La Salle University

La Salle University Digital Commons

Undergraduate Research La Salle Scholar

Spring 5-2019

FDI in Vietnam

Thanh Huong Tra Nguyen
La Salle University, nguyent52@student.lasalle.edu

Follow this and additional works at: https://digitalcommons.lasalle.edu/undergraduateresearch

Part of the Finance and Financial Management Commons, and the International Business Commons

Recommended Citation
Nguyen, Thanh Huong Tra, "FDI in Vietnam" (2019). *Undergraduate Research*. 57.
https://digitalcommons.lasalle.edu/undergraduateresearch/57

This Article is brought to you for free and open access by the La Salle Scholar at La Salle University Digital Commons. It has been accepted for inclusion in Undergraduate Research by an authorized administrator of La Salle University Digital Commons. For more information, please contact duinkerken@lasalle.edu.

I. Introduction

The South East Asian region is fast becoming a destination for investment. The inflow of foreign direct investment (FDI) of worldwide countries into ASEAN countries has increased significantly. According to the World Bank, among the South East Asian countries, Vietnam is considered as the new most promising market. From 2011, the net inflow of foreign investments into Vietnam has outstandingly increased, especially from East Asian countries, such as South Korea and Japan. Therefore, this paper will focus on how Vietnam become the more appealing market than some of the other ASEAN countries through the country's competitive economic strengths. The paper will analyze and compare FDI positions, circumstances and competitive economic strengths of Vietnam to some of the other ASEAN countries'. In addition, the recent trade war between the US and China is also considered as a positive factor that helps increase generally FDI in ASEAN and specifically FDI in Vietnam. Hence, the paper will also analyze and compare the impact of the recent trade war on the inflow of foreign investments into Vietnam. Finally, this paper will present some challenges that Vietnam needs to consider to keep its promising position in attracting FDI.

II. Overview about FDI in ASEAN

1. Overview about ASEAN

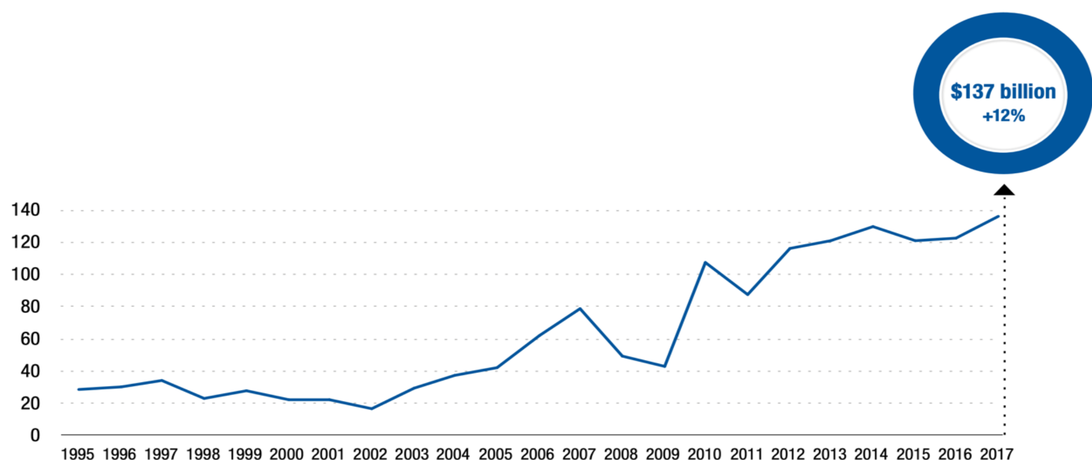
ASEAN is an abbreviation of The Association of South East Asian Nations, which is an intergovernmental organization which has the primary purpose of promoting economic growth and regional stability among its members. ASEAN was founded in 1967 by the five South East Asian countries: Indonesia, Malaysia, Philippines, Singapore and Thailand. Gradually, the organization has expanded to include 5

other member states: Brunei, Vietnam, Laos, Myanmar, and Cambodia. In 1997, after the Asian financial crisis, ASEAN, along with China, Japan and South Korea formed the ASEAN+3, or the East Asia Vision Group, to create a vision for coorperation among all 13 countries to prevent another crisis from happening again. ASEAN is ranked the third largest economy in Asia and the fifth largest economy in the world. In 2016, its combined economies grew 4.8 percent. In 2017, its GDP reached 7.9 trillion dollars, which is one third of GDP of China, the largest economy of the world[1]

2. FDI in ASEAN

The net inflow of foreign investment into ASEAN countries has been increasing significantly since 2010. In 2017, the net inflow of ASEAN reached to 137 billion dollars, which notably increased from 22 billion dollars in 2000 and one third billion dollars in 1967[2].

Figure 1. FDI flows in ASEAN, 1995–2017 (Billions of dollars)



Source: ASEAN Secretariat, ASEAN FDI database.

The intra-investment, which rose to the new high of 27 billion dollars and accounted for 19 percent of total inflows in 2017, contributes to the biggest FDI flows in the region. Overtime, Singapore is the largest intra-investor; it also

became the largest investor of the region when it surpassed the largest extra-investor, Japan, in 2017. The frequent top extra-investors of ASEAN are the European Union, Japan and the United States. In 2017, China exceeded the United States and became one of the top three investors in ASEAN. In addition, the higher inflows resulted from an increase in investments from the Netherlands, Germany, Switzerland and Australia. ASEAN has been invested most in service activities, especially in Financial and Insurance activities and wholesale and retail trade, repair of motor vehicles and motorcycles. The second largest investment in is manufaturing activities, followed by real estate activities[3].

ASEAN has several factors that have helped them become the most attractive region for investing in the world. South East Asia became an appealing investment destination for foreign investors due to its abundant and cheap resources labor; the labor cost in ASEAN is half to twice times lower than the cost in China[4]. Additionally, the South East Asian region is an attractive investment area with strong economic foundation and promising growth of market. The ASEAN countries have also improved productivity, education and training, and they have increased their intergration within the international market through trade agreements. One such example is the Trans-Pacific Partnership (TPP) deal, which attracts more investment capital into many industries. In addition, the South East Asian region has the third highest population in the world, after China and India, with a young and diverse population structure. As a result, there is a high level of techonlogical savvy and smartphone uses among the younger generation in these countries, which also motivates capital investment in both application and application services. Additionally, the information technology and communication services currently have 11.7 million workers and contribute 32

billion dollars, equivalent to 3 percent of the ASEAN GDP, which makes the field a promising market to invest in[4]. Moreover, the ASEAN has enhanced urbanization, which increases the middle-class population, wealthy individuals and the number of tourists. Thus, this population increase supports development in many segments, such as personal real estate, commercial offices and services, which attracts strong capital into the real estate market.

