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2018
FDI IN VIETNAM

MINISTRY OF PLANNING AND INVESTMENT

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30 YEARS OF FDI MOBILIZATION IN VIETNAM

New vision, new opportunities in new era

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Thirty years is not a long time for the development of a nation, but it is enough to comprehensively evaluate the policy of the Party and State which is to open and attract foreign direct investment (FDI). The evaluation results with a view to seeing the achievement and the flaws, to gaining experience, thus to set a strategic direction to attract, manage and improve the quality of the FDI, aiming to meet the requirements of development in the following period.

Important achievements in thirty years of attracting FDI

When the nation was under siege and embargo, faced many socio-economic issue, heavily dependended on foreign aid, and experienced a 3-digit inflation, industrial and agricultural production stagnation, and severe food and consumer goods shortages, the Party's Sixth National Congress in 1986 set out the Doi Moi (Reform) direction to build a multi-sectoral commodity economy and open up investment cooperation with foreign countries. On that basis, the National Assembly promulgated the Law on Foreign Investment in Vietnam in 1987. This was a fateful decision, a turning point in the perception and views of the Party and the State on FDI - a precondition for opening the market and attracting FDI, regarded as a completely new and important resource for the country's socio-economic development, and also a positive contribution to the country's development of the initial institutional foundation for business investment and the market economy. In 1990 the Law on Companies and the Law on Private Enterprises were promulgated, and the Law on Domestic Investment Promotion in 1994...

In thirty years of attracting FDI, we has achieved many important results. In the beginning, the FDI played the role of a "push" to create a breakthrough, providing vital resource to the development, stimulating internal resources to exploit the country's potential and the advantages, thus carrying the country out of the crisis.

After only 10 years of "Doi Moi", as a result of the FDI, GDP annual growth rate in Vietnam reached 8.2%, which

laid a foundation for the socio-economic development in the following period.

Over the last 30 years, FDI sector has been growing, becoming one of the most dynamic sectors of the economy. By the end of August 2018, there were 26,646 operating FDI projects, with a total registered capital of USD 334 billion, of which about USD 185.62 billion, equivalent to 55%, has been paid. These projects' contribution to the country's socio-economic development can be summarized in several keys as follows:

First of all, FDI is an important source of the total capital for the development of the whole society and has become a driving force of the economy's growth. The share of FDI in total social investment increased from nearly 15% in 2005 to 23.7% in 2017, and in 2008 this proportion reached 30.8%.

The contribution of FDI to the economic growth has been increasingly big. Its share in GDP increased from 6.3% in 1995 to 19.6% in 2017. The sector also contributed significantly to the State's budget, with the contribution rising from USD 1.8 billion (1994 - 2000) to USD 14.2 billion (2001-2010). In the 2011-2015 period, the budget collected from the FDI sector reached USD 23.7 billion, accounting for nearly 14% of the total budget; in 2017, nearly $ 8 billion to the State's budget, equivalent to 14.46%.

FDI has played an important role in promoting the economy's restructuring. Currently, 58.2% of the FDI capital is concentrated in the processing and manufacturing industry, generating over 50% of industrial production value, leading to forming some key industries of the economy, such as telecommunications, oil and gas, electronics, information technology, etc., laying the foundation for long-term growth, as well as accelerating the modernization and industrialization of the country.

In addition, FDI has contributed to the development of high quality service industries such as banking and finance, insurance, auditing, law consultancy, shipping, logistics, education and training, healthcare, supermarkets, hotels, tourism, etc.; creating new ways of distributing goods and consumption, promoting domestic trade; shifting the agricultural structure, raising the value of agricultural products for export, creating a number of new production methods which has improved poor and outdated farming practices and infrastructure in some areas.

FDI has also affected the economic structure and speeded up the process of industrialization and modernization in some areas, contributing to the transformation of development space, new urban areas, industrial parks, processing zones and economic zones, thus changing the country's image and contributing to the improvement of Vietnam's seaport system, making the country one of the links in the global supply chain of the world's leading maritime groups and seaport operators.

Moreover, FDI has also contributed significantly to the promotion and expansion of export markets, the restructuring of export commodities and step by step introduction of Vietnam into the global production network and value chain. The sector has carried out technology transfer in some industries and domains and have certain spillover effects on the domestic enterprise sector; promoting the development of supporting industries ...

Besides, the attraction and use of FDI over the past 30 years has contributed positively to the improvement of the economic and business investment environment in line with the principles of the market economy, increased the capacity of economic management and corporate governance, supported the reform of state-owned enterprises, and enhanced the economy's competitiveness.

New context, new vision

Although Vietnam has become a bright spot in the region for the country's FDI attracted and achievements in those 30 years confirmed, some drawbacks remain, such as the enterprises' pricing, tax evasion, and causing environmental pollution; spillover effects and linkages between FDI and the domestic sector not as well as expected; orientation to attract FDI by sector and partner being limited; the target of attracting technology (high technology, technology source) and technology transfer not yet being reached though good technologies have been attracted.

Summing up 30 years of attracting FDI and looking ahead, we must have policies to overcome these shortcomings. Moreover, changes in the global, regional and domestic economic context also require to make changes in the strategic direction of FDI attraction in the coming time.

The world and the region are moving in a positive direction, but risks and challenges still remain. The size of the global FDI inflows tends to decrease. Forms and methods of non-traditional investment tend to increase. The trade war between the United States and China, the rise of protectionism and anti-multilateral trade

liberalization are also changing the trend of global capital inflows.

In this context, the Industry Revolution 4.0 is taking place at high speed and having a profound impact on all aspects of the socio-economic life around the world, making a drastic change in production, service, business, consumption, communication, and even in people. This revolution is posing a challenge, while also providing Vietnam with opportunities to "take off", to catch up with developed countries, if we implement a comprehensive, long-term strategy on the Industry Revolution 4.0.

Moreover, with the free flow of capital, goods, services and skilled labor in the ASEAN Economic Community, competition for FDI among countries in the region, especially in some countries such as Thailand , Malaysia and Indonesia in high-tech industries and modern services is becoming intense, while our country's competitiveness is quite limited compared to these countries.

Meanwhile, in Vietnam, significant progress has been made on socio-economic development, highly appreciated by the international community. The economic restructuring and development model innovation have produced positive results, the quality of growth is being raised, the country is negotiating to participate in FTAs...

The private sector has been developing strongly, and a number of private domestic economic groups have been formed and developed, which is a prerequisite for joint ventures and effective cooperation with foreign investors. The equitization of state-owned enterprises is accelerating, thus creating more economic space, opening up opportunities for the private sector and

FDI sector, especially cross-border M & A operations of foreign investors.

Vietnam is perfecting its market economy in a full and modern manner, integrating into the international arena. The process of economic restructuring and reform of the growth is taking place. The strategic directions for green and sustainable growth are being implemented.

New direction

Vietnam is in the last years implementing the Socio-Economic Development Strategy for the period 2011-2020 and preparing for the development of the Socio-Economic Development Strategy for the period of 2021-2030 with the objective to make our country a modern industrialized country soon.

To achieve these development goals, we need to continue to mobilize huge resources for development investment. Besides maximizing domestic resources, it is necessary to harmonize the use of foreign capital. As ODA is reducing, and indirect investment capital is unstable, FDI continues to play an important role.

In order to attract and ensure the quality and efficiency of FDI usage, it is firstly necessary to continue improving the economic and administrative reform and the judicial system, improving the business investment environment according to modern market standards and international integration; assuring efficient operation of markets; promoting the marketization of production factors; focusing on overcoming inadequate infrastructure, human resources; developing domestic enterprise system.

In the coming time, the attraction and use of FDI should be more substantive, both in terms of quantity and quality, both in width and depth, the latter being focused; ensuring sustainable development, encouraging innovation, creativity and close linkages between FDI enterprises and domestic enterprises, raising Vietnam's position in the global production network and value chain, and the level, creative capacity of the Vietnamese workforce;

Accordingly, the strategic direction on attracting FDI needs to be adjusted as follows:

First, in terms of sector and industry, to prioritize attracting FDI in hi-tech industries, advanced technologies, environmentally friendly technologies, clean energy and renewable energy; production of medical equipment, provision of health care, education and training, high quality tourism, financial services, logistics and other modern services; agricultural production of high technology, smart agriculture; development of modern technical infrastructure, especially new industries on the basis of industry 4.0.

To ensure the harmony between export growth and investment in the development of products and services with added value and use of domestic raw materials, develop supporting industries and train domestic workforce.

Attracting foreign investors, FDI enterprises, especially multinational corporations cooperating with domestic enterprises to form and develop industrial linkage clusters in each value chain.

To continue attracting FDI into sectors where Vietnam still has advantages such as textiles, footwear ... but priority should be given to high value-added production processes, coupled with intelligent and automated production processes.

Secondly, in terms of locality and regions, to attract FDI in line with the advantages, conditions and levels of development and planning of each area in the regional linkage, ensuring the overall socio-economic and environmental efficiency. For sensitive areas and areas related to national defense, security, border areas, sea areas, islands, and exclusive economic zones, attraction of FDI should be considered carefully, putting first national defense, security and national sovereignty.

Furthermore, to perfect mechanisms and policies to create new motivation for attraction and use of FDI in industrial parks, export processing zones, economic zones, hi-tech parks and hi-tech agricultural parks.

Thirdly, in terms of markets and partner, To multilateralise and diversify to attract FDI from potential markets and partners, especially our current markets and partners such as Japan, South Korea, Singapore, the USA, Germany, UK,etc. Effectively exploit the relationship with strategic partners (comprehensive partners, comprehensive strategic partners), attach importance to the world's leading developed countries, TNCs who hold advanced technology, and modern management level.

To take initiative in monitoring and evaluating the trend of FDI flow and backdated and environmen-unfriendly technology to Vietnam from some countries in the region so as to select investment projects suitable to the direction.

FDI attraction from small- and medium-sized enterprises, small and micro-scale projects must ensure conditions for technology upgrading and joining the global production network and value chain, and supporting industry development.

Take advantage of Vietnam's market share in the ASEAN Economic Community and opportunities created by free trade agreements to attract FDI.

Vietnam is entering a new stage of development. FDI sector will continue to be part of the economy, encouraged for long-term development. The Government will always accompany investors, treat them fairly, facilitate conditions for foreign investors and businesses to invest and do business successfully, and contribute to the growing prosperity of Vietnam.

We thank the investors who have been with Vietnam for the past 30 years and look forward to your continuous accompany in the future./.

ROLES OF THE SUPPORTING INDUSTRY, CURRENT STATUS, DIRECTIONS AND SOLUTIONS TO ATTRACT FOREIGN INVESTMENT IN DEVELOPING THE SUPPORTING INDUSTRY

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Roles of the supporting industry

In the industrial development, especially in a country that is shifting towards the modernization and industrialization like Vietnam today, the supporting industry (SI) plays a fundamental role in manufacturing industries in particular and in the entire economy in general. Such roles are demonstrated in the following aspects:

Ensure the proactivity of the economy: the SI supplies materials, spare parts, semi-finished products locally, thereby, ensuring the economy's proactivity and reducing its dependence on foreign countries and fluctuations in the global economy.

Help reduce trade deficits. the SI contributes to the effective use of local resources, reduces imports of input raw, auxiliary materials, spare parts, limits exports of natural resources and raw processing products (crude oil, ores, coal, rubber, etc.). Thus, growing the SI is one of the important measures for addressing trade deficits in a developing country like Vietnam.

Increase competitiveness of key industrial products: In addition to ensuring ready supply, the SI contributes to reducing costs of key industrial products considerably thanks to reduced transport, storage costs and utilization of cheap labor and locally available resources, thereby, producing typical domestic products, making them much more competitive as compared to those produced from global supply chains.

Increase value added of industrial products: Upstream and downstream are two main stages which create value-added and require the participation of the SI while the midstream stage including assembly and processing activities creates the least value-added. The value-added of industrial products will increase when there are raw and auxiliary materials and spare parts locally supplied right in the upstream stage with the engagement of the SI.

Develop small and medium sized enterprises (SMEs): the SI mostly consists of SMEs. Thus, developing the SI also means developing SMEs. Particularly, growing SMEs is one of the effective measures to address the economic crisis and represents a counterbalance to giant economic corporations which are often subject to the fastest and strongest impacts of the global economic crisis.

Open up opportunities to attract FDI. Underdeveloped supporting industries will make companies which produce finished products heavily depend on imported input materials and spare parts. Although such materials can be inexpensively supplied from foreign countries, various types of costs such as transportation, insurance, logistics, and locked-up capital due to import procedures and storage will increase input costs. Foreign investors will hesitate to invest in the production and manufacturing sector of an economy which has an underdeveloped SI. On the contrary, developing a SI which can supply materials locally will be highly attractive to them.

Current status of supporting industry development in Vietnam

Vietnam has gained remarkable socio-economic achievements after 30 years of renewal and opening the economy to attract FDI. Its economic growth was stable at the rate of 6.8%/year in the 2000-2010 period, 5.8% in the 2011-2015 period and recovered to 6.81% in 2017. The economic structure has been shifting towards industrialization. The share of processing and manufacturing industries in GDP increased from 13.4% in 2011 to 15.3% in 2017. The export structure has also been shifting in line with the process of industrialization, modernization and making significant contributions to the national economic growth. Especially, the foreign enterprise sector (FDI) has become the most dynamic driver of growth and played an increasingly important role in the socio-economic development and achievements of Vietnam. Currently, FDI accounts for 22-25% of total capital on social investment, 55% of total industrial value, 70% of total export turnover, 18% of total state budget revenue, 20% of GDP and creates about 3.7 million jobs.

Although Vietnam has achieved positive economic growth, the engagement of and benefits for domestic firms have not been up to expectations. Local firms haven't considerably improved their direct exports, especially those in manufacturing industries. Even indirect export through supply of input products for FDI enterprises remains a big challenge to local enterprises. In other words, the SI hasn't strongly played their roles as they should in the context where the economy is shifting dramatically towards industrialization like Vietnam. This poses a lot of difficulties and challenges to local businesses if they want to deeply participate in the supply chains of FDI firms, especially in the fourth industrial revolution which is creating a lot of fast and drastic changes in all aspects and stages of the global supply chain. Therefore, the government of Vietnam is increasingly focusing on and giving priority to the development of its SI, particularly since 2015.

Supporting industry development policies of Vietnam

Supporting industry development policies before 2015 are stipulated in 3 different documents as follows:

Decision No. 34/2007/QD-BCN of the Ministry of Industry (now the Ministry of Industry and Trade) dated July 31, 2000 approving the SI development plan until 2010 with a vision towards 2020 is the first document on SI development orientations in Vietnam. The plan sets out directions and solutions to the development of the SI for 5 downstream sectors including garment and textile, leather and footwear, electronics-information technology, automobile manufacturing and assembly, and mechanical engineering.

Decision No. 12/2011/QĐ-TT dated February 24, 2011 of the Prime Minister promulgating the policies on development of some supporting industries. This decision affirms the role of the SI and the Vietnamese government's determination to develop supporting industries. This was the first document separately stipulating development policies of supporting industries including policies to stimulate the development of supporting industries in the mechanical engineering, electronics-information technology, automobile manufacturing and assembly, garment and textile, leather and footwear, and high-tech sectors.

Decision No. 1556/QĐ-TTg dated October 17, 2012 of the Prime Minister approving the scheme on supporting the development of small and medium-sized enterprises (SMEs) engaged in supporting industries: This scheme directly supported SMEs operating in the SI and provided different solutions related to policy, institution to develop SMEs in this field.

Supporting industry development policies after 2015 were legalized in the following legal documents:

Law on Investment 2014 and Decree No. 118/2015/ND-CP dated November 12, 2015 specifying and guiding the implementation of several articles of Law on investment: the manufacturing of supporting industrial products must be included in the list of industries subject to special investment incentives.

Law No. 71/2014/QH13 amending and supplementing a number of articles in Law on Taxes, supplemented preferential corporate income tax provisions applicable to projects which produce prioritized supporting industrial products.

Decree No. 111/2015/NĐ-CP dated November 3, 2015 on supporting industry development stipulated 6 sectors enjoying support and incentives including garment and textile, leather and footwear, electronics, automotive, mechanical engineering and high-tech

Circular No. 29/2018/TT-BTC dated March 28, 2018 of Minister For Finance guiding the planning, management and utilization of budget under the supporting industry development program.

Circular No. 55/2015/TT-BCT dated December 30, 2015 of Minister of Industry and Trade regulating procedures for incentive certification and post-check of projects for manufacturing of supporting industrial products in the list of prioritized industrial products.

Additionally in 2017, the government issued other Decisions on approving supporting industry development programs as follows: (i) Decision No. 68/QĐ-TTg dated January 18, 2017 of the Prime Minister approving the supporting industry development program from 2016 to 2025; (ii) Decision No. 10/2017/QĐ-TTg dated April 3, 2017 of the Prime Minister issuing the regulation on management and implementation of supporting industry development program.

Recently, Law on supporting SMEs dedicated Article 19 on supporting SMEs to participate in industry clusters and supply chains with specific provisions and this defines the highest legal framework which is permanent, consistent and comprehensive to support SMEs in their production of supporting industrial products.

Generally, SI development policies have been adjusted in accordance with conditions and development of the country in a new context through practical solutions. However, some of the policies support the SI passively without clearly defining time of support and this can lead to adverse effects: businesses rely heavily on supporting policies. On the other hand, existing SI development policies still lack effective mechanisms to connect suppliers with manufacturers and there aren't policies on leveraging production capacity of export processing enterprises (mainly FDI) to enhance domestic value added of key products and develop supply chains right in the local market; policies on attracting FDI to supporting industrial product production industries are not adequately attractive to attract big investors and create wider effects on the whole sector.

Current development status of SI enterprises

Outcomes

SI enterprises have made encouraging progress in terms of both quantity and quality. The number of those enterprises

increased by 11.5% in the 2006-2016 period. As of 2016 year-end, there were about 1,800 companies producing spare parts and components and over 1,500 producing materials for the garment-textile and the leather-footwear industries. Total workers in such enterprises were about 550,000.

Industrial production value of enterprises in the SI in 2016 increased by 20.9% as compared to 2015. Export turnover of the industry reached over $32 billion in 2016. Main export markets are China, Korea, the US, Japan. Spare part producers of Vietnam have gained relatively good capacity in some fields such as producing molds of all types, components and parts for bicycles, motorcycles; standard mechanic components, electric wires, plastic components, technical rubber products and tires and tubes of different kinds. In 2016, spare part and component export turnover were $26 billion, up 24% as compared to 2015.

Thanks to SI enterprises' ability to supply a number of spare parts and components to local industries, the localization rate of some industries of Vietnam has improved, specifically:

Electronics: the localization rate of consumer electronics and home appliances was 30%-35% and that of automobile and motorbike manufacturing was about 40%.

Automobile manufacturing and assembly industry: The localization rate of some car models is high and even exceeds the target set in the Vietnam's automobile industry strategy and plan as well as basically meets the needs of the local market (about 70% of demands for trucks of less than 07 tons with the localization rate of 55% on average and about 90% of demands for coaches from 10 seats and special-purpose vehicles with the location rate from 20% to 50%).

Shortcomings

The number of enterprises operating in SI remains small and only accounts for 0.4% of total firms and 6.3% of total processing and manufacturing enterprises. The number of local firms is even smaller, estimated at about 30% of total firms operating in supporting industries. Most of them are private small-sized businesses and there is a lack of reputable large-sized ones with long-term, well-developed business strategies and good brands as well as competitiveness to compete with big enterprises in the international market.

Local firms in the industry have just been able to produce simple big components and spare parts through the adoption of uncomplicated production technologies with a very low localization rate. The main cause is local businesses have a much lower level of technology than that of FDI operating the same sector and enterprises from other countries; their production and management capabilities haven't met requirements of FDI firms' supply chains. One of the biggest shortcomings of local SI firms is their research and development capability. Thus, they often face difficulties in fully satisfying strict requirements for quality, technical standards, sources of materials and purchase policies of key FDI manufacturing companies.

The linkage between local SI firms and FDI companies remains weak, the transfer of technology and management experience is still limited partly due to the area of investment, market orientation and ownership forms of FDI firms. Currently, FDI in the manufacturing sector still mainly concentrates on labor-intensive, export–oriented and buyer-driven (importers like EU, the US, Japan) industries such as garment and textiles, leather-footwear, automobile-motorbike. Thus, such industries mainly use imported materials as inputs for production. From the view of businesses, the majority of FDI firms in Vietnam are 100% foreign-owned companies, thus, there exist certain gaps in terms of business practices and methods, management capacity between such firms and Vietnamese ones, leading to weak linkages and poor partnership among them.

Directions and solutions to SI development

Directions

Given the roles and current development status of the SI, lessons learnt from experience of other countries in the world, what directions should be defined to grow the SI more strongly and effectively in the coming time. As the ministry in charge of the SI, the Ministry of Industry and Trade has set basic directions on SI development in the years to come as follows:

Investment in close connection with industrial production and trade system organization

Supporting industries typically develop around assembly factories, industrial zones, urban centers which have the best infrastructure system and highly skilled workforce. Thus, one of the important directions is to develop a well-planned SI without damaging local socio-economic environments.

Focus on quality and socio-economic efficiency of investments

Currently, there are many FDI projects producing high-tech products, however, they do not create much local value-added as machines, equipment, materials and production technologies are all imported and their outputs are fully exported. In other words, these are export processing projects, thus the only benefit to the country is employment for the workforce. Therefore, the SI should be developed towards heightening the localization rate, using domestic inputs rather than imported inputs. This not only helps increase the localization rate of products but also makes wider impacts on local SI companies when they become suppliers of FDI firms.

Develop an environment-friendly SI

The production of the SI mostly requires a relatively high level of technology and preciseness together with strict standards by assemblers or enterprises producing component groups. Such standards fully meet technological, environmental and social requirements. Thus, it is critical to attract FDI projects which produce parts and components for production of international standard finished products for export and local consumption demands and serve as the basis for the improvement of the environment and living standards.

Enhance the transfer of production technology, management experience via supporting industries

Investment projects of big foreign

corporations have a high proportion of inputs which are locally supplied parts, components and materials and their gradually increasing supply of products to the domestic market should be prioritized and encouraged. This will help create local production and value chains, foster the transfer of production technology, management experience from FDI companies to local firms.

Develop the SI in close association with highly skilled industrial human resources

Together with modern machines, highly-skilled and experienced workforce is also required for producing SI products. The SI development will directly promote the training of its workforce. Thus, projects that attract highly-skilled industrial workforce should be focused on. Training and development of highly-qualified human resources should be also proactively focused on to supply international standard SI enterprises with skilled employees.

Solutions

To realize aforementioned development directions for the SI to grow and participate more deeply in the global production and value chains, it is critical to focus on the following medium and long-term solutions:

Develop and implement the SI development program for priority industries and strengthen the linkages between local and FDI enterprises.

Adjust and complete incentive policies for strategically prioritized supporting industries and products on the basis of applying equal incentives to local and FDI SI enterprises.

Effectively implement the industry restructuring plan for the 2018-2020 period with a vision towards 2025 in which one of key tasks is to develop some priority industries and supporting industries as a momentum to grow the entire industry sector.

