To attract FDI, on the one hand, Binh Duong focuses on investing in transport in order to connect neighbouring provinces and cities. This helps businesses easily circulate goods. On the other hand, Binh Duong also focuses on building services such as a commercial centre, 5-star hotel, international convention - exhibition centre, amusement park, international hospital and international school.

The fourth place in FDI attraction is Dong Nai with 1,662 projects with total registered capital of 31,233.1 million USD (accounting for 8.6%). Dong Nai has always focused on improving provincial competitiveness, promoting the investment environment, actively reforming administration and always listening to and accompanying businesses. In particular, the efforts of infrastructure companies through the construction and

development of modern industrial parks have made an important contribution to Dong Nai's FDI attraction results.

Ba Ria - Vung Tau is in fifth place with 466 projects and the registered capital is 31,025.9 million USD (accounting for 8.5%). With a selective investment attraction strategy, focusing on project quality, Ba Ria - Vung Tau province has changed the method of attracting investment in the direction of prioritizing supporting industries and high-tech industries with a series of criteria such as environmental protection, low energy use, and labour.

2. General comments on attracting foreign direct investment into Vietnam

2.1. Achievements

Firstly, FDI contributes to the total social investment capital. FDI is an important source of additional capital in the total development investment capital of the whole society. After 32 years of welcoming FDI, 63 provinces and cities across the country have attracted 30,943 FDI projects from nearly 130 countries and territories with a total registered capital of 363,309.7 million USD. Businesses come to Vietnam not only to seek profit but also to contribute to the socio-economic development of our country.

Secondly, FDI contributes to economic growth and state budget revenue. FDI capital plays an important role in promoting Vietnam's economic growth. The FDI sector contributes to GDP with an increasing proportion, from 2.0% in 1992 to 14.9% in 2005. By 2011, this rate reached 18.97% and in 2019 it was 19.6%.

Thirdly, FDI contributes to promoting exports, expanding foreign relations, improving innovation and national competitiveness in the context of international economic integration. Over the years, FDI enterprises have brought their customers to become partners of Vietnam and promoted the national brand, which is a good condition for Vietnam to quickly approach and conduct cooperation with many countries, international organizations, major economic, technical and technological centres in the world. Thereby, Vietnam is gradually improving its position in the international arena and deeply integrating into the world economy.

Fourthly, FDI promotes economic restructuring towards industrialization and modernization. According to the General Statistics Office, in 1986, the proportion of the agricultural sector was the highest with 38.1%, while services accounted for 33%, and industry made up only 28.9%. Up to now, FDI capital has mainly been invested in the industry-construction sector (70.6%) and services (28.5%).

Finally, FDI contributes to creating jobs and improving the quality of human resources. Foreign investment has made an important contribution to creating jobs as well as improving the quality of human resources, a fundamental factor for Vietnam's economic integration and development. Up to now, the FDI sector has created jobs for about 4.5 million direct workers and 5-6 million indirect workers. At the same time, it also contributes to gradually raising the position of Vietnamese workers. Through working for FDI enterprises, employees have matured in many aspects, such as working style, corporate culture, professional and management qualifications, foreign language skills, etc.

2.2. Some limitations

Besides the results achieved, attracting FDI in the past time still has limitations that need to be overcome in the coming time, which are:

- Imbalance in FDI attraction by economic sectors: Recently, FDI has been mainly invested in the processing and manufacturing industries, in which most are assembly industries with low localization rates and little contribution to the added value of production. Exporting enterprises mainly invest in processing and assembling, using less high-quality labour. Meanwhile, capital attraction into fundamental industries such as supporting industries, high technology and clean technology has not been much.
- Imbalance in FDI attraction by provinces. FDI still focuses mainly on provinces with developed infrastructure, abundant human resources, and large product consumption markets. FDI inflows into the northern mountainous areas, the Central Highlands, the Mekong Delta and some provinces in the central of Vietnam are still low.
- Imbalance in attracting FDI from investment partners. FDI inflows into Vietnam from developed countries such as the US, Canada, Germany, France, UK... are still quite limited while partners from Asia such as Korea, Japan, Taiwan and China... take the major part.
- The target of technology attraction and transfer has not been achieved as expected. Most of the FDI projects have higher technology than the technology level of similar domestic projects.
- There are still businesses that have not seriously implemented the provisions of the law on environmental protection. Many FDI projects in our country are raw manufacturing industries with high processing capacity, high emission levels and low added value. There are few fundamental industries such as supporting industries, high technology and clean technology.

- The phenomenon of transfer pricing and tax evasion of FDI enterprises is still complicated. In order to attract FDI into Vietnam, the government has had preferential policies on tax and finance for these enterprises.

