

FOREIGN DIRECT INVESTMENT IN VIETNAM: CURRENT SITUATION, PROSPECTS AND CHALLENGES

Dr. Nguyen Thi Thanh Mai¹

University of Economics and Business - Vietnam National University, Hanoi

1. INTRODUCTION

The process of international economic integration has opened up many opportunities for Vietnam to become an attractive investment destination, and the prospect to attract more is positive, as the amount into Vietnam accounts for just over 1% of global FDI. However, Vietnam's FDI inflows will be significantly influenced by the global economic fluctuations as the country's high level of economic integration. Major trends of the world economy today such as the COVID-19 pandemic, digital transformation, the geopolitical competition among major countries, the Russia and Ukraine war, the trend of greening the economy to respond to climate change, the US trade war - China and the new protectionist trend etc. will affect both the quantity and quality of Vietnam's FDI inflows. This article is to analyze the current FDI status in Vietnam, and evaluate the challenges and prospects of attracting FDI in the new context of the global economy.

2. OVERVIEW OF FOREIGN DIRECT INVESTMENT INTO VIETNAM

2.1. Investment capital size

Over the past 30 years since the beginning of economic renovation (*Doi Moi*), Vietnam has always been considered as an attractive investment destination. The total number and value of registered FDI projects tend to increase over time (**Figure 1**). Vietnam has become a production base for some of the world's high-tech products, such as mobile phones, tablets, and electronic goods, etc.

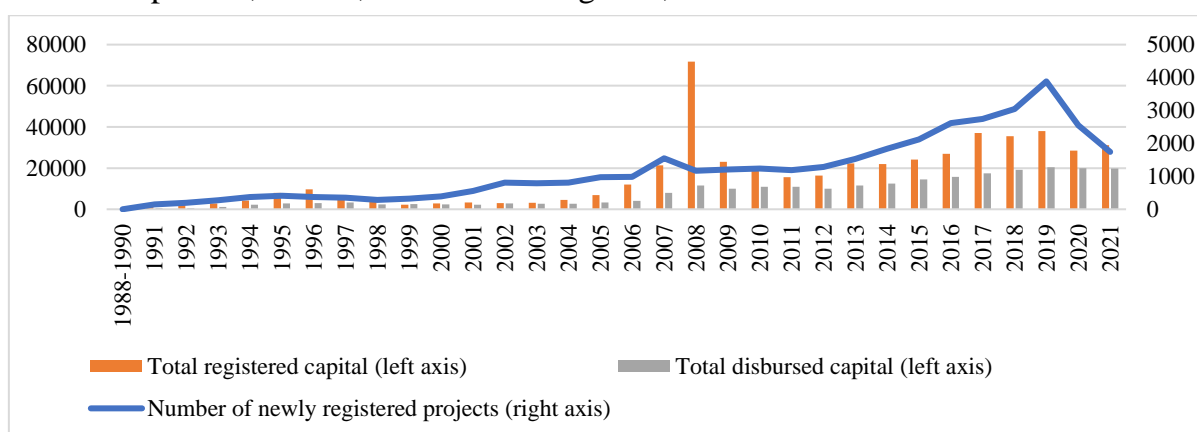


Figure 1. Total registered capital (million USD), implemented capital (million USD) and number of newly registered projects in Vietnam, from 1988-2021

Source: Compiled from Vietnam General Statistics Office (2022)

¹ maintt@vnu.edu.vn / thanhmai177vnu@gmail.com

Since 2020, the registered FDI amount has been reduced significantly due to the COVID-19 pandemic. The total registered capital reached USD 28.53 billion and the realized capital was estimated at USD 19.98 billion, equaling to only 75% and 98% of 2019, respectively. In 2021, the total newly registered capital increased by 9.2%, the implemented capital was, however, down slightly by 1.2% over the same period of 2020 (Vietnam Ministry of Planning and Investment, 2021) (Table 1).

