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ISSUES ATTRACTING FOREIGN DIRECT INVESTMENT CAPITAL INTO VIETNAM: SITUATION AND SOLUTIONS

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ABSTRACT
Foreign direct investment (FDI) can be considered as an influencing factor to create important changes in economic development. FDI has outstanding advantages compared to other sources of investment capital, especially for developing countries, when the ability to organize production in these countries is still low. In Vietnam, FDI is an important driver of economic growth because the public and private sectors are still inefficient. FDI positively affects the economy and society in Vietnam and brings many challenges due to the lack of infrastructure and quality of human resources. The advantage of cheap labor and the availability of natural resources will no longer be a competitive advantage for Vietnam when new technology changes the whole way of producing products.

Keywords:
Investment; foreign direct investment (FDI); investment capital**.**

I. INTRODUCTION

According to the WTO, foreign direct investment (FDI) occurs when *"an investor from one country (investing country) acquires an asset in another country (the host country) with the right to manage that asset."*. The Law on Foreign Investment in Vietnam (amended and supplemented in 2000) stipulates that *"FDI is the act of foreign investors bringing into Vietnam capital in cash or any other property to conduct investment activities by the law on foreign investment law"*.

FDI plays an important role for both the investing country and the host country. *For investment countries*, it helps to lower product costs, improve return on investment and build a market to supply raw materials at affordable prices. On the other hand, investment abroad helps expand economic power and enhance political prestige. Through the construction of production plants and overseas consumption markets, investment countries can expand their consumer markets and avoid trade protection barriers of other countries. *For the country receiving the investment*, FDI greatly solves socio-economic difficulties such as unemployment, inflation, etc. Through FDI, foreign organizations acquire companies and enterprises at risk. bankruptcy, helping to improve the payment situation and create jobs for workers. FDI also creates favorable conditions to increase budget revenue in the form of taxes to improve the state budget deficit, create a competitive environment to promote economic and trade development and help employees and managers. learn from the management experience of other countries.

Attracting FDI in the host countries depends on many factors such as the stability of the economy, the legal system, the openness in trade, the country's comparative advantage, and the trend of FDI in the world…

II. OVERVIEW

1. Current trend of FDI movement

A. Macroeconomic stability

The Industrial Revolution 4.0 helps stabilize the macro-economy by reducing inflationary pressures caused by cost-push causes. The new production method helps to save significantly on the input costs of enterprises. Manufacturing costs are less volatile and will tend to decrease in the future as automation becomes more common. Reduced costs are a positive result of the sharing economy - characteristic of the industrial revolution 4.0. Businesses and consumers can share resources or human resources through digital connectivity with low transaction costs.