Supplement, adjust FDI attraction policies with more focus on investment efficiency and quality. The policy making mindset should change towards not only attracting foreign investors to Vietnam but also actively introducing and enhancing the linkage between local businesses and FDI firms so that local firms can be a part of FDI supply chains. This is one of important points regarding FDI attraction and utilization which was clearly stated in the Resolution of the XII Plenum of the Party.

FDI attraction policies should help reduce spontaneous, fragmented investments, make optimal use of foreign capital to develop a number of priority industries, and realize some specific goals: enhance technological capabilities and human resources quality of the SI; improve competitiveness of priority industries and focus on local SI enterprises.

Such policies need to create a legal framework for diversifying forms of investments, business partnerships, joint venture, association, transfer of property rights, exchange of employees, etc. apart from conventional investment forms to improve the competitiveness of local SI firms and foreign ones running business in Vietnam.

Continue to complete incentive policies to encourage large existing FDI companies which have made great impacts in terms of modern technology, management level and developed production chains (such as Sam Sung, Intel, and Honda) so that those companies continue to stay, develop in Vietnam and increase their investments to become focal companies which manage the whole supply chain in the region and even around the globe.

On March 22, 2018, the Politburo issued Resolution 23-NQ-TW on Directions on the national industrial development policy to 2030, with a vision towards 2045", in which Vietnam set the goals of basically becoming a modernity-oriented industrialized country among the top three ASEAN countries in industry, with some of its industries being globally competitive and deeply participating in the global value chain by 2030 and becoming a modern, industrialized country by 2045. Improving FDI attraction to develop the SI is also an important task to realize the goals set forth in the Resolution. The globally liberalized investment and trade environment is bringing about opportunities to attract FDI to grow the SI of Vietnam, but also posing challenges for effective SI management and development. How to improve the performance of FDI attraction activity in association with SI development is the desire and responsibilities of ministries, industries, localities, and business communities. Efforts of Vietnamese businesses and institutional supports from the Government, competent state authorities, ministries, industries and localities are also required to realize the missions. The Resolution of the XII plenum of the Party also clearly outlined the ways to achieve such goals: "Improve FDI attraction, focus on technology transfer, advanced management and product consumption markets; actively select and have incentive policies for FDI projects which own advanced management approaches and modern technologies, play an effective role in the global value chains and are associated with local enterprises. Strengthen the linkages between FDI enterprises and local firms to develop a large-scale, high quality SI and manufacturing sector in close link with regional and global value chains"./.

TAX POLICY AND INVESTMENT INCENTIVES IN FOREIGN DIRECT INVESTMENT IN VIETNAM

MINISTRY OF FINANCE

Over the past 30 years, Vietnam has continually improved its financial institutions and incentives to attract and better manage foreign investment resources. In general, the financial incentives have focused on three areas: (i) Corporate income tax incentives, (ii) Import and export tax incentives and (iii) Incentive policies on land finance.

In terms of corporate income tax policies

Since 1987, when Vietnam issued the Law on Foreign Investment, the Government also began Phase 1 of tax reform in order to create an environment for all economic sectors to develop and attract foreign investment. In this phase, for the foreign investment sector, the common tax rate of profit tax is 25%. In addition, there were lower preferential tax rates of 10%, 15%, or 20% applicable for projects where investment is encouraged. Enterprises operating in accordance with the Law on Foreign Investment was exempted from profit tax for a maximum of 4 years since starting the business and enjoyed a 50% reduction in payable tax for a maximum of the next 4 years depending on areas and industries where investment was encouraged or depending on geographic areas of operation. In case the enterprise used the profit generated to re-invest, the paid profit tax on the profit used for re-investment would be refunded. Thus, with low tax rates and longer period of tax reduction, the tax policy in this period shows the preferential treatment of foreign investors over domestic investors (the income tax rate for domestic enterprises according to regulations in 1997 was still 32%).

From 1995 to 2000, Vietnam implemented the second phase of tax reform as Vietnam began to join international and bilateral trade agreements. In 1999, the Law on Corporate Income Tax replaced the Law on Profit Tax and the tax on profit transfer to foreign countries was abolished. The Law on Corporate Income Tax allowed the application of several incentives to promote investment, such as tax exemption in the first two years for newly established manufacturing facilities and a 50% tax reduction over the next 2 years; if investing in areas, industries, and economic zones enjoying tax incentives, they could enjoy lower tax rates than other projects. The longest period of exemption and reduction was 13 years (4 years of exemption, 9 years of reduction). In addition, there were incentives of tax exemption and reduction for investment in new production lines, expansion, technological innovation, ecological environment improvement, improvement of production capacity, relocation of business establishments, incentives for exporters.

In addition, regulations such as applying 0% VAT to export goods and services and

regulations on tax refund or tax incentives, corporate tax exemption and reduction for business establishments with a high ratio of export value in their sales have helped enterprises to reduce the cost price of export goods and have more favorable conditions to compete on prices on the international market.

In the 2001 – 2010 period, the economy had moderately good progress after many years of attracting foreign investment capital and applying the law of promoting domestic investment. At the same time, the implementation of bilateral and multilateral commitments had led to a significant reduction in import tax revenue. Vietnam had implemented tax reform in phase 3 with the focus on realizing three objectives of being simple, equitable and effective.

In order to promote investment on the basis of ensuring revenue, the State had reduced the tax burden by reducing tax rates, simplifying the tax system, and expanding taxable subjects. The tax policies had clearly shown to be in line with the economic development direction of the State over different periods, namely encouraging the development of manufacturing and business, boosting export, encouraging enterprises to invest in areas with disadvantaged natural conditions to create uniform development among areas in the country, toward forming a reasonable economic structure and creating sustainable and stable income for the economy. In this period, the tax policies had contributed to eliminating discrimination among economic sectors, between domestic enterprises and foreign-invested enterprises. The imposition of tax obligations and tax incentives uniformly applied to both domestic enterprises and foreign-invested enterprises had created equality in tax obligations for all investors while building an equally competitive business environment for enterprises in all economic sectors and serving as an important step forward for both domestic investment and foreign investment.

From 2011 until now, the Government has been implementing the fourth phase of tax reform. In this period, the economic context of the country is undergoing many changes. Following the world economic crisis, combined with growth dependent on natural resources, low-quality and low-cost capital and labor have hindered the economic growth rate of Vietnam, which has required Vietnam to reform the growth model in the direction of improving quality and ensuring sustainability. The agricultural and rural sector has become one of the priority areas for growth in the coming time. In addition, international economic integration continues to be promoted in the direction of quality improvement and in-depth development. The new tax law and the Law amending and supplementing tax laws in this period have also been developed to serve these strategies.

Thus, in addition to reducing the common tax rates through amendments of the Law on Corporate Income Tax (28% in the 2001 – 2008 period, 25% in the 2009 – 2013 period, 22% in the 2014 – 2015 period, and 20% since January 1st 2016), high incentives in corporate income tax for some key sectors prioritized for investment have contributed to attracting investment, promoting business, creating favorable conditions for enterprises to increase savings, forming the basis to gain more resources to invest in the economy and boost growth.

Incentives on import tax rates

To implement the policy of promoting and attracting foreign investment and encouraging the production of alternative products to imported products, the 1991 Law on Export and Import Tax had provisions on some cases of tax exemption such as temporary import and re-export to participate in fairs and exhibitions, specialized imports for science, education, training, or goods as movable assets etc.

Most importantly, since 1991, the import tax policies have allowed import tax exemption for commodities that created fixed assets for foreign-invested enterprises or imported materials for processing for foreign partners. In the 1995 – 2000 period, the Government continued to reform import and export tax on the principle of prioritizing the import of machines, equipment, supplies, and raw materials for production (the majority enjoyed a 0% tax rate) over consumer goods; prioritizing export of processed commodities (0% tax rate) over commodities in the form of raw materials. In July 1995, Vietnam officially entered the ASEAN Free Trade Area (AFTA) and signed the Common Effective Preferential Tariff (CEPT). This is the first free trade agreement that Vietnam entered into, marking an important step of progress in Vietnam's international economic integration.

Since 2001, together with broad and in-depth international integration, Vietnam has continued to fine-tune policies on import and export tax to fulfill international commitments. In January 2007, Vietnam became a WTO member, thus officially beginning to participate in the global trade system. Participation in WTO is an important foundation for Vietnam to continue expanding international trade relations and participate in other multilateral and bilateral free trade agreements. As of September 2018, Vietnam has entered into 17 free trade agreements, 10 of which have been signed and the commitment of tariff reduction is being implemented, 4 have been signed or the negotiation has concluded and the agreements are ready to take effect; another 3 are undergoing negotiation. The law on import and export tax is continuing to be updated and amended in the years of 2001, 2005, and 2016 to meet the requirements and commitments of integration while continuing to fine-tune incentive policies for export and the attraction of foreign investment.

Incentive policies on land finance

In the pre-2005 period, the introduction of the 1993 Law on Land had marked an important development in land finance policies with a number of progressive regulations to gradually be in line with the market mechanism. The decrees and texts guiding the implementation of the Law has gradually shown its benefits in practice, especially land finance policies such as: the policy on charging land use fee, the policy on charging for the lease of land and water surface, and the Government's amending and supplementing documents, and guiding documents of the Ministry of Finance on these above policies. Financial policies related to land finance issued in each specific context and period have created positive changes in the use of land finance resources for the socio-economic development of the country. In addition, there have been regulations on the exemption and reduction of land use fee, and lease fee for land and water surface which have helped to improve the investment environment and reasonably settled between the State's interests with the interests of land users.

In the post-2005 period, to support enterprises, the Government has issued many policies and solutions, specifically: (i) 50% of lease fee was cut down during the 2011-2014 period; (ii) Land lease contract fluctuated from 1.5% (regulated in Decree No. 121/2010/ND-CP) to 1% (regulated in Decree No. 46/2014/ND-CP) under the influence of the Government and The People's Committee regulates the percentage within the frame of 0.5-3% based on the regions, routes correlating with the land use purposes to apply for local lease fee; (iii) Regulations on the application of land price coefficients in determining land rents for land parcels whose land area rent values according to the Land price list are under VND 30 billion in municipalities; under VND 10 billion in mountainous and highland provinces; under VND 20 billion for the remaining provinces.

Following the implementation of the 2003 Land Law and the 2013 Land Law, the Government issued Decrees regulating the collection of land use fees, land rents and water surface rents and promulgated Circulars providing guidance on regulations to support enterprises and improve the business environment: Exemption of land rent and water surface rent for investment projects in areas and geographical regions of investment incentives in accordance with the regulations on investment; Incentives for socialization; Incentives for investment in agriculture and rural regions; Regulations on expanding the scope and subjects of application for the coefficient land pricing method in order to determine financial obligations of enterprises have assisted the reform of administrative procedures, shortened the time for determination, notified the payment of land rent into the State budget and partially supported for enterprises.

At the same time, in order to attract investment, strengthen management competencies and effectively use land financial resources in economic zones and hi-tech parks, the Government issued Decree No. 35/2017/ ND-CP dated April 3, 2017 regulating the collection of land use fees, land rents and water surface rents in Economic Zones and Hi-Tech Zones with incentives higher than that of regular investment projects.

Furthermore, the Ministry of Finance coordinated with the Ministry of Natural Resources and Environment to issue two Joint Circulars: Joint Circular No. 87/2016/ TTLT-BTC-BTNMT providing guidance on the appraisal of the draft land price list and the land price plan of the Land Price Appraisal Council and the Joint Circular No. 88/2016/TTLT-BTC-BTNMT regulating the application and procedures for receiving and transferring dossiers determining financial obligations of land users. Accordingly, the responsibilities of environmental, financial and tax agencies are clearly defined in the course of determining land prices, transferring dossiers determining financial obligations of land users and reforming public administrative procedures, which shorten the time for determination of land use fees and land rents.

The administrative reform of Vietnam, especially the reform of tax and customs procedures, has had a positive impact on FDI attraction and disbursement.

Tax declaration, tax payment and electronic tax refund services have been expanded in 63/63 provinces and cities; a system for issuing authenticated electronic invoices by tax authorities has been developed and implemented in Hanoi and Ho Chi Minh City; research has been conducted on the implementation of e-services i.e. tax payment for land and individual household services, etc. The customs sector has continued to maintain and ensure smooth 24/7 operation of the Automated Cargo Clearance System and Customs Intelligence Information System; implemented the National Single Window and electronic ASEAN Single Window. As of August 15th, 2018, 68 administrative procedures of 11 Ministries and sectors have been connected to the NSW with more than 1.4 million dossiers from over 23,400 enterprises.

Assessment of impacts of investment incentive mechanisms:

In the past period, the developed system of tax incentive policies and other incentives have created positive impacts on the development of the business sector in general and the FDI sector in particular.

+ The number of enterprises that submitted tax registration applications and come into operation has increased year on year: from 457,217 in 2011 to 561,064 in 2017.

+ Thanks to incentive policies for industrial zones, the number of industrial zones in Vietnam has increased considerably from 01 in 1991 to 260 in 2010 and 326 in 2017.

+ After 30 years of opening the economy to attract foreign investment, the inflow of FDI capital to Vietnam has been constantly increasing. Implemented FDI capital reached USD 11 billion in 2010, USD 14.5 billion in 2015 and USD 15.8 billion in 2016 respectively. As of 2017 year end, Vietnam attracted over 25,000 FDI projects with total registered capital of over USD 333 billion. So far, 129 countries and territories have invested in Vietnam. FDI projects have been present in 63/63 provinces and cities in 19/21 industries of Vietnam.

+ Foreign-invested enterprises have made remarkable contributions to the socio-economic development of Vietnam. State budget revenue from the FDI sector has increased steadily. This sector contributed over VND 83 trillion to the state budget in 2012, over VND 111 trillion in 2013, over VND 123 trillion in 2014, over VND 140 trillion in 2015, and VND 161 trillion in 2016 which doubled that of 2012 (excluding revenue from crude oil).

+ The statistics consolidated from financial statements of FDI enterprises from 2012 to 2016 shows that the business scale of such firms always grew at a high pace of about 20% on average in terms of revenue, total assets and equity capital year on year. In 2016, their revenue growth rate was higher than that of total assets (18.6%) and equity capital (15.5%), which indicated that their business activities expanded favorably.

+ Also such statistics showed that profitability indicators of FDI firms were highly positive with ROE reaching 16.3% in 2016 as compared to 13.82% in 2015.

- However, there remain some following limitations in the operation of FDI firms:

+ Foreign investment still concentrates on some areas with favorable conditions such as the South-eastern region, the Red River delta region which occupy the highest foreign investment shares of 49% and 31% respectively. However, difficult regions such as the North Central region and Tay Nguyen have very low shares of foreign investment of only 1.6% and 0.8% respectively.

+ Many FDI enterprises are still loss-making. The proportion of FDI firms reporting losses and capital losses in 2016 reduced compared with that of 2015, however, remains higher than that of 2012, 2013 and 2014.

+ FDI firms' wider impacts, linkage,

and creation of value chains with local enterprises remain under expectations. Also, the transfer of technology to domestic firms is still limited.

Recommendations on directions to complete investment mechanisms, tax and incentive policies for the FDI sector:

To ensure that tax incentive and investment incentive policies are effectively implemented to meet the set goals and requirements, the formulation of incentive policies should be considered in the overall economic growth context of the country. The issue of new policies including tax incentive and investment incentive ones needs to strictly comply with principles and commitments that Vietnam is committed to fulfilling as agreed with international organizations (for example, WTO, etc.). Thus, although it is necessary to exchange and find solutions to attract more FDI capital, incentive policies developed need to guarantee equality and non-discrimination against FDI firms.

+ It is necessary to have a comprehensive study in order to develop a system of transparent, simple, non-overlapping and consistent legal documents to avoid causing difficulties for both local and foreign enterprises (for example, tax incentives must be offered under legal regulations on taxation to ensure legality consistency and uniformity).

+ Policies should be stably implemented in the mid and long-term and continuous policy changes should be avoided in order not to affect business results and investment strategies of foreign firms.

+ Complete incentive policies on land towards a review of land incentives to ensure consistency between laws on land, laws on investment and other laws and policies of the State. Beneficiaries entitled to land incentives should also be clearly defined so that they can legitimately enjoy such incentives.

Incentives should be offered in an effective manner to foreign investment projects in the fields of socio-economic, technological infrastructure, social infrastructure development, environment protection, investments in areas with socio-economic difficulties, particular difficulties and policy beneficiaries.

+ Accelerate the administrative reform to reduce costs for enterprises, enhance business efficiency of FDI enterprises in Vietnam.

Given the Government's determination to develop transparent, equal and effective incentive policies, Vietnam will continue to be the destination of foreign investors, especially those expecting to make contributions to the socio-economic development of Vietnam and achieve legitimate successes in the land full of potential and hospitable to investors./.

FOREIGN DIRECT INVESTMENT IN THE DEVELOPMENT OF TRANSPORT INFRASTRUCTURE IN VIETNAM

VU NGOC DONG
DEPUTY MINISTER FOR TRANSPORT

Infrastructure plays an integral role in the socio-economic development of a country and creates a driving force for the development. A uniform and modern, well-connected infrastructure system will promote economic growth, improve productivity, economic efficiency, and resolve social issues. On the contrary, an underdeveloped one is a major obstacle to the development. Poor and inadequate infrastructure systems in many developing countries are hindering the flow of resources, leading to poor absorption of investment and creating "infrastructure bottlenecks" which have direct influences on the economic growth.

In reality, nations which possess uniform and modern infrastructure systems in the world are developed ones while those of developing countries remain underdeveloped. Thus, many of them including Vietnam are giving priority to investment in infrastructure development. Given the view that "infrastructure should be one step ahead", the government of Vietnam has given high priority to infrastructure development investment which accounted for 9-10% of its GDP annually in the past years with a focus on development of infrastructure in transport, energy, telecommunication, water sector, etc.

Assessment on status of foreign direct investment in transport infrastructure development

Given the view that the transport sector should be one step ahead for investment, the Party and the Government have been allocating considerable resources to renovate, upgrade and develop transport infrastructure through public investment schemes which are sourced from the state budget, government bonds or ODA funds. Foreign direct investment (FDI) in infrastructure in Vietnam remains modest and are mainly on construction, port operation and a few bridge projects in big cities or main roads connecting key economic zones. Although the transport sector has attracted investments in the form of joint venture and BOT from the early stage and publicly announced the investment portfolio, not many projects have been successfully carried out so far. There are many causes, some of them include large capital required to develop transport infrastructure projects in addition to low financial efficiency; inadequate legal documents, lack of sound investment incentive policies and autonomy for investors during the project implementation, especially lack of a risk sharing mechanism between the State and investors in conformity with international practices, as a result, investors or credit institutions are reluctant to engage in transport infrastructure projects. Some investors are interested in airport projects like Long Thanh airport, however, these projects are now just in the preparation stage.

Operation, transport and logistics services (especially the maritime industry) are attractive sectors to foreign investors in the past period. Although the foreign capital cap is limited at the maximum level of around 49%-51% in the operation and logistics areas across all modes of transport including road, rail, inland waterways, inland maritime, air (except for international maritime transport), quite a few investors are still interested in projects in this area due to promising commercial outcomes and high competition.

Undoubtedly, the engagement of FDI firms in the transport sector will help reduce a part of public investment burden and more importantly, improve management efficiency, access to international markets and technology transfer. Typically, seaport infrastructure has gained the most attention from foreign investors among various categories of transport infrastructure thanks to its particular feature, which is easy revenue control. Given the government's continuous directions on attracting non-state investments, especially foreign investment, some of the world's leading corporations operating in the transport and port sector have come to Vietnam and formed port construction and operation joint ventures such as Hutchison, PSA, DP World, SSA, Maersk A/S, and CMA-CGM in the past years. This has created favorable foundations for Vietnam's seaports to become an important link in the global supply chains of the world's leading maritime and port corporations and thereby further attracting more foreign investors to Vietnam. Some big and modern harbors which were funded from the government budget, Japan's ODA funds, local and foreign investors are Cai Lan (Quang Ninh – ODA funds from Japan), Tien Sa (Da Nang - ODA funds from Japan), Cai Mep – Thi Vai international seaport (ODA funds from Japan); Tan Cang Cat Lai Container Port, Saigon Premier Container Terminal, Saigon International Terminals Vietnam, SP-PSA international port, Cai Mep international port, Sai Gon Container Terminal (SSA), Tan Cang Cai Mep international terminal.

In the period of implementing the plan to 2010 and to 2020, especially in the period when Vietnam joined WTO (in 2006), investments in the port network of Vietnam sourced from non-state funds grew substantially with the participation of the world's big maritime carriers and the establishment of a series of joint venture ports which have changed the face of Vietnam's port system, particularly Cai Mep - Thi Vai international port. The non-state budget capital was about $7.88 billion (including FDI capital and funds mobilized by enterprises). The total non-state budget capital accounted for 70- 80% of total investment capital.

Moreover, special-purpose ports also attracted a significant amount of non-state capital with the construction of modern, large-scale ports for industrial zones (such as Nghi Son, Vung Ang – Son Duong, Dung Quat, and Tra Vinh). This marks Vietnam's remarkable achievements in attracting, managing and using foreign capital in the maritime sector.

Additionally, with regard to Lach Huyen port project (Departure terminal 1, 2), a joint venture of Japanese and Vietnamese investors invested about $321 million to construct two container ports with a total length of 750m together with related roads, technical infrastructure and uniform equipment for the operation of container ships and general cargo ships with load up to 50,000 DWT full-load and 100,000 DWT ships at reduced load. The project was completed and put into operation in May 2018.

Some shortcomings in attracting FDI to develop transport infrastructure

In the past period, some foreign corporations and enterprises have come to Vietnam and expressed their interest in investing in the transport sector, however, most of them are now just at the market research and survey stage. As mentioned earlier, except for infrastructure operation, transport and logistics (mainly in the maritime sector), the remaining areas require large investments with a long pay-back period and low commercial and financial efficiency in the context of inadequate legal documents, lack of sound investment promotion policies and autonomy for investors during the project implementation. Other areas also encounter a lot of difficulties in attracting FDI except the maritime sphere.

Specifically, although the transport sector has called for FDI in road infrastructure development in the forms of joint venture and PPP since the early stage, many projects, given complete extensive research, have not been carried out. Some examples are Dau Giay – Phan Thiet freeway which pilots the PPP model, Hanoi Ring road 3 proposed by Daewoo and Unico (US) corporations, Noi Bai international airport project in the form of joint venture since the early 1990s. Some projects such as Ho Chi Minh Ring road 3 –the section from Tan Van to Nhon Trach, have not been successfully carried out in spite of commitment by reputable foreign investors.

Some specific models related to FDI in the road sector include (i) foreign investors' investment in, direct management and operation of projects after completion (usually BOT, PPP projects, etc.) or (ii) acquisition of commercial exploitation right of roads which are being used or (iii) buy-back of shares from local enterprises to invest in and commercially operate road projects. Many foreign investors have raised their interest in investing in road infrastructure so far, however, none of the projects has been awarded or contracted for implementation.

