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Solutions to Attract Foreign Direct Investment into Vietnam

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Abstract

This research examines the challenges and solutions to attracting foreign direct investment (FDI) in Vietnam, a critical driver of the country's economic growth and development. Through a qualitative approach, the study identifies key barriers, including complex regulatory environments, infrastructure limitations, human capital deficiencies, and political and economic stability concerns. To address these issues, the research proposes a multi-faceted strategy encompassing policy reforms, infrastructure

development, human capital enhancement, promotional strategies, and financial incentives. By addressing the identified challenges and implementing effective solutions, Vietnam can enhance its attractiveness as an investment destination, foster economic growth, and compete globally. The study offers valuable insights for policymakers, businesses, and investors, guiding the development of targeted strategies to enhance FDI inflows into Vietnam.

Keywords: FDI, Foreign Direct Investment, Vietnam

1. Introduction

Foreign Direct Investment (FDI) has played a pivotal role in the economic growth and development of Vietnam since the country embarked on its economic reforms, known as Doi Moi, in 1986. FDI refers to the investment made by a company or entity based in one country into business interests located in another country. Over the past few decades, Vietnam has become an attractive destination for foreign investors due to its strategic location, large and young workforce, and competitive labor costs. The influx of FDI has contributed significantly to Vietnam's economic transformation, industrialization, and integration into the global economy.

Vietnam has witnessed a substantial increase in FDI inflows, with the total registered capital reaching nearly \$418.7 billion as of December 31, 2022 (Hung, 2022) ^[1]. This inflow has been instrumental in boosting the country's GDP, creating jobs, and enhancing technological transfer. The manufacturing sector, in particular, has benefited greatly from FDI, with major investments from multinational corporations in electronics, textiles, and other industries (Pham, 2022) ^[5]. The presence of global giants like Samsung, Intel, and Nike has not only brought in capital but also advanced technologies, management practices, and market access.

FDI is crucial for economic growth and development for several reasons. Firstly, it brings in much-needed capital that can be invested in various sectors, thereby stimulating economic activity and growth. Secondly, FDI facilitates technology transfer, enabling the host country to acquire advanced technologies and upgrade its production capabilities. Thirdly, FDI creates jobs and enhances skills, as foreign companies often provide training and development opportunities for local employees. Moreover, FDI promotes competition, encourages innovation, and improves the overall business environment.

In the context of Vietnam, FDI has been a driving force behind the country's rapid economic growth and industrialization. It has helped Vietnam transition from a predominantly agricultural economy to a more diversified and industrialized one. FDI has also played a crucial role in integrating Vietnam into the global economy, enhancing its competitiveness, and improving its infrastructure.

Despite the significant inflows of FDI into Vietnam, several challenges and limitations persist. One of the primary issues is the regulatory and bureaucratic environment, which can be cumbersome and time-consuming for foreign investors. The complex and often changing legal framework, coupled with lengthy approval processes, can deter potential investors. Additionally, infrastructure limitations, such as inadequate transportation networks and unreliable power supply, pose significant barriers to attracting FDI.

Another challenge is the availability and quality of human capital. While Vietnam has a large and young workforce, there is a skills gap, particularly in advanced technologies and management. This gap can hinder the ability of foreign companies to operate efficiently and competitively. Furthermore, political and economic stability concerns, though less prevalent than in the past, can still impact investor confidence.

These challenges highlight the need for a comprehensive study to identify effective solutions to enhance FDI inflows into Vietnam. Addressing these issues is crucial for sustaining the country's economic growth and development.

The primary objective of this research is to identify and analyze the main challenges in attracting FDI to Vietnam. The secondary objectives include:

1. Reviewing the current situation of FDI in Vietnam.
2. Assessing the impact of existing policies and regulations on FDI inflows.
3. Analyzing the infrastructure and human capital factors affecting FDI.
4. Investigating the role of political and economic stability in attracting FDI.
5. Proposing effective solutions to enhance FDI inflows into Vietnam.

This study is significant for several reasons. Firstly, it provides a comprehensive analysis of the current challenges and limitations in attracting FDI to Vietnam, which can inform policymakers and stakeholders in developing targeted strategies to address these issues. Secondly, the study contributes to the existing literature on FDI in developing countries, offering insights that can be relevant to other economies facing similar challenges.

Moreover, the findings of this study can help foreign investors better understand the investment environment in Vietnam, enabling them to make informed decisions. Additionally, the proposed solutions can enhance Vietnam's competitiveness in attracting FDI, thereby fostering economic growth and development.