3. Most invested ASEAN countries

Among ASEAN countries, Singapore gathers the most investment, accounting for 45 percent of the total FDI in ASEAN. In 2013, it was ranked as the eighth largest country in the world based on FDI by the United Nations Conference on Trade and Development (UNCTAD) Global Investment Report and the third among Asian countries[2]. The country has received most investments from the European Union, the United States and China in three major sectors: financial and insurance services, wholesale and retail trade and manufacturing. The net inflow of FDI in those three sectors constitutes more than 80 percent of Singapore’s FDI. There are several factors that allow Singapore to attract a high volume of foreign investments, including its geographic location, stable financial condition and effective administration. First, most foreign investors and companies are attracted to Singapore due to its ideal geographical position. Singapore is located at the center of global trading and shipping, which allows for foreign investors and companies to easily access China, the greatest market in the world. In addition, as one of the most advanced cities in various fields, Singapore has a strong economy foundation with stable growth. The city-state has been placed in the top position of many rankings by reliable magazines and organizations. For example,

according to the Singapore Economic Development Board, in 2018, Singapore was announced as the second most competitive economy in the world by the IMD Competitiveness Index and the second easiest country to do business in on the World Bank's Doing Business Report[5]. Finally, the city-state has a stable political structure with a parliamentary democracy. The government's pro-business policies have also boosted Singapore's allure as an investment destination. According to Nordea, Singapore has the highest index of transaction transparency, manager's responsibility, shareholder's power and investor protection, which are appealing for foreign companies to operate in the city-state, compared to other powerful countries such as the United States or Germany[6]. Singapore also has a favorable tax system with a flat corporate tax rate of 17 percent, which is the lowest rate of the region as compared to ASEAN's average rate of 22.3 percent and Asia's average rate of 26.4 percent[7]. Hence, enterprisers are more convinced that, considering the number of double taxation agreements, it is easier and more profitable to operate in Singapore rather than another Asian country. Additionally, the Singapore's administration provides advantageous loans for foreign investors. Foreign enterprisers, when setting up their first company in Singapore, can get assistance and incentive from the Singapore Trade Development Board (STDB) or Economic Development Board (EDB). Moreover, the government offers incentives targeted to specific industries and allows foreign investors and companies to directly apply. As a result, Singapore is often a preferred business destination over even the strongest Asian economies such as China or Japan. In addition, Singapore offers an excellent road system and communication infrastructure, which makes the city-state superior to Hong Kong and Malaysia in attracting FDI. The Singaporean administration also provides three free trade

zones (FTZs) that provide the same opportunities for local and foreign companies for storage, package and export activities. Furthermore, the open immigration policy of Singapore attracts a great number of foreign citizens who work in top industries, creating an impressive pool of talent and an internationalized work force in the city-state. Hence, foreign investors will relocate their investments to Singapore to take advantage of the diversified and high-quality labor force. Indonesia is frequently the second most invested in country in ASEAN and also is the largest recipient of intraregional investment, absorbing more than 45 percent of intra-ASEAN investments in 2017[2]. According to the Santander Trade Portal, the top investors of this country are Singapore, Japan and China. Indonesia receives the most investment in the metal, machinery and electronics sector, followed by the mining industry and the electricity, gas and water supply. Those three industries account for nearly 40 percent of the inflow of FDI into Indonesia. The first economic strength that helps Indonesia attract a large volume of FDI is its fast-growing economy. The country had an annual growth rate of 5.06 percent in mid-2017, which escalated to 5.27 percent by the same time in 2018[8]. Secondly, Indonesia has favorable demographics, as 60 percent of its population are between 20 and 65, which allows foreign investors to take advantage of the labor force in this country. In addition, the nation's consumer sector is thriving. According to the Boston Consulting Groups, 91 percent of Indonesians feel at least somewhat financially secure, which is a higher percentage than is found in the world's strongest economies like the United States, the European Union, or Japan[9]. Finally, the Indonesian government, under the leadership of President Widodo, announced and implemented several efficient policies that liberalized the country's economy and reduced investment barriers in order to help improve the

country’s position in attracting foreign investments. In 2015, President Widodo’s administration launched the first package by restructuring 89 out of 154 regulations that were considered to be overly burdensome to reduce regulatory arbitrage. In addition, the government established new policy to reduce the amount of necessary time to acquire land and permits for new projects, as well as new framework for expedited procurement of goods and government services. Local governments have more responsible for developing strategically important infrastructure projects. Furthermore, there are later policies established to focus on advancing the business licensing process for projects in industrial estates, cutting energy tariffs for labor-intensive industries. Indonesia provided a new soft loan program for small and medium-sized enterprises (SMEs), new tax incentives for projects in a growing network of special economic zones, and income tax reductions for aviation manufacturers. The country also reduced or removed foreign ownership caps for 35 industries on its negative investment list, including e-commerce, and created an e-commerce industry roadmap, as well as new tax incentives for e-commerce entrepreneurs. In 2017, the government shortened and simplified the process of obtaining a business license in the country by creating a new task force that will work to oversee the process, and constructing a building in the capital to solely process and issue business permits to attract more foreign investments.

