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# The Factors That Influence Foreign Direct Invesment Attraction In Vietnam

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## Abstract

Vietnam has favorable geographical conditions, valuable resources, and a stable socio-political and macroeconomic environment. Besides a synchronous and complete legal system, effective state management, relatively developed infrastructure and technology, and abundant human resources are influencing factors that make Vietnam more competitive in attracting foreign investors. Besides, several factors still hinder attracting FDI into Vietnam, such as weak infrastructure and environmental pollution.

**Keywords**: FDI, attracting FD

I, factors affecting FDI…

## 1. INTRODUCTION

Foreign direct investment (FDI) is an essential factor of economic development in all countries, especially developing countries. With the proper policy framework, FDI can bring financial stability, promote economic growth, and strengthen society's well-being (Organization for Economic Cooperation and Development - OECD, 2008).

In Vietnam, along with the process of economic integration, FDI inflows increased sharply and had many positive impacts on domestic enterprises' economy and labor productivity. Practice shows that a country or territory that attracts much international capital and uses it effectively will have many opportunities for economic growth and overcome the lagging situation compared to developed countries.

### 1.1. Situation of attracting FDI in the period 2010 - 2019

From 2010 - 2019, FDI inflows into Vietnam tended to increase regarding the number of projects, the amount of registered capital, and the amount of implemented money, especially in 2016 - 2019 (See Figure 1).

Units: billion USD

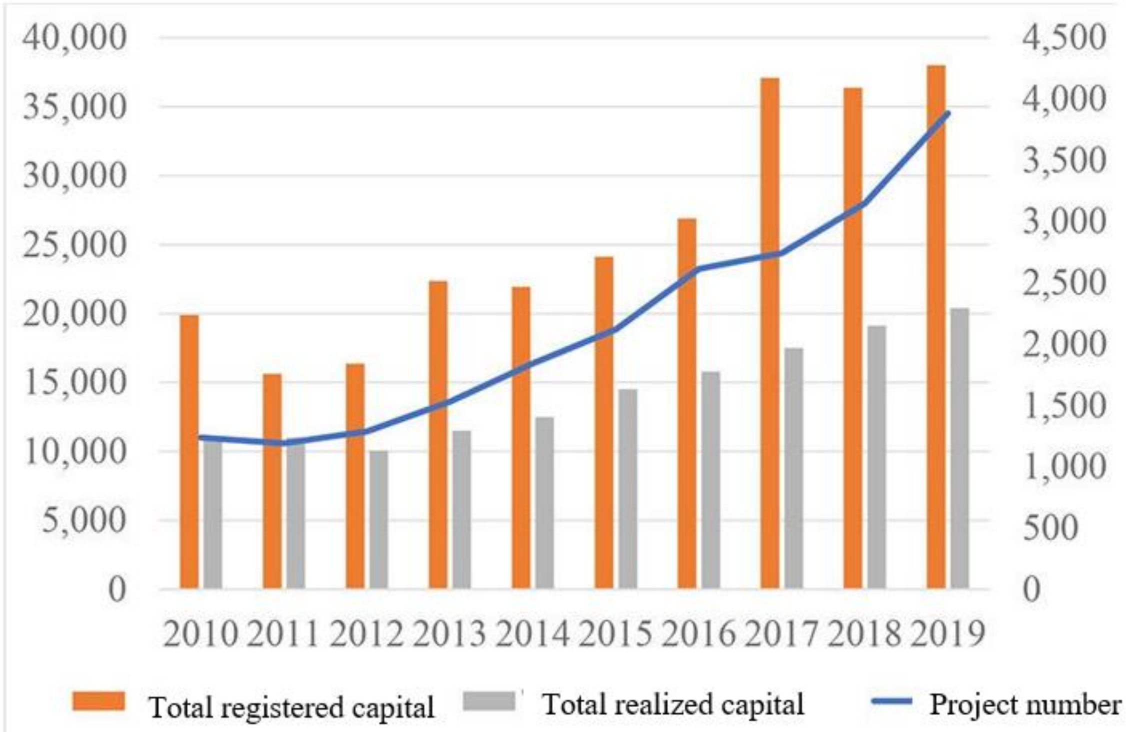


**Figure 1: Number of projects, total registered capital, and total realized worth of FDI capital in Vietnam in the period 2010 - 2019**

Source: Ministry of Planning and Investment (2019)

### 1.2. Capital size

The scale of registered capital and realized capital of FDI are similar to the integration process and the adjustment of Vietnam's open-door policy to attract FDI.