3. Some solutions to enhance foreign direct investment attraction to Vietnam by 2030

3.1. Solutions to improve institutions and policies to attract foreign direct investment

Renovating investment incentive mechanisms and policies; developing and supplementing incentive mechanisms for enterprises to operate effectively and fulfil their commitments; distinguishing preferences between different investment sectors and professions; having policies to encourage cooperation and technology transfer on the basis of agreement and voluntary.

Reforming administrative procedures towards simplicity and compactness for foreign investment projects. It is necessary to regularly review, amend and supplement administrative regulations related to investment activities to both encourage investors and ensure compliance with general regulations of the government.

Focusing on building and perfecting the national database and information system on investment in a synchronous and transparent manner on FDI enterprises so that central and local agencies can effectively and timely summarize, evaluate and supervise; developing a control mechanism to limit the accumulated losses of FDI enterprises and loss of capital; continuing to expand investment to enjoy tax incentives; strengthening the capacity of supervising the financial situation and production and business activities of FDI enterprises; publicizing and transparently disclosing information on operations and financial status of FDI enterprises; early detecting and preventing risks of socio-economic instability.

3.2 Solutions to overcome the imbalance in FDI attraction

In order to attract investment from transnational corporations, especially from developed countries such as the US and the EU, in addition to issues related to the investment environment in general, Vietnam needs to pay attention to the requirements of investors in a number of aspects such as Publicity, transparency, stability, predictability in terms of institutions, policies and laws; Strictly and uniformly enforcing the law, protecting the legitimate rights and interests of investors; simple administrative procedures, ensuring the specified time.

Improving the investment environment to support FDI projects to deploy and expand investment in Vietnam, overcoming the imbalance between registered capital and disbursed capital in foreign investment activities.

Completing the economic development planning. Although currently the economic development plans at all levels have been approved, the quality is not high.

Attracting FDI selectively. The Ministry of Planning and Investment relies on the orientation of attracting FDI to make a list of industries and multinational companies prioritized to attract capital. These lists need the advice of leading economic experts, domestic and foreign managers.

3.3. Solutions to promote investment

Continuing to innovate, perfect and improve investment exposure; reviewing and restructuring the system of investment promotion agencies in a professional, independent and non-overlapping direction.

Strengthening coordination and linkage between the central government and localities, between regions, between state management agencies and professional associations in promoting investment; actively promoting investment with specific goals associated with new investment cooperation criteria; continuing to maintain traditional markets and partners, and at the same time expanding new markets and partners.

Publicizing socio-economic information system, law, policy, planning, market; strengthening dialogue mechanism; innovating and expanding methods of receiving recommendations and reflections of investors; promptly and decisively handling difficulties and problems related to ongoing projects.

3.4. Solutions on human resource

Investing in the development of human resources; having a strategy to train employees, managers and technical workers working in FDI enterprises in terms of professional expertise, working style and attitude. The government needs to cultivate managers operating in the field of foreign economic affairs with market exploitation skills, business skills and international law.

Encouraging scientific and technological research and investment activities in enterprises with specific benefits directly related to the operation of enterprises; strengthening self-training, on-the-job training and integrated training in enterprises, sectors and associations; perfecting career guidance for students in accordance with their own ability and forte; adopting policies to attract and call talented people to work in the country; innovating educational programs in the direction of theory coupled with practice.

Paying attention to salary policy; building trade unions in FDI enterprises to protect the legal rights of Vietnamese workers in the direction of transparency and meeting the requirements of international integration;

reasonably adjusting minimum wage gap between regions to limit labour concentration in big cities and reduce pressure on infrastructure.

Paying attention and focusing on investing in material and technical infrastructure to create favourable conditions for foreign investors. The development of a technical infrastructure system increases the attractiveness of the investment environment and creates favourable conditions for foreign investors.

Focusing on developing supporting industries in the direction of focusing on a few key industries and products in order to maximize the spillover effects of FDI projects and help Vietnamese businesses to participate in the supply chain of FDI enterprises.

4. Conclusion

In the process of industrialization and modernization of the country, foreign direct investment is one of the major sources of capital contributing to the growth of the Vietnamese economy. Recognizing this important role, Vietnam has constantly promoted and improved the investment environment in order to effectively attract foreign direct investment to meet the country's development goals. Through research and empirical analysis combined with comparison and explanation based on theory, the article analyzes the current situation of attracting foreign direct investment in Vietnam in terms of FDI size, economic sectors, provinces and major investment partners. It can be seen that besides the positive results, there are still many limitations in attracting FDI in Vietnam. Since then, the author has proposed a number of key solutions to increase the attraction of foreign direct investment capital into Vietnam by 2030.

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