2. Literature Review

2.1 Theoretical Framework

The theoretical framework for this study is grounded in several key theories related to FDI and economic development. One of the foundational theories is the Eclectic Paradigm by Dunning (1988) [7], which posits that firms engage in FDI based on three main factors: ownership advantages, location advantages, and internalization advantages. This theory helps explain why multinational corporations (MNCs) choose to invest in certain countries over others.

Another relevant theory is the OLI (Ownership, Location, Internalization) framework, which extends Dunning's Eclectic Paradigm. The OLI framework suggests that firms will invest in foreign countries if they possess ownership advantages (such as proprietary assets or technologies), if the location offers specific advantages (such as low labor costs or market access), and if internalization (through FDI) is more profitable than other forms of market entry.

Additionally, the Investment Development Path (IDP) theory by Narula & Dunning (2000) [8] provides insights into how a country's development stage influences its ability to attract and benefit from FDI. This theory posits that as a country progresses through different stages of economic

development, its FDI inflows and outflows evolve accordingly.

These theoretical frameworks provide a solid foundation for understanding the factors influencing FDI and will guide the analysis of the challenges and solutions in attracting FDI to Vietnam.

2.2 Review of Existing Studies

Previous studies on FDI in Vietnam have identified several key factors influencing FDI inflows. A study by Nguyen & Nguyen (2019) [2] found that the regulatory environment, including the legal framework and bureaucratic procedures, significantly impacts FDI inflows. The study highlighted the need for streamlined and transparent investment procedures to attract more FDI.

Another study by Tran & Nguyen (2020) [3] emphasized the role of infrastructure in attracting FDI. The researchers found that inadequate infrastructure, particularly in transportation and energy, poses a significant barrier to FDI. They suggested that investing in infrastructure development could enhance Vietnam's attractiveness as an investment destination. Capital has also been identified as a crucial factor influencing FDI. A study by Pham & Nguyen (2018) [4] found that the availability and quality of skilled labor significantly affect foreign investors' decisions. The study recommended investing in education and training programs to bridge the skills gap and enhance the country's human capital.

Moreover, political and economic stability has been recognized as a critical factor in attracting FDI. A study by Le & Nguyen (2021) [6] found that stable political and economic environments contribute to investor confidence and encourage FDI inflows. The researchers suggested that maintaining political and economic stability is essential for sustaining FDI growth.

2.3 Global Trends in FDI

Globally, FDI trends have evolved over time, reflecting changes in the global economy and investment landscape. Recent trends indicate a shift in FDI flows from traditional manufacturing sectors to high-tech and service sectors. This shift is driven by technological advancements, global value chain integration, and the rise of emerging markets as significant investment destinations.

Emerging markets, such as China, India, and Vietnam, have become increasingly attractive to foreign investors due to their large markets, competitive labor costs, and favorable investment policies. These countries have implemented various strategies to attract FDI, including offering tax incentives, improving infrastructure, and streamlining investment procedures.

Case studies of successful FDI strategies in other countries provide valuable insights for Vietnam. For example, China has successfully attracted FDI by creating special economic zones (SEZs) with favorable investment policies and infrastructure. India has implemented reforms to streamline investment procedures and improve the business environment, attracting significant FDI inflows.

These global trends and best practices offer valuable lessons for Vietnam in enhancing its FDI attractiveness. By adopting similar strategies and policies, Vietnam can leverage its strengths and address its challenges to attract more FDI.

2.4 Current FDI Situation in Vietnam

As of December 31, 2023, the total foreign direct investment (FDI) in Vietnam, including newly registered, adjusted, and contributed capital, reached nearly \$18.86 billion. This represents 93.16% of the amount from the same period last year.

Despite a reduction in adjusted investment capital, new investment capital and capital contributions for share purchases continued to rise. There were 9,824 newly licensed investment projects with a total registered capital of over \$7.39 billion, marking a 68.3% increase in the number of projects and a 28.9% increase in capital. Additionally, there were 492 projects registered to adjust investment capital, with a total increased capital of nearly \$2.5 billion, although this represents a 47.5% decrease from the previous year. There were 1,316 capital contribution transactions to buy shares, with a total value of nearly \$3.46 billion, a 68.7% increase from the same period last year.

As of December 31, 2022, after 35 years of welcoming FDI, all 63 provinces and cities in Vietnam have attracted 35,142 valid projects, totaling nearly \$418.7 billion in registered capital. The accumulated capital of foreign investment projects is estimated at over \$269.3 billion, equivalent to nearly 64% of the total registered investment capital. Total FDI into Vietnam as of December 31, 2023, reached \$27.44 billion, down 4.8% from the same period last year. However, this shows an improvement compared to the 5.2% decrease in November 2022.