Regarding registered capital, as of 2019, 3,883 projects have registered to invest in Vietnam with registered money of 38,020 million USD, an increase of 214% in the number of registered schemes and an increase of 91.2% in the registered capital compared to the registered capital with 2010. In terms of implemented capital, 20,380 million USD was invested in Vietnam, an increase of 85.3% compared to 2010 and the highest amount of realized money in 2010 - 2019.

The scale of FDI in Vietnam from 2010 to 2019 is divided into two phases as follows:

- Period 2010 - 2014: the number of projects increased steadily. Specifically, the number of tasks only decreased by 4% in 2011, then rose steadily until 2014 with a rate of 8% to 20%. However, the capital scale tends to fluctuate strongly and is unstable. This is the period after the global economic crisis in 2008, difficult economic growth, fluctuating capital flows, and rising unemployment...

During this period, the world economy, in general, and developing countries, in particular, faced many difficulties. After growing at 5.1% in 2010, the world economy fell sharply to 3.9% the following year and 3.6% in 2014. This growth rate is lower than the average growth rate of 5% before the crisis occurred. In developing countries, economic growth was slow, ranging from 4.7% to 7.3%. This is the main factor significantly affecting FDI capital invested in countries like Vietnam.

Unit: %

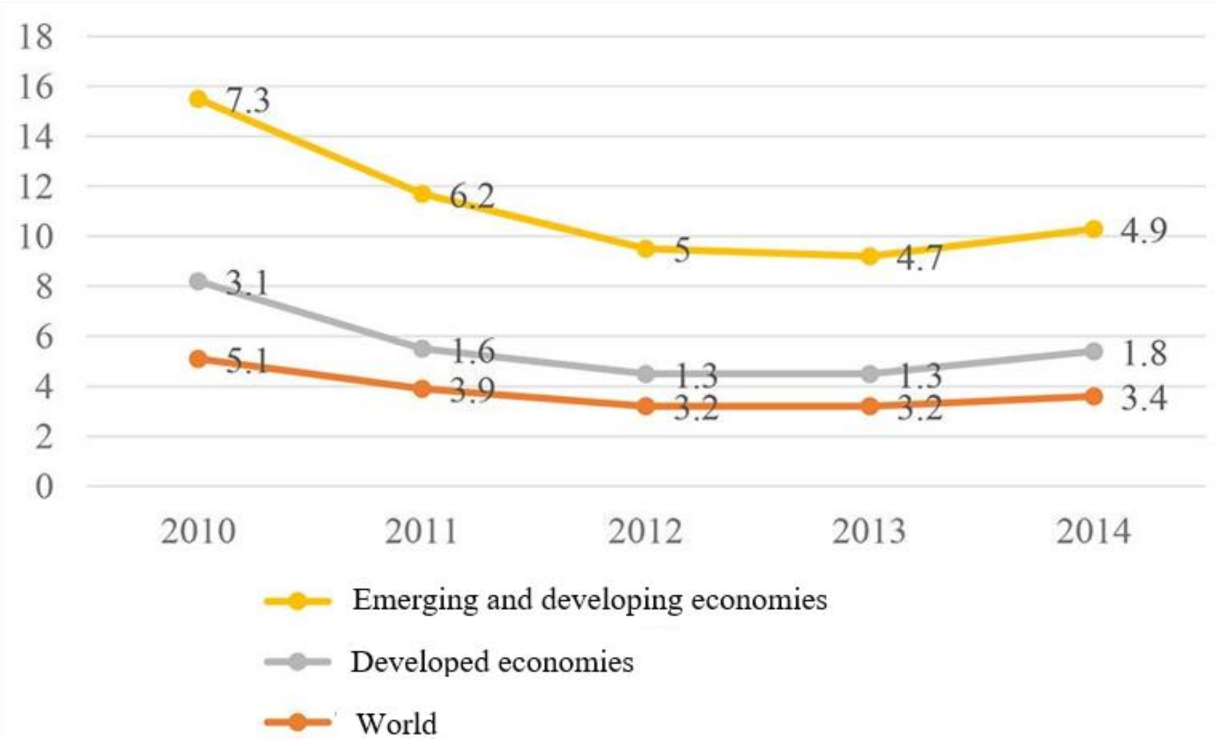


**Figure 2: GDP growth from 2010 to 2014**

Source: World Economic Outlook, IMF

- Period 2016 - 2019: the scale of the project has increased steadily over the years. Specifically, the number of projects increased from 5% to 23%, the amount of registered capital increased from 5% to 38%, and the amount of implemented money increased from 7% to 11%. During this period, the world economy did not significantly improve its growth rate, ranging from 3.1% to 3.7%. For Vietnam, this is a period of deepening integration with the world and improvements in policies related to investment.

### 1.3. Project capital size

Unlike the growth rate of capital scale, the average project capital size tended to decrease gradually from 2010 - 2019. The average registered capital of the project in 2019 reached $9.8 million, down 39. % compared to 2010. The average scale of implemented project capital in 2019 reached USD 5.25 million, down 41% compared to 2010. The average ranking of project capital had the smallest value from 2010 - 2019.

### 1.4. Capital structure

Investment form

In previous years, the investment of FDI projects in the form of 100% foreign capital accounted for a high proportion. Still, in recent years, the trend of investment in share purchase or merger and acquisition (M&A) ) was more popular. In 2015 and 2016, over 86% and 80% of licensed FDI projects were implemented by establishing economic organizations with 100% foreign capital. However, in the following years, M&A activities were paid more attention by foreign investors, specifically: 17.02% in 2017, 27.78% in 2018, and 56.4% in 2019 registered capital.

