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### Improving the Environment Start to Attract FDI: Case Study of Bac Ninh Industrial Area

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#### Abstract

Foreign direct investment (FDI) is a particularly important capital flow for growth and international economic integration, contributing to additional capital, technology, management capacity, business ability, and organizational ability. And participate in the global supply chain. The negative impact of the COVID-19 pandemic and the rapid and complex changes in the world have forced countries to readjust their FDI policies and strengthen the investment environment to attract FDI. The situation of attracting foreign direct investment (FDI) across the country and Bac Ninh province is slowing down. This change shows that

competition is becoming more and more fierce and the pressure to attract FDI is increasing at an increasing level. The causes leading to the decline in FDI flows have many factors, however, they are mainly related to the business investment environment, absorption capacity and preparation to receive large capital flows. This article studies the current status of FDI attraction as well as the investment environment in Bac Ninh industrial area. From there, the article proposes solutions to enhance the investment environment to attract FDI in Bac Ninh industrial area.

**Keywords:** Foreign Direct Investment, Investment Environment, Bac Ninh Industrial Area

#### 1. Introduction

The growth of the FDI sector has had a knock-on effect on other sections of the economy, enhancing production efficiency in the domestic company sector and the country's competitiveness. FDI capital flow is not only an important resource for socioeconomic development, but it also actively contributes to the perfection of economic institutions and the improvement of the business investment environment in accordance with market principles and international practices, significantly contributing to the country's position and strength.

Simultaneously, enhancing the investment climate will be a crucial basis for firms to determine whether to invest or grow. The investment environment influences investment decisions as well as business production and operations. A favorable investment climate contributes to the locality's image and reputation among investors. With the economy rapidly embracing new generation free trade agreements, competition for recruiting FDI is becoming increasingly severe, making enhancing the investment climate even more crucial.

Bac Ninh is well-known for having a welcoming and open business climate. Recently, the province has capitalized on local advantages in infrastructure and human resources, while also aggressively carrying out administrative reform efforts and improving the business climate in order to attract international enterprises and organizations. The time from the end of 2020 to the end of 2022 is exceedingly challenging since the entire country is focused on combating the COVID-19 outbreak. By 2023, it will still be impacted by the economic downturn, the military war between Russia and Ukraine... All of this creates enormous problems for the process of deploying and executing the resolution of the 2nd Provincial Party Congress. Bac Ninh increasingly overcomes challenges thanks to the will, energy, and resolve of the Party Committee, administration, people, and business community in boosting potentials, strengths, and successfully utilizing resources. Tough, difficult. The focus on dramatically and synchronously adopting measures to improve the investment environment and incentive policies has been one of the highlights after nearly three years of executing the Resolution of the 20th Provincial Party Congress. Promote investment. As a result, its efficacy is enhanced, and favorable circumstances for mobilizing investment resources for growth are created, particularly by attracting direct investment capital from other nations, which now surpasses the objective for the

entire time.

## 2. Theoretical Background

### *Investment environment*

The phrase "investment environment" has been referenced and investigated in various nations throughout the world in the fields of economics and business administration. Depending on the goal, scope, and object of research, the investment environment is examined and analyzed from a variety of perspectives.

The investment environment, according to the World Bank (2005) <sup>[10]</sup>, represents the distinctive elements of the area, offering possibilities and motivation for firms to invest successfully, generate employment, and flourish. The investment environment, according to this idea, contains features of a locale that generate possibilities and circumstances for enterprises to invest effectively.

The investment environment, according to Phung Xuan Nha (2013), is a collection of elements (legal, economic, socio-political conditions, infrastructural considerations, market capacity, and other aspects). Advantages of a nation have a direct influence on investors' investment activity in that country.

Thus, the investment environment is a combination of external and internal objective and subjective factors and conditions of businesses or investors that interact with each other, directly or indirectly affecting each other's investment activities. The investment environment is a set of elements that influence corporate investment activity. Infrastructure and support services, Natural condition, the macroeconomic environment, the social environment, regulations, and institutions all contribute to the investment climate.

### *Infrastructure and support services*

One of the most essential things that may assist investors lower indirect costs in manufacturing, business, and perhaps investment operations is good infrastructure. As a result, balanced and comprehensive infrastructure development in a country or location is advocated as a top necessity in attracting investment capital. An investment area has a full infrastructure system that includes both technical and social infrastructure development.