Table 1. FDI into Vietnam in 2020, 2021 compared to 2019

No.	Indicator	2019	2020	Compared to 2019 (%)	2021	Compared to 2020 (%)
1	Disbursed capital ^a	20,380	19,980	98.0	19,740	98.8
2	Registered capital ^a	38,019	28,530	75.0	31,153	109.2
3	Number of newly registered projects ^b	3,883	2,523	65.0	1,738	68.9

Unit: (a) million USD; (b) project

Source: Author's compilation from the Ministry of Planning and Investment (2020, 2021)

In the first 8 months of 2022, the total registered capital reached nearly USD 16.8 billion, equaling 87.7% compared to the same period in 2021 (Figure 2). However, the increase in the realized capital amount can be seen as a positive aspect in the Vietnam's FDI landscape.

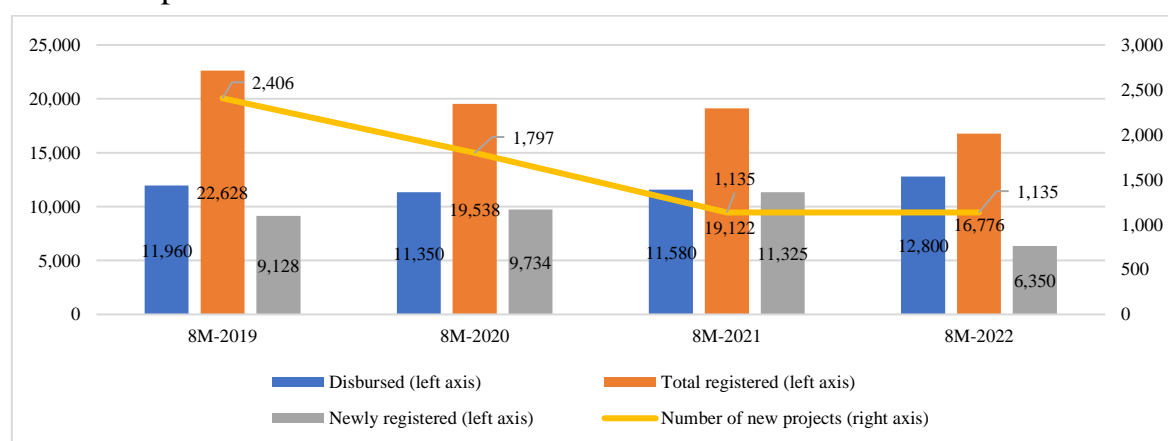


Figure 2. Total registered capital (million USD), implemented capital (million USD) and number of newly registered projects in Vietnam, first 8 years throughout 2020-2022

Source: Author's compilation from the Ministry of Planning and Investment (2020, 2021, 2022)

Comparing the results of Vietnam's FDI attraction with other countries in the region, it can be seen that Vietnam accounted for about 7-10% of the total FDI into ASEAN, ranking third in the region, after Singapore and Indonesia (Figure 3). Figure

4 shows that Vietnam's FDI performance index² has always been high and stable compared to other ASEAN countries. This shows that Vietnam attracts FDI more effectively than a number of countries in the region. In 2021, Vietnam successfully attracted nearly 1.58% of global FDI, approximately 8.9% of ASEAN's FDI, and about 22.6% of FDI in the Asian new tiger countries (including Thailand, Indonesia, Malaysia, the Philippines and Vietnam) (UNCTAD, 2022).