This is a positive sign for FDI inflows into Vietnam. By expanding joint ventures and shares with foreign investors, Vietnamese enterprises have increased opportunities to acquire high technology, techniques, and management experience through direct investment, production, and business. At a lower cost than other forms of investment. There are two main reasons for this problem, including (i) The size of domestic enterprises to meet the supply for M&A; (ii) Vietnam's open door policy to attract foreign investment in recent years has been effective, especially the policy of opening "room" for foreign investors.

Investment sector

From 2011 - 2019, the processing and manufacturing industry received the largest FDI concentration by foreign investors, accounting for 44% to 69.9% of the total registered investment capital. This field also accounts for a large proportion of the registered money for new investment projects, investment expansion projects, and capital contribution and share purchase. In 2019, FDI invested the most in the processing and manufacturing industry, with a capital of 24.56 billion USD, accounting for 64.6% of the total registered investment capital, bringing the total investment capital to the highest level. Accumulated in this field is 214.2 billion USD, accounting for 59.1% of total investment capital.

Real estate trading, electricity production, and distribution are the fields with the second most significant FDI investment in 2011 - 2019. As for the electricity distribution sector, 2011, 2013, 2015, and 2017. Total investment capital accounted for 9% to 23.3% of total registered investment capital, behind the processing and manufacturing industry. In 2012, 2014, 2018, and 2019, the real estate business ranked second in FDI investment, accounting for 9.4% to 14.2% of the total registered investment capital. Notably, in 2016, the wholesale, retail, and repair of cars, motorcycles, and motorbikes ranked second with 505 newly granted projects; the total recently and additionally registered capital and capital contribution to buy shares was 1,899 billion USD, accounting for 7.79% of total registered investment capital. Professional activities in science, information, and communication... are also areas of interest to investors.

The number of registered projects in the agriculture, forestry, and fishery industries is still tiny and accounts for a deficient proportion of the total registered capital over the years. In 2019, the agricultural sector, Vietnam's strength, had low FDI investment, reaching 0.26% of the total registered capital. This shows that foreign investors have not found attractive in these industries.

The above data and analysis show that FDI is concentrated in the processing and manufacturing industries, which mainly require soft skills. Foreign investors want to take advantage of cheap labor and the advantages of the domestic market in Vietnam. According to the IMF, the criteria for attracting good FDI are: "Foreign direct investment flows into the manufacturing, high-tech, and long-term investment sectors." From that, it can be seen that the quality of FDI capital invested in Vietnam is still limited, not meeting the current requirements of shifting to innovation, science, and creativity in the context of the Industrial Revolution 4.0 is going strong.

