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Solutions to Enhance Foreign Direct Investment Attraction to Vietnam in the Digital Transformation Phase

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Abstract

The reality shows that developing countries often face capital and technology shortages, outdated industrial production techniques, small-scale production, low labor productivity, low per capita GDP, low GDP growth rates, low savings rates, underdeveloped foreign trade with a trade deficit, exporting raw materials and semi-processed goods, a development gap compared to advanced countries, and dependence on developed countries in terms of trade, technology, foreign aid, and expertise. This is referred to as the "vicious circle" of poverty by Paul A. Samuelson, which requires an external boost. According to him, this boost includes capital, technology, expertise, etc. Therefore, attracting foreign direct investment (FDI) is considered an effective solution for the socio-economic development of developing countries. Consequently, these countries pay special attention to studying the factors that influence FDI attraction policies to timely adjust their policies to optimize FDI attraction and serve the process of economic and social development. Evaluate the attraction of foreign direct investment and examine the factors influencing foreign direct investment attraction. Based on that, propose solutions to enhance the attraction of foreign direct investment in the current phase.

Keywords: *foreign, investment, digital, transformation, technology, business.*

1. Introduction

Although the history of foreign direct investment (FDI) began to take shape in the late 19th century and experienced significant growth after World War II, there are still various concepts and definitions of FDI. According to the International Monetary Fund's survey on FDI standards in 2000, different countries have different criteria for identifying foreign direct investment. The Organization for Economic Cooperation and Development (OECD) and the IMF have recommended that a company is considered a foreign direct investment when the foreign investor owns or has voting rights of at least 10% of the capital or voting rights in that company. According to the World Trade Organization (WTO), foreign direct investment occurs when an investor from one country acquires an asset in another country along with managerial control over that asset. The managerial aspect distinguishes FDI from other financial instruments. In most cases, both the investor and the assets managed by that investor in the foreign country are business establishments. In such cases, the investor is often referred to as the "parent company," and the assets are referred to as "subsidiaries" or "branch offices." According to the International Monetary Fund (IMF), "Foreign direct investment is an investment task that involves a long-term relationship, reflecting a lasting interest of a resident entity in one economy (the direct investor) in an enterprise resident in an economy other than that of the direct investor (the direct investment enterprise) [7]. This concept highlights the

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purpose of FDI, which is to obtain long-term benefits for the investor and indicates the flow of capital brought into the host country by foreign investors. Theory and practice demonstrate that attracting foreign investment is a crucial solution for the socio-economic development of a country, particularly for developing nations. Notably, the successful implementation of investment attraction policies by countries in the 1970s, such as Japan, South Korea, China, Singapore, and others, has led to significant transformative shifts from underdeveloped economies to economic powerhouses with advanced production systems, developed social infrastructure, and high per capita income ranking globally. The achievements of these countries can be attributed, firstly, to their political awareness and determination, which enabled precise strategic planning and the establishment of appropriate legal frameworks and progressive mechanisms to attract and effectively utilize foreign direct investment. Another contributing factor to their success is the accomplishments of research in the field of economics, particularly studies related to foreign investment. It can be said that perspectives on international trade and investment, as well as its role in socio-economic development, have been explained for a long time, notably through Adam Smith's approach in his work "The Wealth of Nations" in the 18th century, which marked a significant milestone in the economic development of capitalist countries. However, subsequent crises have paved the way for progressive viewpoints, exemplified by the Keynesian school of thought. Keynes argued that the business sector and foreign entities play a crucial role in the GDP composition, an indicator commonly used to measure a nation's achievements.

2. Literature review

According to Stevens G.'s research (2000), political risk factors influencing foreign direct investment (FDI) include foreign exchange controls and restrictions on repatriating profits to the parent company, currency depreciation resulting from fixed exchange rate systems, specific actions by the government affecting FDI, the duration of a ruling government, inappropriate legislation, and debt crises. In another study by Wallace C.D., tax policies were found to play a significant role in investment location decisions. Additionally, political risk is also a factor impacting the investment location choices of companies. [1]. According to Edmund Malesky and colleagues' survey of 1,155 foreign direct investment (FDI) firms from 47 countries and territories worldwide operating in Vietnam, which accounted for 20% of the total FDI firms in Vietnam in 2010, it was found that 40% of foreign firms stated the need to invest in retraining their workers before they could start working at the company. This training requirement accounted for 8% of the total operating costs for FDI firms. However, after being trained, only 65% of the workers continued to work for the company. This indicates that Vietnamese labor is not as inexpensive as initially perceived in investment marketing and investor expectations. Consequently, only 18% of FDI firms expressed a positive perception of the quality of general education for the workforce in Vietnam [2].

3. Research Methodology

This approach integrates quantitative and qualitative methodologies to obtain a thorough comprehension of the research subject. By utilizing mixed methods research, researchers can collect and analyze both numerical and non-numerical data, enabling a more comprehensive perspective on the research inquiry.