Thailand and Malaysia are also two of the frequent most promising ASEAN markets for foreign investors after Singapore and Indonesia. Both these two countries have Singapore as a major intra-investor; more than 80 percent of the intra-ASEAN investments and approximately 15 percent of total FDI inflow of these two countries are from Singapore. Japan, the European Union and the

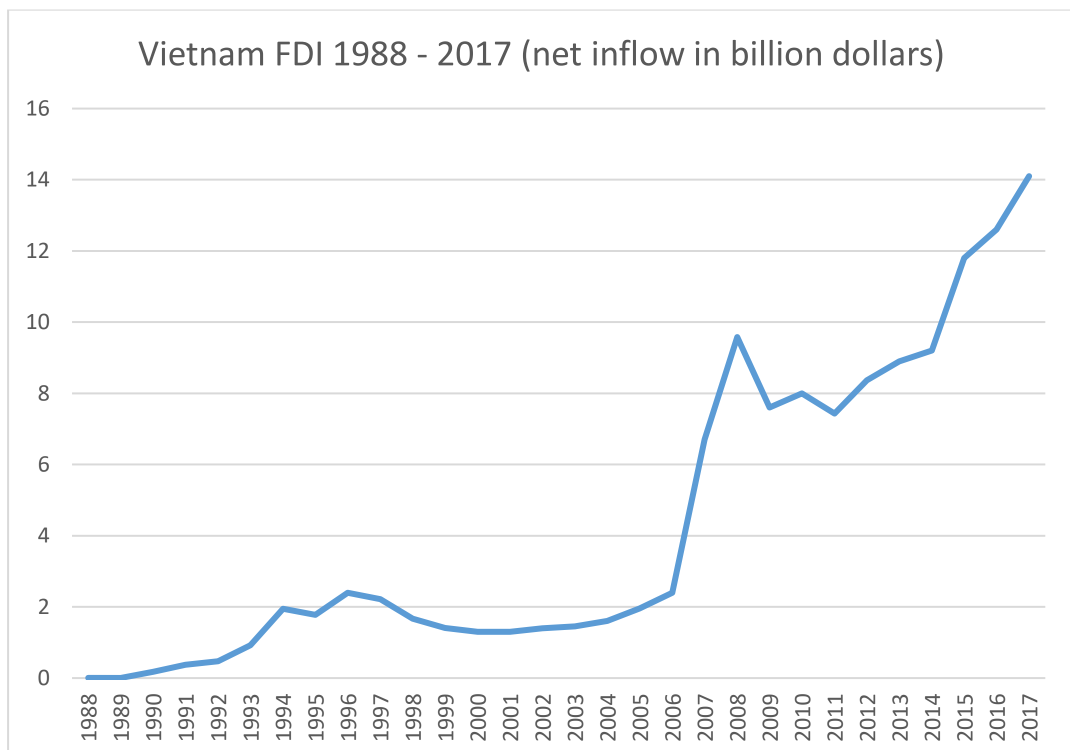
United States are the main extra-ASEAN investors in Thailand in the financial and insurance services, manufacturing and real estate sectors. Thailand is an appealing destination for foreign investors for several reasons. First, the country is located in the heart of Asia, making it the gateway to Southeast Asian markets and the Greater Mekong Basin region, in which new emerging markets have great economic potential. In addition, Thailand also had a developed infrastructure, including vast road-maps, highway network and modern railway systems that allow convenient connection and cooperation with numerous fast-growing countries, such as China, India and Singapore. Additionally, Thailand has an optimal business environment, which was ranked at second place in the ranking of Ease of Doing Business among Emerging Economies in East Asia by the World Bank in 2016, and at the eleventh place in the ranking of The World's Most Promising Emerging Economies from 2014 to 2016 by Bloomberg Business[10]. The Thai economy is successfully diverse in many fields, involving agriculture - which provides 40 percent of world production of natural rubber, rice, sugarcane, and fruits - industry, services and tourism[11]. Moreover, the workforce in Thailand is inexpensive, skilled and above all diversified. Lastly, Thailand has an efficient system of policies that is generally in favor of investment and encourages free trade. The state has a corporate tax rate of 20 percent, which is below the average of the rate of ASEAN[7]. Additionally, there is no restriction in the manufacturing sector or export conditions. Many government agencies are also frequently available to assist both domestic and foreign investors. The Thai Board of Investment (BOI) also offers beneficial tax treatment, which includes increasing tax exemptions, tax reduction and deduction for several industrial sectors and decreasing import tax exemptions for production aimed for export. On the other

hand, Malaysia has received major investments from Japan, the European Union and Hong Kong; more than 95 percent of FDI of this country flows into services, mining and quarrying, and manufacturing segments. Compared to other ASEAN countries, Malaysia shares the same score of index of transaction transparency, index of manager's responsibility, index of shareholder's power, and just 0.3 score lower in the index of investor protection than Singapore[12]. Foreign investors are attracted to invest in Malaysia due to its undervalued currency, lower cost of labor and fairly low interest rate. In addition, Malaysia tries to encourage foreign investments by liberalizing the expatriate employment system in the manufacturing sector in order to promote transfer of technology and to facilitate the arrival of qualified personnel in its territory. Malaysia also provided tax incentives to attract foreign investment in strategic sectors of activity, such as "pioneering status" for industry sectors, agriculture, and tourism, the "Bionexus label" for the biotechnology sector and the "MSC status" for companies in the ICT and multimedia sectors.

III. FDI in Vietnam

In the period of 1988-1990, the Law of Foreign Direct Investment was first implemented in Vietnam, hence the FDI in Vietnam was small with 214 projects, which made the total inflow equal 1.6 billion dollars. The period of 1991 – 1995 marked the first booming of FDI in Vietnam; the country had received 1409 projects that valued 18.3 billion dollars. Vietnam had its FDI decreased to 13 billion dollars with 961 projects from 1997 to 1999 as the result of financial crisis in Asia. Since 2000, the country had its foreign investments recovered slowly until 2004. Vietnam joined ASEAN with a commitment to regional free trade and