## 2. SITUATION OF ATTRACTING FDI IN THE MEKONG DELTA REGION

Regarding FDI investment, as of 2018, the Cuu Long River Delta attracted 1,528 projects with a total capital of 21.437 billion USD, accounting for only 6% of the country, a modest figure. The number of enterprises in the Cuu Long River Delta up to now is 53,161 enterprises. In the first six months of 2018, the attraction of FDI into the Cuu Long River Delta has not had any breakthrough. Long An attracted new capital and increased it to 349 million USD, Can Tho 171 million USD, Hau Giang 50 million USD, and Vinh Long 24 million USD... Up to now, Long An is the locality with valid FDI capital. The highest with over 6.3 billion USD, followed by Kien Giang with over 2.9 billion USD, Hau Giang with 1.4 billion USD, and Can Tho with over 1 billion USD. According to experts, FDI in river delta CAU LONG does not have outstanding industries, mainly outsourcing and processing, lacks a leading sector, and can only solve labor and employment. At the same time, FDI expects to transfer technology and support local enterprises to participate. Global value chain participants are almost nonexistent.

Besides the achievements, the socio-economic situation in the Cuu Long River Delta region still has many limitations and weaknesses. It is facing new risks and challenges, especially in international integration. Economic growth is unstable, potential and advantages have not been adequately invested and exploited, the infrastructure system is still limited and inconsistent, the rate of trained labor is still low, and the team has the technical expertise, high art, especially science and technology, has many shortcomings. The planning of regions, branches, and fields is still slow, and the feasibility is not high, especially since there is no specific orientation and plan to actively integrate into the world and develop in the direction of quality and sustainability.

The reason is that there is no specific policy for the Cuu Long River Delta region, primarily regional linkages. The Cuu Long River Delta has been entangled by cooperation and association investing in the agricultural production and processing industry for many years. There has not been synchronous planning of concentrated raw materials in some localities, and a lack of allocation to provinces focusing on the production and processing industry. Some localities have advantages for trade, and logistics transactions have not been promoted because there is no specific link through policies from the Government.

This leads to the 13 Cuu Long River Delta provinces all looking alike and even competing with each other. These shortcomings must be resolved to attract investment in the Cuu Long River Delta smoothly and quickly. In addition, some localities also believe it is necessary to implement a mechanism to attract economic sectors to invest in agricultural development. Attention is paid to policies for leading enterprises, key industries, and products. Forces to create conditions to teach and promote agricultural development.

## 3. FACTORS AFFECTING FDI ATTRACTION IN VIETNAM

### 3.1. Subjective factors.

Political and social environment.

Regarding the political situation, Vietnam has the advantage that the state management agencies are stable for a long time, and the policies are continuously improved to ensure the interests of foreign investors. In the Law on Foreign Direct Investment in Vietnam, the State of Vietnam has affirmed: “The State of Vietnam is committed to ensuring for foreign investors in Vietnam, ensuring fair and equitable treatment. .."

The policy of attracting foreign investment at the macro level is increasingly attractive to investors. Still, the guiding documents and implementing decrees are issued too slowly and lack details, making different units in places that make it difficult for investors to operate.

The political and social environment for foreign investment in Vietnam is assessed to be stable and healthy. The doi moi process has attracted increasing achievements in economy, politics, society, and foreign affairs, which has proved by reality that Vietnam's ability to overcome challenges and become an essential partner in the development of the economic region not only politically but also economically. But Vietnam is still in the process of renovation and integration into the world and regional economy. Not all countries and foreign investors understand and believe in Vietnam's policy of encouraging direct investment from foreigners in Vietnam.

Although the legal system on foreign investment in Vietnam has just been formed, it is not very complete and synchronous, but it is partly attractive to foreign investors. Foreign investment law and many legal documents on foreign investment have been promulgated. The provisions of Vietnamese law on investment promotion, forms of foreign investment, and investment guarantees are considered open and attractive compared to other countries. However, several other laws and regulations on business related to foreign investment have not yet been promulgated, such as labor law, trade law, real estate business, and mining... several policies have not been determined. Clearly defined, so it has not been institutionalized or has policies as a basis, but legal documents have been promulgated slowly; there are overlaps and contradictions between some documents. Investment consulting and investment promotion services in Vietnam have not met the requirements.