Several projects have significantly increased their investment capital, such as Samsung Electro-mechanics Vietnam, which increased its capital by \$920 million and \$267 million in two instances. Samsung HCMC CE Complex Electronics Co., Ltd. also increased its capital by over \$841 million. Other projects in Bac Ninh, Nghe An, and Hai Phong have also seen substantial capital increases.

In terms of the number of projects, foreign investors still focus on major cities like Ho Chi Minh City, which leads in the number of new projects (44.8%), capital contributions to buy shares (68.9%), and ranks second in the number of capital adjustment projects (18.3% after Hanoi at 18.7%).

In 2022, the total newly registered capital, additional registered capital, and capital contribution and share purchase of foreign investors reached nearly \$28.84 billion. Newly registered capital decreased by 18.4%, but the number of new investment projects increased by 17.1%, reaching 2,036 projects. Disbursed foreign investment capital reached nearly \$22.4 billion, up 13.5% from the same period in 2021. This increase in disbursement indicates that businesses are gradually recovering and expanding their operations post-COVID-19.

The additional registered capital increased by 12.2%, and the number of adjustments increased by 12.4% with 1,107 adjustments in 2022 compared to the same period in 2021. This reflects the confidence of foreign investors in Vietnam's economy and investment environment, leading to the expansion of existing projects.

Major global investors like Apple, Goertek, Foxconn, and Luxshare are planning to move production activities and increase investment capital in Vietnam. Apple has moved 11 factories of Taiwanese enterprises in its supply chain to Vietnam, further confirming Vietnam's transformation into a new global production center.

The moves by foreign investors underscore Vietnam's emergence as a global production hub, especially in

electronics and high technology. According to JP Morgan, Vietnam will contribute 20% of total iPad and Apple Watch production, about 5% of MacBooks, and 65% of AirPods by 2025. Vietnam is becoming a key manufacturing center for electronic components and small-volume products like Apple Watch, Mac, iPad, and AirPods.

However, the current FDI situation in Vietnam is characterized by both strengths and weaknesses. On the one hand, Vietnam's strategic location, large and young workforce, and competitive labor costs make it an attractive investment destination. The country has also implemented various policies and incentives to attract FDI, such as tax breaks and investment promotion activities.

On the other hand, several challenges persist. The regulatory environment remains complex and bureaucratic, posing barriers to foreign investors. Infrastructure limitations, particularly in transportation and energy, hinder the country's ability to attract FDI. The skills gap in the labor market also presents a challenge, as foreign companies struggle to find qualified workers.

Despite these challenges, Vietnam's FDI prospects remain promising. The country's integration into the global economy, through free trade agreements and regional cooperation, enhances its attractiveness as an investment destination. Additionally, Vietnam's strategic position in global value chains, particularly in electronics and textiles, offers opportunities for further FDI growth.

To capitalize on these opportunities, Vietnam needs to address the existing challenges and implement effective solutions to enhance its FDI attractiveness. The following sections will delve into the specific challenges and propose solutions to attract more FDI into Vietnam.

3. Methodology

This study adopts a qualitative research approach to gain an in-depth understanding of the challenges and solutions to attracting FDI in Vietnam. Qualitative methods are well-suited for exploring complex phenomena and uncovering the underlying factors influencing FDI inflows.

Data Collection Methods

Document analysis will involve reviewing policy documents, reports, and statistics related to FDI in Vietnam. This method will provide contextual information and complement the data collected through interviews and focus group discussions. The analysis will focus on identifying trends, patterns, and gaps in the existing literature and policies.

In-depth interviews will be conducted with key stakeholders, including government officials, business leaders, and experts in the field of FDI. The interviews will aim to gather insights into the challenges and solutions related to attracting FDI in Vietnam. The interview protocol will be semi-structured, allowing for flexibility while ensuring that all relevant topics are covered.

Sample Selection

The sample for this study will be selected based on purposive sampling, ensuring that the participants have relevant knowledge and experience in FDI. The criteria for selecting participants include:

Government Officials: Officials from relevant ministries and agencies involved in FDI policy formulation and implementation.

Business Leaders: Leaders of multinational corporations and foreign-invested enterprises operating in Vietnam.

Experts: Academics, researchers, and consultants with expertise in FDI and economic development.

Investors: Representatives of foreign investment funds and individual investors with experience in Vietnam.