4. Research result and discussion

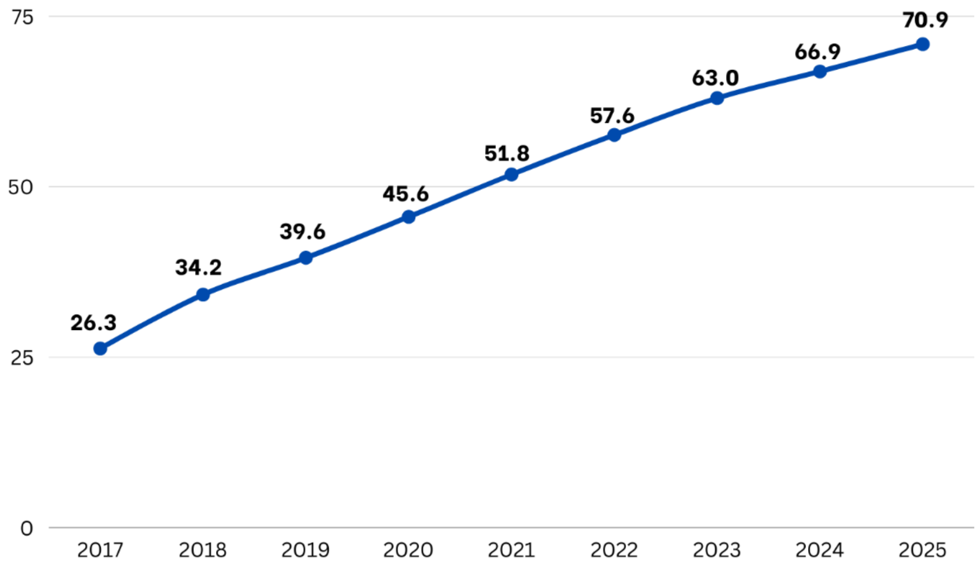

Figure 1. Users in the E-commerce market in millions (Vietnam)

Source: Statista 2020

Vietnam has experienced significant growth in its e-commerce market in recent years. The increasing internet penetration, growing smartphone usage, and a young and tech-savvy population have contributed to the expansion of e-commerce in the country. The availability of affordable smartphones and improved internet infrastructure have also played a role in driving e-commerce adoption. In 2020, the number of e-commerce users in Vietnam reached approximately 45.6 million, accounting for about 50% of the country's population. Vietnamese consumers have shown a preference for online shopping, with various e-commerce platforms gaining popularity in the country [6]. Some of the major e-commerce players in Vietnam include Shopee, Lazada, Tiki, and Sendo.

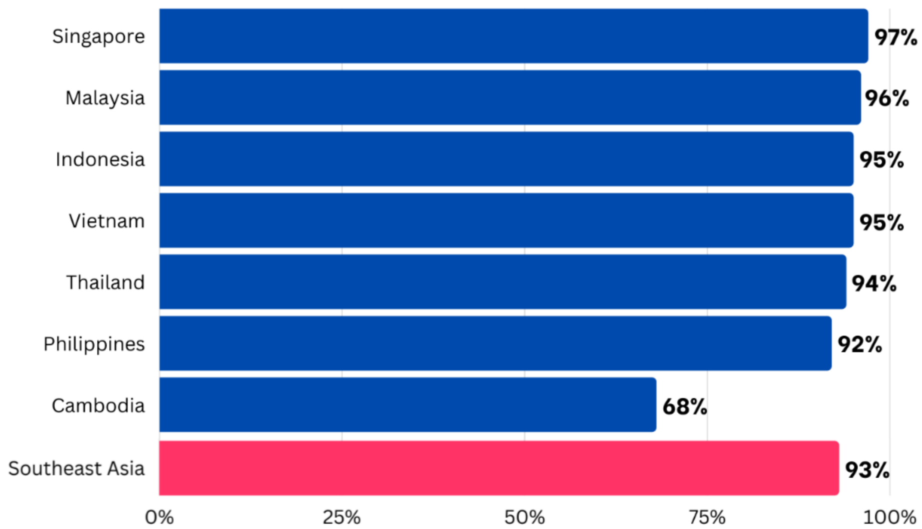

Figure 2. Cashless payments adoption rate in southeast asia in 2021

Source: Statista 2022

It's important to note that cashless payment adoption rates can vary across different countries and even within different regions of each country. Moreover, the COVID-19 pandemic has likely accelerated the adoption of cashless payments as people seek contactless payment options. Vietnam has witnessed a surge in digital payments, driven by increased smartphone penetration and the growth of e-commerce. Mobile payment services like MoMo, ZaloPay, and ViettelPay have gained popularity. Indonesia has a large population and a growing middle class, making it an attractive market for digital payments. Mobile payment platforms like GoPay, OVO, and Dana have gained traction in the country. Cashless payment adoption in Thailand has been on the rise, particularly in urban areas. Mobile payment services like PromptPay, TrueMoney, and Rabbit LINE Pay have gained popularity. Singapore has been at the forefront of digital payments adoption in Southeast Asia. The country's government has actively promoted cashless payments, and the majority of transactions are now made electronically [4]. Various mobile payment options, such as PayNow and GrabPay, are widely used. Malaysia has also seen significant growth in cashless payments, driven by the government's efforts to promote a cashless society. Popular digital payment options in Malaysia include Boost, GrabPay, and Touch 'n Go eWallet.