Regarding railway, quite many investors from Russia, Czech Republic, and some other countries have discussed the foundation of joint ventures for production of rail tractors, railcars and some rail equipment with the Vietnam Railway Corporation in the past period. However, none of them is founded mainly due to the narrow local market and limited ability for exports to the external markets. The industrial capacity of Vietnam's railway sector remains weak and limited without sufficient facilitating policies

The railway sector accounts for 3.57% of passenger traffic and 1.7% of cargo traffic due to outdated and backward railway infrastructure, lack of connectivity with other modes of transport and slowly changed management models, which all hinder the attraction of FDI to this sector.

Regarding the inland waterway sector, only one Belgium company expressed their intention of investing in a river port in the south to serve the inland transport of coffee from the place of production to seaports, however, no further progress has been made so far.

Regarding airport, airport projects require a high level of technical specifications, large capital and is a conditional business. Thus, stricter conditions are applied to FDI in the airport infrastructure. Some corporations namely Quantas, Airoport de Paris, ANA Holding Inc. have shown their interests in buying shares or becoming strategic investors of local companies in the sector such as Vietnam Airlines and Airports Corporation of Vietnam.

Directions and recommendations

The transport sector has defined a requirement of about VND1 million billion investment capital for the 2016 - 2020 period, of which 60% should come from the state budget and ODA funds and 40% from non-state sources. However, the state budget is currently limited while it is difficult to mobilize more ODA capital. Vietnam stopped borrowing IDA from World Bank in July 2017 and will also stop borrowing ADF loans from ADB from Janualy 1, 2019, thus sources of private finance and FDI are needed to realize set-forth goals. In the current context, accelerating the mobilization of investment funds other than state budget and socialization of investment is viewed as a key solution to achieve development goals.

Based on the guidelines of the government, the transport sector has defined the goals to 2020, that is the domestic transport system must basically meet transport needs of the society, ensure better quality and affordable costs; reduce traffic accidents and mitigate environmental pollution. In order to realize those objectives, key priority tasks in the development of transport infrastructure in the 2016-2020 period will be focusing on large scale projects or priority ones which can have spillover effects on the economic development of core economic zones, for example, North-South national highway, urban ring roads and seaports in three key economic zones, big airports like Long Thanh, Cam Ranh, Phu Quoc, Da Nang, urban railway system.

Although FDI in the transport sector is still modest, the room for development is huge. Thus, the Ministry of Transport proposes the following solutions to FDI attraction as follows:

First, develop the legal investment framework for Public Private Partnership (PPP) to call for FDI in the transport infrastructure, specifically:

Study and formulate Law on PPP investment for approval and promulgation by the National Assembly in order to create strong, consistent and stable legal basis and policies in line with international regulations on PPP;

Study international laws and practices to be able to share capital risks with investors, attract foreign investment in transport infrastructure projects;

Study to develop the State support fund for PPP in line with the State budget management policies.

Second, speed up administrative reforms and facilitate FDI in Vietnam in general and in the transport sector in particular, ensure publicity, transparency and accountability of competent public authorities with respect to FDI attraction, management, and utilization.

Third, review and improve the implementation process by completing the organizational structure and fostering the qualification of personnel.

FOREIGN DIRECT INVESTMENT AND TECHNOLOGY INNOVATION AND TRANSFER

TRAN VAN TUNG
DEPUTY MINISTER OF SCIENCE AND TECHNOLOGY

An overview of the policies on attraction and transfer of foreign technologies to Vietnam

The shortest pathway for developing and underdeveloped countries to close the gaps with their developed counterparts is to attract advanced technologies from other countries, most importantly through foreign direct investment projects (FDI).

In retrospect over the past 30 years, given the low starting point at the beginning of the reform in Vietnam, Vietnam emphasized attraction of foreign technologies to make the most of the advantages available as a descendent country to obtain immediate access to advanced technologies to support the national industrialization and modernization.

Along with the Law on Foreign Investment issued in 1987, the Ordinance on the transfer of foreign technologies to Vietnam was also promulgated in 1988. These are crucial milestones marking the period when Vietnam's policies on technology transfer and import took shape. In each socio-economic development period, the legal framework on technology transfer is revised, updated and improved to reflect real-life requirements: (i) In 1995, the regulations on technology transfer were incorporated as one Chapter under the Civil Code (Section VI, Chapter III); (ii) in 2006, the Law on Technology Transfer was adopted

by the National Assembly; (iii) in 2008, the Law on High Technologies was adopted by the National Assembly (iv) in 2017, the 2017 Law on Technology Transfer was adopted by the National Assembly (in replacement of the 2006 version).

The 2017 Law on Technology Transfer (Paragraph 5, Article 3) specifies the State policies on technology transfer, e.g: "To promote the transfer of advanced technologies and high technologies from abroad into Vietnam; encourage the technology transfer from Vietnam to abroad; attach special importance to disseminating advanced technologies and high technologies from foreign-invested enterprises to domestic enterprises".

Until now, Vietnam has formed a legal framework that regulates in details technology transfer practices in order to promote technology transfer in general and

transfer of foreign technologies to Vietnam in particular.

In order to implement the policies that facilitate attraction of high technologies to Vietnam, particularly attraction of FDI projects to high-tech areas as the driving forces for the policies on technologies, the State of Vietnam has put in place incentives that are more favorable and competitive than other countries in the region. This is reflected in the fact that under the existing laws of Vietnam, high-tech projects and businesses are entitled to the most favorable incentives. At the same time, the Law on Investment also prescribes that high-tech businesses are entitled to investment incentives; high-tech practices are considered a profession that is eligible for investment and high-tech parks are eligible for investment incentives.

This has demonstrated the consistency in the policy-making efforts regarding foreign investment and helped import high and advanced technologies into Vietnam.

Achievements in transfer of technologies through foreign investments

For every developing country, FDI is an important channel to attract funding and technologies so as to strengthen the technological capacity of local businesses. This role is reflected in two major dimensions, i.e., receiving external technology transfer and performing technological research, innovation, development, and adaptation to improve local technological capacity. This is the key goal targeted by the countries seeking for FDI. At the same time, FDI businesses' technological innovations also lead to various linkages in which local technological research and application institutions serve as services providers. In this indirect regime, the country that receives investments will be able to enhance the technological research and development (R&D) capacity of the institutions involved in scientific research and technological development practices.

Over 30 years of implementing policies on the attraction of foreign investments, through FDI projects, Vietnam has achieved certain successes in mastering technologies to support production, businesses and gradually improve local production technologies. There are several sectors in which advanced technologies in the world have been adopted such as Post and telecommunication, banking, oil and gas, construction, transportation, roads and bridges, etc. Vietnam has been able to produce many new products which were out of its reach in the past; import of commodities in several sectors such as oil and gas, construction materials, electronic appliances, vehicles has been reduced. FDI businesses have created multiple high-quality products with good styles and models which have better met the local market demands and contributed to improved export turnover such as computers, smartphones, electronic appliances, mechanical and fabrication products, etc.

Challenged by growing competition from FDI businesses, many local businesses have invested in the procurement of new equipment and technologies, the establishment of R&D division or centre to improve technological capacity. This has culminated in the success of some businesses in certain sectors and areas regarding the ability to produce quality products with good styles as alternatives to imports at affordable prices. The products have been preferred by local consumers and are step by step penetrating the global markets.

Thanks to technology transfer and FDI-based R&D, the oil & gas and communication sectors have experienced rapid and modern development that has caught up with the regional and global development pace. Particularly, as provisions on technology transfer and training of management and professional staff are always incorporated into oil & gas exploration and production contracts, Vietnam Oil and Gas Group has been facilitated and successfully mastered various advanced and complicated technologies to support local oil & gas exploration and production and provide technological expertise and human resources to several joint ventures abroad.

The communication sector in Vietnam has made great strides compared to itself 30 years ago. This was initiated by the cooperation with several foreign companies in the telecommunication services sector and the introduction of a competitive regime; various modern technologies have been transferred and successfully applied such as digitized telecommunication network, optic fiber network, GSM and CDMA technologies and particularly the 4G technology which have been widely introduced in Vietnam recently. Several new technologies have been under research and testing such as 4,5G (LTE-A) technology and 5G in the future for roll-out. The number of businesses that apply information technology to support business operations and e-commerce has rapidly expanded and Vietnam has successfully carried out several technology transfers with the United States and Japan in the information technology and communication sector.

Regarding high-tech areas, positive outcomes have been witnessed in efforts to attract foreign investors to the three national high-tech parks, including Saigon High-tech Park. Over 15 years since its establishment, Saigon High-tech Park has attracted around 130 investment projects with a total registered capital of nearly USD 7 billion with the presence of the world's leading corporations in the production of high added value and high-tech products such as Intel, Microsoft, Nidec, Sanofi, Nipro, Samsung, etc. Particularly, Samsung has invested hundreds of millions of US dollars in an

operating R&D center, which has supported the existing operation directions of Saigon High-tech Park. In addition, hundreds of information technology businesses (one of the four priority sectors as specified under the Law on High Technologies) are operating in the concentrated information technologies hubs.

Recently, the Ministry of Science and Technology has issued Certificates to more than 50 high-tech businesses and projects that adopt high technologies in production; the Ministry of Agriculture and Rural Development has issued the Certificate of high-tech application in agriculture to 35 businesses. The figures are insignificant given the total number of investment projects in Vietnam over the past 30 years but they indicate the Government's commitment to creating an inviting environment and favorable conditions for investors so as to turn Vietnam into an attractive destination for investors, particularly multinational corporations.

Limitations in attraction and transfer of technologies through foreign investment

Fairly speaking, foreign investments have contributed to the transformation of the economic structure in Vietnam and technologies transferred from other countries to Vietnam through FDI projects, which has gradually improved technological proficiency in various sectors and areas. However, the outcomes delivered have not been aligned with the requirements and targets of socio-economic development in Vietnam. Even though the technologies imported into Vietnam are largely the same or higher level compared to the existing local technologies, they are only ranked at the medium or medium-advanced levels compared to other countries in the region and the majority of the imported technologies are not classified as modern and advanced technologies. Vietnam is currently occupying a very modest position in the global technological ranking and is among the countries with medium industry. The country technological capacity has not met the industrialization and modernization requirements.

The majority of technology transfer contracts registered at the authority in charge of science and technology focus on transfer of technological process and know-how (73%), technical assistance (77%), training (71%) while technology transfer contracts that involve transfer of industrial property account for only an insignificant proportion (13%).

Only few businesses that own source and high technologies are operating in Vietnam. Several FDI projects only focus on assembly and processing while the localization content is low and the value created in Vietnam is not substantial, which has led to the fact that technological spillover effects from FDI businesses to local businesses have not met expectations.

Vietnamese personnel's ability to absorb technology and management experience in the course of cooperation has not met expectations. Particularly, the application of technologies is restricted to the extent of the FDI projects and investments in R&D are very limited and fall short of the incentives the businesses have received.

One of the key factors that determines the success of technology transfer is the availability of high-quality human resources. However, the Vietnamese human resources are still short of professionalism, skills and fail to satisfy the requirements of businesses, particularly in some sectors that require high professional skills. Thus, there should be more proactive solutions towards absorption of knowledge and skills through the transfer of technologies.

In addition, the capacity to appraise FDI projects by several local authorities remains limited and therefore they fail to attract high and modern technologies for the purposes of technology transfer.

Proposals and recommendations

Firstly, the movements of globalization, trade liberalization, removal of protection barriers among countries and the fourth industrial revolution with its new technologies are the two new factors that will vigorously influence developing countries like Vietnam, which opens up great opportunities and challenges for businesses, management and policy-making agencies. The rapid technological innovations and global integration, as well as trade liberalization, will result in a very fierce competition against Vietnamese businesses who have to reassess their business models to improve methods of services and product delivery; especially, continued innovation of technologies should be maintained to respond to market changes. Under this circumstance, the mindset on policy-making practices, investments and technology transfer need reforming in order to keep up with the constant changes of technologies, new technologies and high technologies that can bring about cross-border impacts.

Secondly, in order to initiate a robust transformation in terms of Vietnam's competitiveness, funding and technology still have the key role to play. Therefore, in the coming period, efforts to attract foreign investments need to be maintained but priority should be given to quality projects that employ modern and environment-friendly technologies that offer high added values. Instead of staying put and waiting for foreign investors, we have to take the driving seat to look for and select businesses, multinational corporations that own source, core technologies and the State has to put in place a systematic and well-prepared investment promotion policies and offer sufficient technology transfer incentives in order to attract multinational corporations and major investors.

Thirdly, the State needs to put in place long-term and aligned plans for training of high-quality human resources to meet real-life requirements, particularly given the potential impacts of the fourth industrial revolution on sectors, production and business.

Fourthly, supporting industries need to be facilitated to establish the linkages between the FDI sector and local businesses and spread the technological spillover effect to local businesses so that the latter can have access to opportunities for technological innovations, improvement of technological proficiency and competitiveness.

Fifthly, there should be incentives that are sufficient to motivate investors to establish R&D facilities in Vietnam.

The successful attraction of funding and technologies by means of foreign investments during the 2020-2030 period requires not only the efforts of the Ministry of Planning and Investment and Ministry of Science and Technology but also the consensus and agreement from the national to local levels as well as the collaboration from the relevant Ministries, agencies in order to develop a new-generation investment policy in which funding and technologies attracted can meet the requirements of socio-economic developments given the impacts of industry 4.0 and the necessity to maintain the balance between the national interests and the interests of investors./.

FOREIGN DIRECT INVESTMENT IN THE DEVELOPMENT OF HIGH-QUALITY HUMAN RESOURCES IN VIETNAM

LE QUAN
DEPUTY MINISTER OF LABOR, INVALIDS AND SOCIAL AFFAIRS

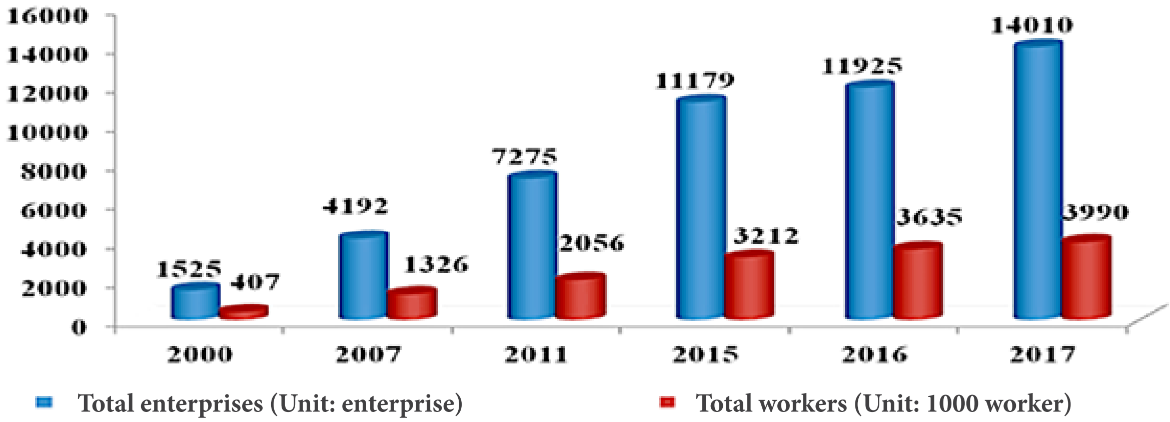
The birth of the Law on Foreign Investment in 1987 marked an important turning point in the renewal and economic development policies of Vietnam. After 30 years since then, Vietnam has attracted nearly 26,000 foreign direct investment projects in 19/21 economic sectors with the disbursement of over 180 billion USD[1] from 128 countries and territories as of June, 2018. FDI currently accounts for 72% of total export value, about 25% of total capital on social development and 20% of the nationwide GDP[2]. FDI has helped accelerate changes in the country's economic structure through investments focused on manufacturing and service industries. Currently, 58% of total FDI capital is invested in manufacturing and processing industries, which helps improve industrial value and drives positive changes in different economic sectors.

The FDI sector has made considerable contributions to the national modernization and industrialization in the past 3 decades not only through the generation of an enormous volume of products and services but also a large number of created jobs and improved quality of Vietnam's human resources.

The number of employees working in FDI enterprises nationwide has increased from 33,000 in 1995 to over 1.3 million in 2007. In the 2008-2017 period, the number of workers in the FDI sector continued to grow at the average rate of 12%/year which was five times as high as the overall job growth rate of the country. There were over 14,000 FDI firms by the end of 2017 and they attracted nearly 4 million workers (Figure 1). In addition, they indirectly created many other jobs by stimulating domestic investments (development of satellite businesses and industries which supply goods and services to FDI enterprises).

1 Foreign Investment Department, Ministry of Planning and Investment, accessed at https://dautunuocngoai.gov.vn/tinbai/5549/Tinh-hinh-thu-hut-Dau-tu-nuoc-ngoai-6-thang-dau-nam-2018
2 The remark of Mr. Nguyen The Phuong – Deputy Minister for Planning and Investment in the thematic workshop on attraction and transfer of technology in the FDI sector

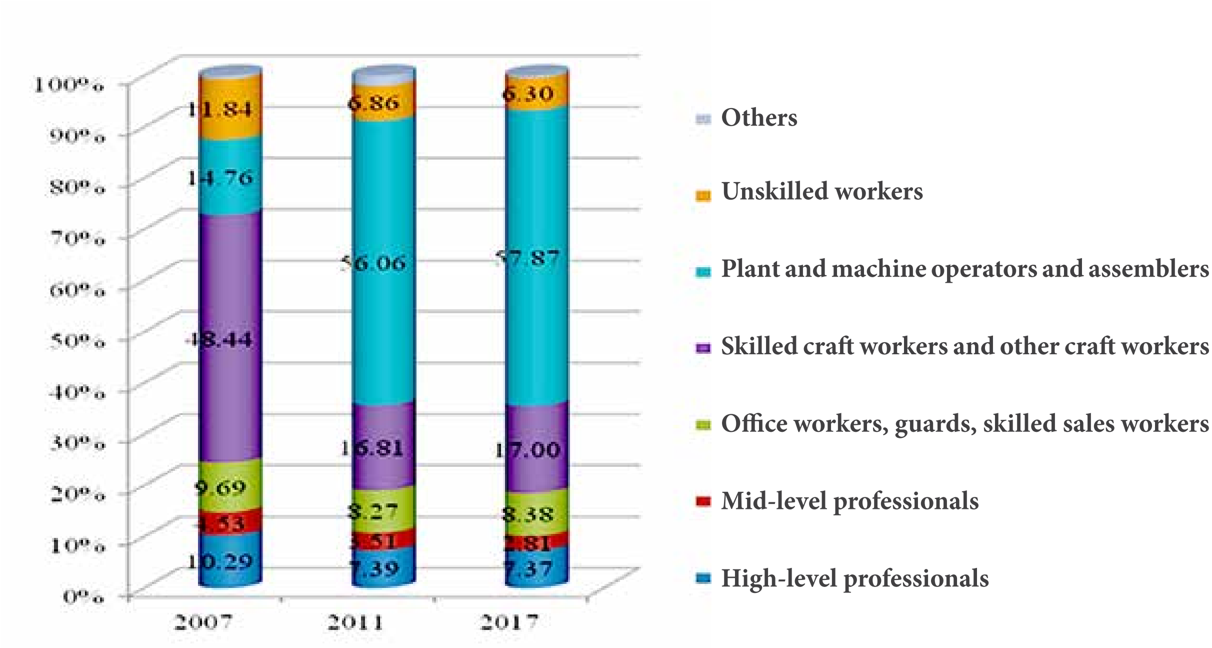
Figure 1. The number of FDI firms and the number of workers in FDI firms, 2000-2017



Source: The General Enterprise Survey 2000- 2017, Employment and Labor Investigation 2000 by the Ministry of Labor, Invalids and Social Affairs and Employment and Labor Investigation 2007 - 2017 by the General Statistics Office

The FDI sector has contributed to forming a higher quality workforce including skilled workers, technicians, service experts, and business managers. In 2017, the sector trained and employed over 2.3 million technical workers in the assembly and operation of machines and equipment, 680,000 other technical workers, about 340,000 office workers, guards and skilled sales workers, 295,000 workers doing high-level occupations, 112,000 doing mid-level occupations. In the 2007-2017 period, FDI firms tended to have a strong demand for "machine and equipment operators and assemblers" whose proportion in total FDI workforce increased rapidly from 14.76% in 2007 to 57.87% in 2017 while the share of lower-skilled workers including "skilled craft workers/other workers" decreased sharply from 48.44% in 2007 to only 17% in 2017. Particularly, unskilled workers in FDI firms made up a small share and tended to decrease quickly from 11.84% in 2007 to only 6.3% in 2017. Such development has contributed to the improvement of competitiveness of Vietnam's labor force, and driven the shift from unskilled low-income workers to high-skilled ones with high income.

Figure 2. Labor structure in FDI enterprises by occupation, 2007-2017



Source: Employment and Labor Investigation 2007, 2011 and 2017 by GSO

Analysis on FDI projects in the past period shows that a lot of employees has adopted industrial working style with better knowledge about corporate culture, improved their professional knowledge and skills, management skills, foreign language skills, etc. during their working time at FDI enterprises. Thousands of them have become key technicians and managers in those firms. Many FDI companies have gradually transferred technology, technical processes, management experience to Vietnamese technicians and managers and many positions previously undertaken by foreign experts are now undertaken by Vietnamese people. Some Japanese and South Korean enterprises have recently supported local supporting firms in technology innovation and human resources training through innovative consulting programs so that local firms can become a part of their production chains.

Along with the trained and coached workforce at FDI workplaces, FDI firms also select and send thousands of Vietnamese workers and experts overseas for training, coaching at parent companies or other training facilities every year. Some of the world's leading technology corporations such as Canon, Honda, Samsung, Foxconn, and Intel. have set up their HR Research and Development centers for direct training of high-quality managers and workers in recent years. Some FDI firms take the lead in performing social responsibilities, improving workers' living standards, making contributions to the community and the society in conformity with local legal regulations and international standards.

Generally, FDI firms have complied quite well with local regulations on compensation and benefits for employees. According to the Employment and Labor Investigation

2017 by the General Statistics Office, average monthly income of workers in the FDI sector was VND5.9 million, 21% higher than that of employees in the non-state sector. Many of them have focused on developing corporate culture, improving benefits such as periodic health examination, improved meals, accommodation, nursery schools, etc. to support workers, particularly female ones.

FDI enterprises, especially those from developed countries have had important influences on the development of the labor market in Vietnam, driven the labor shift and effective distribution of human resources based on healthy competition for workers. Employees working in those firms have also got familiar with market economy principles such as labor contract, wage agreement, collective labor agreement and law-based dispute resolution.

Besides achievements, there exist some shortcomings which should be further studied and resolved to promote better operation of FDI enterprises in Vietnam in the coming time, including:

First, nearly 80% of workers in FDI firms had no degrees/certificates by the end of 2017 and this number was almost unchanged from 2011. Foreign investors have still preferred to carry out processing activities to take advantage of our country's cheap labor for a long time. This has partly slowed down the improvement of our workforce quality. Once foreign firms give priority to the recruitment of low-skilled workers, it will not encourage them to further learn and improve their qualification and education and training establishments are not also under a market pressure to innovate and upgrade their training quality. In the current context given increasing competition, many enterprises have to innovate their technology, however they are facing human resource difficulties.