The system of investment consulting firms has not yet been consolidated and strengthened in terms of organization and staff. Most of these companies focus on doing regular investment services such as organizing, guiding the survey team, and making visas for customers... but have not gone into deep consulting services on technical issues, especially project construction techniques and project implementation after the license.

The economic situation of the country

The stability of the macroeconomic environment is one of the essential factors promoting FDI attraction. Vietnam is considered a country with a stable macroeconomic environment, with the inflation rate in recent years always under control, hovering around 3.5%. The exchange rate and foreign exchange market fluctuated within the controlled speed of the State Bank. According to the General Statistics Office, Vietnam's GDP growth in recent years has been very positive, especially in 2018, with a growth rate of 7.08%. Vietnam's economy is considered one of the stable economies, which is in the process of extensive development, which can be seen through the GDP growth rate, which has always been more than 6% from 2015 to now. From the end of 2019 until now, the impact of the Covid-19 pandemic has caused the global economic recession to affect people's lives and incomes. However, Vietnam's economy still achieved positive results, with a relative growth rate of 2.91% in 2020.

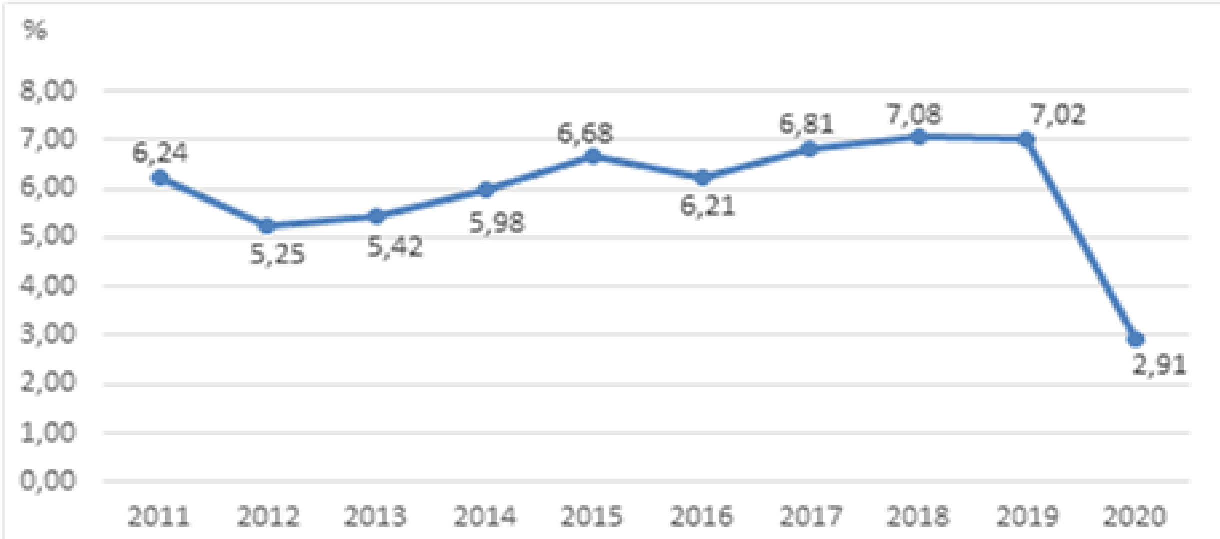


**Figure 3. Vietnam's GDP growth 2011-2020**

Source: GSO (2021)

Controlling inflation is the second criterion showing that Vietnam is attractive for attracting FDI. In 2015, the inflation rate was at a record low in the past ten years, 0.63%. Although the anti-inflation rate has gradually increased in the following years, it is well evaluated by economic experts and is within the country's prediction and control. In 2018, inflation remained stable, thanks to the cautiously maintained monetary policy and the cooling trend of gasoline and food prices in the last months.