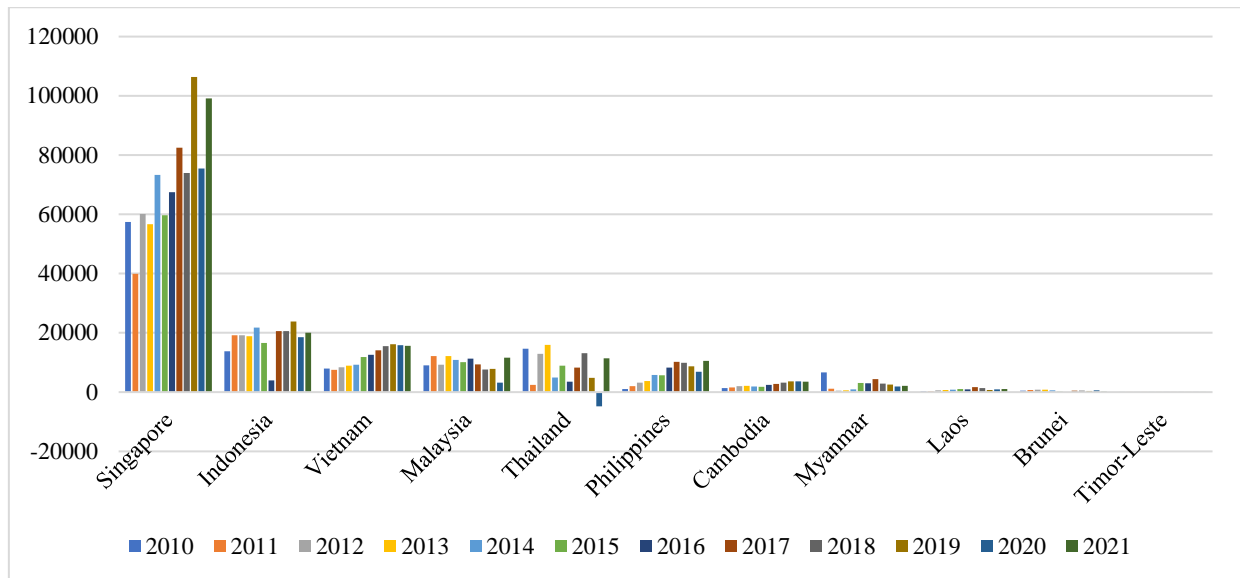


Figure 3. FDI flows to ASEAN countries, 2010 - 2021 (million USD)

Source: UNCTAD (2022)

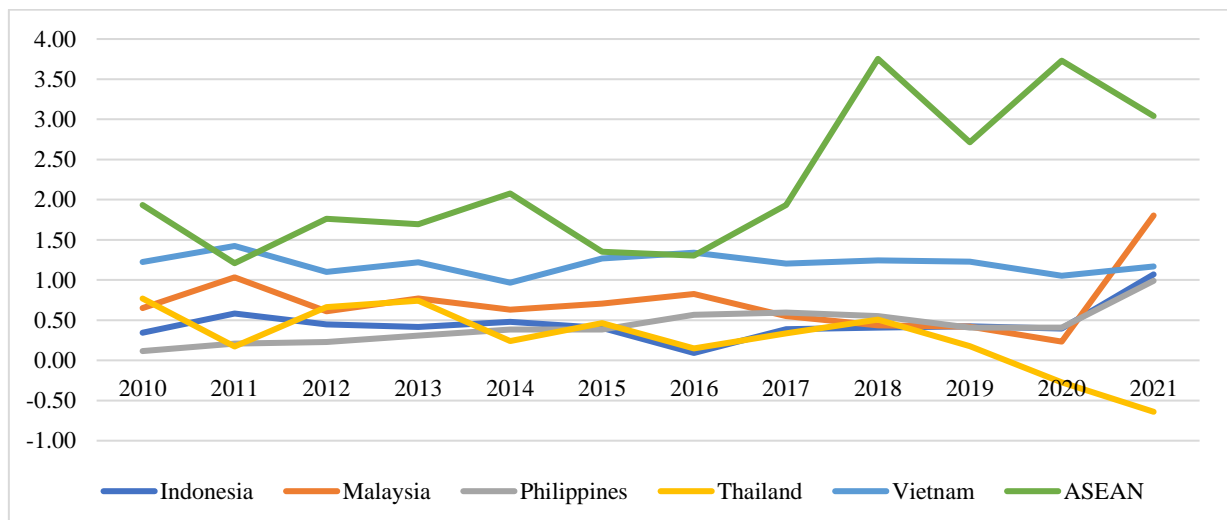


Figure 4. FDI Performance Index of ASEAN countries, 2010-2020

Source: Author's calculations based on UNCTAD data (2022); World Bank (2022)

1.2. FDI by industry and sector

By August 2022, FDI enterprises have invested in 19/21 sectors in the national economic sub-sector system (Table 2) with the largest proportion on the manufacturing industry (59.35%), followed by the real estate business (15.22%); production and

² FDI Performance Index was developed by UNCTAD (2001) to rank investment recipient countries according to the value of FDI they attract in relation to the size of the economy (GDP).

distribution of electricity, gas, water and air conditioning (8.46%), the accommodation and food services (2.95%), etc.