According to a survey carried out by the Institute of Labor and Social Science in 2016, two-thirds of enterprises said that the majority of workers lack professional skills and other key ones. Provincial Competitiveness Index conducted by VCCI in 2017 revealed that 55% of Vietnamese businesses found it difficult to look for high-

quality human resources to meet their needs and 69% of FDI firms said they encountered challenges in recruiting skilled employees to carry out their business activities.

Second, although the FDI sector has been strongly expanding and growing after 30 years, the labor shift is mainly one-way from the local sector (including the public sector) to the FDI sector. This shows a rather limited spillover effect in terms of human resources quality, working attitudes and methods, industrial working style, corporate culture, professional skills and knowledge, management level, technological know-how, technological processes and management experience from the FDI sector to the private and public one. In fact, the FDI sector hasn't really made positive contributions to the training of workforce, especially high-quality workforce of Vietnam.

Third, besides many FDI companies which fully comply with the labor law of Vietnam, a part of them, mostly small and medium-sized ones violate the labor law, avoid or defer the payment of social insurance, unemployment insurance for workers and do not really care for legitimate interests of employees. In fact, there have been many labor disputes and strikes related to wage, bonus, overtime, break and other benefits (low wage, poor condition accommodation, poor meals, uncovered travel allowance, seniority allowance and unsupported child raising, etc.) which directly affects the interests of workers and causes damages for enterprises.

It is high time to develop a strategy to maximize the advantages of FDI capital, especially technology transfer and training of high-quality human resources. Relying further on cheap labor advantage cannot be continued and priority should be given to the attraction of investments in high tech, spearhead and higher value added industries. In order to realize this goal, improving the quality of human resources should be one step ahead and implemented in a systematic and fundamental way. Human resources training should be viewed as an important goal for attracting foreign investment. Proper solutions should be swiftly adopted to encourage skilled workers to work in the FDI sector on one hand and to retrain them on the other hand so that they can adapt to technological changes. Such change is aimed at improving the competitiveness of Vietnam's labor force, promoting the shift from low-income, unskilled workforce to skilled and high income workforce and prevent layoffs. Currently, the vocational training system is renewing significantly towards increased autonomy, improved training quality in line with the fourth industrial revolution trend and alignment between training needs and recruitment needs of enterprises.

In addition, to increase the spillover effect with respect to technology, management skills, and the quality of human resources of the FDI sector, it is necessary to advance the labor market to create a favorable environment for a flexible labor shift between the domestic sector and the FDI sector. Particularly, effective policies should be available to attract high quality human resources and experts from the FDI sector to the public and domestic business sectors./.

QUALITY ENHANCEMENT FOR DISPUTE SETTLEMENT BETWEEN FOREIGN INVESTORS AND THE GOVERNMENT OF VIETNAM

MINISTRY OF JUSTICE

In the age of global integration, Vietnam is one of the countries experiencing rapid growth. Thanks to its efforts in improving the business environment and attracting foreign investment, Vietnam has been a party of a variety of bilateral and multilateral trade and investment agreements. Currently Vietnam has signed 66 bilateral investment treaties[1] (BIT) and a number of regional investment treaties, bilateral and multilateral free trade agreements and economic partnership agreements. Also, the government and its agencies have participated in a great deal of trade and business transactions through the signing of investment agreements and contracts with foreign investors.

According to the regulations of the aforementioned international treaties, terms and conditions in the agreement and based on international law, the Government of Vietnam waives its immunity and provides the investors from the member countries of the treaties and agreements with the rights to file a lawsuit against the Government of Vietnam if investors believe the Government of Vietnam (including its agencies) has violated the agreements. Additionally, the Investment Law 2014 also states that international disputes between foreign investors and the Government shall be governed by international treaties. Decree No. 15/2015/ND-CP of the Government on public private partnership also stipulates that disputes in PPP contracts between foreign investors and competent agencies shall be settled by an arbitral tribunal selected by relevant parties (including international arbitration).

In fact, the forms of dispute resolution depend mostly on investors' goodwill, collaboration of relevant government agencies and the actual condition of each case. However, it can be affirmed that the Government, in all cases, does it best to resolve the investors' issues to minimize these kinds of disputes.

Dispute settlement between foreign investors and the Government

Current dispute settlement between the Government and foreign investors

International investment disputes and investment dispute settlement first appeared in the mid of the 20th century and have tendency to increase globally, together with globalization and the development of cross border investments. As of September 2018, the number of global investor–state disputes has reached 855, in which 297 disputes are being settled by different institutions[2].

1 Data by Ministry of Planning and Investment at the Workshop on capacity building for prevention and settlement of international disputes by Ministry of Justice 2017 in Thanh Hoa and Khanh Hoa.
2 Data by United Nations Conference on Trade and Development (UNCTAD)

This is a brand new topic for Vietnam. The Government of Vietnam tries to avoid disputes and does its best to prevent lawsuits. Nevertheless, in the context of global integration, the signing of investment guarantee agreements and free trade agreements not only shows the government's commitment in investment guarantee and enhances the attractiveness of the investment environment of Vietnam but also creates opportunities for foreign investors to file lawsuits against the government when they believe the Government or government agencies have violated the agreements.

Despite its unwillingness, the Government is forced to participate in international disputes when investors file a lawsuit so that it can protect its own rights and benefits. If Vietnam fails to participate in the lawsuit, meaning it declines the right to representation, the arbitral tribunal is still established and it can determine its jurisdiction on the lawsuit based on the request and evidence provided by the plaintiff. In such cases, disadvantaged jurisdictions against Vietnam are predictable. Experience from previous lawsuits when Vietnam refused to participate in international lawsuits further affirmed this. Therefore, it is almost compulsory that the Government participate in the lawsuit in order to protect its rights.

In the past years, the number of international disputes in which foreign investors sue the Government of Vietnam or its agencies tends to increase. Besides, the Government also receives a number of pre-suit notice letters in accordance with investment guarantee agreements. These disputes mainly arise in such areas as (i) business registration; (ii) land allocation and acquisition; (iii) revoke of investment certificate; (iv) issues related to administration processes in government agencies, especially permits for instruction, mining, etc. International litigation is frequently based on the commitments of Vietnam, mainly such commitments as

National Treatment (NT), Most Favored Nation (MFN), Fair and Equitable Treatment (FET), Full Protection and Security (FPS), expropriation (direct or indirect) of investors' assets.

As of reporting period, out of 10 international disputes between foreign investors and the Government or government agencies which Ministry of Justice is leading or participating, the majority are being settled through international arbitrations in accordance with arbitration rules of UNCITRAL or ICSID Additional Facility. Only a few cases are being settled by domestic arbitration or court.

Dispute causations

Current practice of investor-state dispute settlement indicates that dispute causations result from both parties.

From the side of the Government and government agencies, the main dispute causations during the management of foreign investment in Vietnam are (i) lack of legal binding when signing investment agreements and contracts, (ii) inconsistent application of laws (legal system is still being finalized since Vietnam is in its rapid growth process) and (iii) lack of consensus, goodwill between the state and investors during the settlement.

On the other hand, foreign investors, in some cases, may use or threaten to use litigation to cause pressure on the government agencies of Vietnam for their own benefits. In other cases, some investors are unfamiliar with Vietnam's legal environment.

Recommendations for quality enhancement for dispute settlement between foreign investors and the Government of Vietnam

Considering the increasing number of international disputes and current challenges in dispute settlement, Ministry of Justice, as an advisor to the Prime Minister in the direction of international dispute settlement as well as the Government's legal representative in international dispute settlement under the provisions of the Prime Minister's Decision No. 04/2014/QD-TTg dated January 14, 2014 promulgating the Regulations on the coordination in the settlement of international investment disputes, would like to propose the following recommendations to enhance the quality of settlement for international investment disputes:

Prevention of international investment disputes

First, the application of laws, both in terms of conditions and processes, must be consistent, to prevent investors from suing the Government for violating the rules of national treatment or most favoured nation. This also helps improve the stability of laws on investment, enterprises and other relevant regulations.

Second, the signing of international treaties with investment commitment is one of the strategies for Vietnam to attract foreign investment by creating the most favourable conditions for investors. However, these treaties must be thoroughly reviewed before signing to ensure the benefits of foreign investment as well as the right and benefits of the receiving country. Besides, when negotiating investment commitments for Vietnam, it is recommended to consider the establishment of optimal dispute resolution, towards the balance of rights and benefits of both parties, such as the establishment of the standing tribunal in the investment guarantee agreement as part of the EU-Vietnam Free Trade Agreement (EVFTA).

Third, it is recommended to set up a consistent mechanism to prevent disputes from central level to provinces to ensure government agencies proactively resolve disagreements with investors through communication to understand the arguments of both parties, then come out with the best solution. In addition, the handling of investment grievance must be consistent, effective, in accordance with regulations and laws both in conditions and in procedures. It must also ensure the transparency of the grievance redressal procedure, especially investors must be guaranteed to have the right to clearly present their complaints and the right to be notified of the grievance redressal results.

Fourth, it needs further strengthening communication among agencies and state management in the prevention of international investment disputes. During complaint handling or consultation with foreign investors, relevant government agencies/institutions/individuals are required to report immediately to the line agency and the Government's legal representative as stipulated by Article 10 on Regulations on coordination in international investment dispute settlement issued with Decision No. 04/2014/QD-TTg dated 14/1/2014 by Prime Minister. In addition, the Government's legal representative and competent agencies must be frequently notified of the complaint handling/consultation results for their coordination.

Fifth, it requires frequent trainings and capacity building for government officials in charge of dispute settlement, both in central and local level. It should aim at building a team of officials with great expertise and competence to participate in the settlement of international investment disputes. Moreover, leaders of ministries, departments and provinces are recommended to send their staff to local and international courses on ISDS and trainings in domestic and international law firms (skills on case management, handling of legal situations, filing, etc.)

Quality enhancement of settlement for international investment disputes

First, in order to enhance quality of dispute settlement, Ministry of Justice is accelerating to review Decision No. 04/2014/QD-TTg to propose finalization of regulations on the prevention and settlement of international investment disputes. In which, it recommends to improve the communication among relevant ministries and agencies, and among ministries, agencies and provinces, in the prevention and settlement of international disputes, with focus on early communication and resolution since the appearance of the conflict with foreign investors, especially in provinces.

Currently, a few provinces have issued their own regulations on settlement of international investment disputes. However, the coordination among local departments and agencies related to the prevention and settlement of international investment disputes are not really effective.

Second, dispute settlements cost time, expenses and work of both foreign investors and the Government and the State of Vietnam. Therefore, both parties are recommended to consider communication and mediation. Usually, mediation should be considered in all stages of the attorney process, taking into account the time aspect and benefits of both foreign investors and Vietnam's government agencies.

Third, Vietnam's dispute settling institutions (court, arbitration) need to enhance their reputation towards having sufficient capability to settle international disputes, so it can save costs for the country and make the investment environment of Vietnam more attractive.

Fourth, it requires further capacity building for government officials on international dispute settlement in both central and provincial level. Following the direction of the Prime Minister, Ministry of Justice has prepared and submitted for the Prime Minister's approval the Proposal on capacity building for government officials and contracted staff of ministries, departments and provinces on international law and settlement for international investment disputes during 2016 – 2020 period (Decision No. 1063/QD-TTg dated 14/6/2016). To implement this proposal, since August 2016, Ministry of Justice has conducted annual trainings on investment law, prevention and settlement of international investment disputes for 150-200 government officials and contracted staff of ministries, departments and provinces.

Summary

No individual, no agency and no governments expect disputes between foreign investors and the State of Vietnam to happen. Therefore, Ministry of Justice recommends the Government and agencies need to develop and implement the prevention mechanism for international investment disputes since the beginning of conflicts and disagreements.

On the other hand, to improve efficiency in attracting foreign investors and to minimize the risk of investors taking advantage of dispute settlement mechanism to cause pressure on the Government, it is necessary to strengthen the screening of investors since early stage of project preparation.

It is also recommended to enhance reputation and quality of dispute settling institutions in Vietnam with the aim to gain the trust from foreign investors and gradually able to settle international investment disputes. This will increase the attractiveness of Vietnam's investment environment and save costs in settling investment disputes for both the Government and foreign investors.

Ministries, departments and provinces are recommended to focus on development of staff with consistent qualifications and experts in international laws and investment, especially in provinces managing multiple investment projects. Also, these provinces need to establish a specialized unit for international dispute settlement to play a more active role in the prevention of investment disputes./.

ENVIRONMENTAL ISSUES IN ATTRACTING FOREIGN INVESTMENT IN VIETNAM OVER THE PAST 30 YEARS

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DIRECTOR GENERAL OF VIETNAM ENVIRONMENT ADMINISTRATION
MINISTRY OF NATURAL RESOURCES AND ENVIRONMENT

Over the past period, environmental protection has been paid attention by the Party and the Government and has been one of three pillars of sustainable development with remarkable progress and certain results achieved.

The world is entering the industrial revolution 4.0 with the increasing interdependence among nations, especially for developing countries like Vietnam. Our country is at risk of becoming an outdated and polluted dumpsite of the world's black technologies if there is no proactive solution for prevention and control. Therefore, attracting foreign investment without harm to the environment the concern of all nations in the world, including Vietnam.

Current status of Foreign Direct Investment in Vietnam and environment issues

According to the Ministry of Planning and Investment, by 20 July 2018, there have been 26,214 foreign investment projects in effect with the total registered capital of USD 333.03 billion. The accumulated capital of foreign direct investment (FDI) projects is estimated at USD 182.22 billion, accounting for 54.7% of the total registered capital in effect.

By sectors: Foreign investors have invested in 19 out of 21 sectors in the national economic system, in which the processing and manufacturing sector accounts for the highest proportion with USD 189.77 billion, nearly 57% of the total investment, followed by real estate with USD 56.33 billion (making up 16.9% of the total investment) and production and distribution of electricity, gas and water with USD 22.7 billion (6.8% of the total investment).

By countries: There have been 129 countries and territories with valid investment projects in Vietnam, of which South Korea takes the lead with a total registered capital of USD 61.51 billion (18.5% of the total investment). Japan ranks second with USD 55.86 billion (16.8% of the total investment), followed by Singapore, Taiwan, British Virgin Islands, and Hong Kong.

By provinces: Foreign investment has appeared in all 63 provinces and municipalities, in which, the highest attracted amount is in Ho Chi Minh City with USD 45.3 billion (13.6% of the total investment), followed by Hanoi with USD 33.19 billion (nearly 10% of the total investment), and Binh Duong with USD 30.56 billion (9.2% of the total investment).

Attracting FDI projects is one of the important tasks to achieve the country's industrialization and modernization goal. After 30 years of the implementation of investment attraction policies, industrial production forms and projects have significantly contributed to the national economic development and many of Vietnam's industries have been developed with positive results achieved. A number of investment projects in fields such as metallurgy, ship dismantling, paper and pulp production, fiber boards, chemical production, chemical fertilizers, pesticide; garment dyeing, washing and tanning, petroleum refining, coal and thermal power, petroleum coke production, coal gasification, nuclear power, etc. have been developed in recent years. According to a report of the Central Institute for Economic Management (CIEM) - Ministry of Planning and Investment - in 2017, a trend of FDI inflow with environmentally unfriendly consumption of energy natural resources and manpower such as ship repair, exploitation of natural resources without any connection with deep processing, pulp production, chemical production, agricultural products processing, etc. has been observed in Vietnam. Most of the investment projects in our country are in raw production, simple processing, high consumption of power and resources, low technology, high emission, low added value industries and lack of foundation industries such as auxiliary and high-tech industries. In addition, heavy industries have left the most significant impacts on the environment, resources, health, safety, and social order, and become "potential" industries causing environmental pollution and degradation due to their huge amount of waste including waste water, emissions, and solid waste, a high concentration of pollutants.

Basically, foreign enterprises have shown their good compliance with regulations on the environment. However, many of them still do not follow legal regulations on environmental protection, leading to a significant impact on the environment. In fact, in the race of attracting foreign investment, local authorities keep issuing investment registration certificates for projects with high risks of environmental pollution. At the same time, limited management capacity (especially for large-scale, complex technology projects), along with loose environmental control of local government and authorities, has led to serious environmental pollution cases of foreign investment enterprises.

Within 30 years of attracting foreign investment, besides undeniable achievements in efforts to attract investment, there remain many shortcomings, typically environmental pollution which is the biggest disadvantage of foreign investment. Therefore, it is necessary to strictly control foreign investment projects right from stages of appraisal, licensing and strictly supervise them during project implementation to avoid unfortunate consequences.

Environmental pollution caused by enterprises is mostly due to their outdated technology and equipment[1], their financial shortage for waste treatment technology, and the limited awareness and capacity to prevent, control and protect the environment of enterprises themselves and even local agencies. Many issues have incurred related to environmental protection in works, projects, factories operating in the fields of industrial production such as steel production, paper and pulp production, food production, thermal power, etc., with prime examples of environmental pollution incidents and disasters caused by big projects and facilities like Vedan Vietnam Enterprise Co., Ltd (Taiwan) in 2008; Miwon Vietnam Co., Ltd from 2008 to 2014; Formosa Ha Tinh Steel Corporation (Taiwan); Vietnam Lee & Man Paper Manufacturing Limited (Hau Giang), etc.

Therefore, in order to connect investment attraction and implementation with pollution control and environmental protection, pollution causes, pressure on the current environment and the future of investment projects should be identified to find out practical solutions of pollution prevention and mitigation, minimizing negative environmental and social impacts of the country's accelerated industrialization in the next stage. This also results in an urgent demand that Vietnam should not only create a more attractive environment for investment by removing administrative and institutional hurdles but also sufficiently disseminate and closely supervise compliance with regulations on environmental protection for investment projects, especially in terms of production technology and location of project implementation. Also, it is necessary to enhance the quality of appraisal and approval of investment and environmental protection works; more strictly supervise investors who used to violate the law on environmental protection; at the same time, proactively close businesses polluting the environment, violating the law and not paying compensation, etc., and select qualified investors with sufficient attention to environmental protection in Vietnam during their investment.

Aware of the above problems, some localities have implemented the prevention and control of environmental pollution in the course of attracting investment through selecting industries and investment projects with high technological proportion, advanced and green technology; Restricting or stopping investment in some production sectors or projects which are likely to cause high pollution; planning and arranging investment locations in line with each industry and associated with the environmental load and sensitivity in order to step by step remove polluting projects and minimize risks of environmental pollution. At present, many localities have promulgated regulations on the list of sectors and industries with investment restrictions due to their risks of pollution; the list of projects in areas of investment attraction priority, conditional investment attraction and temporary attraction suspension in local areas; and have issued lists of industries, regions, and areas at risk of environmental pollution or accidents in localities together with preventive and handling solutions[2].

1 A report by the Central Institute for Economic Management (CIEM) in 2017 showed that most of the FDI projects (over 80%) in Vietnam made use of average technology, not modern one, compared to the world. The percentage of enterprises using high technology is very low, only about 5-6%, and about 14% of enterprises use low and outdated technology.

2 To be specific, Thai Binh Provincial People's Committee has promulgated the list of production sectors and industries that are likely to cause pollution and should be restricted for investment in the province (Decision No. 147/QD-UBND dated 15 January 2014); Dong Nai Provincial People's Committee has promulgated the list of projects in fields of attraction priority, conditional attraction and temporary attraction suspension in the province (Decision No. 2163/QD-UBND dated 29 July 2016); Ba Ria - Vung Tau Provincial People's Committee has issued criteria for selection of investors, investment projects and lists of projects in fields of attraction priority, conditional attraction and temporary

However, in addition to the shortcomings mentioned above, there are some highlights in attracting foreign investment projects in the field of environmental protection. By the end of February 2018, there have been 156 foreign investment projects in the fields of environmental goods and services, making up 0.62% of the total foreign investment projects in Vietnam. In this field, the total registered investment is USD 3.86 billion, and the total registered contribution is USD 897.6 million, accounting for 1.2% of the total registered capital of foreign investment projects in Vietnam. Foreign investment projects registered in the field of environmental goods and services are just in a small amount compared to other sectors in terms of both its quantity and total registered capital. However, the scale of investment capital of these project in the field of environmental goods and services is rather high, USD 24.76 million per project on average, while the average registered figure of foreign investment projects in general in Vietnam is only about USD 13 million each. It is recognized that there is a growing interest in attracting foreign investment in the field of environmental goods and services. Foreign investors are increasingly aware of potential benefits from investment in environmental goods and services in Vietnam.

Reasons for difficulties in Environmental protection during FDI attraction

Foreign investment over the past 30 years has shown that environmental deterioration in Vietnam is owing to the development model with the focus on economic growth based on the energy-consuming technology, overexploitation of resources and environment. We have not actually anticipated the complexity of production types, technology with potential risks and environmental incidents.

attraction suspension in the province (Decision No. 2214/QD-UBND dated 16 August 2016); Binh Duong Provincial People's Committee has promulgated the list of industries, regions and areas at risk of environmental pollution and environmental incidents in the province together with prevention and handling solutions (Decision No. 2566/QD-UBND dated 26 September 2017); Binh Phuoc Provincial People's Committee has promulgated regulations on the arrangement of industries and industrial production projects in the province (Decision No. 44/QD-UBND dated 26 October 2017).

There are many reasons, both objective and subjective ones, for this situation. The objective reason is increasing pressure on the environment due to population growth, rapid urbanization, strong industrialization, increased agricultural production, the priority of investment attraction and economic development without sufficient attention to the environment. In addition, a large number of industries and industrial forms with high risk of environmental pollution, low and outdated technologies, etc. has increased sources of pollutants, generated a great deal of waste into the environment. The main reason is lack of measures and solutions to prevent and control environmental pollution, especially in detecting and controlling large sources of pollutants, to keep up with the increasing and more complex environmental issues, to be specific:

Firstly, project areas with high risk of environmental pollution are not clearly defined (including new projects not yet put into operation and commercially operating establishments) in order for appropriate management measures and solutions: Over the past few years, targets of the state management of environment have rapidly increased, environmental issues are getting bigger and more complicated while state agencies do not have enough experience and cannot oversee all potential risks to the environment, especially from those generating a great amount of waste. Rules of development and experiences of other countries show that 20% of enterprises, projects, large production facilities with outdated technologies cause the majority (70-80%) of environmental issues throughout the production cycle. So far, the only criteria to identify commercially operating facilities polluting the environment are available for radical handling measures; but projects not yet put into commercial operation and production facilities with a high risk of environmental pollution and incidents have not been reviewed, listed and assessed for effective management and supervision.