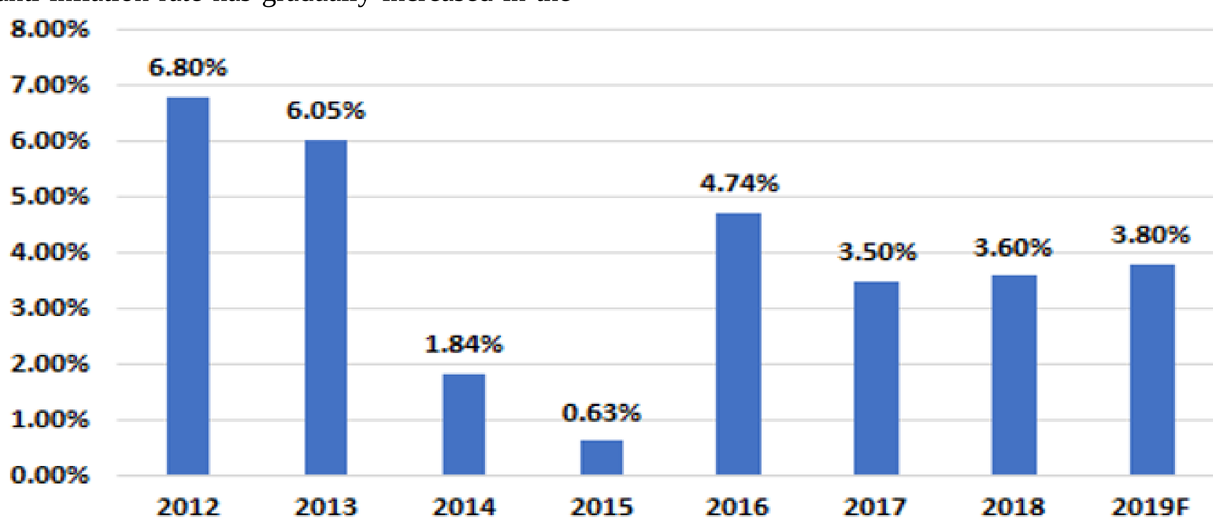


**Figure 4. Vietnam's inflation over the years 2012 – 2019F**

In foreign exchange activities, the USD/VND exchange rate over the years has always been maintained at a stable level thanks to the purposeful exchange rate intervention of the State Bank. Notably, in 2018, the USD/VND exchange rate increased by 2.6% compared to the beginning of the year due to the increasing pressure of the USD in the world currency market. Still, in general, it remained stable in the first month of the year thanks to the abundant supply of USD—making room to support the relatively high State Bank's exchange rate.

Disbursed FDI in 2018 is estimated at 19.1 billion USD, up 9.1% compared to 2017. It is predicted that in 2019, Vietnam's macro economy will likely continue to remain stable and grow well despite difficulties. Some challenges from the world macro environment thanks to solid motivation from the private and the FDI sectors.

Geographical location, technical infrastructure.

Vietnam is considered a favorable geographical position, trading with strong developing countries in Southeast Asia. The country with the second economy in the world, China but also a key location in the shipping lanes at sea. Minerals are diverse and rich in natural resources with ample reserves and delta areas. This is a positive factor for FDI enterprises to invest in Vietnam.

Infrastructure is one of the factors that foreign businesses take into account before deciding to invest in a country. To maximize profits, FDI enterprises always try to take advantage of the host country's resources, resources, and infrastructure to minimize transportation and production costs. It can be said that the developed infrastructure is a plus point in the eyes of foreign investors. However, Vietnam is still not a strong country in infrastructure. The heterogeneity, connectivity between regions, and poor quality of infrastructure are the minus points in attracting FDI. Transport routes such as waterways, roads, or airways are increasingly valued and invested more strongly, but there is still a lack of cohesion between these modes of transport. Especially the Vietnam railway, 100 years ago, Vietnam was the leader in the countries with a modern railway system, but now it has become obsolete. While the enterprises commented that: "If we transport by rail, we will no longer worry about late delivery, the quality of the goods is also more secure" and "ready to use if the operation is done. developed and favorable railway activities”.

However, to remove these barriers, provinces have been actively deploying to attract all resources, especially non-budget resources, to invest sufficiently in infrastructure and arterial roads, routes to border gates, borders, economic zones, and industrial parks. Quang Ninh is currently the pioneer province in applying the provincial budget to renovate and upgrade National Highway 18A and build highways and is also the first province assigned by the Central Government as an investor to build highways. The area has completed renovating and upgrading roads such as National Highway 18A, section Uong Bi - Ha Long, National Highway 18C, team Tien Yen - Hoanh Mo, provincial road 340 to Bac Phong Sinh border gate. Speeding up the implementation of key projects: the main highway connecting the functional areas of the Van Don economic zone, the Ha Long - Hai Phong highway...; focus resources and call for BOT investment to implement large projects such as Quang Ninh airport, Ha Long - Van Don highway... Quang Ninh has also become the country's major thermal power production center. Water is the first province to bring electricity from the national grid to all villages, zones, and villages on the mainland and island communes.