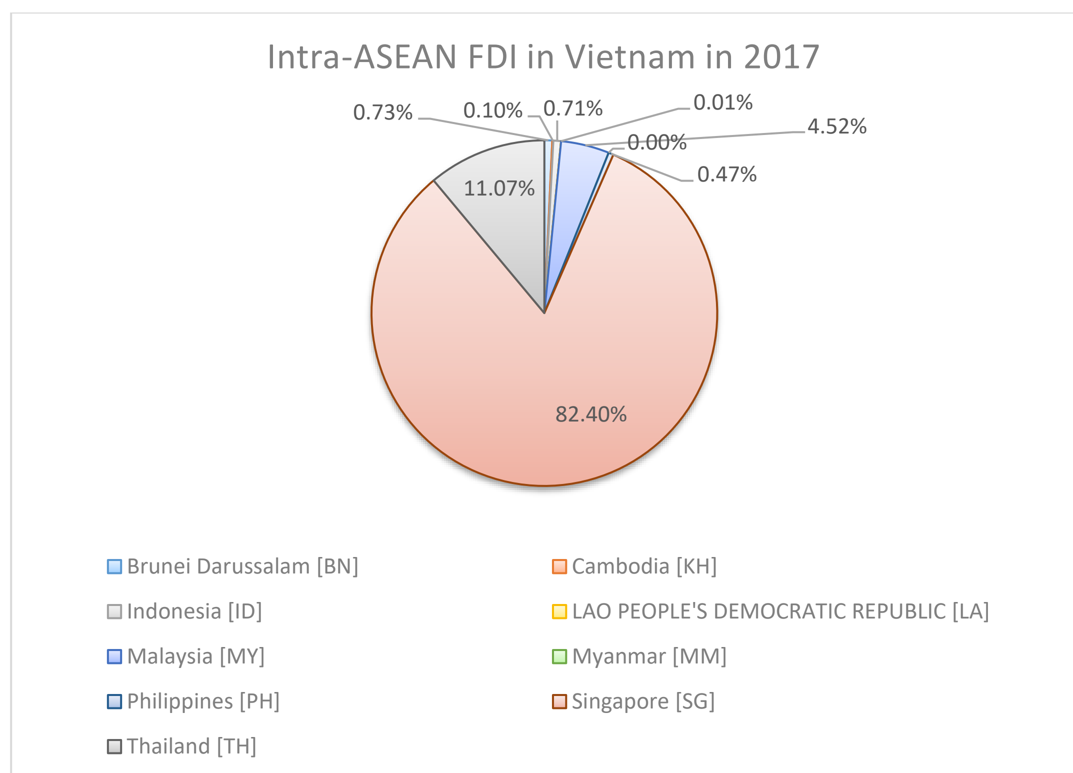
gradual eliminated tariffs by 2005 and to a future ASEAN Economic Community with free flow of goods, service and investment. In January 2007, Vietnam became a full member of the World Trade Organization (WTO) with a commitment to all WTO multilateral agreements except on Government Procurement Policy. Those trade agreements increased the amount of investments into Vietnam significantly, and the FDI reached highest peak 20.3 billion dollars of total inflow in 2007[13].



In the period of 2008 to 2011, Vietnam had its FDI reduced due to global financial crisis and started to recover slowly until 2014. From 2015, Vietnam had its FDI rise significantly and surpassed the FDI of Thailand and Malaysia, making the country one of the three most invested countries in ASEAN. As of November 20, 2017, Vietnam had 24,580 valid projects with the total registered capital of 316.91 billion dollars. In 11 months of 2017, the country had received additional 33.09-billion-dollar capital from foreign investors, which is 53.4 percent higher than the received capital of the same time in previous year[14]. With the net inflow of over

14 billion dollars, Vietnam constituted over 60 percent of flows to the CLMV countries (Cambodia, the Lao People's Democratic Republic, Myanmar and Vietnam) and became the third largest recipient countries in ASEAN after Singapore and Indonesia[2].

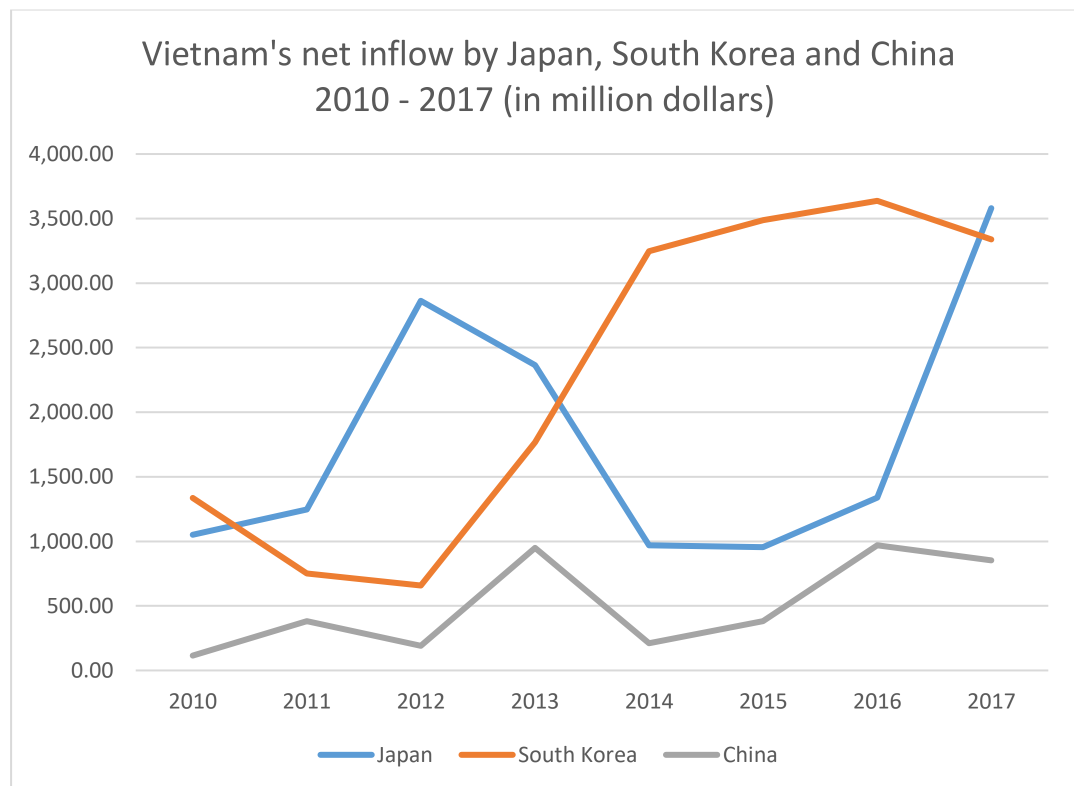
Singapore is the largest intra-ASEAN investor in Vietnam, which frequently accounts for more than half of Vietnam's intra-ASEAN investment. In 2016, Singapore invested 2.41 percent billion dollars, accounting for 10 percent of Vietnam's total FDI. In 2017, Singapore, along with Malaysia and Thailand, spent nearly 2.5 billion dollars, accounting for 98 percent total intra-ASEAN inflow in Vietnam[3].



In its recent survey, HSBC showed that 76 percent of interviewed Singaporean business people are active in the Vietnamese market, which is the high rate after only Malaysia, Indonesia and Thailand. In addition, 30 percent of respondents

expect further expansion in next two years, which is also the high rate after only Malaysia and Indonesia. According to Douglas Foo, Chairman of Singapore Manufacturing Federation, Vietnam is an appeal destination for Singaporean firms in Asia, especially those in electronics, apparel, food production industry and auxiliary services, such as logistics and automation.