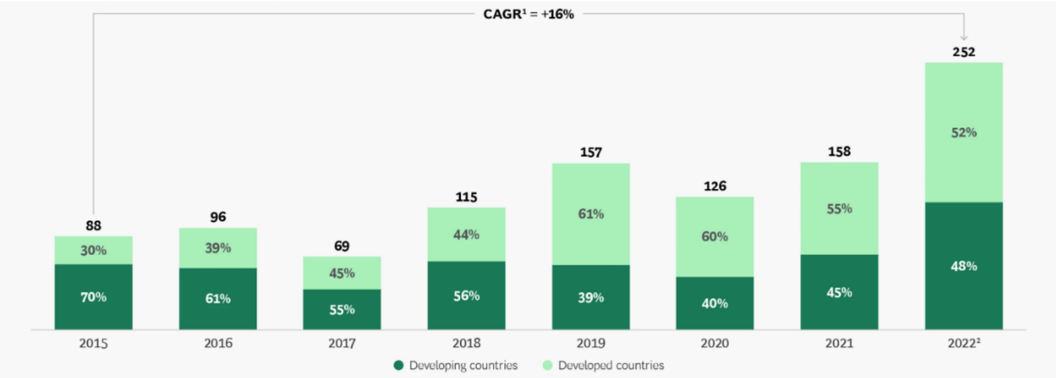

Figure 3. Green FDI Flows are rising, but since 2019 most go to developed countries

Source: FDI Markets 2022

In advanced nations, the transition towards green initiatives has been supported by both substantial domestic capital and significant inflows of green foreign direct investment (FDI). This trend is being further accelerated by the introduction of green incentives in initiatives like the US Inflation Reduction Act of 2022 and the upcoming European Green Deal Industrial Plan. However, developing countries have generally received a limited portion of these investments. Consequently, the failure to effectively attract green FDI is a major factor contributing to the developed countries' inability to fulfill their commitment, made in 2009, of mobilizing $100 billion annually to support climate action in developing nations. Addressing this situation is an urgent and pressing matter. Emerging market and developing economies (EMDEs) are confronted with the challenge of transitioning to greener economies while grappling with limited financial resources, high levels of post-pandemic debt in many cases, and regulatory barriers to investment. In comparison to developed countries, EMDEs have made less progress in implementing sustainable practices, although the average cost of emission reduction in these economies is approximately half that of advanced economies. Currently, the per capita contribution of most EMDEs to global emissions remains relatively small. However, as these economies strive to improve living standards for their populations and experience urban growth, a significant proportion of future energy consumption growth will be driven by them. If these economies are unable to decouple economic growth from greenhouse gas emissions, the climate challenge becomes even more formidable.

5. Recommendation

Enhance the country's digital infrastructure, including broadband connectivity, network reliability, and data security. This will provide a robust foundation for businesses to operate and attract FDI in the digital sector. Invest in research and development (R&D) and innovation capabilities to create a conducive environment for technological advancements. Encourage collaboration between universities, research institutions, and businesses to drive innovation and attract FDI from companies seeking technological expertise. Focus on developing a highly skilled and tech-savvy workforce. Invest in educational programs and vocational training that align with the demands of the digital economy [5]. This will not only attract FDI but also enable local businesses to thrive in the digital era. Streamline and simplify regulatory processes and frameworks related to FDI. Reduce bureaucratic hurdles and create a transparent and investor-friendly environment. This will facilitate the entry and operations of foreign companies in Vietnam. Support and nurture a vibrant startup ecosystem. Provide incentives, funding, and mentorship programs to encourage the establishment and growth of digital startups. This will attract FDI from investors looking for emerging technological ventures. Enhance intellectual property rights protection to instill confidence in foreign investors. Implement robust legal mechanisms and enforce strict regulations to safeguard intellectual property. This will encourage FDI in knowledge-intensive industries. Foster collaboration between the government, private sector, and international organizations to create an enabling environment for FDI [3]. Encourage public-private partnerships in infrastructure development, R&D initiatives, and capacity building programs. Identify key sectors for digital transformation and offer targeted incentives for FDI in those areas. This can include tax incentives, investment grants, and sector-specific support programs. Strengthen cybersecurity measures to protect businesses and investors from cyber threats. Develop comprehensive cybersecurity policies, promote awareness, and establish incident response mechanisms to ensure a safe digital environment. Establish clear regulations and frameworks for cross-border data flows while ensuring data privacy and security. This will attract FDI from companies that rely on seamless data transfer for their operations. By implementing these recommendations, Vietnam can create an attractive environment for foreign direct investment during the digital transformation phase, fostering economic growth, technological advancement, and job creation.

6. Conclusion

Vietnam can enhance its attractiveness for FDI during the digital transformation phase. Creating an enabling environment, developing digital infrastructure, nurturing innovation, and human capital, and strengthening government support will contribute to Vietnam's economic growth and position it as a competitive destination for foreign investors in the digital era.

Conflict of interests

None

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