Table 2. FDI in Vietnam by industry, accumulated until the end of August 2022

No	Sector	Number of projects	Total registered capital (million USD)	Percentage
1	Manufacturing and processing industry	15,776	255,228.16	59.35%
2	Real estate business	1,047	65,457.89	15.22%
3	Producing and distributing electricity, gas, water, air conditioning	183	36,380.57	8.46%
4	Accommodation and food services	912	12,672.57	2.95%
5	Construction	1,775	10,881.36	2.53%
6	Wholesale and retail; cars and motorbikes repairing	5,900	9,834.74	2.29%
7	Warehousing and transportation	961	6,147.96	1.43%
8	Extractive	109	4,900.37	1.14%
9	Information and communication	2,619	4,836.32	1.12%
10	Education and training	612	4,576.14	1.06%
11	Professional activities, science and technology	3,981	4,455.72	1.04%
12	Agriculture, forestry and fisheries	524	3,848.11	0.89%
13	Art and entertainment	138	3,416.30	0.79%
14	Water supply and waste treatment	83	2,990.17	0.70%
15	Health and social assistance activities	153	1,742.80	0.41%
16	Administrative activities and support services	530	1,006.33	0.23%
17	Financial, banking and insurance activities	85	913.84	0.21%
18	Other service activities	144	723.92	0.17%
19	Activities of doing household chores	7	11.07	0.00%
Total		35,539	430,024.35	100.00%

Source: Vietnam Ministry of Planning and Investment (2022)

1.3. FDI by investment partner

By August 2022, South Korea is the largest investor in Vietnam with 9,339 projects (accounting for 26.54%), registered capital reached more than USD 79,291 billion (accounting for 18.53%). Next are Singapore and Japan. There are other Asian countries among the top 10 largest investors in Vietnam, such as China and Malaysia. Besides, businesses from Western countries are also gradually moving their investments

to Vietnam. However, the investment capital scale is still limited, much lower compared to that of other Asian countries.