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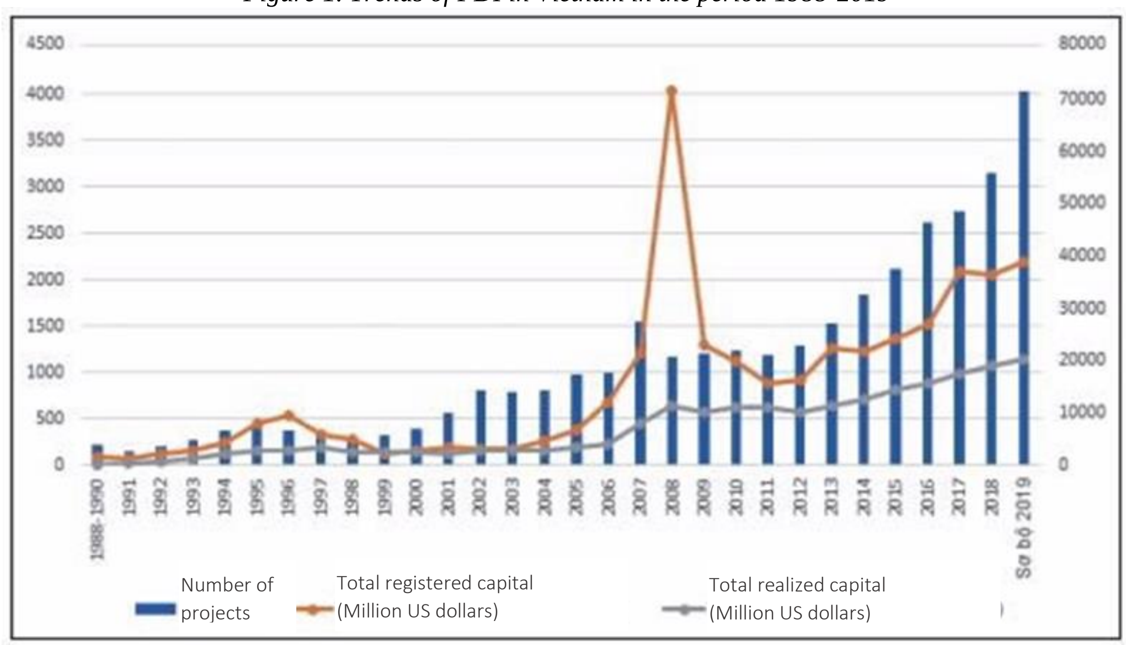
Currently, mobile internet platforms have created a series of new services such as taxi booking services, air ticket bookings, online purchases of goods and services, etc., saving maximum transaction costs and time for both customers. goods and businesses. The stability of the macro-economy creates a positive impact for foreign investors to invest in Vietnam. Imports of the FDI sector reached US$168.8 billion, accounting for 64.3% of the country's import turnover, but in general, for 2020, the FDI sector had a trade surplus of US$33 billion excluding crude oil, helping to offset The trade deficit of the domestic business sector is 15.6 billion USD (GSO, 2020), thereby, reversing Vietnam's trade balance to a trade surplus of 19.1 billion USD.

Figure 1. Trends of FDI in Vietnam in the period 1988-2019



(Source: GSO)

In 2022, the total registered FDI in Vietnam reached nearly 27.72 billion USD, the realized FDI reached a record 22.4 billion USD, up 13.5% over the same period in 2021. This is the highest realized FDI in 5 years (2017 - 2022). Cumulatively in the period 1986 - 2022, Vietnam has attracted nearly 438.7 billion USD of FDI; of which, US$274 billion has been disbursed, accounting for 62.5% of the total valid registered investment capital.

Table 1: Top 5 largest foreign investors in Vietnam, 2022

Rank	Partners/Countries	Total FDI (billion USD)	Accounting for (%)
1	Singapore	6.46	23.3
2	South Korea	4.88	17.6
3	Japan	4.78	17.2
4	China	2.52	9.1
5	Hong Kong	2.22	8.0

Source: Ministry of Planning and Investment (data until 20/12/2022)

In 2022, the total newly registered capital, additional registered capital and capital contribution and share purchase by foreign investors reached nearly 27.72 billion USD; In particular, the newly registered capital decreased, but the number of new investment projects increased, the adjusted investment capital also increased compared to the same period in 2021.

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Table 2: Total FDI into Vietnam, 2022
Unit: Billion USD