Management level and capacity of employees

Vietnam has always been evaluated as a country with low labor costs, which is a strong point for attracting FDI. FDI enterprises can take advantage of cheap labor to reduce costs in the production process. However, cheap labor is not a factor attracting long-term FDI when most countries have turned to professional and refined labor. Instead of assembly work, Vietnamese workers can create higher value for economic development activities and foreign and domestic enterprises. This is considered a formidable challenge for FDI attraction, especially in the time of industry 4.0, machines, robots, and artificial intelligence (AI) are gradually replacing unskilled manual labor. Without investing in knowledge and technical skills for employees, in the future, labor will no longer be one of the factors that help attract FDI in Vietnam.

### 3.2. Objective factors

First, FDI inflows in the world are increasing day by day and are mainly dominated by industrialized countries:

Investment flows are concentrated in a few countries. The ten countries attracting the most significant FDI alone accounted for two-thirds of FDI. While the 100 countries receiving investment at least accounted for only 1% of FDI in the world. Mutual investment flows between developed countries are the driving trend of international investment and are crucial in promoting globalization. As of 1998, FDI capital from 39,000 parent companies investing through 270,000 overseas branches has reached $2.7 trillion, contributing to 6% of the world's GDP.

Second, overseas investment in consolidation or acquisition of overseas company branches (Cross border M&A) has exploded in recent years, becoming the primary development cooperation strategy of Transnational corporations company (TNCs). The total value of M&A in Vietnam in 2018 reached 7.64 billion USD, equaling 74.9% compared to 2017. However, excluding the contribution of Sabeco's record deal, the sudden factor for M&A activities in Vietnam in 2017, the value of M&A in 2018 in Vietnam increased by 41.4%.

Third, there is a profound change in the investment sector in the world. The main goal of investors is profit. Therefore, the traditional motive of FDI in the early 1960s was to pursue cheap labor for profit. The conventional manufacturing industries attracted a lot of work and the mining and processing of agricultural products of the manufacturing industry. However, for developing countries, input in physical production is still the primary sector, accounting for 70% of total FDI, although its share tends to decrease.

Fourth, the US, UK, Germany, France, and Japan dominate the world's main movement of FDI. During the first half of the 1980s, the United States and the United Kingdom were the world's two leading countries in FDI exports. From 1986 to the early 1990s, Japan was the country's leading capital exports, with a record level of 45 billion USD in 1991 alone. Still, the size of FDI exports has gradually decreased in recent years, only at USD 45 billion. Half of 1991. From 1992 onwards, the US increased rapidly in exporting FDI abroad and became the world leader in FDI export and import. Japan, in recent years, ranked fourth in FDI exporting countries, with an average size of about 25 billion USD/year. Japanese investment is mainly directed to the US, East, and Southeast Asia. In particular, Japan's overseas "Second Generation" branches have appeared to strengthen its international competitive advantage. Currently, 47% of Japanese branches in Hong Kong and 43% of Japanese units in Singapore have established branches abroad.

Fifth, transnational corporations (TNCs) play a vital role in foreign direct investment and accelerate investment abroad.

TNCs dominate and control most of the world's production and business. When studying the 100 largest TNCs in the world, all of which are from industrialized countries, it can be seen that these TNCs account for a third of the world's total FDI, and their total overseas assets amount to more than a third. Up to 1400 billion USD, employing 72 million workers, of which 12 million are overseas workers, accounting for 16%. The US has up to 32 TNCs operating in essential fields such as petroleum, chemicals, iron and steel, electronics, electrical equipment, automobiles, aircraft, pharmaceuticals, and food services...

Sixth, FDI inflows into developing countries are increasing enormously, especially developing countries in Asia.

FDI inflows into developing countries have increased in size and speed, leading to a rapid increase in the proportion of FDI attraction in these countries. From 1990 onwards, developing countries attracted up to a third of the world's total FDI; in 1994 alone accounted for 37%. However, FDI capital is unevenly distributed among developing countries, mainly concentrated in a few countries and regions. Only ten countries and economies in developing economies have attracted from 60 to 80% of total FDI inflows to developing countries continuously since the 1980s. That proves that FDI capital mainly focuses on dynamic economies with high and stable growth rates, favorable and attractive investment environments, and high profits.