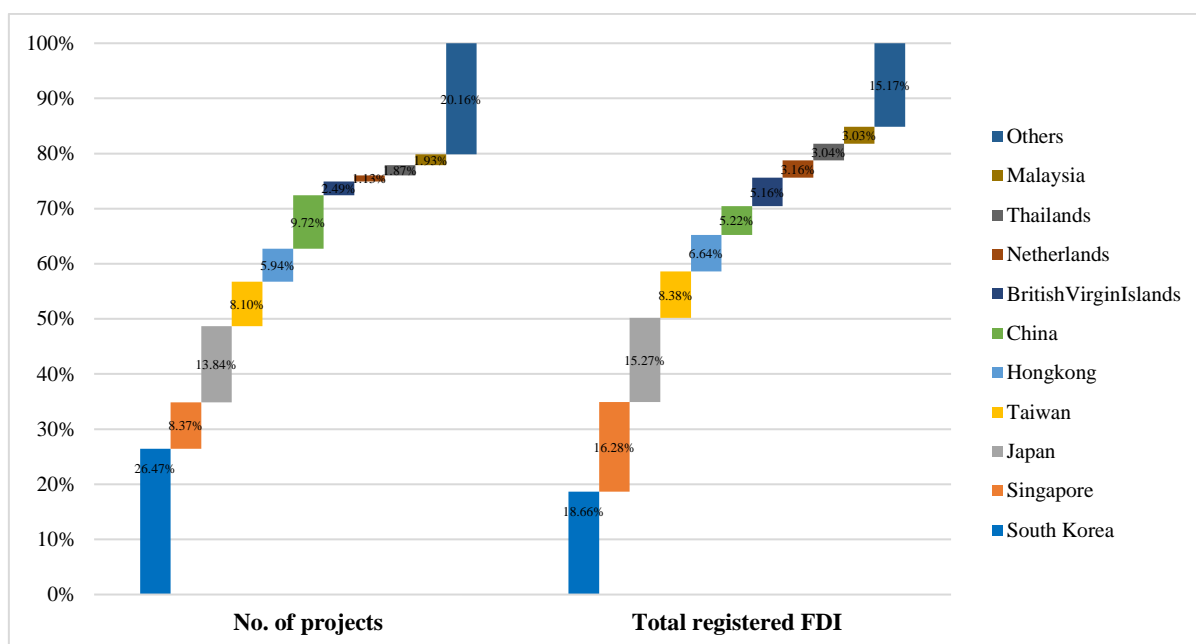
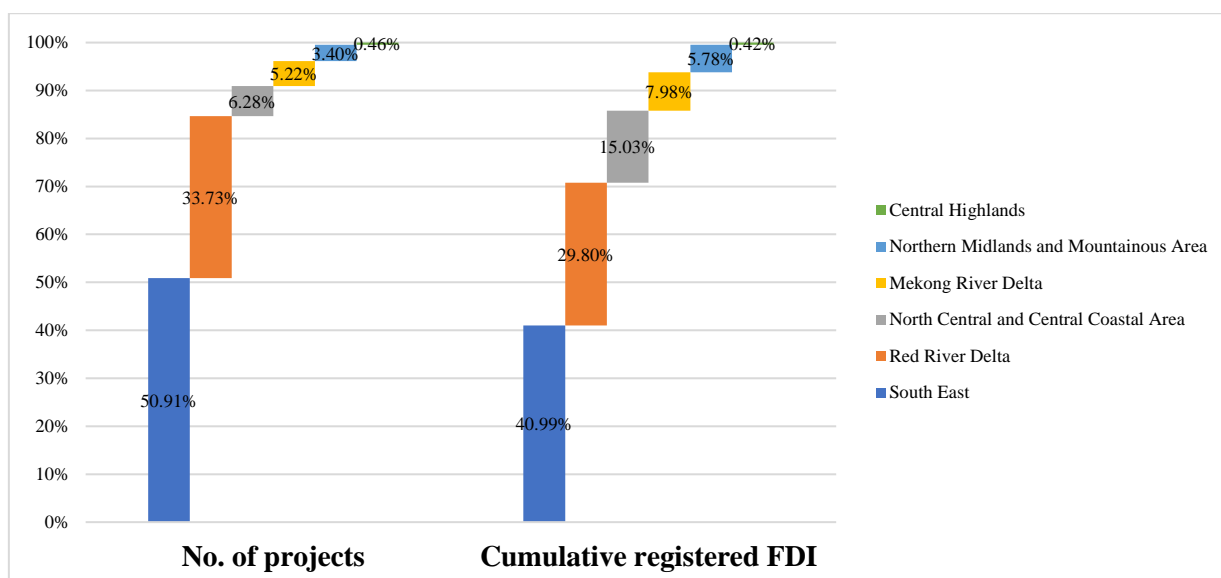


Figure 5. Total FDI registered to Vietnam by investment partner, accumulated until August 2022

Source: Vietnam Ministry of Planning and Investment (2022)

1.4. FDI by location

The majority of registered FDI projects are concentrated in the Southeast region, with nearly 51% of project number and 41.1% of total capital (Figure 6). Đông Nam Bộ is a "Southeast region" region in Vietnam and this region is the most economically developed region in Vietnam. Also this region is also the most highly urbanized in the country with more than 50% people living in urban areas. Major port cities are also located in the South-East region of Vietnam. Next is the Red River Delta, with more than a third of the total project number and about 29.8% of the accumulated capital. The North Central and Central Coastal region accounts for 6.3% of the project number and 15% of the registered capital. The Mekong Delta region has 1,851 projects, with a registered capital of USD 34,082 million, accounting for 5.2% of the project number and 8% of the investment capital. Other regions just accounted for a limited proportion of projects and investment value.