Secondly, passive waste management and control fails to meet requirements; there are no effective measures to implement the management mechanism for environmental protection applicable to each production form and environmental impact level; lack of regulations, criteria and tools for screening and selection of investment projects, production technology, environmental treatment, control of enterprises' waste discharge, especially for large projects and production establishments with high and large-scale environmental pollution and incidents: Promotion of industrial development is always one of the focus orientations of the socio-economic development plan. However, in the recent period, along with investment attracted in the development of light industries, heavy industries using obsolete technology consuming a great deal of energy, water, and natural resources has also achieved rapid development. These are production forms causing environmental pollution, negative environmental impacts, emissions of chemicals and toxic substances, which take long to decompose, with the high treatment cost. Until now, monitoring and inspection of environmental aspects of these facilities and projects have not been clearly defined in policies and laws on environmental protection, which leads to difficulties in environmental control over these targets; the implementation of management measures is slow and temporary; implementation methods are asynchronous and inconsistent resulting in low effectiveness, and passive activities. As a result, the risk of large-scale, inter-regional, inter-provincial and complex environmental pollution and incidents from large production facilities and projects still exists.

Thirdly, the coordination of all levels and sectors in controlling waste sources is not effective, synchronous, and strict. Controlling projects and establishments that are likely to cause environmental pollution is the responsibility of not only the enterprises themselves but also of the political system, state levels, departments, and socio-political organizations and the local community. However, the assignment and decentralization of responsibilities and powers on environmental protection among levels and departments is ineffective, showing the confusion in handling environmental incidents; the roles of political, socio-political organizations, socio-employment organizations, and local people have not yet been fully made use to create active environmental protection and strict supervision of the management and the compliance with regulations on environmental protection of agencies, organizations, and enterprises.

Environmental protection solutions in FDI attraction

The world is moving towards a green economy, and sustainable development has become a common trend, renewable and new energy is being invested and has the potential to become the main energy in the future. The transition from a brown to a green economy is globally inevitable, especially in the context of natural resources depletion, environmental deterioration, and increasing climate change. In order to resolve environmental problems in attracting foreign investment and satisfying practical requirements, it is necessary to approach prevention and control of environmental pollution in a systematic and comprehensive manner with a specific focus both in short term and long term. We strongly need to implement the following steps:

First of all, change our own thought about development, economic growth must be linked to environmental protection, towards a green growth and sustainable development. Environmental protection must be considered a permanent requirement throughout the development process. Pay attention to environmental criteria in the selection of investment projects, instead of attracting investment at any cost. Do not trade off environmental value for short-term economic benefits. Do not allow investment in projects, production forms causing environmental pollution, using obsolete technologies, particularly projects with the potential of environmental pollution and incidents in sensitive receptors.

Second, continue to study, supplement and complete legal policies and laws on environmental protection, focusing on the amendment and supplementation of the Law on Environmental Protection in 2014 to ensure its synchrony with the legal system in general, and its suitability with the reality and international integration process as well as with rapid changes and complexity of environmental issues. Timely institutionalize and strictly implement the Party's orientation and policies as well as the State's laws on environmental protection; Pay attention to raising awareness and responsibilities of all levels and departments; Enhance the close and synchronous coordination among departments, between the central and local agencies. Figure out solutions to promote the effectiveness of the environmental police. The Ministry of Natural Resources and Environment shall take the overall responsibility for inspection and supervision of environmental management, at the same time, other Ministries, departments, and localities have to fulfill their responsibilities in environmental protection.

Third, control and selectively attract foreign investment projects. Investment projects under the form of industrial production with high risks of environmental pollution must use the most advanced production technologies available. Limit investment in projects under special control out of industrial zones; or not allow for those in places of environmental sensitivity (in residential areas, nature conservation zones, domestic water sources, and low areas for aquaculture). Carefully review factors of production scale, technology and project location with respect to environmental issues and environmental sensitivity of project areas in the process of consideration and approval of investment policy; reject projects using obsolete production technologies leading to environmental pollution.

Fourth, strengthen the control over investment projects with approved environmental impact assessment and over operating domestic and foreign production facilities in industries with high-risk environmental pollution. Environmental management agencies should promptly make a list of investment projects to be strictly controlled environmentally with approved environmental impact assessment in provinces, centrally-run cities and throughout the country. Review requirements, regulations, and standards on environmental protection applicable to the project; waste treatment works and management measures; preventive and responsive plans for environmental incidents; environment monitoring and supervising program in the environmental impact assessment report and its decision of approval. In case of inadequacies, the agencies approving the environmental impact assessment shall promulgate documents with amendments and supplementations to ensure requirements, regulations, and standards on environmental protection are at the highest level.

Fifth, create an innovative mechanism in attracting domestic and foreign investment and mobilizing social resources for environmental protection, a mechanism for using proceeds from the environment to invest back to environmental protection; the regime of tax and prices of environmental services must promote environmental protection and change the behavior into more environmentally friendly.

Sixth, continue to transform inspection, examination and supervision activities in order to promptly detect and strictly handle violations. Completely resolve outstanding, complex, prolonged cases. In particularly, focus on inspecting and supervising large projects with potential risks of environmental incidents and pollution such as textile, dyeing, steel production, and chemical production; facilities with the wastewater volume of 200 m^3/day or more; facilities with outdated production technologies, large sources of waste discharged into environmentally sensitive areas such as coastal areas and river basins; strictly deal with violations, especially acts of discharging waste resulting in environmental pollution./.

30 YEARS OF FDI IN HANOI & STATE MANAGEMENT FOLLOWING ISSUANCE OF INVESTMENT CERTIFICATES

NGUYEN DUC CHUNG
MEMBER OF THE CENTRAL COMMITTEE OF THE COMMUNIST PARTY OF VIETNAM
CHAIRMAN OF HANOI PEOPLE'S COMMITTEE

Hanoi: Outstanding achievements after 30 years of FDI attraction

Hanoi has a long history of over a thousand years of culture, where the oldest and most significant spiritual values of Vietnam converge. Hanoi is the national political-administrative center, a big hub of culture, science, education, economy, and international trade and is one of the two biggest economic centers of Vietnam. The city has been acknowledged by both domestic and international business communities to be a successful destination of business thanks to its unique potential and advantages.

Hanoi is the country's symbol in expanding external relations and enhancing the position in the region and worldwide. The city is gradually becoming a megacity with the fastest and most dynamic growth of the region and the world. Fifteen years after receiving UNESCO's title of "City for Peace", Hanoi is still highly regarded by heads of state, investors, and tourists in terms of safety, friendliness, and hospitality as a civilized city with increasingly modernized infrastructure. In addition, transportation is convenient with an international airport and a system of expressways to provide convenient connection to international seaports; the infrastructure of industrial parks is complete and ready to provide the space for manufacturing. In particular, Hanoi has a young workforce in the 'golden age' (over 60% in the workforce) with high-quality human resources, facilitating the recruitment of businesses.

Since 1989, when Hanoi began recording the first FDI projects to be licensed, Hanoi has always been one of the leading localities in the country in FDI attraction and one of the three leading localities most chosen by FDI enterprises.

As accumulated up to the end of June 2018, the city has around 4,300 active projects with the total registered capital of over 33.380 billion USD. In particular, in 2016, 2017 and the first 6 months of 2018, 12.460 billion USD was attracted, equivalent to 59% of the total FDI attracted in the 1989 – 2015 period. With the total FDI capital of around 5.9 billion USD in the first 6 months of 2018, Hanoi has claimed the first place in the nation in FDI attraction.

Comprehensive contribution of FDI to the socio-economic development of the Capital

The foreign-invested economic sectors with the advantages in capital and technology have had an especially important contribution to the socio-economic development of Hanoi in particular and Vietnam overall in the past time.

This sector has contributed significantly to economic growth, both in terms of total supply and aggregate demand of the economy, total social investment, and GDP growth. At the same time, it raises a fundamental contribution to the rapid increase in export value; creates a spillover effect on technology, raises the level, production and business capacity and management for domestic enterprises.

At the same time, it is the FDI sector which has created stronger competitive pressure in each sector, motivating domestic enterprises to innovate technology, change the packaging and improve the quality of products as well as enhance the economy's competitiveness.

The FDI sector has also created more stable jobs and skills training for workers; and there is a strong impact on the development and transfer of the structure of the three sectors (industry - construction, trade - services and agriculture) promoting administrative reform and improving the business environment, building the capacity of state management officials in the area of investment and enterprises.

The FDI sector has also contributed to the development of the metropolitan Hanoi to be a civilised and modern city with commercial and service facilities up to international standards, such as 72 – storey Keangnam apartment, commercial, and service complex; 65- storey Lotte complex, international five star hotels like Metropole, Hilton, Sheraton…

FDI is an important source of capital for social investment. FDI accounted for a significant proportion (about 10-15% on average) of total social investment, contributing to the city's high GRDP growth over the past years (averaging 7.11%).

In addition, FDI projects have contributed positively to the city budget. City budget revenue has increased steadily over the years, the year after is higher than the previous year, accounting for about 12% - 13% of the revenue from the whole city.

It is undeniable that FDI enterprises have contributed to the improvement of quality, efficiency and competitiveness of products in some areas, contributing to the growth of export turnover of the city. The value of export turnover of FDI sector has increased continuously over the years. In 2000, exports of FDI sector reached only US $ 182 million, accounting for 13% of the total export turnover in the area, after 7 years (2007), export turnover of this sector increased 10 times accounting for 39.2% of the city's total export turnover. In the period of 10 years from 2001 to 2011, FDI enterprises are the economic sector with the highest export growth rate of 38.4% / year (state economy increased 14.2% year, the non-state economy increased by 22% / year. In the period of 2011-2016, FDI enterprises occupy the largest share of export turnover in all economic sectors of the Capital (47.3%) and tend to increase from 40.1% in 2011 to 48.3% in 2012, 49.8% in 2016. On average, in the 2011-2016 period, the export growth of this sector will be around 7.5%. Over the past years, Hanoi's trade deficit has been relatively high compared to export turnover, but in recent years there has been a tendency to reduce trade deficit (from over 200% in 2001-2005 to above 100% from 2009). Of the three economic sectors, FDI enterprises have the lowest trade deficit and also the only economic component of trade deficit, contributing to balance the trade balance of the city.

Affirmatively, FDI enterprises with advanced technology, modern machinery and equipment, experience in production, business and management level which are higher than domestic ones are the important channel to transfer technology in comparison with other formal forms of technology transfer. Through the cooperation of FDI projects, Hanoi has received a number of advanced technologies and techniques in many important economic sectors, such as telecommunications, electronics, spare parts manufacturing and car assembling, chemical production, hotel management building up to international standards, high quality health education, consumer goods production ... Especially some telecommunications technology, electronic products, hotel services have advanced to high level in developed countries in the region and in the world.

And as mentioned above, the FDI sector has played an important role in transforming the economy and enhancing the competitiveness of the Capital. The FDI sector, with its major investment in trade, services and industry, accounted for a significant share of total social investment in Hanoi, making a strong impact to shift the economic structure of Hanoi in the past years, focusing on international standard services such as construction, finance, trade, logistics, health care, education and research, application of technology, energy saving, value added products and participation in the global value chain. With the advantages of modern equipment and technology, stable market, encouraged by more and more open mechanisms and policies, FDI tends to grow faster than other sectors. Beginning in 2006, the FDI industry has surpassed the

state-owned and private sector to lead the industrial production value of Hanoi. As of the end of 2010, the industrial structure of Hanoi was three-fold - 43.6%; 33.6%; 22.8%. This rate is 45.5% in 2016; 43.8%; 10.7%.

FDI in the industrial sector has contributed to the formation and development of specialized industrial clusters; accelerate the transfer of technology and diffuse new technologies. FDI enterprises also contribute to forming some of the city's key industries such as electronics, transportation vehicles, motor vehicles, electrical equipment, machinery and equipment, metal products, and textiles…

Current situation of FDI management in Hanoi

Regarding the implementation of mechanisms, policies and the implementation of assigned and authorized duties in the city

On November 26, 2014, the new Law on Investment was passed by the National Assembly in the 7th Session, taking effect since July 1, 2015, to replace the 2005 Law on Investment with many important changes and reforms in administrative procedures for investment towards creating the most favorable conditions for FDI investors and enterprises.

The 2014 Law on Investment has improved the decentralization regime and enhanced the efficiency of state management for investment activities. Accordingly, the authority and procedures for approving projects' guidelines of the People's Committee at provinces and centrally-governed cities are clearly defined. The authority to issue investment registration certificates is transferred from the People's Committee at provinces and centrally-governed cities to the Department of Planning and Investment. Provisions on the responsibility of the Government, Prime

Minister, ministries, People's Committee of provinces and centrally-governed cities and the management board of industrial parks, export processing zones, high-tech parks, and economic zones in the management of investment activities are added, while the provisions on investment report and supervision and evaluation of investment activities are improved.

This new legal framework has facilitated state management agencies in charge of investment in the management of investment projects post-licensing while being more proactive in the support of investors and enterprises.

After decentralizing the issuance of investment registration certificates for FDI projects from the Ministry of Planning and Investment (as provided in the Law on foreign investment) to the municipal People's Committee (as provided in the 2004 Law on Investment) and further down to the Department of Planning and Investment (as provided in the 2014 Law on Investment), on average the municipal Department of Planning and Investment receives around 2,000 – 2,500 dossiers of investment procedures annually. Except for the dossiers for service sectors and sub-sectors not yet committed or not specified in Vietnam's Schedule of Commitments in WTO and other international treaties on investment which Vietnam law has not provided on the conditions of investment for foreign investors and submission to ministries and agencies for comments has to be made, 100% of dossiers are settled on and before the prescribed time limit, in which the time to process dossiers making amendments to investment registration certificates has been reduced to over 30% of the prescribed time limit (to 10 days compared to the limit of 15 days).

Regarding the supervision and inspection after granting the investment registration certificate

Performing the function of state management in investment, the city has assigned and directed the departments and sectors to perform well the inspection, supervision, and evaluation of investment projects under their respective authority in granting investment registration certificates according to legal provisions on investment.

Annually, specialized departments take the responsibility of coordinating with Public Security, Department of Taxation and relevant agencies in the city to develop programs and plans for the inspection, check, supervision and evaluation in compliance with regulations on investment and business on a regular and thematic basis for FDI enterprises. On May 11, 2017, the People's Committee of Hanoi issued Decision No. 18/2017/QD-UBND together with the Regulation on coordination between the city's departments, agencies and sectors, and the People's Committee of districts, rural districts, and towns to effectively manage foreigners residing and operating in the city.

In addition, to facilitate investors in implementing online reporting via the national foreign investment information system as provided by the Law on Investment and Decree No. 84/2015/ND-CP dated September 30, 2015, Hanoi's Department of Planning and Investment has guided and supported investors to create a project account code immediately after being granted the investment registration certificate, reaching a rate of 100% for projects registered from 2015 as provided by the 2014 Law on Investment.

Regarding the guidance and support of investors after granting the investment registration certificate

Hanoi has always been the pioneer in activities to build a government of service which supports businesses in every step of the way. The satisfaction of enterprises and citizens has been identified as the gauge to evaluate the professionalism and effectiveness in the operation of Hanoi's government system. On average, each year, leaders of the People's Committee of Hanoi conduct over 250 work sessions with international investors and organizations coming to the city to learn about the investment environment.

The city has issued and actively implemented Plan No. 74/KH-UBND dated March 30, 2017, on the implementation of Resolution No. 19/NQ-CP on improving competitiveness; Resolution No. 75/KH-UBND dated March 31, 2017 on developing businesses in 2017; coordinating with Israeli and international experts to build a start-up ecosystem; developing an incubation of innovative IT enterprises etc.

The officials of the city's departments and agencies have thoroughly grasped the spirit above and regularly listen to enterprises' feedback, be informed to solve problems and difficulties through face-to-face work sessions, through feedback and regular/thematic conferences and seminars with the interest, participation and direction of the city's top leaders at all levels, which has confirmed the city's commitment in creating a favorable, open, transparent business environment to support and develop businesses.

Some problems and shortcomings in FDI management after granting the investment registration certificate

In general, post-licensing management has been implemented in a proper manner. However, it is the fact that there remain a number of shortcomings making management somewhat ineffective and loose, unable to bring the potential of FDI capital into full play. Specifically:

* The size of investment capital for FDI projects is small, the owners' equity of foreign investors is low:

Foreign investors tend to take advantage of the host country's capital resources to develop. In fact, the total amount of capital put into implementation as committed by the foreign investors is limited, the rest they can use land as mortgage to borrow money from banks in Vietnam, or use the capital of home buyers to earn domestic currency to transfer to foreign countries in foreign currency, increasing trade deficit, this is the act of taking advantage of the host country's currency, also known as "foreign project with domestic capital." Beside investors and enterprises strictly complying with legal regulations, there are also foreign investors who register investment projects but not implement afterwards and remove their business address with no information on the operation or act as legal representative for companies but not based in Vietnam.

* The number of enterprises with inefficient operation and tax debt accounts for a significant proportion with signs of "transfer pricing" in some enterprises:

The management and inspection in practice of Hanoi's Department of Taxation show that besides FDI enterprises suffering real losses, there are businesses with dishonest declaration, resulting in "fake losses, real profit." According to statistics, enterprises that suffer continuous losses in many years are mainly in some industries, including auto parts manufacturing (including mechanical and electronic products); production and assembly of electronic products; production, construction and installation of steel structures etc. In fact, despite losses in several consecutive years, some businesses still increase investment capital to expand production. This phenomenon allows the management agency to consider loss declaration of these businesses dishonest.

* Third, the number of high-tech projects capable of bringing added value only accounts for a small proportion, not yet able to attract source technologies

Many projects mainly invest in simple production stages, which is labor intensive, using old machinery and equipment to concentrate on making use and taking advantage of the domestic strengths of cheap labor, as well as domestic resources and capital. The competitive advantages of low labor costs and many investment incentives have attracted large companies and groups focusing on assembling in the global value chain, leading to a significant increase in employment and export, but at the same time, this has brought relatively limited benefit to local firms while failing to create cohesion for local companies in the global value chain.

* The connection between FDI enterprises and domestic enterprises is limited.

The impact regarding the ripple effect and the sharing and transferring of technologies has not been up to expectation. The main reason is a lack of local suppliers capable of meeting international standards and a lack of systematic information on domestic suppliers and supporting industries while local enterprises also encounter difficulties in the capital, experience, information, marketing skills etc. to improve their competitiveness according to the requirements and needs of FDI enterprises.

There are many reasons for this, one reason being the sense of impatience, aiming for quantity in investment attraction. There is also the subjective reason from the investors. The liberalization of licensing procedures has increased investors and businesses' autonomy; however, there is a lack of sanctions and tools to monitor, bind and hold investors responsible in strictly comply with commitments and content of investment registration regarding the progress and capital etc. leading to slow progress in some projects, causing wastefulness in land and natural resources, affecting the effectiveness and environment of investment.

Meanwhile, there is currently no common database system among state management agencies (investment granting agency, business registration agency, taxation agency, customs agency, banks etc.) to supervise and inspect capital contribution and mobilization and foreign exchange activities of FDI projects and enterprises.

The coordination among state management agencies in the investment attraction and administrative procedures implementation as well as the inspection and supervision of post-licensing project implementation is inconsistent or overlapping or missing the subjects that need management and supervision.

FDI-related legal finalization is slow compared to the practical requirements of the development and integration process, lacking consistency and even having conflicts between relevant documents in areas such as investment, business, environment, land, construction etc. and specialized laws due to documents being issued at different times and prepared by different ministries/agencies.

Some solutions and recommendations to strengthen state management following the issuance of FDI license

The achievements in FDI attraction in the past 30 years have been confirmed. However, for Hanoi, the important thing is not only how much FDI capital is attracted but also how to promote the effectiveness of this capital flow.

The administrative procedures on investment has been open and free, allowing investors to register investment projects easily. Therefore, to ensure the projects are implemented in accordance with the registered content and commitments, the management of projects after granting investment registration certificates needs to be strengthened. Implementation in practice requires the effort of the city as well as the support, facilitation and close guidance of the Government and ministries and agencies at the central level. Specifically:

On the part of Hanoi city:

Continue to establish a favorable investment and business environment so that enterprises and investors can successfully carry out their business and production activities as directed by the Prime Minister in Resolution No. 19/NQ-CP and Resolution No. 35/NQ-CP, identifying this to be a highly important resource besides investment from the state budget to successfully achieve economic development objectives and socio-economic development goals of 2017 and the following years. Develop a network of domestic suppliers, build technical capacity and a highly skilled and qualified labor market

Create a radical change in developing the e-Government to save time and costs for businesses. Public services directly related to businesses can all be conducted in the cyberspace such as business registration, tax declaration and payment, customs, social security, land use registration, construction permit. The city focuses on implementing and ensuring conditions of technical infrastructure and terminals to support citizens and businesses in accessing and using public services right at home.

Focus on administrative reform, reduce and coordinate administrative procedures; Continue to consider and propose plans to reduce and simplify administrative procedures in all areas for investors and businesses.

Continue to arrange and organize the structure throughout the city with the viewpoint of streamlining management focal points; one focal point throughout for one task with the motto of "clear role, clear task, clear procedure, clear effect, clear responsibility." Develop the workforce of officials, civil servants and staff that is "disciplined – responsible – caring – friendly" to serve businesses and the people.

Comprehensively reform promotion activities in the direction of building the capacity of promotion officials with professional implementation methods; enhance on-site investment promotion activities, to support and help investors and enterprises from the stage of business registration to project implementation and solve any difficulty or problem arising in the implementation process. Every year, it is necessary to develop regular and specific inspection and supervision plans for projects behind schedule or failing to report as regulated, or showing signs of violation in terms of the environment, construction, labor use etc.

Focus on connecting and building the promotion network to get timely guidance and support from ministries, departments and agencies at the central level, embassies, trade missions of Vietnam overseas and foreign embassies and trade missions in Vietnam, as well as provinces and municipalities across the nation in the process of organizing and implementing investment promotion and attraction activities both domestically and internationally.

On the proposals to the Government and central agencies, the city of Hanoi proposes some recommendations and solutions as follows:

The Government, ministries and agencies need to complete some mechanisms and policies to create a legal framework for the effective management and supervision of post-licensing project implementation. For example, regulations on the proportion of minimum capital contribution that foreign investors must satisfy in each investment area can be added to promote the strengths and potential of capital use. Some specific regulations, criteria and requirements on the consideration of capacity, experience, and financial ability of investors in areas required by law can also be added to ensure transparency and attract highly-effective projects.

In particular, it is necessary to add the mechanisms for coordination in management and supervision after granting investment

registration certificates. Specifically, it is essential to clearly define and provide specific implementation guidance on the functions, tasks, and coordination mechanisms among relevant agencies from the central to local levels in post-licensing management and supervision; the responsibility and obligation of investors and enterprises and especially specific sanctions to handle violations, strict enough (withdraw of investment registration certificate and dissolve the economic organization previously granted with a certificate) to decrease the workload for state management agencies and increase the effectiveness and transparency of the investment environment.

The establishment of a common information and data system on foreign investment, with the ability to share information among state management agencies (on investment, enterprises, taxation, customs, labor etc.) to enhance the timely inspection and supervision of investment projects as regulated in Decree No. 84/2015/ND-CP of the Government on investment supervision and evaluation and Circular No. 22/2015/TT-BKHDT dated December 18, 2015, of the Ministry of Planning and Investment is also essential. This need to be accelerated to strengthen post-licensing management.