## 4. EXISTING SHORTCOMINGS IN ATTRACTING FDI IN VIETNAM

The infrastructure in Vietnam is still weak, so the absorption and improvement of technology levels through FDI enterprises are still limited. The technologies transferred under FDI projects are usually those introduced according to the interests of investors, not according to the demand for technological innovation actively introduced by the Vietnamese side.

The State's lack of strict management of FDI projects leads to environmental pollution by discharging untreated waste directly into the environment. This has directly affected the lives of people around the area with FDI projects. In addition, investors also take advantage of Vietnam's limitations on technical regulations to smuggle outdated, resource-intensive, energy-intensive technologies and maximize profits.

Besides the shortcomings, there are other limitations, such as transfer pricing behavior in some FDI enterprises or the low level of domestic and regional linkage. From there, we offer solutions to promote FDI attraction and effectively use FDI capital.

## 5. SOLUTIONS TO PROMOTE FDI ATTRACTION IN VIETNAM

To promote favorable factors, overcome the shortcomings and difficulties, and enhance the attraction of FDI in the context of integration. Vietnam needs to actively attract FDI to focus on quality and strengthen the role of FDI Enterprises in the global value chain, specifically:

First, promoting stable and sustainable economic growth creates a favorable business environment. Steady economic growth will create conditions for businesses to develop, creating a premise to attract more FDI in the future.

Second, maintain a stable political environment; Studying and perfect mechanisms and policies to attract strategic investors and multinational corporations to invest in administrative-economic units, developing industrial parks, export processing zones, and technology parks high… Foreign investment promotion agencies need to build capacity to forecast and meet the sourcing needs of foreign investors. Building a national database of support providers and business connections; helping businesses overcome information obstacles in the era of the Industrial Revolution 4.0.

Third, branches and levels need to strengthen the inspection and supervision of the licensing process and management of foreign investment projects. At the same time, consider the investment ratio/land area, including industrial zone land, according to the project schedule.

Fourth, improve infrastructure, and strengthen planning towards modernity. The planning and improvement of infrastructure need to be carried out synchronously among localities and key economic regions throughout the country.

Fifth, invest in education development, improve the qualifications of employees, build a team of high-quality human resources, increase the knowledge content in products, and improve labor productivity.

Sixth, the Industrial Revolution 4.0 has been and will affect all sectors of the economy. Therefore, priority should be given to attracting FDI in several high-tech industries and products, creating added value. Such as information technology, electronics, the internet of things, artificial intelligence, virtual reality, cloud computing, extensive data analysis, mechanical engineering, automation, biotechnology, materials, new materials, education and training of high-quality human resources, research and development, and public health care.

Seventh, actively select green FDI projects, solve problems related to environmental pollution and choose projects with significant spillover. Vietnam also needs to prioritize attracting FDI into high and advanced technology, environmentally friendly technologies, clean energy, and renewable energy; develop modern technical infrastructure, especially new industries, based on industry 4.0.

Eighth, FDI attraction must be suitable with the advantages, conditions, development level, and planning of each locality in the regional linkage, ensuring the overall efficiency of the economy - society - environment. For developed cities such as Hanoi and Ho Chi Minh City. Ho Chi Minh City, Da Nang, and Hai Phong... should focus on developing high-quality industries and services, creating great added value; resolutely not choose FDI projects that use much labor, cause environmental pollution, and emit greenhouse gases. Localities and underdeveloped economic regions can select projects that use much work (such as textiles, dyeing, sewing, and thick leather) but must commit to investing in ensuring environmental protection...

## 5. CONCLUSION

FDI inflows into each country and Vietnam are affected by many factors ranging from investors' motivations to cost advantages, the quality of production factors, and the country's institutions. Some of the factors that create attractiveness are resources, infrastructure, technology, markets, and institutions. At the macro level, we must mention the macroeconomic and political environments. The study also shows that the major disadvantages are institutions and enforcement mechanisms, penalties related to cost, and quality of production factors. From there, we can suggest remedial methods to improve and increase the attraction of FDI and Vietnam.

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