### *Natural condition*

Natural conditions are one of the main factors in agricultural production including geographical location, land, natural resources, and climate.

Natural resources and land are the main factors constituting raw materials to serve the production activities of businesses. Therefore, if a country with rich resources will help businesses cut raw material costs and improve business efficiency, it will have a good impact in attracting FDI inflows (Nauro F. Campos and Yuko Kinoshita, 2003).

### *Macroeconomic environment*

The macroeconomic environment is reflected in the macroeconomic stability, growth potential, and profitability of the economy. This is a country-specific factor. Foreign investors are aware of the favorable macroeconomic environment factors that will affect their behavior and decision to choose an investment location.

### *The social environment*

The advantages of social environmental factors are reflected

in the level of education, attitudes and beliefs and social moral values, religion, customs, language and communication; number of workers, skill level of workers; worker discipline.

### *Institutions and policies*

Regulations of the central government, ministries, and branches convey institutional and policy issues. In recent years, as governments have become more conscious of the critical significance of FDI inflows in economic growth, many have changed their policy regarding this significant capital flow, with the major tendency being to provide favorable conditions. Advantages of allowing this type of capital to enter the country. Most governments have implemented preferential policies in order to attract more FDI, in addition to changing the legal framework system, avoiding corruption, and providing a transparent investment environment...

### *Foreign direct investment (FDI)*

According to the International Monetary Fund's (IMF) annual balance of payments report, "FDI is a type of investment with long-term benefits of an enterprise in another country (country)." receiving investment), rather than in the place where the firm operates (investing country), in order to successfully manage the enterprise. This point of view stresses the long-term character of investment operations, and the investment goal is to develop management and executive power.

In the year 2020, Vietnam's Investment Law defines "overseas investment activities as the transfer of investment capital from Vietnam to foreign countries by investors, using profits earned from this investment capital to implement investment and business activities abroad". As a result, while this Law does not directly reference foreign direct investment, it does create the notion of investing activity overseas. As a result, foreign investment encompasses both direct and indirect investment.

Foreign direct investment (FDI) is a particularly essential capital flow for development and worldwide economic integration, providing to extra money, technology, management capacity, business ability, and organizational ability.

### *Improve the investment environment*

Improving the investment environment is the impact and activities of people on surrounding factors to make the investment environment increasingly better and more attractive to businesses and investors. Human impacts and activities include impacts on infrastructure factors, natural conditions, macroeconomic environment, social environment, policies and institutions.

Improve technical and social infrastructure systems: infrastructure systems include roads, airports, ports, power and water services, telecommunications and entertainment services, schools, hospitals, and so on. It also covers the degree of science and technology, as well as the amount of investment in research and technology, as well as technological infrastructure. The aforementioned favorable variables will have a significant influence on the investment climate, producing good circumstances for investment.

Improving economic policies reflects the state's views and orientation on economic development. Through guidelines and policies, the state operates and manages the economy

and investors. Economic policies represent incentives and incentives for certain regions, industries, and economic sectors, and at the same time the policies are also measures and sanctions to control that sector. A country or region is considered to have open economic policies when those policies bring convenience and attractiveness to domestic and foreign investors. Very important in creating a favorable business investment environment.

### 3. The current state of FDI attractiveness in Bac Ninh industrial area

Bac Ninh has recently been one of the provinces drawing the most FDI money in Vietnam. Bac Ninh province will attract 2.22 billion USD in foreign direct investment (FDI) in 2022, ranking fourth in the country. Bac Ninh received 667 million USD in FDI capital in the first four months of 2023 alone. Thus, until April 2023, the entire Bac Ninh province has drawn 1,878 FDI projects totaling over 24 billion USD, ranking seventh in the country in terms of attracted investment capital scale. More particular, big firms like as Samsung, Canon, Amkor Company, VSIP, Geotek... have invested in Bac Ninh FDI projects.