From 1988 to 2007, The European Union and the United States constituted 10 percent and 3.6 percent respectively, making them in top five major extra-ASEAN investors in Vietnam. However, since 2012, Asian investors, such as South Korean, Japan and China rose their investments in Vietnam significantly and replaced the United States and the European Union as major extra-ASEAN investors of Vietnam.



The South Korea was the top foreign investor in Vietnam from 2014 to 2016, when Samsung Electronics set up massive smartphone production facilities in the north and other conglomerates, such as LG, CJ and Lotte spent actively. On the

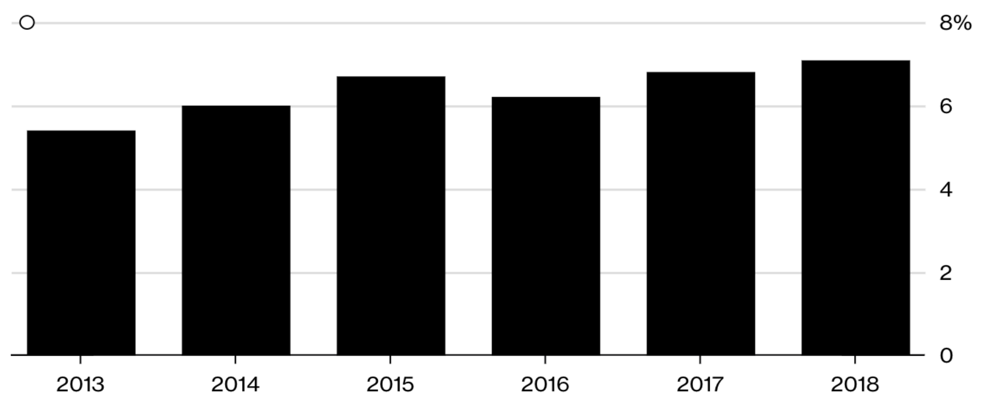
other hand, investment from Japan in that period was decrease as the result of efforts by major manufacturers to set up shop here ran their course. However, Vietnam is working to lure more private-sector money intro infrastructure development, which create a new wave of investments by the Japanese. In 2017, Japan became Vietnam's biggest investor, reclaiming the crown from South Korea after a three year-gap.

Processing and manufacturing is the sector that received most foreign investments. Although there was a concentration on the FDI in the manufacturing industry, there was a structural shift in investment into service segments, particularly in real estate services, which include three main activities: development of new urban area, construction of offices and apartments for sale and lease, and trading in industrial zones and EPZs (export processing zones). Those two sectors have been risen significantly and constituted more than 60 percent of total Vietnam's FDI annually. Other major sectors that receive significant foreign investments include utility supplies (especially in electricity) and construction. There was a concentration of the FDI in the South of Vietnam; however, there was a geographical shift in investment into the North of Vietnam since 2015, when some Asian investors, such as South Korea, have built more capital plant and invested more in this region.

IV. Vietnam's competitive advantage in attracting FDI

According to the World Bank, the Vietnamese business climate has been significantly improved. The country was ranked at 68th in their Ease of Doing Business ranking that year, gaining fourteen places up from the position of 82nd in 2016. It was still able to maintain its position in 68th place in the 2018 Doing

Business Report. Vietnam has a steady and stable growth with positive economic outlook. According to the General Statistics Office in Hanoi, the gross domestic product (GDP) of the country grew 7.3 percent in the three months through December from a year earlier, and was up from a revised 6.82 percent in the previous quarter. The economic growth for the full year was 7.1 percent, which is higher than the estimated median of Bloomberg economists[15].



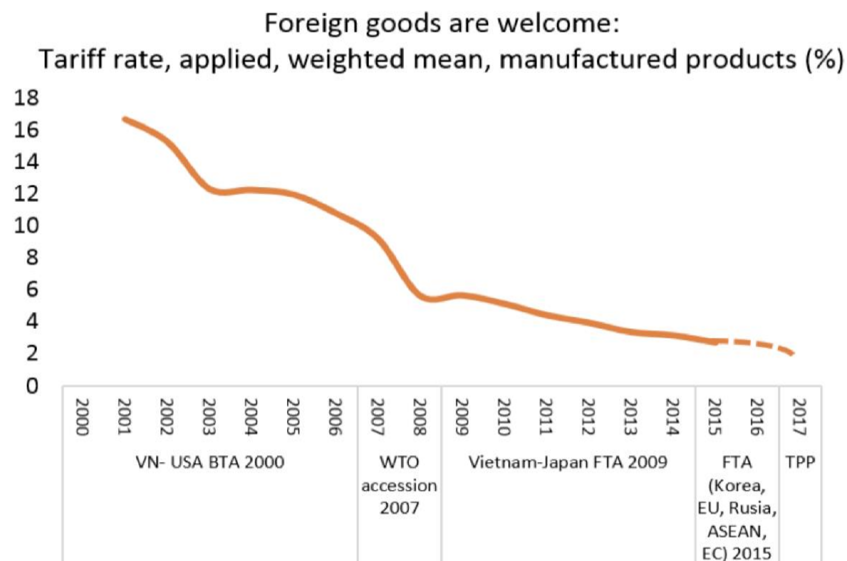
In addition, Vietnam has a young, inexpensive, skilled and fast growing workforce. With a population of 92 million people, Vietnam has the advantage of abundant and quality labor with competitive labor costs, especially in labor-intensive industries, such as manufacturing and processing sectors. In addition, 60 percent of the population is aged under 35, which attracted growing interest from the likes of Hong Kong, Japan, South Korea and the United States, all of which have committed to economic integration in general and free trade agreements in particular. Moreover, the stable security and political situation as well as social situation is an important condition for deciding to set up long-term investment

activities in Vietnam. Vietnam also has an ideal geographic location to trade with the world as it is in the connection hub of the region with a long coastline, which allows free-flowing seaborne trade with countries in the surrounding region and beyond, and is a gateway to penetrate economies in the western part of the Indochina Peninsula. Furthermore, there are abundant resources for developing agrilcultural and energy productions that are largely still under-exploited. Additionally, the Vietnamese government is seeking to liberalize the economy and introduce free market reforms. In 2018, Vietnam lowered its corporate tax from 22 percent to 20 percent, which made the country, along with Thailand and Cambodia, provide the third lowest corporate tax rate in ASEAN after Singapore and Brunei. The Vietnamese government is improving its judicial system, creating more incentives and taxation policies for foreign investors as well as making the process of setting up a plant easy. In addition, the Vietnamese adminstration frequently opens the Vietnamese Business Forums (VBF) with other private sectors, in which foreign investors have opportunities to establish fruitful dialogue and assert their interests.