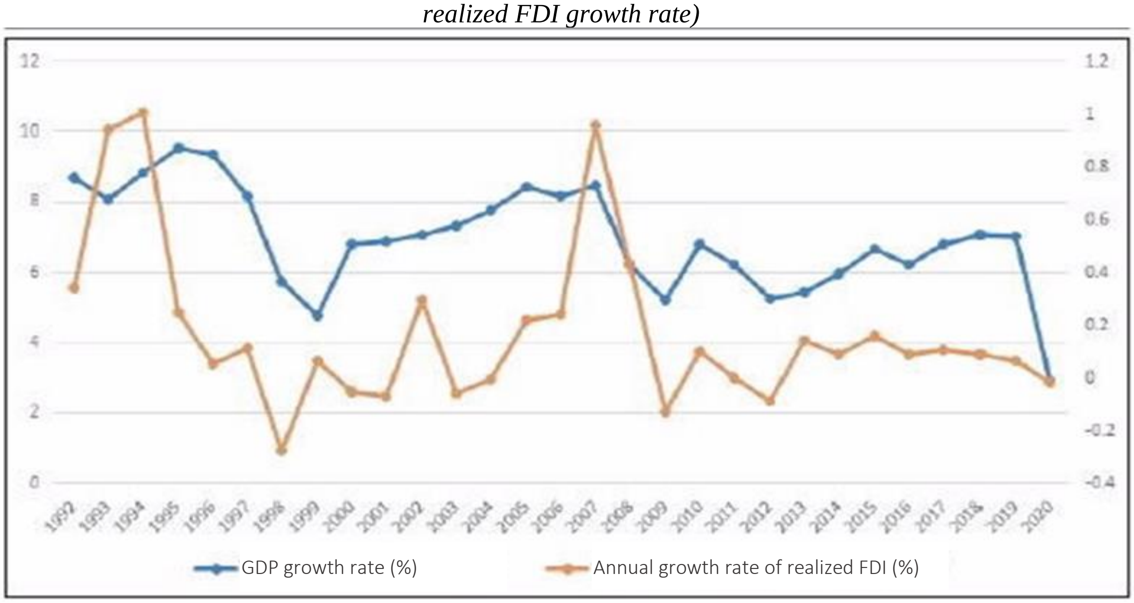
Total FDI	Newly registered capital	Additional registered capital	Capital contribution, share purchase
27.72	12.45	10.12	5.15

Source: Ministry of Planning and Investment (data until 20/12/2022)

B. Change in economic structure

The industrial revolution 4.0 is fundamentally changing the world's production, the production principle with an exponential digital-physical hyper-connected system requires developed countries to change their infrastructure. industry to suit automated production methods. As a result, the economic structure changed in a positive direction with a strong expansion of the private sector (contributing 40% to GDP and owning 51% of the labor force and 30% of the total state budget).) The industry-service sector is also on a strong growth momentum, which is a favorable condition to attract FDI. Industry 4.0 with the foundation of the Internet of Things (IoT) and artificial intelligence (AI) helps to enhance connectivity, sharing of ideas and sources of idea implementation, the economy becomes more open, and trade becomes more open. free trade on a global level, information about businesses and potential partners is easily accessible. Information and communication technology (ICT) has brought a new management approach to MNEs in GVCs. Digital technology creates modern production networks around the world. The application of a new management method creates good conditions for MNEs to control outsourcing. Therefore, they promote linkages with enterprises in the receiving country to access the global market. This form of FDI attraction is usually in the form of business cooperation or merger and acquisition (M&A). Recently, in Vietnam, there have been a series of M&A deals of large multinational corporations such as the acquisition of Big C Vietnam by Central Group with a transfer value of 1.1 billion USD, Metro Vietnam returned to Vietnam. of TCC Holdings valued at USD 710 million, Fraser & Neave acquired Vinamilk shares with a value of USD 500 million… (Che Han, 2017)

Figure 2. Relationship between economic Growth and realized FDI growth rate)



(Source: GSO)

2. Small and medium enterprises participate more deeply in the global value chain

The increasing participation of multinational enterprises (MNEs) in Vietnam creates opportunities for small businesses (SMEs) to penetrate deeper into global value chains. MNEs link deeper by expanding the outsourced network

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to reduce costs. SMEs themselves are small in size, so they are flexible in changing production methods. Many MNEs have created opportunities for SMEs to become part of the supply chain with programs that support capacity building, business performance and competitiveness. Industry 4.0 with the development of AI opens up opportunities for SMEs, especially technology SMEs such as Coc Coc browser which is the third most popular search engine in Vietnam with spelling correction and acceleration features. file download speed integrated English-Vietnamese dictionary; Monkey Junior foreign language teaching software for children has been trusted by more than 3 million users… Currently, the number of SMEs in Vietnam accounts for more than 97%, of which more than 60% are very small enterprises, the expansion of the scale The open global production scale will be a good opportunity for this group of businesses in creating added value for the country. In the past, it was relatively difficult for SMEs to access FDI, but with an information technology platform, this group of businesses can connect with MNEs and inherit modern technology at low cost, and operate efficiently.