Bac Ninh now has 16 industrial areas with a total area of 6,397.68 hectares that have been approved by the Prime Minister to amend and supplement planning; 24 investment projects to establish and develop industrial park infrastructure have been and are being executed. In such case: The projected land area is 6364.93 hectares; the recovered and allotted (leased) land area for project implementation is 4,317.57 hectares; the total area of industrial land in use (for rent) is 2,238.92 hectares. The average occupancy rate of developed industrial areas on projected land area reached 54.23%.

Although the land area used for industrial park development

accounts for a small proportion (accounting for 7.776% of the total natural land area, 14.64% of the agricultural land area of the whole province), there are only 05/15 industrial areas. However, it has created indicators on the number of operating enterprises, production and business value, export and import value, GDP per capita, budget payment value... extremely large, contributing to bringing Bac Ninh province is always in the group of leading provinces and cities in the region and the country in terms of socio-economic development. In 2022, the province's economic growth rate will reach 7.39%; the economic scale reached 248,376 billion VND, ranking 9th in the country; Industrial production value reached 1.5 million billion VND, ranking first in the country; GRDP per capita reached 166.9 million VND, ranking 3rd in the country; Total budget revenue for 3 years (2020, 2021, 2022) reached 94.8 trillion VND, ranking 14th in the country; Export and import turnover ranks second in the country; newly granted and adjusted capital for 242 FDI projects, total capital of 2.1 billion USD, ranking 6th in the country. At the same time, Bac Ninh still has a lot of potential to continue developing industrial areas. Industrial areas' operating efficiency is continuously improving. Industrial area technical infrastructure development has had a knock-on effect, enticing investment in linking infrastructure and utility services for industrial parks while also providing cash for the state budget to reinvest in infrastructure. As a result, the urbanization process is steadily advancing in the direction of turning backward rural areas into developed urban-industrial districts. At the same time, the Industrial area is an industrial production model that promotes green growth and sustainable development, encourages the modernization of infrastructure systems, and contributes to the strengthening of local security and defense.

**Table 1:** The current state of FDI attractiveness in Bac Ninh industrial area

	In the first six months of 2023, the number of projects and registered capital were both high		Number of projects and total registered capital till June 2023	
	The number of projects (project)	Registered capital (million USD)	The number of projects (project)	Registered capital (million USD)
<b>Total</b>	<b>139</b>	<b>570.4</b>	<b>1934</b>	<b>24224.1</b>
<i>Divided by economic sector</i>				
Manufacturing and processing industry	59	477.1	1471	20515.7
Build	5	1.7	5	1.7
Wholesale and retail	58	24	177	143.2
Transportation and storage	3	61.8	23	499.7
Communication and information	4	1.5	15	3.5
Real estate	3	1.2	18	433.7
Technology and science	5	1.8	20	2.5
Administrative operations and administrative support services	1	1	44	15
<i>Divided by several countries and territories</i>				
China	76	42.9	237	358.7
Japan	3	2.3	3	2.3
Taiwan	7	23.5	66	511.6
Korea	20	61.7	1301	17304.1
Singapore	9	95.6	44	790.5
Hongkong	16	298.7	62	595.4
Malaisia	1	0.4	1	0.4
Italia	2	30.4	6	108.1
Samoa	1	7	7	24.5
Seychelles	1	2	1	2
England	1	4	1	0.4
Bristish Virginlslands	1	1	1	1

Source: Department of Statistics of Bac Ninh Province

One reason Bac Ninh is appealing to international investors is its determination to improve the business investment climate and overhaul administrative procedures "without pause." Attracting foreign investment has made a significant contribution. Key contributor to Bac Ninh's socioeconomic development: Only in 2022 has the FDI sector increased development investment capital by 48.48%, providing 34.4% to the budget. In terms of exports, the region The FDI sector accounts for more than 99% of the province's exports and more than 12% of the country's exports, employing more than 40% of the province's labor force and working people. Bac Ninh province likewise believes that FDI has made a substantial contribution to industry restructuring and industrial growth in the region.

To accomplish the aforementioned great achievements, Bac Ninh province has recently prioritized investment assistance and company problem resolution. As a result, the Party Committee and authorities in Bac Ninh province always accompany and stand by businesses; they immediately support and resolve difficulties and problems of businesses within their authority, and they immediately propose to the central government to remove contents beyond their authority.