In addition, it is recommended that the ministries have mechanisms for the coordination and support in the provision of information and appraisal for foreign investors, enterprises, and partners to support localities in the appraisal of projects as well as strengthening and ensuring the nation's economic security and safety.

Once post-licensing management is strict, rigorous and effective, it can contribute to the improvement of FDI capital's quality and effectiveness.

HO CHI MINH CITY: TOWARDS SELECTIVE FDI ATTRACTION IN THE NEW CONTEXT

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On December 29th 1987, the National Assembly officially approved the Law on foreign investment in Vietnam, creating a historical milestone in the "opening doors" thinking, by mobilizing foreign investment resources to develop the country's economy. In fact, through 30 years of attracting foreign investment, the legitimacy of the Party and Government's direction has been proven when foreign direct investment (FDI) enterprises have become an economic sector and an integral part of Vietnam's economy.

Also in these three decades, with a proactive, innovative, and daring spirit, Ho Chi Minh City has always been one of the leading localities in the country in FDI attraction. Until now, the FDI sector is continuing to assert its important role in achieving the city's economic development goals. By going over 30 years of foreign investment attraction, we will have the chance to review the achievements as well as shortcomings in policy making and state management. It also helps us to improve the directions of FDI resources in the coming period.

Socio-economic overview of Ho Chi Minh City:

Over the years, Ho Chi Minh City has focused on the thorough and effective implementation of Resolutions of the Central Government, the municipal Party Committee, and the municipal People's Council across all areas. Although there are still many difficulties and limitations, but with the rigorous effort of all levels of Government as well as sectors, businesses and the people, the city's socio – economic situation continues to develop, through which the city contributes nearly 22% of the nation's GDP and around 28% of the total national budget revenue; the city's average economic growth rate is always 1.6 times higher than the national average, the city's labor productivity is 2.7 times higher than the national average, to become the destination attracting high-quality human resources across all areas.

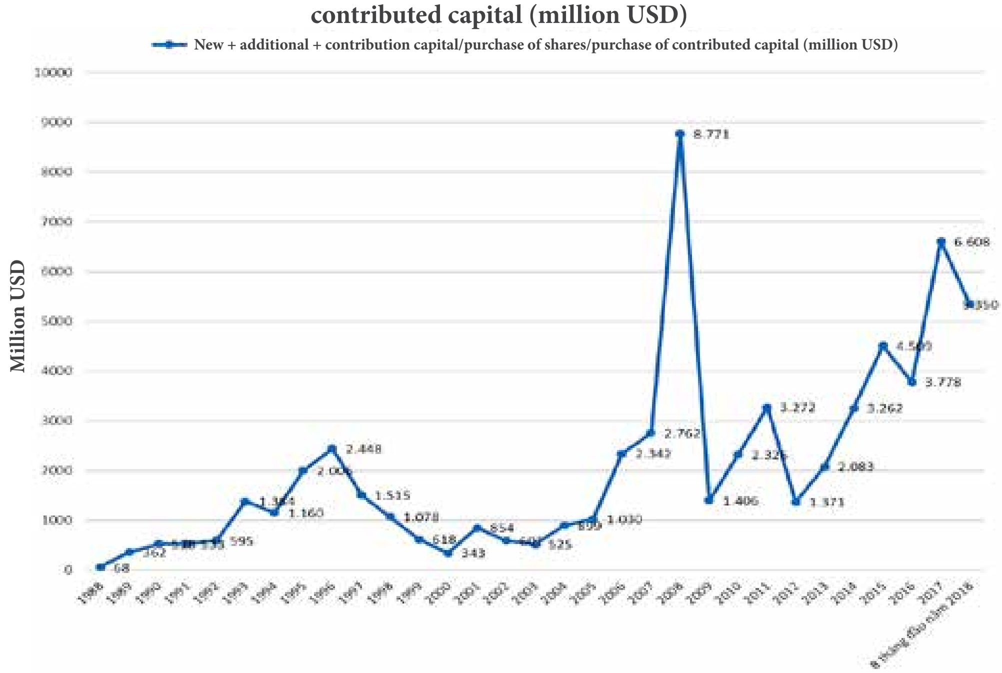
In 2017, the socio-economic situation continued to experience positive change, achieving comprehensive results, helping to strengthen the trust and create a sense of optimism among the people. The GRDP growth rate reached 8.2%, higher than the same period of 8.05%. Budget revenue reached 347,982 billion VND, up 12.9%. The consumer price index is kept under control, recording an average increase of 4.3% in 11 months. The number of international tourists to the city reached 6.4 million visitors, up 22.8%. Export-import turnover reached 78.8 billion USD. Credit outstanding balance increased by 18.5%, remittances reached 5.2 billion USD, in which 70% is concentrated on business and production investment. The business environment continued to be improved. The total investment in the whole society reached 365,710 billion VND, increasing by 18.4%. FDI capital from new registration, supplement and purchase of shares reached 6.38 billion USD, doubled compared to the same period of the previous year. Regarding domestic investment, there were 40,870 newly founded businesses, with the total registered and additional capital of 899,090 billion VND, increasing threefold as compared to the same period of the previous year. 3,675 business households were supported and encouraged to become enterprises.

Impact of foreign direct investment on the City:

From 1988 to August 31st 2018, in Ho Chi Minh City there are 8,048 active foreign investment projects, with the total capital including new and additional capital of 45.19 billion US dollars. In particular, the countries/territories with the highest total capital into Vietnam are Singapore at 10.58 billion USD, British Virgin Islands at 5.98 billion USD, South Korea at 4.85 billion USD, Malaysia at 4.64 billion USD and Japan at 4.06 billion USD.

(According to the data of the Ministry of Planning and Investment, "according to accumulated data up to August 20th 2018, Ho Chi Minh City is still the leading locality in the country in FDI attraction at 45.3 billion USD, accounting for 13.6% of total capital. In the first 8 months of 2018, Ho Chi Minh City ranks second in the country with the total registered capital of 4.42 billion USD, accounting for 18.2% of total capital".).

Total new + additional + contribution capital/purchase of shares/purchase of contributed capital (million USD)



It is clear that FDI capital plays the role of being one of the main driving forces for the city's socio-economic development over the past 30 years. Throughout 30 years, FDI capital has always had its own characteristics depending on the socio-economic context in the country and overseas, however in general, FDI capital has had important contributions to the city's economic development, reflected in the economic restructuring, contributing important capital to develop the city's industries and services.

According to accumulated data up to August 2018, capital investment into the real estate business attracts the highest foreign capital with the total registered capital of over 15.53 billion USD, accounting for 34.36% of total registered capital. Investment capital into the processing and manufacturing industry ranks second at 14.89 billion USD, accounting for 32.96% of total registered capital. Investment capital into the services industry (excluding real estate) reached 14.73 billion USD, accounting for 32.58% of total registered capital. The agriculture, forestry and fishery sector only attracts 43.35 million USD, accounting for 0.1%.

The above data shows the absolute interest of foreign investors in the services industry. As a result, the industrial production value of the FDI sector from 1995 to 2014 had increased nearly 60 times from VND 5,088,072 million to VND 328,586,000 million, and the growth rate accounted for nearly one third of the economic structure. The contribution of the FDI sector in transportation, storage and communication in 2015 reached VND 34,360 billion, accounting for 22.5% of the value of the whole sector. The total retail sales of goods and revenue from the accommodation services, food and beverages of the FDI sector reached VND 45,767 billion in 2015, accounting for 8.9% of the value of the whole sector.

The contribution of FDI sector has helped the city's economic structure to shift towards industry and services with the share of industry and construction accounting for 39.6% of GRDP, services accounting for 59.4% of GRDP, the agriculture, forestry and fishery sector only accounts for less than 1% of the city's GRDP in 2015.

From 2006 until now, the 'FDI wave' tends to focus on sectors and industries requiring high levels of gray matter such as the software, informatics, pharmaceuticals industries; fine machining, electrics and electronics, software technology, and telecommunications. Notably among these is the investment project of Intel Group into Ho Chi Minh City High Tech Park in the semiconductor industry, followed by the emergence of world-leading high-tech manufacturers such as Samsung, Toshiba, Mercedes, Isuzu, Nidec, Sonion, Jabil, and Datalogic. On the other hand, the emergence of multinational manufacturers and companies also offers growth opportunities to domestic supporting industries. In recent years, locally-financed companies joining the supply chain multinational firms in Vietnam such as the electronic parts and semiconductor manufacturing sectors and production have contributed to the city's development of some spearhead industries with high added value.

FDI enterprises have contributed to improving the quality of commercial goods and services, changing the mode of supplying

goods and services to companies and people in the city through distribution channels meeting international standards. Systems of supermarkets and shopping centers bearing international brands such as Mega Market Vietnam (formerly Metro Cash&Cary), Aeon, Lotte, BigC, and Takashimaya along with famous supermarket chains in the world such as Auchan, 7eleven, and Citimart meeting the diverse needs of high-quality shopping for the city's residents.

As for the high tech sector, Quang Trung High Tech and Software Park has attracted several IT and high tech projects over 20 years of operation, properly following the development direction of the city with the participation of the world's largest company in this area like Intel, BP, Samsung, Toshiba, Mercedes, Isuzu, Nidec etc. Besides bringing investment capital to the city's economy, FDI enterprises also transfer advanced production technologies, contributing to the improvement of goods and services' quality. Therefore, the emergence of large-scale multinational manufacturers and companies not only has improved the investment environment but also helped to increase the value of the city's products on the international market.

Overall, FDI capital helps the city's economic structure shift to be more suitable with the dynamic knowledge economy of the 21st century. In the 1990s, the agro-forestry-fishery sector accounted for a significant proportion in the economy but now the services industry has claimed the key role in defining the direction of the city's economic development.

Besides the above achievements, FDI also presents a number of challenges in management and policy planning:

Low ripple effect. At present, supporting industries in the city in particular and across the country in general is still in the stage of "second generation industry"; therefore, high level of localization is hard to achieve at the present. In another aspect, technology transfer to FDI projects has not achieved the expected results and has not met the requirements of the economic development process when added value and profit are low. The competitiveness of products on the international market is low as most technologies used by FDI have been commonly used in the country of origin. On the other hand, the acquisition of technology as well as the management experience of officials in the process of cooperation with foreign countries has not achieved significant results. Especially the acquisition and use of technological application is mostly within the scope of FDI projects, investment in R&D is limited; many projects only make commitments when appraising the application documents of investment registration, but the implementation does not comply with such commitments.

FDI capital has not had significant impact on the quality of human resources. Most human resources working in FDI firms are unskilled labor while management and executive positions are held by foreign workers, native of the firm's country of origin. Therefore, the income and qualifications of FDI workers in the city have not really improved. On the other hand, for the same position the salary paid to foreign workers is 5 to 7 times higher than that of local workers. Many firms in the FDI sector have not properly followed salary and bonus policies and complied with regulations in labor safety and hygiene. Strikes in FDI companies have been occurring at a high rate as compared to local companies. There also remain some issues regarding the compliance with labor law of foreign-invested companies. The

number of violations has been fluctuating over the years, the phenomenon of employing foreign workers in Vietnam without a work permit still exists in some FDI firms.

Many projects are delayed, especially projects that have land use. The delay in the implementation of these projects cause losses in the city's land resources and negatively affects the urban landscape. Although state agencies have actively supervised the implementation of projects and terminated projects in accordance with regulation for projects that have violated legal regulations or when the implementation is no longer feasible, these activities are not efficient due to many different reasons.

There is the risk of environmental pollution, caused by the fact that many FDI enterprises have not strictly complied with regulations in environmental protection when investing in manufacturing and business. Moreover, FDI enterprises investing in Vietnam generally have average capability in manufacturing technology, consuming a high level of natural resources with high emission level. Some FDI projects cause environmental accidents, affecting the people's living environment, which has also been reported by the public.

Dependence on labor and resources with few projects with high technological content. As of 2017, the FDI inflow into Vietnam coming from developed, technologically advanced countries like Germany, France, Switzerland, USA, Canada, Russia etc. was still relatively modest; instead, it came mainly from Asian countries and territories like Singapore, South Korea, Japan, Taiwan, Hong Kong, China etc. Except for partners coming from South Korea and Japan, the rest generally have average technological capability, the proportion of high technology is really low with low efficiency, mainly depending on exploiting natural resources with few source technologies; FDI capital only focuses on manufacturing, processing, service, which is labor and capital intensive while the level of technological diffusion is low.

The investment environment in the new period and challenges for investment management:

After 10 years following the accession to the World Trade Organization (WTO), Vietnam is now facing new opportunities and challenges brought about by new free trade agreements (FTA). At present, Vietnam has signed 11 FTAs; of these, 6 FTAs have been signed as an ASEAN member (including AFTA, 5 FTAs between ASEAN and its partners including China, South Korea, India, Japan, Australia and New Zealand) and 5 FTAs signed as an independent party (Chile, Japan, South Korea, Eurasian Economic Union, Comprehensive and Progressive Agreement for Trans-Pacific Partnership (CPTPP).

The signing of FTAs has opened up opportunities for Ho Chi Minh City businesses in import and export, investment attraction and technology transfer. In the long term, they also benefit from pressure for institutional reform and reform of the Legal institution system in accordance with the conditions and commitments in international treaties. At the same time, this has created a fiercely competitive business environment due to barriers to market entry in trade, services and investment being gradually removed, causing the city's businesses to face competitors from all over the world.

In addition, trends that will affect FDI attraction in the city over the next 10 years are the Fourth Industrial Revolution and smart manufacturing. These are the trends with the major impact, which requires the city's investment promotion policy to be effective in order to be ready for the coming period. Other issues such as the focus on developing industrial clusters, value chains, new forms of investment such as indirect investment or foreign co-operative methods without the use of owner's equity can replace part of the current direct investment method. These trends need to be identified in order to set new supporting policies for future adjustments.

The city's directions in foreign investment attraction in the new context:

The draft FDI Strategy in the 2018 – 2023 period developed by the Ministry of Planning and Investment has made clear that the Socio-economic Development Strategy in the 2011 – 2020 period has identified the viewpoint of reforming the national growth model and ensuring green and sustainable economic development. In that general context, the new direction and priority in FDI attraction has determined the need of promoting FDI in line with the planning of targeted sectors, focusing in high-tech, environmentally friendly and energy efficient areas; develop FDI in a sustainable manner with the emphasis on quality and the spillover effect on the economy and society, enhancing the connection to domestic enterprises.

On that basis, Ho Chi Minh City needs to focus on FDI attraction in the direction of manufacturing products with higher added value; capacity building, technology transfer, research and development in the country; encourage more effective use of resources; create the opportunity for enterprises in the City to cooperate with international companies in the role of forming the global value chain.

The Resolution of the 10th Party Committee Congress of Ho Chi Minh City in the 2015 – 2020 term has set out 13 main duties and solutions. In particular, the emphasis is on "creating a breakthrough in improving the quality of growth and competitiveness" with a number of specific solutions aimed at attracting FDI in the new context such as:

Develop the economy in a rapid and sustainable manner, reform the growth modal towards developing the knowledge economy and green growth, improving the quality of growth and competitiveness.

Rapidly develop services, especially the sectors with high knowledge and added value; raise the proportion of 9 key services in the city's economic structure.

Shift the structure of export goods to manufactured goods, increasing added value; build a modern, complete system of warehouses to operate in full capacity ports, maritime logistics, import-export, multimodal transport services.

Develop high-tech industries. Continue to focus on the development of 4 key industries on the basis of identifying the strategy of high growth in supporting industries; identifying key products to join the global value chain, for the supply to key domestic industries and for export, as well as industries serving agriculture and rural areas etc.

Develop modern, effective, and sustainable urban agriculture towards using high tech and biotechnology, to be a center for producing plant seeds and livestock breeds that is productive, high-quality, safe, with high added value of the region.

Create a favorable and fair environment of development for economic sectors. Rigorously improve the investment environment to attract high-tech, environmentally friendly projects. Be more proactive when Vietnam joins the Trans-Pacific Partnership (TPP), forms the ASEAN community, and implements bilateral and multilateral free trade agreements (FTA), etc.

Based on the above policy orientation, in the coming time, the city will continue to improve the investment environment and proactively provide solutions to support enterprises and investors through specific solutions such as:

Implement the Project ”Building Ho Chi Minh City to become a smart city in the 2017 – 2020 period with a vision towards 2025 with 4 objectives: ensuring sustainable economic growth rate towards a knowledge, digital economy; effective urban governance based on forecast; improve the quality of the living and working environment; strengthen the participation and management of people and organizations. Streamline administrative procedures and promote electronic investment registration in accordance with legal regulations to reduce costs for the people. Focus on the thorough application of information technology into administrative procedure handling processes.

Implement the Enterprise development support plan; by 2020, to develop enterprises in the city with competitive capacity and sustainable development with at least 500,000 companies in operation, including large scale companies with strong resources. The private sector will continue to contribute around 60 – 62% of total investment capital in the society. The total factor productivity accounts for around 36% and over. The social labor productivity increases by around 6.5% a year. Every year, there are about 30 to 35% of enterprises in the city having innovative activities.

Encourage the attraction of foreign investors to invest in areas of development prioritized by the city: **9 service sectors** (1. Finance, banking, insurance; 2.Commerce; 3. Tourism; 4. Transport, port and warehouse services; 5. Posts, telecommunications, information and communication; 6. Property and real estate; 7. Consulting, science and technology services; 8. Health; 9. Education and training), **4 key industries** (1. Mechanical engineering; 2. Electronics – information technology; 3. Pharmaceutical chemistry - rubber; 4. Refined food processing).

Enhance the spirit of active international integration and the effort to effectively implement 12 signed free trade agreements (FTA). Vietnam continues to cooperate with partners like China, ASEAN, Japan, South Korea, USA, Russia, Australia etc. for the effective implementation of trade agreements to being the best benefits to all parties.

Actively implement the 7 breakthrough programs set in the 10th municipal Party Congress, along with the implementation of Resolution No. 54/2017/QH14 of the National Assembly to improve the quality of growth and competitiveness of the economy in association with economic restructuring with depth, quality and efficiency; ensure a fair and favorable business and investment environment which encourages innovation, entrepreneurship and business development. Develop infrastructure system in a consistent manner in association with urban renovation and reduction in traffice congestion, traffic accidents, floods, environmental pollution; take the initiative in responding to climate change; ensure social security and welfare, taking care of people's lives. Rigorously reform administrative procedures, accelarate the development of the e-Government and smart city. Maintain political stability, social security and order, expand and improve the effectiveness of foreign affairs and international integration.

Proactively look for potential investors with advantages in areas that the city aims for. It is clear that the recent working visit to Russia and Israel of the high level delegation from Ho Chi Minh City led by Mr. Nguyen Thien Nhan, Secretary of Ho Chi Minh City Party Committee in the middle of May 2018 is a proof of this policy's effectiveness. The city is working towards building a smart city and that is the reason why Ho Chi Minh City has chosen Israel as the destination of the trip, because the strengths of this country include information technology and cyber security which are well known worldwide; therefore the purpose of the trip is to seek cooperation and support from their experts. The city's delegation also paid a visit to Russia – a nation with strengths in education, training and health to seek cooperation opportunities in these areas, which are not strong areas for Ho Chi Minh City.

Investment management agencies in the city like the Department of Planning and Investment, Ho Chi Minh City Export Processing Zone Authority (HEPZA), the Management Board of Saigon High Tech Park (SHTP) also needs to implement specific investment promotion programs in line with the strengths and characteristics of each sector such as: HEPZA continuing to implement the plan of attracting FDI capital into 4 key industries with high technological and scientific content and high added value (mechanical manufacturing, electronics – IT, pharmaceutical chemistry – rubber, refined food processing) and supporting industries; SHTP maintaining the strength in calling for projects in high tech manufacturing and research and development (R&D) projects.

Over the past 30 years, the attraction and managment of foreign direct investment in the city have had significant achievements. FDI enterprises have become an active, inseparable part of the economy with important contributions that have changed the socio-economic landscape of the city. With the spirit of supporting enterprises in every step of the way and a tradition of innovation and reform of the city's government, it is believed that in the coming time Ho Chi Minh City will continue to be a destination of many foreign investors, contributing to the common development of the City and the whole country.

FDI AND THE IMPRESSIVE INDUSTRIALIZATION OF DONG NAI

DINH QUOC THAI
CHAIRMAN OF DONG NAI PEOPLE'S COMMITTEE

30 years of foreign investment activities in Vietnam in general and in Dong Nai, in particular, has witnessed significant achievements in foreign investment attraction and implementation.

Before 1986, Vietnam was faced with numerous socio-economic obstacles. In particular, the economy suffered from severe crises with high inflation, stagnant production, outdated technical facilities, and desperate capital shortages.

In that scenario, the Party had initiated a comprehensive reform policy in which foreign investment attraction was an important remark with the milestone being the National Assembly passed the Law on Foreign Investment in Vietnam on December 29, 1987. It has been 30 years since then and the legal system on foreign investment in particular and the legislation, in general, has been gradually improved to create a legal framework for foreign-invested companies and domestic companies to operate stably, contributing to the socio-economic development.

To undertake the Communist Party and the State's reform policy, Dong Nai province has put great effort in the reform of its economic managing mechanism and achieved positive results in socio-economic development, especially in attracting foreign direct investments (FDI) for the province's economic growth.

*After 30 years of foreign investment attraction, Dong Nai has successfully grasped the opportunities, utilized its potentials and advantages to achieve various accomplishments in the development of socio-economy. Details are as follow:

Firstly, FDI in Dong Nai grows rapidly and sustainably:

The 1988-1993 period was the time for approaching FDI. The first foreign-invested project in Dong Nai to obtain the investment license No. 17 on September 30, 1989, from the State Committee for Cooperation and Investment was of the Vatadona Joint Venture on taxi transport services. Although during this period, there were already large foreign-invested projects like VEDAN, VMEP, and Hualon, most of them were in the construction phase so the impact on the social economy was not significant.

The 1994-1998 period witnessed the great breakthrough growth in the development of the industry and other sectors of the socio-economy with projects of big investors such as Fujitsu, Kao, Samsung, Kolon, Chrysler, CP, Cargill, etc. This period belonged to the time called the first "foreign investment wave" in Vietnam.

The 1999-2000 period was the time when the economy was affected by the 1997 financial crisis. As Vietnam's economy had not widely and deeply integrated into the world's economy, the decrease of investments in Dong Nai was mainly indirect. The license granting for new projects remained stable; however, the value of investments fell because most projects were small and medium-sized; there was no big project.

The 2001-2010 period was a steadily growing phase. During this time, Dong Nai province attracted over US$9 billion; the annual average registered capital reached US$900 million. The largest investment projects of this period were those of the Formosa Corporation with an investment of US$951 million, the Hyusung Vietnam Ltd. with an investment of US$563.23 million and other real estate projects including the Long Tan – Phu Hoi residence (US$290 million), the 5-star hotel and complex zone (US$100 million), the Water Front residence in Long Thanh district (US$750 million), and the Aqua City residence in Long Thanh District (US$518.7 million). The investment attraction in Dong Nai province was carried out in the direction of reducing the number of projects that require large land areas and common labors.