Vietnam joined the ASEAN free trade area in 1995. In 2000, it signed a free trade agreement (FTA) with the United States and joined the World Trade Organization in 2007. Since then, Vietnam had signed further agreements with the world's largest economies, such as China, India, Japan and South Korea. In 2018, it participated in the TPP, which recently has become the Comprehensive and Progressive Trans-Pacific Partnership (CPTPP) after the leaving of the United States. The CPTPP will not only to the country's economy and trade but will also lead to numerous policy reforms, favorable for foreign investors. In addition,

domestic firms will have access to new markets such as Canada, Mexico, and Peru with whom it does not have a trade agreement.

In the last 20 years, Vietnam has particiaped in 16 FTAs, of which 4 agreements are waiting to be implemented. Those cummulative agreements gradually lowered the tarriffs imposed on both imports and exports to and from Vietnam:



Viet Nam is open for business Image: Brookings Future Developments

This is an important factor that helps Vietnam attract FDI from foreign investors. According to the Chairman of Vietnam Chamber of Commerce and Industry (VCCI) Vu Tien Loc at the VBF held on December 4, 2018, 30 percent to 40 percent of 1,200 top Asian CEOs in the Asia Pacific region who are willing to invest in Vietnam considered FTA as main reason to increase revenue[16].

According to the Strait Times, Vietnam and Indonesira are the most likely challengers that could take Singapore's crown of ruling the region's booooming venture capital and private equity investment market. The newspaper also cites the results of a survey by Bain & Company, which said that 90 percent investors consider the two nations the hottest South East Asian markets outside Singpore in

next 12 months[17]. In addition, in its "Doing Business in Vietnam 2017", PricewaterhouseCoopers (PwC) evaluated that is a promising market to invest. The accounting firm states that Vietnam is at a tipping point in its economic development led by FTAs and an increasingly deregulated business environment. According to PwC, Vietnam has the fastest growth projected in Asia and abundant export capacity that powered by the electronic industry while the government permits 100 percent foreign ownership for most sector. Those strengths help Vietnam's Greenfield FDI Performance Index reached top and surpass Malaysia and Thailand on attracting foreign capital.

V. Effect of the trade war on attracting FDI

According to Maybank Kim Eng (Maybank KE), countries part of ASEAN will benefit from the US-China trade war which will divert trade and investment to the region in a bid to circumvent the high tariff walls. In the first 10 months of 2018, the newly registered manufacturing foreign direct investment reached to 19 percent. In Thailand, the net FDI of the first half 2018 climbed to 6.9 billion dollars, which equals 86% of the total foreign investment amount in 2017. Even Philippines, which is not widely perceived as a manufacturing base in ASEAN, also got significant FDI growth in the first eight months of 2018[18].

Among those ASEAN countries, Vietnam, along with Thailand, Cambodia and Malaysia, may receive most advantage. The growing trade war accelerate the shift of investment and operation of business from China to Vietnam, especially for labor-intensive consumer goods industry such as clothing, footwear, and electronics. Analysts of Maybank KE also evaluated Vietnam "to be capturing the lion's share of the shifting supply chains and is often cited as a 'mini China' and

production alternative to China”. The country is unlikely to be a target in the trade war, despite its 40 billion trade surplus with the United States, as said by Bill Stoops, the chief investment officer of Dragon Capital. Additionally, Stoops indicates that Vietnam’s currency, the dong, has “a very sound macro underpinning”, which is in contrast to currencies of other emerging markets, such as Turkey, Argentina or Indonesia. He said that the country has “very substantial” foreign exchange reserves and has a net positive in areas such as its current account. In addition, Vietnam is an export-oriented economy that has the FDI sector accounting for the majority of the exports. Those factors will attract more investors as manufacturers continue to restructure their supply chains to reduce the impact from the US tariffs on China. According to a representative from the American Chamber of Commerce in Hanoi (AmCham Hanoi), foreign companies are constantly adjusting their supply chains to keep up with the competition, and possibly shift their production from China to Vietnam to avoid tariffs. Koushan Das, the assistant manager of the business intelligence unit under Dezan Shira and Associates, Asia’s largest independent FDI practice, said that Chinese and foreign companies have slowly changed their manufacturing activities to Southeast Asia, especially Vietnam, due to the rising labor cost, the need for diversification and the government’s focus shifting from labor intensive sectors to high–tech industries. The escalating trade war is an additional factor that increases this trend of realigning the supply chain. A recent survey by the Japan External Trade Organization of Japanese business people who invest in 20 nations and territories revealed that 70 percent of respondents will expand their business in Vietnam and consider the country a central investment destination. In China, this rate is 48 percent. Investors from South Korea are also looking to enlarge their business in

Vietnam rather than China. Hong Sun, the vice chairman of the Korean Chamber of Business in Vietnam said that the US-China trade war is “prompting many South Korean businesses to come from Vietnam from China”. However, it is not easy for firms to immediately move their production out of China as China is a global manufacturing hub and has joined the global value chains that many global firms are involved in. Hence, instead of abandoning the Chinese market, foreign firms possibly choose to supplement their China-based facilities with low-cost inputs from other markets, which is known as China-plus-one strategy. Vietnam is an ideal destination for the China-plus-one strategy due to its close proximity to China, competitively priced labor and strong network of trade agreements. Cities in Vietnam, such as Hai Phong, are much closer to the Chinese facilities, such as China’s manufacturing hub of Shenzhen, than other places such as Jakarta, Bangkok or Kuala Lumpur.