III. RESULT AND DISCUSSION

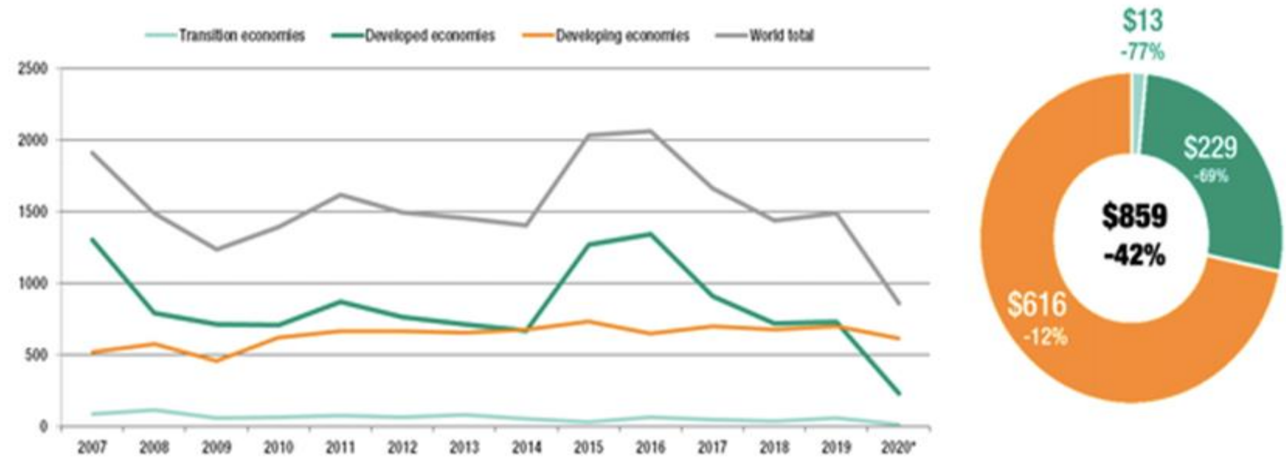
1. The market is expanded through the spread of information technology

In addition to cost, the size of the market is also one of the important factors for investors. Vietnam has the 14th largest population in the world, approximately 93.6 million people. The large population promises a potential market. Vietnam is also a country with a high percentage of Internet users, which increased continuously from 200,000 people (0.3%) in 2000 to 39.8 million people (43.8%) in 2014. As of September 2022, the number of Internet users in Vietnam is about 70 million, accounting for about 70% of the country's population. With this number, Vietnam is the country with the 12th highest number of Internet users worldwide and 6th out of 35 countries and territories in Asia (Ministry of Information and Communications). Industry 4.0 under the foundation of digital connection through the internet creates a large and potential market. This is a condition for developing forms of e-commerce and expanding markets. The income level of Vietnamese people is also on the rise, creating an attractive opportunity for investors and calling for FDI inflows from foreign businesses.

2. Moving trend of FDI flows in the world

The trend of FDI inflows in the world is shifting to industrialized countries because these countries have a suitable industrial infrastructure with new production methods and stable markets. Industrialized countries have the advantage of being technology-intensive because developed countries are available, including the US, Japan, Korea, Taiwan, China, Germany, etc. Countries possessing high-tech and knowledge resources, these countries are mainly the origin countries of information and communication technology, easily achieving high productivity. Representatives of countries in the Industry 4.0 bloc. Latecomers like Vietnam will be at a disadvantage if they keep the growth model based on exports and FDI.