The 2011-present period is the time to attract FDI projects according to the province's orientation of encouraging supporting industries, machine component manufacturing, high-tech industry, and low environment polluting industries. During this period, the province has attracted US$ 7.3 billion in various major projects and sectors including high-technology, supporting, and healthcare industries such as Lixil Vietnam (US$441 million), Termuro BTC (US$98.8 million), SMC Manufacturing (US$111.17 million), Volcafe (US$80 million), Hyosung Dong Nai (US$660 million), Shingmark Hospital (US$80 million), etc.

This has generated the second "foreign investment wave" in Dong Nai with projects that are increasingly suitable with the province's preferred investment attracting orientation.

In the past 30 years, Dong Nai has always been in the country's top region in attracting FDI. By 6/2018, there are 1,335 valid projects with the registered capital of US$27.68 billion, of which 1,160 projects are in operation while others are in the construction phase. The implemented capital is about US$18.8 billion, accounting for 66.67% of the registered capital. Foreign investors in Dong Nai come from 47 countries and territories in the world, of which the most investments in Dong Nai are from Taiwan, Korea, Japan, ASEAN countries, Europe, and America.

The foreign-invested projects spread throughout the province; however, they concentrate at some key regions with some advantages, turning these areas into the economic forces, stimulating the overall socio-economic development of the regions and the surroundings. FDI projects in the province are in various sectors, scales, and technical levels. Most of them are in some industrial, processing, manufacturing sectors which make up 84% of the registered capital while the agriculture sector accounts for 1.5% of the registered capital, the commercial and service sectors make up 3.5% of the total projects, and the investment in real estate is 12% of the registered capital.

Secondly, FDI are an important resource for development, contributing to the exponential economic growth over the years and boosting the economic structural transformation towards the modern orientation.

During the previous 30 years, through the development of industrial zones (IZ), Dong Nai has achieved a breakthrough development in industrial growth, the value of the industrial production increased by nearly 200 times over the year 1985. The industrial development has influenced the growth of the service and agriculture sectors, the rural areas and other fields. In particular, the GRDP has increased rapidly in many consecutive years (with an average of 12%/year), twice higher than that of the whole country; the economic structure transforms in towards reducing the agriculture proportion while increasing the proportion of industry and services; average investment GRDP grows 16 times.

Foreign-invested enterprises account for 37% of the province's value growth, 62% of the industrial output value, 91% of export turnover; create 600.000 jobs and have become a crucial part in Dong Nai province's economic structure.

Thirdly, FDI have substantially contributed to the developments of following IZs:

After the State issued the Law on Foreign Investment in 1987, Dong Nai's top priority is to prepare its industrial land fund and technical infrastructure to attract investments.

The Bien Hoa Industrial Development Corporation – SONADEZI's practice in establishing the Bien Hoa Industrial Zone (now Bien Hoa 1 IZ) on the area of 376 ha in An Binh ward in 1963 has left valuable experiences in the development of IZs in Dong Nai. The foundation of Sonadezi Bien Hoa Corporation and Bien Hoa 2 IZ in the early 1990s are the development milestones since they are the first enterprise to operate in IZ infrastructure investment and the first IZ of Dong Nai and the entire country to be built under the reform era. Dong Nai is also the origin of the model to use investors' advance capital in the construction of the IZs' infrastructure, the industrial zone regulations, and the on-site one-stop shop.

Dong Nai province has planned 35 IZs by 2020. At the moment, there are 32 IZs granted licenses and operating in the area of 10,242 ha of which 79.56% has been rented and successfully attracted 85.5% of the total FDI in the province.

From the above results, it can be concluded that foreign investment is a crucial factor for Dong Nai to develop its IZs; and in contrary, planning of IZ development is the necessary condition for attracting industrial investment projects in Dong Nai during the years.

Fourthly, foreign investment encourages the development of the socio-economic infrastructure and urbanization.

In recent years, with a determination to breakthrough in transport infrastructure development, numerous major national and provincial transportation projects have been started such as the highway routes of HCMC – Long Thanh – Dau Giay, Ben Luc – Long Thanh, Dau Giay – Phan Thiet, overpasses at the province's important traffic intersections at the gateways to Bien Hoa City and HCMC. They have made positive initial impacts, helping to resolve the traffic congestions, shorten the routes, and facilitate the interregional transportation.

Electricity and water supply systems have spread all over the province, reached 100% of the communes and wards; post and telecommunications ensure smooth domestic and international connections, meeting the demand for socio-economic development.

Planning-based urban developing and constructing management has gradually settled. Dong Nai has directed the implementation of orienting and key construction planning such as the Planning of the urban systems and concentrated rural residential areas; Planning of Dong Nai province's regional construction; Planning of specialized developments, etc. At present, the entire province has completed the 1/2,000 detailed planning of the commune-level towns, Long Khanh district-level town, and Bien Hoa city. Besides, rural construction planning has always been focused on and resources have been gathered for the implementation; Urban and residential areas have been quickly developed. At present, there are about 400 residential and urban development projects with the total area of 12,000 ha to meet the development of IZs and the needs of the people. The province has paid special attention to mobilizing investment resources for the development of worker and social housing to solve the immediate difficulties in housing demands of low-income citizens, national devotees, poor households and the ethnic minority.

Fifthly, FDI has created positive impacts on other socio-economic aspects of Dong Nai:

Through Associations and businesses, Dong Nai has strengthened its relationships with international organizations, diplomatic agencies, and overseas regions to boost the cooperation in various sectors.

Foreign-invested enterprises have created a large volume of jobs, initially addressing the unemployment; at the same time, gradually forming a class of officials and skilled workers. Also, through the initial investment project planning, foreign investments have contributed to the industrialization of agriculture and the development of the rural and mountainous areas.

Besides, foreign-invested enterprises have made significant contributions to the social activities including their participation in poverty reduction programs, almshouses giving, social welfare projects, sponsors for cultural and sports activities, donations to people affected by the natural disasters, etc. Many foreign-invested companies have facilitated the operation of the companies' internal social, political organizations.

In conclusion, after 30 years of development, foreign investment in Dong Nai has affirmed its significant role through its contributions to the socio-economy. Most foreign-invested projects are operating effectively with high disbursement rate and preparing time is gradually shortened. Especially, in recent years, capital additions for running projects are higher than that of newly approved projects.

However, besides the above accomplishments, the province also recognized some limitations that need to be improved. In particular, there are not many high-technology projects. The northern districts receive few investment projects. The rapid industrial development leads to the significant growth of the urban population which results in the overloads of the infrastructure and social services, affecting the sustainable development goal. The high-skilled workforce is insufficient, etc.

*Dong Nai's accomplishment in foreign investment in the last 20 years is first, and foremost, the result of the reform policy initiated by the Communist Party and the State as well as the stable and persistent social and political climate, and the expanding foreign relations. In addition, the informed direction of the administration levels also plays an important role through the proactive research and implementation of some policies and guidelines.

- *The policy to develop the industrial clusters besides the IZs:* Due to the considerable high infrastructure costs of the IZs, it is hard to attract small and medium-sized investors in the IZs. Therefore, besides establishing IZs, Dong Nai has been

developing some industrial clusters with the area of under 100 ha, low infrastructure investments which are suitable for small and medium-sized businesses to diversify investment areas.

- *The policy to prioritize IZ development in the mountainous areas:* To loosen the investment density in most urban areas and develop the socio-economy in the rural and mountainous areas, the province has established business units focusing on investing on IZ infrastructure with the capital from Dong Nai IZs Authority's budget and encourage enterprises to invest in the IZ infrastructure business in mentioned areas by offering them preferential policies in accordance with general regulations.

- *The policy to enhance the quality of the investment projects:* Since 2005, Dong Nai has restrained footwear, textiles and garments, and wood processing projects in Bien Hoa city, Long Thanh and Nhon Trach district with the immediate goal is to reduce the pressure of mechanical population increase and on social infrastructure and services. This is also to encourage the high-value projects for the sustainable development goal.

- *The policy to be businesses' companion:* Since the very early of the 1990s, Dong Nai has implemented the policy of the government being businesses' companion, replacing normal business administrative procedures with the 'on-site one-stop-shop' mechanism and recently the 'inter-agency one-stop shop', adopting ISO in the public administration, timely accepting and addressing the difficulties of businesses.

- *The policy to resolve worker housing problem:* Due to the rapid growth of the immigrated workers, Dong Nai has implemented the policy to 'socialize worker housing development' by mobilizing the collective social resources to help workers to settle, improve the living quality, and ultimately, contribute to the formation of a safe and innovative society.

- *The policy to develop in harmony with the environment:* Environmental protection has always been Dong Nai's top priority. The planning of industrial clusters and zones is parts of the plan to concentrate waste treatment, restrain separate industrial investments in the residential areas. The province also does investment planning of industrial waste treatment complex, forms environment quality monitoring network, collects environment fee, and inspects and handles violations as in the regulations.

*From the operation of FDI, Dong Nai has drawn some lessons as follow:

The first lesson is that a stable political status and a safe and orderly society with a legal system completed and in line with the international practice legal system will create a favorable climate for investors to be reassured to do business and contribute to the socio-economic development.

The second lesson is to focus on synchronously planning and investing in infrastructure. Planning is necessary and needs to be one step ahead to prepare clear land fund for later arrangements of investment projects. Synchronous infrastructure system will facilitate the smooth transportation of goods and reduce costs.

The third lesson is about selecting IZ models and investment projects: Besides developing in breadth, it is crucial to develop in depth in order to gradually increase the quality, pass solutions to establish diverse IZ models, and select projects with high technical content and high added value.

The fourth lesson is about the investment environment and business support. It is necessary to boost administrative reform and reinforce business support since taking good care of investors will open the opportunity to receive new potential investors.

The fifth lesson relates to the operation of social and political organizations. With appropriate approaches, it will be easier to establish social and political organizations inside the businesses. In fact, in Dong Nai, not only the employees but also many business owners have considered social and political organizations their reliable support for their operation.

The sixth lesson is to train the workforce. Dong Nai has always focused on training the workforce to meet the demands of the businesses, especially on high-technology projects with innovative models. The training is associated with the businesses' need so that they can use the human resources without retraining. At the same time, the province also pays attention to training and fostering the officials in charge of state management.

*From the practice and lessons about development over the years, the foreign investment in the 2008-2010 period with orientation to 2020 has been planned with specific goals including leveraging the province's resources and potentials in the close connections with other provinces in the region, in the domestic climate and international integration to continue to attract foreign investment and maintain the steady growth, especially investors

from industrially developed countries. The province will attract more large-scale projects with low environmental impact, high technology projects, service projects, and projects investing in the socio-economically underdeveloped areas in the province to serve the sustainable development goal. From the above specific viewpoints and goals, Dong Nai's orientations on foreign investment in the next period are:

Economy:

The province will complete its planning to successfully call for investments, in which focuses on planning of new urban areas, financial – commercial – service – tourism centers, animal farming and processing areas, and areas for industrial development with priority for high-tech industries, agro0industrial complexes, specialized IZs with high technical content, supporting industries, and clean technology.

The province will develop the synchronized technical infrastructure towards a modern, smooth, and stable state.

The province will prioritize high added-value projects, urban and service development projects, and investment projects in its socio-economically disadvantaged areas. It will also shift the investments to the rural areas while still maintain the sufficient agricultural land fund to ensure food security.

The province will establish a collective brand on IZs and foreign investment to use as a common asset for attracting investors in Dong Nai.

Society:

Foreign investments must support the development of the agriculture sector and the rural areas; help resolve unemployment, poverty, and raise the intellectual level, narrow the living standard gap between classes.

Investment implementation must come with proper solutions for people whose land has been acquired. Particularly, urban areas for resettlement must be built before the acquisition.

The province will promote the democratic institution, increase the role of the general public in planning, governing, and monitoring the operation of foreign investment projects.

The province will develop security systems to ensure investors' safety and security.

Environmental protection

The province encourages businesses to implement the quality management systems like ISO 9000 and ISO 14001 with cleaner production models, to reduce the amount of materials and energy used, to recycle wastes, to minimize the use of toxic material, to decrease the amount and level of toxic in wastewater before pumping it out of the treatment system.

New investment projects, new IZs, centralized wastewater treatment systems, and waste collection systems must be invested in at the very beginning of the project when infrastructure construction starts.

The province will promote the application of economic tools in environmental management following the principle that whoever pollutes the environment must compensate for and rectify the damage.

Particularly, if IZs and investment projects bordering existing urban areas has the current pollution status at a high level, with poor improvements, they can be studied to transform into urban development or other sectors in a suitable conversion route.

Administration

The province will build a modern administrative platform, pioneering in construct a reasonable and efficient apparatus with straightforward administrative procedures, and officials representing the 'service' function of the government, not the 'commander' of the citizens and businesses. The administrative system will guide and create a favorable environment for all innovative ideas to be encouraged, all regulations, administrative policies and procedures to be public and transparent, etc. This will generate comparative advantages and high competitive capabilities.

The province will construct the 'e-government' to bring the preeminence to the operation of local state management agencies.

In conclusion, during 30 years of development, Dong Nai is one of the first provinces to grasp the opportunity, utilize its potentials and advantages to attract foreign investment. Although there were particular limitations and obstacles, Dong Nai has presented positive and creative moves to facilitate foreign investment activities. All of the above has created a credibility for Dong Nai and become the province's advantage to be in the top of foreign investment attraction in Vietnam.

Looking back at the past journey, thinking of the great opportunities and challenges in coming route, believing in the cooperation of generations, of the Central and local will help Dong Nai to achieve future accomplishments in the exploitation of FDI./.

PROMOTING THE STRENGTH OF MARINE ECONOMY IN ATTRACTING FDI IN DANANG

HUYNH DUC THO
CHAIRMAN OF DA NANG PEOPLE'S COMMITTEE

With the advantage of geographic position for socio-economic development, a gateway to the East Sea, and its location on the important road, railway, waterway, and airway, Da Nang has been transforming into a modern coastal city with its own identity, achieving a great position in Vietnam economy, and been considered the center which connects the neighboring cities. It is also a center of trade – tourism and services, post – telecommunication and finance – banking; and one of the education and training centers in Central Vietnam. In particular, Da Nang also offers quality and environment-friendly living conditions – becoming a worth-living city and an attractive destination in the world.

The synchronicity, connectivity, and development of the socioeconomic infrastructure have been improved. In recent years, the GDP of Da Nang has grown steadily of around 9%/year, 1.5 times higher than the GDP growth rate of the country, in which the service sector takes 53%, the industry sector accounts for 33%, and the agriculture sector makes up 2%, 12% is from taxes on goods (statistic in 2007). The city is gradually being shaped like a modern smart city with the development orientation on tourism, trading, high technology industry, and logistics.

Regarding FDI attraction, Da Nang has attracted more than 630 projects from 43 different countries and territories with the total capital of US$3.16 billion, and the implemented capital has reached US$1.9 billion. In recent years, FDI has actively involved in the transformation of the economic structure toward trade, tourism, service – industry – agriculture sectors, and has significantly contributed to the growth of the city's economy and the increase of investment capital, helping to create more than 53 thousand jobs.

Regarding the investment environment, Da Nang authorities have been putting a lot of effort into enhancing the roles of all administration levels in innovation, creation, improvement of investment environment, and service to create favorable conditions for business development. This is reflected in its nationwide leading positions on evaluation indexes like the PCI, PAPI, PAR index, ICT index, etc.

In addition to the achievements, the economic scale of Da Nang is still small in the general economic structure of Vietnam and is the smallest compared to other municipalities. The city's investment promotion activities are still unfocused, failing to reach and appeal to transnational companies and corporations with high financial capacity and modern technology; land shortage, small consumer market, and inadequate human resources are reducing the efficiency of the city's investment promotion activities.

Da Nang's marine economy status

With over 70 km of coastline stretching from Da Nang bay to Son Tra peninsula – Dien Ngoc and Hoang Sa island district, Da Nang has advantages to develop the marine economy and brings the opportunities of long-term investment and business to domestic and foreign investors, specifically:

Da Nang's marine resources belong to the major fishing grounds of the Central, accounting for 43% of the country total reserves with 110 high economic-value seafood species. In the fisheries sector, not only has the infrastructure been developed, but the exploitation capacity of the city's fishing fleet has also been significantly enhanced; by the end of 2016, the total number of vessels is 1,138, of which 431 vessels have the capacity of 90 CV and higher, 3 vessels are for fishing logistics services; the annual output of seafood exploitation is stable at 33,000 – 34,000 tons. The Tho Quang lock and fishing port has 58 ha of water surface with the capacity of 800-1,000 vessels and has 24 ha of land area. This is one of the biggest ship locks in the country where the ships of the Central localities gather after long days of offshore fishing. However, directing logistic service on the sea is in the very first stage without any professional logistics team for offshore fishing vessels. In the 2001 – 2005 period, seafood is the main export product of Da Nang. Nonetheless, since 2005, the city's export turnover structure has significantly changed while seafood export turnover doesn't seem to grow. Currently, there is only one foreign investment project (US$7 million) from a Japanese investor in seafood exploiting and processing.

With the strategy of developing into a coastal city, focusing on trading, and tourism, since 2008, service and trade sectors have been developed, many large-scale real estate projects have been granted investment certificates and run effectively. There are currently 689 tourist areas and hotels with more than 28,800 rooms, including 20 5-star hotels and resorts mainly gathering in the coastal areas, under the management and operation by world-renowned hotel brands such as Hyatt, Intercontinental, Furama, Marriott, Sheraton, etc. In addition, the area is also homes to many luxurious resorts and entertainment activities.

Over the past decade, Da Nang's marine economy has been growing steadily due to the dramatic growth of the tourism sector. The growth rate of gross sea products reaches 11% on an average. The total value of sea products accounts for 8.3% of total products in this area; of which the tourism sector makes up the biggest part (80%). Particularly, in 2017, it is estimated that tourist arrivals to Da Nang reached 6.6 million, 35% of that are foreign tourists. The city focuses on attracting tourists from the Northeast Asia (Japan, China, Korea, Taiwan); maintaining and developing tourist arrivals from the Western Europe (France, German, England, Spain), North America (US, Canada), Eastern Europe (Russia) and expanding to the Middle East, India, Australia markets. The total tourism revenue in 2017 was US$826 million, increasing by 20.6% over 2016. The number of air tourists to Da Nang in 2017 was 1.6 million, increasing by 75% over the previous year; the number of cruise tourists reached 120,000 from 78 cruises ships to the Tien Sa seaport. Tourism products are more and more diversified, meeting the various demands of domestic and foreign tourists such as leisure – entertainment tourism at tourist complexes like Xuan Thieu – Nam O, My Khe – Son Tra, Non Nuoc – Ngu Hanh Son – Bac My An, and sport activities such as scuba diving, sailing, windsurfing, jet-skiing, paragliding, etc. In addition, Da Nang is also the intercultural intersection of marine and mainland culture, which creates its own strength on developing marine tourism with various attractive entertainment, cultural, religious activities like the Guanyin festival, Da Nang International Fireworks Festival, Da Nang – Summer Destination, etc.

Tien Sa seaport plays an important role as the end point of the East-West Economic Corridor (EWEC), facilitating the goods transportation from countries in the Northeast Asia to countries on EWEC such as Myanmar, Thailand, Lao, and Vietnam, and vice versa. Tien Sa seaport is a modern cargo port with the goods transportation capacity of 12 million tons per year and it is estimated that this seaport will exceed its capacity after 2020. Has been considered as the focal point of the marine economy, seaport infrastructure and maritime economy have been heavily invested since 2007. In terms of seaport services, Da Nang has 01 main seaport which is Tien Sa Port Enterprise (accounting for over 80% volume of goods via ports) and 02 functional seaports which are Tho Quang port and Son Tra port. Currently, the FDI capital for maritime services (logistics services) is quite modest with only 02 projects of the total investment of US$8.6 million.

Orientation for the coastal city development

Preserving and developing Da Nang's characteristics of a Coastal – River – Mountainous city, synchronously developing the future green city with river, mountain, and sea landscapes, taking advantages of the sea (one of the most beautiful beaches in the world, 02 coastal axes as Son Tra – Ngu Hanh Son and Nguyen Tat Thanh associated with Da Nang bay), Han river, and the most beautiful mountains in Da Nang, including Ngu Hanh Son mountain, Son Tra peninsula, Nam Hai Van, and Ba Na.

Planning the development Da Nang city as a smart, worth-living coastal city, including the development and issuance of criteria for Smart Governance, Smart Economy, Smart Environment, Smart Society/Living, Smart People, and Smart Transportation or Smart Mobility.

Developing a tourism city along with maritime trade, including adjusting and calling for investments to improve tourist areas from Son Tra to Ngu Hanh Son, planning Da Nang bay as a "coastal city" with the typical characters of a coastal city with unique architectures and services, making them Da Nang's tourism remarks, attracting investments. The orientation involves building a port city, quickly investing in the construction of Lien Chieu port, transforming Tien Sa port into a tourist port; and setting up the shallow ports for logistics services in the Central's key economic region.

Orientation for marine economic activities

Regarding tourism, the orientation includes building a branded, attractive, and competitive tourist region with diversified and high-quality services, clean environment, and friendly people. Particularly, the plan is to focus on leisure, medical, educational, business, and entertainment tourism in the direction of becoming a world-class tourism center, a holiday paradise, a shopping center, the place of beauty and art contests, and the leading entertainment center in the region to attract high-spending tourists. Da Nang will focus on developing the key products of marine tourism such as premium marine, leisure tourism; travel combining traditional medical treatment; travel with education and field research; ecotourism associated with world cultural heritages; cruise and river tourism; shopping travel; and meetings, incentives, conferences and exhibitions (MICE) tourism. In addition, the city will develop supporting products like sea and water activities which meet foreign tourists' taste such as coral reef diving, surfing, parachuting, regatta, scuba diving, parasailing, helicopter tour, yacht services (marina, yacht bay).

Regarding maritime, as planned, Da Nang will have specialized ports: Tien Sa seaport will only serve cruise tourism; Tho Quang seaport will provide logistics services, mainly fishing logistics services, and Lien Chieu seaport will be a cargo port. Therefore, Da Nang seaports will be developed into 2 main streams: the first one is portal services with the direction of serving container ships, passenger ships, and heavy cargo vessels (in which service for container ships is the core, the targeted market is container ships, passenger ships, heavy cargo vessels); the other is logistics service, including storage and packaging services, container, customs warehousing leasing, distribution services, etc.

The purpose is to make Da Nang a logistics center of the Central's key economic region, an important transport hub of the whole country, the main gateway leading to the sea of the EWEC, to form the logistics supply chain in the Central Vietnam, of which Da Nang is the center where seaports (Tien Sa seaport, Lien Chieu seaport) and Da Nang International airport are the cargo gateways to other areas and countries in ASEAN and in the world. It is necessary to develop synchronously transport supporting services, multimodal transport, delivery services, etc., especially to enhance logistics service quality with reasonable prices, safety, while minimizing environmental pollution and saving energy; increasing the competitiveness to actively expand and integrate into the regional and global sea transportation market.