**Figure 6. Registered FDI in Vietnam by economic regions
(Accumulation of valid projects until August 2022)**

Source: Vietnam Ministry of Planning and Investment (2022)

In short, FDI has always been considered an important driving force for Vietnam's economic development and international economic integration, helping Vietnam participate in regional production networks, diversifying the production exports, and creating a large number of jobs. In addition, FDI also creates other spillover effects through introducing new technologies, business know-how, and international production standards, developing new skills for the workforce, and creating jobs in supporting industries and services. However, the FDI quality is still low when foreign enterprises mainly invest in the fields seeking cheap labor and natural resources. This poses many challenges for the Government of Vietnam in formulating policies to increase the capital size and the projects quality in the current volatile context.

2. PROSPECTS AND CHALLENGES FOR FDI IN VIETNAM

In recent years, the world economy has been facing many serious challenges which will challenge the prospect of FDI in Vietnam in terms of scale and quality.

In terms of scale, fluctuations in the global economy can increase the FDI quantity in Vietnam. Firstly, the risky context has made MNEs consider moving some or all of their production out of China through the "China +1" strategy in which Vietnam is a potential option. According to a survey by DHL Resilience360 (2019), 11% of businesses were considering moving to Vietnam (Figure 7). Second, the scale of global FDI flows may increase since the digital transformation will help connect the world and reduce the production costs of enterprises. At the same time, risks from the COVID-19 pandemic, competition between major countries, and pressure from global climate change help create new business opportunities.

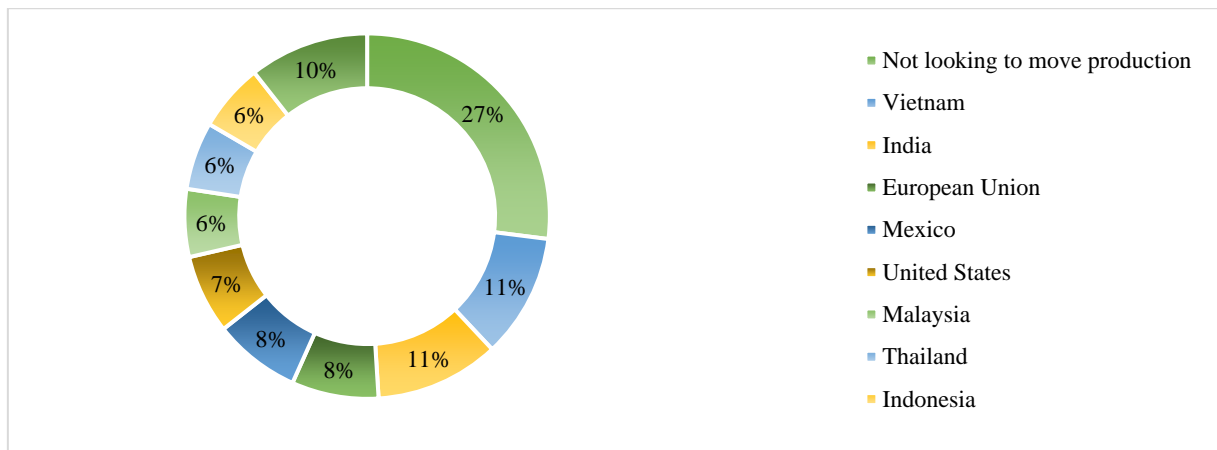


Figure 1. Alternate market(s) the companies looking to shift production or relocate its manufacturing operations out of China

Source: DHL Resilience360 (2019)

However, FDI inflows into Vietnam could be reduced due to the new alarming context. The risky situation caused by COVID-19 pandemic and widespread protectionism tendency may weaken the investors' business psychology that make them be more cautious when investing abroad. Moreover, investment flows into Vietnam could be narrowed down because of the digital transformation process which leads to the change in MNEs' investment objectives. In the context of digitalization, MNEs' goals are to seek knowledge and technology which are not of Vietnam's advantage. The country has many limitations regarding skilled labour, technological and financial capacity, and the infrastructure quality for high-tech industries (Figure 8). Additionally, the competition among countries in the region may be increased as the global FDI flows are on a definite downward trend and more selective regarding investment methods and efficiency. Furthermore, FDI inflows into Vietnam may also decrease due to the adverse effects of global climate change, especially FDI into industries that Vietnam has potential, such as agriculture, fisheries, and forestry.