The sample size will be determined based on the saturation point, where no new information or themes emerge from additional interviews or discussions. This approach ensures that the data collected is comprehensive and representative.

Data Analysis Techniques

The data collected through interviews, and document analysis will be analyzed using thematic analysis. Thematic analysis involves identifying, analyzing, and reporting patterns (themes) within data. Content analysis will be used to analyze the documents, focusing on identifying key themes, trends, and patterns related to FDI in Vietnam. The analysis will involve coding the documents based on predefined categories and analyzing the frequency and significance of the codes.

4. Findings

4.1 Challenges in Attracting FDI

The findings of this study reveal several key challenges in attracting FDI to Vietnam. These challenges can be categorized into regulatory and bureaucratic issues, infrastructure limitations, human capital deficiencies, and concerns related to political and economic stability.

4.1.1 Regulatory and Bureaucratic Challenges

Complex Legal Framework: The legal framework governing FDI in Vietnam is complex and often changing, making it difficult for foreign investors to navigate. The lack of clarity and consistency in regulations can deter potential investors.

Lengthy Approval Processes: The approval processes for FDI projects are lengthy and cumbersome, involving multiple layers of bureaucracy. This can lead to delays and increased costs for investors.

4.1.2 Infrastructure Limitations

Transportation Networks: The transportation infrastructure in Vietnam is inadequate, with limited road and rail networks connecting major economic hubs. This hampers the efficient movement of goods and people, increasing logistics costs and reducing competitiveness.

Energy Supply: The energy supply in Vietnam is unreliable, with frequent power outages and insufficient capacity to meet the growing demand. This poses a significant barrier to foreign investors, particularly those in energy-intensive industries.

Ports and Airports: The capacity and efficiency of ports and airports in Vietnam are limited, leading to congestion and delays in the movement of goods and passengers. This hampers the country's ability to attract FDI in logistics and supply chain sectors.

4.1.3 Human Capital Deficiencies

Skills Gap: There is a significant skills gap in the labor market, particularly in advanced technologies and management. This gap can hinder the ability of foreign companies to operate efficiently and competitively.

Quality of Education: The quality of education and training programs in Vietnam is inadequate, failing to equip the workforce with the necessary skills and knowledge to meet the demands of foreign investors.

4.1.4 Political and Economic Stability Concerns

Political Stability: Although Vietnam has made significant strides in maintaining political stability, concerns about

political interference and the lack of transparency in decision-making processes can deter foreign investors.

Economic Stability: Economic stability is another crucial factor influencing FDI inflows. While Vietnam has shown resilience in the face of global economic fluctuations, concerns about economic policy consistency and macroeconomic management can impact investor confidence.

These challenges highlight the need for comprehensive solutions to enhance FDI inflows into Vietnam. Addressing these issues is crucial for sustaining the country's economic growth and development.

4.2 Solutions to Attract FDI

4.2.1 Policy Reforms

Streamlining Investment Procedures: Simplifying and streamlining the investment procedures can significantly enhance Vietnam's attractiveness as an investment destination. This includes reducing bureaucratic red tape, improving transparency, and ensuring consistency in regulations.

Enhancing Transparency and Reducing Corruption: Enhancing transparency in the investment approval process and implementing anti-corruption measures can build investor confidence. This includes publishing clear guidelines, ensuring accountability, and providing avenues for redress.

Improving the Legal Framework: Improving the legal framework to protect investors' rights and interests is essential. This includes strengthening intellectual property rights, ensuring fair competition, and providing dispute resolution mechanisms.

4.2.2 Infrastructure Development

Investing in Transportation Infrastructure: Investing in the development and upgrading of transportation infrastructure, including roads, railways, and airports, can enhance connectivity and reduce logistics costs. This can be achieved through public-private partnerships (PPPs) and strategic investments.

Enhancing Energy Infrastructure: Enhancing energy infrastructure to ensure a reliable and sufficient power supply is crucial for attracting FDI. This includes investing in renewable energy sources, improving grid efficiency, and ensuring energy security.

Creating Special Economic Zones: Creating special economic zones (SEZs) with favorable investment policies and infrastructure can attract FDI. SEZs can offer incentives such as tax breaks, streamlined procedures, and advanced infrastructure to encourage investment.

4.2.3 Human Capital Development

Improving Education and Training Programs: Improving the quality of education and training programs is essential for bridging the skills gap. This includes investing in vocational training, upgrading curricula, and fostering partnerships between educational institutions and industry.