The short distance between the traditional facilities in China and the new manufacturing plants allow investors to reduce costs and interruptions or delays to currently existing supply chains. According to the Vietnam Investment Review (VIR), Foxconn Technology, the world’s largest contract assembler of consumer electronics that already operates a system of mega-factories in China, is discussing with the Hanoi People’s Committee about setting up an iPhone plant to avoid the trade war’s impact. In addition, foreign companies that implement China-plus-one strategy can reduce cost on wages, land, pricing and inputs. The minimum wage in Vietnam equals 59 percent of that in China and 70 percent of that in Thailand. Finally, and maybe most importantly, Vietnam has a broad network of trade agreements with many nations around the world as mentioned in

the previous section, which allows the foreign firms be able to find capital in a country at this point on the value chain.

VI. Challenges of Vietnam's FDI

Although Vietnam has significantly improved its business environment to attract FDI, the country still have to face with many challenges. First, Vietnam still had unnecessarily complicated adminstrative procedures, even after the system of policies is improved by the authorities. Those complicated policies will waste time and money, higher opportunity loss and lead to behind-schedule work. In addition, the business environment is complex as financial investments are subject to a whole series of opaque regulations that cannot be legally guaranteed and intellectual property are not systematically respected. Moreover, the legal framework in Vietnam is not transparent. The judicial system is subject to political influences. On the other hand, commercial disputes often take years to resolve. Furthermore, Vietnam still has low-quality labor force that does not reach international standards. The health and transport infrastructure in Vietnam are also weak. The telecommunication network is expensive while the internet transmission system and port system, loading and unloading are low. Hence, the foreign investors will need to spend a significant amount of capital to improve infrastruture for their facilities. Additionally, the country has high level of corruption and weak financial sturctures, especially in banking sector. The regulation of the financial sector has many shortcomings while its lack of independence from the government makes the regulation become opaque. Great disparties of development and poverty in many regions is also one of challenges that affect negatively to the FDI of the country. Although Vietnam receives great

benefit from the trade war between the United States and China, it recurs tensions with China on the subject of sovereignty in the South China Sea. There are also many warnings indicate that if Vietnam continues to maintain its current economic structure, pollutant emissions, especially in energy sector will increase significantly. On the other hand, the country is already in the list of countries that face the highest risk of climate change. Hence, this factor can become one of the biggest challenge that Vietnam has to face with. Lastly, one of the most significant challenges that embraces the country in attracting foreign investment is that its pervasive influence has yet to meet expectations and has yet to create specific support for domestic enterprises to participate further in the global supply chain. Only 21 percent of Vietnamese enterprises have partipated in the global supply chain, which is much lower than the rate of 30 percent in Thailand and 46 percent in Singapore.

VII. Conclusion

In short, the South East Asian region is becoming appealing destination for investment. Among ASEAN countries, Singapore is the countries that is most invested in, and it also is a major investors of the region. The top most invested ASEAN countries include Indonesia, Thailand and Malaysia; each of them have strong economic strengths to attract FDI. Recently, Vietnam has surpassed Thailand and Malaysia to become one of three countries that receive most foreign investments in ASEAN. The country has remarkable economic strength, including its fast growing economy, young digitally-savvy and growing work force, cost competitive production base, a stable government commited to growth, infrastructure developement and numerous FTAs. In addition, the country also

benefit from the trade war between China and the United States as investors in China decide to shift their business to Vietnam to avoid high tarriffs, or through the China-plus-one strategy. However, Vietnam also has to faces with many challenges that can negatively affect its promising position of attracting FDI. Hence, the country must continue to improve to maintain its position of promising for investment in ASEAN.

WORK CITED

1. *"20 Nam Dau Tu Nuoc Ngoai Tai Vietnam",* Vietnam Ministry of Planning and Investment of Foreign Investment Agency, March 22, 2018, http://fia.mpi.gov.vn/detail/804/20-Nam-Dau-tu-nuoc-ngoai-tai-Viet-Nam-1988-2007%3E
2. Amadeo, Kimberly, *"ASEAN, Its Members, Purpose and History"*, The Balance, December 31, 2018, https://www.thebalance.com/what-is-asean-3305810
3. *"ASEAN – Khu Vuc Thu Hut Nhieu Von FDI Nhat The Gioi"*, Doanh Nhan Sai Gon, February 18, 2016, https://doanhnhansaigon.vn/thoi-su-quoc-te/asean-khu-vuc-thu-hut-nhieu-von-fdi-nhat-the-gioi-1068878.html
4. Brown, Maxfield*, "China+1: The New Face of Manufacturing in Vietnam",* Vietnam Briefing, April 4, 2018, https://www.vietnam-briefing.com/news/china1-new-face-manufacturing-vietnam.html/
5. Changwatchai, Piyaphan, *"The Determinants of FDI Inflows By Industry to ASEAN (Indonesia, Malaysia, Phillipines, Thailand and Vietnam)"*, The Library of Utah University, August 2010 https://collections.lib.utah.edu/dl_files/7d/58/7d5894fb6cff6e947b1b81452a45d001d45bd441.pdf
6. *"Comparing Tax Rates Across ASEAN",* ASEAN Briefing, July 26, 2018, https://www.aseanbriefing.com/news/2018/07/26/comparing-tax-rates-across-asean.html

7. Das, Koushan, *"Impact of US-China Trade War on Vietnam",* Vietnam Briefing, April 18, 2018, https://www.vietnam-briefing.com/news/impact-us-china-trade-war-vietnam.html/
8. Dato'Sri Dr. Mohd Uzir Mahidin, *"Statistics of Foreign Direct Investment in Malaysia, 2017"*, Department of Statistics Malaysia, Official Portal, July 24, 2018, https://www.dosm.gov.my/v1/index.php?r=column/cthemeByCat&cat=322&bul_id=TENVb0xWNXFiTnJ4ekk3R2d0NkFkdz09&menu_id=azJjRWpYL0VBYU90TVhpclByWjdMQT09
9. Delauney, Christian; Torris, C. Richard, *"FDI in Vietnam: An Empirical Study of an Economy in Transition"*, Digital Commons Kennesaw State University, November 2012, https://digitalcommons.kennesaw.edu/cgi/viewcontent.cgi?article=1089&context=jekem
10. Doan, Anh Sang, *" How Vietnam's attracting foreign investment despite global market instability",* World Finance, September 1, 2017 https://www.worldfinance.com/wealth-management/how-vietnams-attracting-foreign-investment-despite-global-market-instability
11. "Doing Business in Viet Nam 2017", PwC, Vietnam Chamber of Commerce and Industry, July 2017, https://www.pwc.com/vn/en/publications/2017/dbg-2017.pdf
12. *"FDI In Vietnam 2018: Statistics and Main Challenges",* D' Andrea & Partners, Jul 25, 2018, http://www.dandreapartners.com/fdi-in-vietnam-2018-statistics-and-main-challenges/