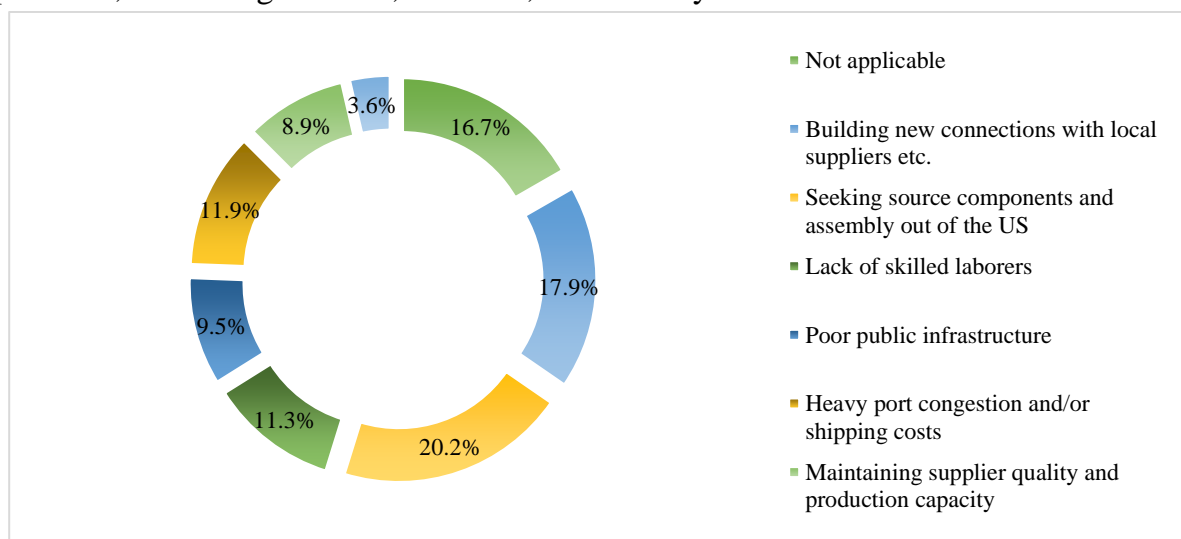


Figure 2. Main challenges facing the companies which have already shifted production, relocated manufacturing operations or are even considering such options

In terms of quality, the new context will create many opportunities for Vietnam to attract FDI in high-value and high-tech industries following the digital transformation process and pressures from global climate change when firms find new business opportunities in areas such as information technology, biotechnology, nanotechnology as well as environmentally friendly industries. Moreover, when many businesses intend to leave China, Vietnam has more opportunities to choose quality capital flows in line with the country's development orientation.

However, due to limitations in resource factors, Vietnam is at risk of becoming a destination for low-quality FDI projects. The country may be deeply immersed in the processing and assembly trap and has a disadvantageous position in the global supply chain due to the low level of technology and low labour quality. At the same time, because of limited environmental regulations and the weak capacity to manage and monitor the environmental impacts, Vietnam may become a destination for the FDI flows, which could pollute the environment.

4. CONCLUSION

In conclusion, over the years, Vietnam has always been considered an attractive destination for foreign investors. In the future, the prospect of attracting FDI is positive and Vietnam the potential of becoming the world's second factory. However, the context of global uncertainty may pose many challenges for Vietnam in attracting new investors. This requires the Government of Vietnam to formulate appropriate policies to further increase the capital scale, and at the same time, attract FDI in high-value, high-tech and environmentally friendly industries in accordance with the Resolution 50-NQ/TW dated August 20, 2019 of the Vietnam Communist Party.

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