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Promoting the effectiveness of models: Business support team, "3 best" quick response team, business doctor model... Along with that, promote the application of information technology in receiving and processing, solving difficulties and making recommendations for businesses on platforms: Zalo, provincial electronic information portal website, email... with the message throughout: "Bac Ninh is always ready with businesses": Ready premises, ready human resources, ready for reform, ready to support.

Bac Ninh province also gives great attention to planning work, concluding that planning work is one step ahead, has the character of "paving the way", leading and establishing favorable circumstances for attracting investment, particularly for large projects such as Samsung, Canon, Amkor, Geotek.

Concentrate and deploy resources for infrastructure development investment to support socioeconomic growth and attract investment. Actively assist investors in the infrastructure of industrial zones and clusters to speed project development so that clean premises may be created quickly to attract investors.

Strengthen leaders' accountability in administrative reform, enhance the business climate, encourage innovative ideas, and create movement across the system to effectively apply the pioneering dynamism of provincial leaders in lower grades. The province wants industries to focus on successfully managing difficulties and achieving business satisfaction, particularly for component indexes that have lost points.

On the other hand, Bac Ninh province continues to review the business environment by each field; increase business meetings and dialogues at many levels; develop programs to

support small and medium-sized private enterprises in the area; Promote reform of administrative procedures and application of information technology to reduce time and costs for businesses; publicize and make information transparent on the website, especially posting full information, such as: planning, local development plans, public investment projects, bidding; Shorten and eliminate procedures that hinder project owners' investment in the province, especially in the following industries: Investment, land, capital construction, taxes, and customs.

Encourage officials, civil servants, and public employees to get training and mentoring in order to develop their professional abilities, administrative skills, and professionalism. Encourage and delegate tasks to departments, branches, branches, People's Committees of districts and cities... in order to promote good initiatives and models for implementing tasks such as improving the investment and business environment, increasing competitiveness, and building the image of a friendly, professional, effective, and efficient state agency.

As a result, Bac Ninh's infrastructure quality will rank eighth in the country in 2022, according to this rating, which is based on four assessment factors: industrial parks, roads, energy, telecommunications, and other infrastructure.

#### 4. Conclusion

Bac Ninh is well-known for having a welcoming and open business climate. Recently, the province has capitalized on local advantages in infrastructure and human resources, while also aggressively carrying out administrative reform efforts and improving the business climate in order to attract international enterprises and organizations.

The province focuses on improving administrative procedures, reducing challenges and hurdles for investors, and providing a favorable investment climate in order to attract international capital flows. Bac Ninh dramatically undertakes administrative reform in the direction of "supporting and serving" investors in industrial parks, while preserving the successful functioning of the "one-stop shop" department at the Provincial Public Administration Center.

Bac Ninh has created a variety of support models to promptly handle obstacles and problems, with the slogan "investors' success is also the province's success" and "the province always accompanies businesses." of businesses, such as the Business Doctor Model, Business Support Working Group, and "3 Best" Quick Response Team; developing a set of Indexes to assess the competitiveness of departments, branches, and district-level People's Committees; promoting the use of information technology in receiving, processing, and resolving difficulties and recommendations for businesses on Zalo platforms, provincial electronic information portal website, email...

These advantages and priorities have assisted Bac Ninh in attracting many investors from 38 countries and territories with sophisticated, modern, typical industrial production, such as Japan, Korea, and China, as well as Europe and America.

The province seeks to establish and refine systems and policies to attract strategic investors in order to attract strategic investors. Complete provincial planning and associated plans openly, establishing openness and conditions for investors and enterprises to obtain information quickly and conveniently.

Bac Ninh prioritizes project selection based on the criteria "two low, three high" (priority is given to projects using little land, few labor; high investment capital, contributing high budget, and high technology content); "five readiness" (premises, human resources, reform, support, and anti-epidemic); and "one no" (no environmental pollution), ensuring sustainable development.

The province focuses on attracting foreign investment in depth associated with sustainable development goals; Prioritize quality projects, products with added value and high competitiveness, focusing on areas such as urban infrastructure development and smart city construction; Supporting industries use modern, environmentally friendly technology; information technology field projects; Research and Development; tourism, financial services, banking; human resource training; High-tech agriculture, clean and safe food.

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