Attracting and Retaining Skilled Labor: Attracting and retaining skilled labor is crucial for enhancing the country's human capital. This includes offering competitive salaries, providing opportunities for career advancement, and creating a conducive work environment.

4.2.4 Promotional Strategies

Marketing Vietnam as an Investment Destination: Marketing Vietnam as an attractive investment destination can enhance its visibility and appeal to foreign investors.

This includes highlighting the country's strengths, such as its strategic location, large market, and competitive labor costs.

Organizing Investment Promotion Events: Organizing investment promotion events, such as roadshows, seminars, and exhibitions, can provide opportunities for investors to learn about Vietnam's investment opportunities and connect with potential partners.

4.2.5 Financial Incentives

Offering Tax Incentives and Subsidies: Offering tax incentives and subsidies can attract FDI by reducing the cost of investment. This includes providing tax holidays, investment allowances, and subsidies for research and development.

Providing Access to Financing and Credit Facilities: Providing access to financing and credit facilities can support foreign investors in establishing and expanding their operations. This includes offering low-interest loans, credit guarantees, and other financial instruments.

These solutions provide a comprehensive approach to enhancing FDI inflows into Vietnam. By addressing the identified challenges and implementing effective strategies, Vietnam can enhance its attractiveness as an investment destination and foster sustainable economic growth and development.

5. Discussion

The findings of this study highlight the main challenges and solutions to attracting FDI in Vietnam. The identified challenges, including regulatory and bureaucratic issues, infrastructure limitations, human capital deficiencies, and political and economic stability concerns, represent significant barriers to FDI inflows. Addressing these challenges requires a multi-faceted approach that encompasses policy reforms, infrastructure development, human capital development, promotional strategies, and financial incentives.

The proposed solutions aim to create a more conducive investment environment that attracts and retains foreign investors. Streamlining investment procedures, enhancing transparency, and improving the legal framework can address regulatory and bureaucratic challenges. Investing in infrastructure development, including transportation and energy infrastructure, can overcome infrastructure limitations. Improving education and training programs and attracting and retaining skilled labor can bridge the skills gap and enhance human capital. Marketing Vietnam as an investment destination, organizing investment promotion events, and offering financial incentives can further enhance the country's attractiveness as an investment destination.

The findings of this study have several implications for policy and practice. For policymakers, the study highlights the need for comprehensive policy reforms to enhance the investment environment. This includes simplifying and streamlining investment procedures, enhancing transparency, and improving the legal framework. Policymakers should also prioritize infrastructure development, including transportation and energy infrastructure, to support FDI inflows. Additionally, investing in human capital development, including education and training programs, is crucial for bridging the skills gap and enhancing the country's competitiveness.

For businesses and investors, the study provides valuable insights into the investment environment in Vietnam. The findings highlight the opportunities and challenges

associated with investing in Vietnam and provide guidance on navigating the investment landscape. The proposed solutions, including policy reforms, infrastructure development, human capital development, promotional strategies, and financial incentives, can enhance Vietnam's attractiveness as an investment destination and support the growth and expansion of foreign-invested enterprises.

The findings of this study align with global trends in FDI. The shift in FDI flows from traditional manufacturing sectors to high-tech and service sectors reflects the changing nature of the global economy and investment landscape. The identified challenges, including regulatory and bureaucratic issues, infrastructure limitations, human capital deficiencies, and political and economic stability concerns, are common in many developing countries. The proposed solutions, including policy reforms, infrastructure development, human capital development, promotional strategies, and financial incentives, are consistent with global best practices in attracting FDI.

Case studies of successful FDI strategies in other countries, such as China and India, provide valuable lessons for Vietnam. These countries have implemented various strategies to attract FDI, including creating SEZs, streamlining investment procedures, and offering tax incentives. By adopting similar strategies and policies, Vietnam can leverage its strengths and address its challenges to attract more FDI.

6. Conclusion

This study has identified the main challenges and solutions to attracting FDI in Vietnam. The key challenges include regulatory and bureaucratic issues, infrastructure limitations, human capital deficiencies, and political and economic stability concerns. The proposed solutions encompass policy reforms, infrastructure development, human capital development, promotional strategies, and financial incentives.

The findings highlight the need for a comprehensive approach to enhancing FDI inflows into Vietnam. Addressing the identified challenges and implementing effective strategies can create a more conducive investment environment that attracts and retains foreign investors. The study provides valuable insights for policymakers, businesses, and investors, guiding the development of targeted strategies to enhance Vietnam's attractiveness as an investment destination.

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