13. *“Flows of Inward Foreign Investment (FDI) by Host Country and Source Country”,* ASEANStatsDataPortal https://data.aseanstats.org/fdi-by-hosts-and-sources
14. *“Foreign Direct Investment (FDI) in Malaysia”,* Nordeatrade, February 2019, https://www.nordeatrade.com/dk/explore-new-market/malaysia/investment?vider_sticky=oui
15. *“Foreign Direct Investment (FDI) in Singapore”,* Nordeatrade, February 2019, https://www.nordeatrade.com/fi/explore-new-market/singapore/investment
16. *“Foreign Direct Investment (FDI) in Thailand”,* Nordeatrade, February 2019, https://www.nordeatrade.com/dk/explore-new-market/thailand/investment
17. “Foreign Direct Investment (FDI) in Vietnam”, Nordeatrade, December 2018, https://www.nordeatrade.com/dk/explore-new-market/vietnam/investment
18. *“Foreign Direct Investment in Singapore by Country/Region and Major Industry”,* Department of Statistics Singapore, Oct 2018 https://www.tablebuilder.singstat.gov.sg/publicfacing/createDataTable.action?refId=12636
19. Huang, Eustance, *“Vietnam could be a “winner” US-China trade war”,* CNBC, Sep 12, 2018, https://www.cnbc.com/2018/09/12/vietnam-could-be-a-winner-from-the-us-china-trade-war.html
20. *“Indonesia: Foreign Investment”,* Santander Trade Portal, February 2019, https://en.portal.santandertrade.com/establish-overseas/indonesia/foreign-investment?&actualiser_id_banque=oui&id_banque=18&memoriser_choix=memoriser

21. *"Indonesia GDP Annual Growth Rate",* Trading Economy, February 6, 2019, https://tradingeconomics.com/indonesia/gdp-growth-annual
22. *"Indonesia looks to attract foreign direct investment",* Oxford Business Group, https://oxfordbusinessgroup.com/analysis/steady-progress-enhancing-business-environment-remains-crucial-attract-further-investment
23. *"Indonesia, Vietnam big draws for private sectors",* The Strait Times, November 20, 2018, https://www.straitstimes.com/business/banking/indonesia-vietnam-big-draws-for-private-investors
24. Khwanreon, Maytinee, *"Foreign Direct Investment Classified by Business Sector of Thai Enterprises"*, Bank of Thailand, February 28, 2019, http://www2.bot.or.th/statistics/ReportPage.aspx?reportID=656&language=eng
25. Lien Quang, *"Viet Nam: Thien duong dau tu cua Singapore"*, Nhip Cau Dau Tu, August 6, 2018, https://nhipcaudautu.vn/thuong-truong/viet-nam-thien-duong-dau-tu-cua-singapore-3325238/
26. *"Low labour costs in emerging ASEAN erode China's competitiveness"*, WillisTowersWatson, April 21, 2016, https://www.willistowerswatson.com/en/press/2016/04/Low-Labour-Costs-in-Emerging-ASEAN-Erode-China-Competitiveness
27. Nguyen, Dieu Tu Quyen, *"Vietnam Economy Remains Outperformer as Growth Tops 7% Mark"*, Bloomberg, Decemeber 27, 2018, https://www.bloomberg.com/news/articles/2018-12-27/vietnam-s-economy-remains-outperformer-as-growth-tops-7-mark

28. *"Thailand's Advantages",* Thailand's Board of Investment, October 30, 2017, https://www.boi.go.th/index.php?page=thailand_advantages

29. *"Tinh hinh thu hut Dau tu nuoc ngoai 11 thang nam 2017",* Vietnam Ministry of Planning and Investment of Foreign Investment Agency, November 28, 2017, http://fia.mpi.gov.vn/tinbai/5443/Tinh-hinh-thu-hut-Dau-tu-nuoc-ngoai-11-thang-nam-2017

30. *"Trade war shifts FDI flows to Vietnam",* Vietnam Investment Review, October 4, 2018, https://www.vir.com.vn/trade-war-shifts-fdi-flows-to-vietnam-62848.html

31. United Nations Conference on Trade and Development, *"ASEAN Investment Report 2018: Foreign Direct Investment and the Digital Economy in ASEAN"*, The ASEAN Secretariat, November 2018, https://unctad.org/en/PublicationsLibrary/unctad_asean_air2018d1.pdf

32. *"US-China trade war will divert trade and investment to ASEAN: analyst",* Singpoore Business Review, December 3, 2018, https://sbr.com.sg/economy/asia/us-china-trade-war-will-divert-trade-and-investment-asean-analyst

33. Vanham, Peter, *"The story of Viet Nam's economic miracle",* World Economic Forum, Sep 11, 2018, https://www.weforum.org/agenda/2018/09/how-vietnam-became-an-economic-miracle/

34. "Vietnam's FDI policy needs revision to maximize benefits", NhanDan Online, January 9, 2018, http://en.nhandan.com.vn/special_reports/item/5759702-vietnam%E2%80%99s-fdi-policy-needs-revision-to-maximise-benefits.html

35. *"Vietnam Foreign Direct Investment, net inflows (BoP, current US$)",* The World Bank, https://data.worldbank.org/indicator/BX.KLT.DINV.CD.WD?contextual=default&end=2017&locations=VN&start=1988&view=chart

36. *"Why Is Singapore Attractive for Foreign Investors?",* Bestar, January 3rd, 2019, https://www.opencompanysingapore.com/why-is-singapore-attractive-for-foreign-investors

37. Burker, Hans-Paul, *"Taking Indonesia's economy to the next level",* World Economic Forum, April 20, 2015, https://www.weforum.org/agenda/2015/04/taking-indonesias-economy-to-the-next-level/

38. Nguyen Vu, "Moi Truong Kinh Doanh: Khoang Cach Giua Bao Cao va Hien Thuc Con Xa", VnEconomy, December 4th, 2018, http://vneconomy.vn/moi-truong-kinh-doanh-khoang-cach-giua-bao-cao-va-thuc-tien-con-xa-20181204095026526.htm