Figure 3. Global FDI inflows 2007-2020 (Unit: billion USD, %)



(Source: Souce, UNCTAD)

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A. Loss of comparative advantage in cheap labor and natural resources

Labor costs in Vietnam are relatively low, which was previously considered an advantage when attracting FDI. The industrial revolution 4.0 with automatic production methods and management on a digital basis should reduce the number of workers in the production process. Therefore, cheap labor is no longer a competitive advantage for Vietnam in attracting FDI. Moreover, this redundant labor force can also become a burden on society in terms of job creation. Typically, in the textile industry, in the past in industrialized countries due to a lack of human resources, this industry was transferred to developing countries with abundant and cheap labor forces such as India, China, and Vietnam. … Nowadays, the replacement of robots will create high-quality, low-cost products. Machines gradually replacing humans will become an inevitable trend, and the area attracting FDI with cheap labor will no longer have an advantage. Shortly, there will be about 6.2 million workers in the textile, garment and footwear industry in Southeast Asia at risk of losing their jobs. In Vietnam, the rate of workers at risk of being laid off is approximately 86% in the textile, garment and footwear industry. According to a report by the International Labor Organization (ILO), technology can replace 65% of workers in textiles, leather and footwear in Indonesia, 86% in Vietnam, and 88 in Cambodia in the next decade. The digital revolution creates a breakthrough in finding new materials and new energy, so traditional energy sources such as oil and natural resources are strongly affected when the world is no longer so dependent on coal and oil.

B. Shortage of high-quality labor resources

According to the ILO, the problem Vietnam faces today is the quality of human resources. Highly qualified workers are usually trained at the college level or higher, have the knowledge and skills to perform complex jobs, and quickly adapt to technological changes. Through a survey of the World Bank on meeting the requirements of employers for 7 Southeast Asian countries, including Vietnam. As a result, "attitudes were assessed as severely deficient, with critical thinking skills, information technology skills, leadership skills, and problem-solving skills largely lacking". Another survey by ILSSA- Manpower also found that 30% of FDI enterprises have difficulties in recruiting workers with "weakness in the ability to recognize, absorb and apply new technologies, computer skills. basic". This becomes a major barrier for Vietnam to access FDI capital in the context of increasing requirements for skilled workers.

3. Proposing several solutions to enhance the attraction of FDI capital in the industrial revolution 4.0

A. On the side of the Government

First: Create a favorable investment environment to attract large investors, promote Vietnam to participate in the global value chain, and absorb advanced technology. Thereby promulgating preferential policies to encourage high-tech investment projects to attract capital from abroad. In addition, the government must create a legal corridor, amend and supplement the provisions of the law on policies related to the content of opening trade, science and technology, and training of human resources, especially high-quality human resources to meet the needs of the industrial revolution 4.0.

Second: There should be financial support policies as well as administrative procedures for new technology fields. Besides, it is necessary to promote programs to support start-up projects because this is the source of the incubation of creative ideas to apply new technologies in the world.

Third: The State needs to step up international cooperation to promote research, development and technology transfer in the 4.0 revolution.

Fourth: Raise awareness for the business community about Industry 4.0, consider this an opportunity to narrow the technology gap and strengthen the connection between Vietnamese enterprises and the economy in the region and the world. Invest in developing high-quality human resources. Changing the education and training system in the direction of modern education, focusing on the fields of information technology, mathematics, biochemistry...

B. On the side of Enterprises

First: Businesses need to raise awareness about Industry 4.0 to quickly catch up with international trends, avoiding the risk of falling behind in the technology race. Since then, proactively applied digital science and technology to production, reducing product costs to increase competitiveness in the consumption market.

Second: Businesses must link into an industry ecosystem for easier connectivity and compatible digital technology applications between businesses.

Third: The recruitment, training and retraining of human resources must be renewed to meet the requirements of new production methods. Because in the era of Industry 4.0, human resources require high skills to be able to keep up with the progress of science and technology.

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Fourth: Businesses use the internet and communication applications to provide business information to MNEs, enhancing their ability to participate in the global value chain.

IV. CONCLUSION

With the advantages that Vietnam is "leading" before other investment "competitors" such as stable politics, macroeconomic stability and development potential, the ability to access a large market thanks to signed free trade agreements makes Vietnam a safe country, The most attractive investment destination for foreign investors. Vietnamese enterprises are willing to cooperate in welcoming FDI flows from countries with abundant capital and high technology levels. Although Vietnam has not avoided the impact of the Covid-19 pandemic, it is still considered a "healthy land" to attract high-quality FDI after the Covid-19 epidemic and become an ideal destination for FDI inflows.

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