Regarding seafood processing and exploiting, the near-shore exploitation will be limited to let the exhausted fishery resources regenerate; human resources and capitals will be invested in the large ships to improve their capacity and efficiency of offshore exploitation and fishery logistics services. Da Nang will connect with other Central Coastal provinces in offshore exploiting and fishing then the fishing fleet can do offshore fishing in the long days, protect fishing grounds and Vietnam's sea while assisting each other for the safety of fishermen and vehicles when being on the sea.

Solutions for promoting Da Nang's marine economic strengths to attract FDI capital

Mechanisms and policies

Continuing to improve the investment environment, accelerating administrative reforms and applying information technology in investment procedures. Focusing on solving procedure issues relating to investments, land access, specifying the bidding processes and procedures of land use and projects with land use.

Making a strategic plan for Da Nang's socio-economic development up to 2030. Reviewing all the current regulations, building suitable policies to attract investments which helps to create the strong investment wave into the fields in which Da Nang has competitive advantages in 4 main economic pillars: (1) tourism associated with retreat services; (2) seaports and airports associated with logistics services; (3) high-tech industry associated with creative urban construction, and startup; (4) development of IT industry.

Developing space and infrastructure planning for tourism and strategies for Da Nang's tourism development based on the connectivity of the city's tourist regions, points, and routes to other provinces in the Central coastal region, especially the inter-provincial roads. Particularly, for Da Nang bay, asking for the researching policy and calling for investments to develop it into a unique coastal urban with special architecture and service, which can become a bright spot for Da Nang tourism. For Son Tra peninsula, as this is a nature reserve where numerous unique species thrive; therefore, only ecotourism at a small scale will be developed, limiting the concrete pouring to maintain ecological balance in this area. For the Tien Sa port urban area, after transforming it into a tourist port, tourism and trade complex will be developed here. For the tourism areas from Son Tra to Quang Nam province, hotels, motels, villas, parks, restaurants, and entertainments areas will be developed. For the Ngu Hanh Son area, cultural, spiritual and ecological activities are reorganized to maintain its natural beauty.

Attracting foreign investments in the seafood processing industry is set priority. Da Nang authorities encourage the projects which apply new technologies from large and experienced enterprises from Korea, Japan, Thailand, etc. which can support the local enterprises in enhancing the level of seafood processing, diversifying products, increasing the proportion of high-value products, and undermining the attraction of investors in new projects in raw products processing and exporting. Promoting investments in environmental pollution treatment for existing processing plants; seafood processing must align with environmental protection and corporate social responsibility.

Attracting domestic and foreign investors, cooperation, and joint ventures to build education and training establishments that meet international standards, especially regional and international-class ones. Especially, supporting high-skilled human resources training and development for the city's spearheading economic sectors which is relevant to the marine economy.

Developing the synchronous and modern infrastructure for a coastal city, with priority on calling for investment in building Lien Chieu seaport into a type IA port under the national port system planning to become an international gateway of the Central Vietnam and Central Highland (including investments for constructing the road connecting Lien Chieu seaport with Ho Chi Minh road and the Northern Ring road). Forming the shallow seaports of 30-40 ha along with the 14B corridor to serve the logistics system in the Central's key economic region. Calling for investment to move Da Nang Railway Station and the new railway line (including a railway line connecting the National Railway to Lien Chieu seaport) which links with North-South high-speed railway project from the city center. Further investing in equipment to raise the capacity of Da Nang International Airport to 28 – 30 million travelers/year. Opening the Da Nang – Hoian route along the Han river – Cam Le river – Co Co river route for tourism; opening the Lien Chieu – Cu Lao Cham route for cargo transportation and tourism. Supporting investments in building, connecting the technical infrastructure system, especially the transportation infrastructure which serves as a basis for accelerating cooperating activities between Da Nang – Quang Nam – Thua Thien Hue and between the Central – Central Highlands key tourist regions.

Calling for FDI investments in the construction projects of a smart city such as the smart transportation system for the urban area, a solid waste treatment complex, water environment improvement projects, IT applications for resident management and e-government formation.

Investment support for enterprises

Setting up support channels, providing and answering investors on all investment procedures, and investment incentive policies.

Promoting and implementing projects in the form of public-private partnership. Coordinating closely between the private sector and public sector, determining the roles and the responsibilities. The State creates a favorable legal environment, supports and encourages enterprises to promote their roles in developing the marine economy. Especially, releasing the preferential policies for investors in new construction projects or infrastructure upgrading projects for the development of the marine economy.

Researching and issuing special incentive policies, such as timed income tax exemption for experts and high-skilled labors; supporting policies for enterprises and investors in training human resources; preferential policies for the leading enterprises; incentive policies on investment and development of piers and cruise ships.

Assisting and developing local investors through connecting supply and demand, expanding production and business activities, and enhancing direct dialogue between city authorities and the investors and business community to address obstacles in the investment process.

Promotion activities

Enhancing the quality of investment promotion, advertising the potentials and the strengths of Da Nang to domestic and foreign enterprises. The city needs to conduct market research and promotion to identify the strategic investors and areas needed to call for investments, then making a plan to select and approach the strategic investors in

the field of ODA and PPP. It is also necessary to maintain and strengthen the cooperation with international organizations such as the Japan Export Trade Research Organization (JETRO); Korea Trade Promotion Agency (KOTRA); European Chamber of Commerce and Industry (EUROCHAM); Australian Chamber of Commerce and Industry (AUSCHAM), etc. Da Nang should take the advantages and supports of Vietnam's diplomatic missions; the overseas Vietnamese communities to implement investment promotion activities, and build a team of qualified and professional officials who are knowledgeable of each market and its culture.

Increasing the promotion of Da Nang's image on media to international tourism markets by mentioning the awards from World Travel Awards such as "Da Nang - Asia's Leading Festival & Event Destination", "Da Nang – Best Holiday Destination in Asia" and promoting by opening new international flight routes from key markets to Da Nang.

HAI PHONG: LEVERAGING THE ADVANTAGE OF THE GATEWAY CONNECTING VIETNAM TO THE WORLD, AND BOOSTING FOREIGN INVESTMENT ATTRACTION

NGUYEN VAN TUNG
CHAIRMAN OF HAI PHONG PEOPLE'S COMMITTEE

The advantage of being the gateway connecting Vietnam to the world

Founded in 1888, located in the West of the Gulf of Tonkin – a large bay of the Southeast Asia and the Northeast coast of Vietnam, located 102 kilometers from Hanoi and 200 kilometers from the Vietnam–China border, the port city of Hai Phong port plays an important role in the national construction and development, especially in terms of national security and defence, the traffic hub, the service and industrial centre of the country in general and the North in particular; it is the growth pole of the Northern key economic zone and in the strategic position of the co-operation strategy "two corridors, one economic belt" between Vietnam and China. Hai Phong is considered an "in-out" sea gateway, connecting Vietnam to the world.

It is rare to see a province with such a convenient and synchronous transport system, consisting of all five transportation modes like Hai Phong.

Through arterial roads such as the National Highway 5, 10, 37 and highways bridging Hanoi and Hai Phong, Quang Ninh – Hai Phong – Ninh Binh coastal roads, Ha Long – Hai Phong Highway, Hai Phong city can be easier and quicker connected with Hanoi capital, the World Natural Heritage Ha Long Bay, and other Northern provinces and cities. The connecting role of Hai Phong city becomes more outstanding with the completion and operation of Tan Vu – Lach Huyen sea-crossing bridge. It is the longest sea overpass of Vietnam and one of the longest sea-crossing bridges in Southeast Asia, with the width of 29.5m, 4 lanes, and a maximum speed of 80km/h. With starting point on the Hanoi – Hai Phong highway and the ending point at Hai Phong international gateway port in Lach Huyen, Cat Hai district, the bridge-road system not only meets the demand for the exploitation and operation of Hai Phong international gateway port but also reduces the costs and time of transportation, boosting the industrial development of the Hai Phong's coastal areas and surroundings.

Regarding the ocean route, as a long-standing port city, Hai Phong is one of the country's most important ports and in the relationships with many countries around the world. Together with the traditional port system of 38 commercial ports, Hai Phong international gateway port in Lach Huyen – the national key port was invested in, constructed, and operated since May 2018. The port is capable of receiving 100,000 DWT vessels and approximately 900,000 TEU/year, meeting the crucial requirements for the gateway port of the Northern Vietnam and Southwest China, reducing the transit time through regional ports such as Singapore and Hongkong, and able to directly ship imported and exported cargos from the Northern region to European and American markets with the assisting system of logistics services.

Regarding the airway, Hai Phong has Cat Bi international airport, located 5km from the city centre. The airport has been upgraded following the standards of a modern, class 4E airport, with the capability of receiving various types of airplanes such as the limited-weight Boeing 747, B777-300, B777-200, A321, and other airplanes with similar functions so as to bring a new development future to Hai Phong city and the coastal region of the North. At present, Cat Bi airport is serving daily domestic flights from Hai Phong to HCMC, Da Nang, Buon Me Thuot, Pleiku, Nha Trang, Phu Quoc, Da Lat, and vice versa, and international flights from Hai Phong to Incheon (South Korea) and Bangkok (Thailand).

Regarding railway, Hai Phong has 01 national railway station and 01 international railway, the Hai Phong – Hanoi railway connected with the railway from Hanoi to Lao Cai - Yunnan (China), Hanoi – Lang Son – Guangxi (China), and the North-South railway route.

Moreover, one of the highlights of Hai Phong City is the Dinh Vu – Cat Hai economic zone with a total area of 22,640ha which was constructed and developed as general, multifunctional and multisectoral economic zone with the main focus is on maritime economic development. Dinh Vu – Cat Hai economic zone was established and operated in accordance with the Decision No. 06/2008/QD-TTG dated January 10th, 2008 of the Prime Minister. This is one of the five key coastal economic zones of the country with several preferential policies for investors and synchronized facilities and infrastructures, gradually becoming a key development target of North Hai Phong.

Understanding the advantages of being the gateway connecting Hai Phong City to other countries in particular and Vietnam to other countries in general, Hai Phong city not only concentrates financial resources of the Central's and the City's State budget to develop the infrastructure, but also focuses on attracting the extra-budgetary resources by encouraging public-private partnership (PPP) investment projects, FDI projects to attract domestic and foreign investors to invest in the city's infrastructures such as Vietnam Singapore Industrial Park and Township Development JSC (VSIP industrial zone, township, and service area), Jafco Investment Asia Pacific Co., Ltd (Nomura industrial park), Infra Asia Development Co., Ltd and Infra Asia Consulting and Project Management Co., Ltd (Dinh Vu industrial park), Molnykit Co., Ltd (construction of two first berths of Hai Phong international gateway port), Vingroup JSC (Vu Yen 1 Bridge), Construction Corporation No. 1 JSC (coastal road), etc.

It is said that the upgrowth of infrastructure system is rooting from the effective promotion policies on infrastructure investment of Hai Phong city and the strong interest and investment of the Central, Government of countries, and domestic and foreign investors to Hai Phong's infrastructure. The synchronous investment and modernization of the city's infrastructure have boosted the outstanding socio-economic development of Hai Phong city. The city has achieved double-digit economic growth rates of 11% in 2016 and 14.01% in 2017, emerging far beyond the average rate of 9.08%/year in the period 2011-2015. Cargo volume through Hai Phong port is exponentially increasing, reached 37.9 million tons in 2010, then grew 2.4 times in 2017 to over 92.05 million tons; raised to 60.3 million tons in the first seven months of 2018, 18.58% higher than that of the same period of 2017. The total export turnover was USD 6.3 billion in 2017, 3 times higher than that of 2010; went up 25.61% in the first 7 months compared to the same period of 2017. FDI attraction has grown drastically in the recent years. At present, the city has had nearly 580 valid FDI projects with a total registered capital of over USD 15.7 billion from investors of 38 countries and territories in the world.

Achievements of the FDI attraction in Hai Phong

Hai Phong is one of few localities to own five basic transportation forms which are more and more completed and with a history of FDI attraction from 1989, in recent years, Hai Phong city has affirmed its position in the eyes of foreign investors.

As one of the first provinces to attract foreign investment capital, Hai Phong city has become the destination of numerous leading corporations in the world and foreign investors. In the past, if the FDI capital of Hai Phong city was under USD 500 million each year (except for 2008 when the capital reached USD 1.6 billion), since 2011, Hai Phong city has achieved major, admiring turning-points. With a remarkable amount of FDI attraction, even nearly reached USD 3 billion in one year, and significant improvements in quality,

Hai Phong city has constantly been in the list of 10 top localities of FDI attraction in the country.

Regarding the investment structure, apart from investment projects in the industrial production sector with modern technology of investors from Korea, Japan, America, Europe such as Posco, GE, LGE, LGD, LG Innotek, Bridgestone, Nipro Pharma, Kyocera, Roze Robotech, Damen, etc. Japan's reputable investors are interested in doing research and investing in the real estate sectors (five-star hotels), international standard golf courses, and shopping malls. Some large-scale investment projects in the industrial production of LG corporation such as LG Electronics, LG Display, LG Innotek have brought along a system of satellite companies; investments in the supporting industrial projects in order to provide components, accessories also contribute to the making of a more dynamic investment environment of the city, creating more job opportunities, and at the same time limiting trade deficit.

FDI capital not only creates direct investment source but also crucially contributes to the promotion of domestic investment, encouraging domestic economic sectors to expand their investment scopes, increasing the domestic investment capital considerably by investing in the infrastructure, services or manufacturing sectors of materials, package, transportation, and contributing to the effective exploitation of the domestic resources including land, workshop and equipment, etc. Investment projects on infrastructure development, real estate business such as the 5-star hotel Nikko, Aeon Mall shopping centre, and a series of projects on hotels, malls, commercial centers, international hospitals, urban areas by reputable domestic corporations have gradually contributed to the new outlook of a more modern and civilized city, with more useful services, promoting the socio-economic development of Hai Phong city at present and in the future.

Besides the effort in infrastructure investment, with the aim of improving and creating the attraction of the city's investment and business environment, the authority of Hai Phong city has had drastic measures in the direction and administration of the city management. With Decrees, directives, implementation plans, and commitments on creating a favorable business environment for enterprises, administrative procedures were streamlined significantly such as reducing the time to get a business license to 2.5 working days; cutting over 60% of the processing time of the investment procedures for domestic investors and around 30% for foreign investment projects; simplifying procedures, shortening the granting time of the Construction license to 20 days upon the receipt of valid documents in case of constructions; cutting time of making decision on land hand-over and land lease, changing land purpose and accepting land hand-over at site (including the determination of unit price of land use and leasing) to a maximum of 30 days, etc. Especially, since September 2016, the People's Committee of Hai Phong city has strengthened the regular dialogue between the Government and enterprises in the city by organizing recurring discussions with the city's businesses on every 10th day of the month. By August 2018, the city has organized 21 enterprise dialogues with156/235 opinions solved completely, 79 recommendations were promptly settled by the People's Committee, Departments, agencies and locals.

Orientation on investment attraction to 2020

In the upcoming time, in order to achieve the target of being a top green, civilized, modern, smart, prosperous port city in the region and in the world, being the dynamic spearhead of the North in socio-economic development, becoming an industrial center with high competitiveness of the nation; the centre of service, seaport, tourism, trade and finance of Vietnam and the Southeast Asia region, Vietnam's key region of maritime economic development, with synchronous and modern infrastructure system, connecting to the world, the region and other locals in the country, Hai Phong city still continues to appreciate the investment attraction to have resources for investment and development, and to mobilize and attract as much domestic and foreign capital as possible through various investment forms such as BT, PPP, M&A, etc. For new infrastructure construction, upgrade of roads, bridges, and irrigation constructions, the city has encouraged PPP investments.

In terms of FDI, Hai Phong city continues to attract foreign investors selectively, avoiding attracting FDI at any cost, persistently refusing projects with negative impacts on the environment, high consumption of energy, minerals, and natural resources, and low added value. With the priority of attracting high-quality projects which is highly profitable, environmental friendly, sustainable, and come with technology and skilled workforce transfer commitment; Hai Phong city also concentrates on attracting giant investors with modern and high technology, who are environmentally friendly; and attracting small-and-medium-sized investors in specific sector and areas, etc, in order to ensure the competitiveness of export products as well as to contribute to the city's budget. Furthermore, Hai Phong city varies forms of investment promotion, aiming to turn Dinh Vu – Cat Hai economic zone into one of the modern economic and international trade centers of the North and the whole country; at the same time, becomes the important gateway to the sea of Vietnam – China 'two corridors, one economic belt' strategy, builds up modern urban areas and public service sections inside the Economic Zone.

The city shall focus on attracting investment capital in several sectors such as high-tech manufacturing sectors; supporting industry; developing infrastructure and human resources; processing agricultural products attached with the planning of agricultural production areas; high added value service for ports and airport; logistics center in regional scale; sectors with high export ratio; social welfare sectors (healthcare, pharmaceutical and vaccine industry, and ecological products), protecting the environment and national security, etc.

In terms of strategic partner on investment attraction, Hai Phong city has the orientation to focus on domestic and international large economic corporations with the potential to bring along satellite

enterprises, creating the global value chain; well-known investors with financial and skill capacity, management experience, and the ability positively affect and connecting with local enterprises, especially in the supporting industry. Strategic nations on investment attraction consist of Japan, South Korea, United States, European countries, some Asian countries and territories including Singapore, Thailand, Taiwan, etc.

Recommendations

In order to promote strengths of the city and boost the roles as the gateway connecting Vietnam to other countries in the world, Hai Phong city concentrates budget's capital on construction, targeted projects, especially the new construction and upgrade of the technical infrastructure, reducing traffic congestion, expanding the traffic connection system including waterways, seaways, roads, railways, and airway with the coastal provinces of the Northern coastal provinces, provinces in the key economic zone of the North and in Vietnam – China two corridors, one economic belt cooperation.

Moreover, Hai Phong city strengthens the investment promotion in some potential regions such as Japan, South Korea, EU, and North America so as to attract investors with financial capacity, management experience, core technology, and modern equipment to invest in Hai Phong city.

Besides, with characteristics of most FDI projects in the industrial manufacturing, Hai Phong city shall speed up the construction of industrial parks specializing on mechanical manufacturing, electronics and increasing investment attraction from Japanese investors in high-tech and supporting industry./.

VINH PHUC: SUCCESS IN ATTRACTING INDUSTRIAL PROJECTS AND IMPROVING ITS LOCAL SOCIO-ECONOMIC INFRASTRUCTURE

NGUYEN VAN TRI
CHAIRMAN OF VINH PHUC PEOPLE'S COMMITTEE

Vinh Phuc province is located in the Red River Delta and was re-established on January 1, 1997. At the time of the re-establishment, Vinh Phuc province had a small-scale economy, based mainly on agriculture; industry and services were not yet developed, and the local socio-economic infrastructure was in poor condition. Budget revenues were low, cultural and social developments did not meet the demand; the local people's income and living standards were low whereas the number of poor households was high.

Immediately after the re-establishment, Vinh Phuc's Provincial Party Committee and Administration throughout succeeding terms have always identified the development of the local industry as the foundation, the development of local tourism services as the spearhead, and the local agriculture and rural development as its important missions. After more than 20 years since its re-establishment, Vinh Phuc province has gained many major achievements in its socio-economic development.

Vinh Phuc has focused on exploiting the local potentials and advantages, promoting all resources; stepping up the implementation of administrative reforms, creating an open-minded, attractive and competitive environment for investments and businesses to attract and welcome both domestic and foreign investors as a crucial driving force to develop the provincial economy, increase budget revenues, invest in the development of urban and rural infrastructure, and improve the people's material and spiritual life.

For more than 20 years after the re-establishment, with preferential and investment supporting mechanisms and policies, Vinh Phuc Province has put forward a lot of critical solutions to create a favorable investment environment, from the formulation and approval of planning to taking the initiative in land fund, investing in infrastructure development, especially in transportation infrastructure. Administrative reform has been given special attention in which administrative procedure reform has been identified as one of the key breakthroughs. With the motto "All investors in Vinh Phuc are citizens of Vinh Phuc", Vinh Phuc province has recognized the businesses as the driving force for its development and the objects of its service. Therefore, the government always creates the most favorable conditions for enterprises all of which have got equal access to land resources, electricity and water infrastructure, tax incentives, vocational training and labor recruitment, as well as access to capital for communication; besides, the government also pays attention to labor training and encourages the construction of workers housing, and social housing for laborers, etc. With these efforts, Vinh Phuc's competitiveness index in the recent years has always been in the top of the country. Vinh Phuc is striving to primarily become an industrial province by 2020 and complete the urban framework for Vinh Phuc city in the future, making Vinh Phuc an industrial and service center of the region and the country to restructure the economy towards a sustainable manner.

By the end of August 2018, the results of investment attracting are over 1,000 projects, of which more than 700 projects are domestic investments with a total investment of nearly 70,000 billion and over 300 are FDI projects with total registered capital of above US$ 4.0 billion. Over 90% of FDI projects invest in the industry sector. There are many big investors from 16 countries and territories having invested and profited from their investments in Vinh Phuc. Foreign investment projects are mainly in the industry sector, accounting for over 90% of the total investment capital of FDI projects in the province.

Currently, Vinh Phuc's planning of having: 18 industrial parks with a total area of over 5,700 ha by 2020 has been approved by the Prime Minister. The Provincial People's Committee has approved the plan to set up 21 industrial clusters with a total area of nearly 500 ha by 2020 and set up 31 ICs within an area of nearly 700 ha by 2030. Based on the approved industrial park development plans, the province has attracted many foreign enterprises to invest in the local industrial park infrastructure and industrial production projects, such as those infrastructure projects of Industrial Parks like Khai Quang, Phuc Thang - Kim Hoa, Binh Xuyen II, Ba Thien, Ba Thien II, Binh Xuyen, and Thang Long Vinh Phuc. There are 11 out of 18 industrial zones having got their own infrastructure investors, of which 8 industrial zones have been put into operation with the engineering infrastructure gradually completed to meet the investors' needs of production and business premises.

Besides FDI, Vinh Phuc also pays great attention to attracting domestic investors to invest in Vinh Phuc.

Not only does Vinh Phuc possess the potential for industrial development, but also thanks to a long history and culture and nature favors, the province is home to many famous landscapes and national historical and cultural sites that have huge potential for tourism and service development. Notable sites with tourism potential include Tay Thien, Binh Son, Tam Dao, Dam Vac, Dai Lai, etc. Especially, Tam Dao Tourist Resort, the so-called "Dalat City of the North", has great potential for developing ecotourism and convalescence. The factors to develop tourism services in Vinh Phuc bring numerous potentials for investors to explore and create value(s) for all the three - the community, the investors and Vinh Phuc.

Thanks to the success in attracting investments, the province's economy has experienced remarkable growths and the annual economic growth has always been high: On average, in the 1997-2016 period, the economic growth rate (GRDP) reached 15.37% per annum, of which the construction industry increased by 23.9% on average (for the period of 2000-2010, the average economic growth rate was 17.4% per annum). The scale of the economy increased more than 40 times from the year 1997 (from VND1.96 trillion in 1997 to VND85.3 trillion in 2017). The per capita gross domestic product (GRDP) value has continuously increased from VND 2.18 million/person in 1997 to VND 79.02 million/person in 2017. The economic structure has shifted sharply in the direction of increasing the proportion of the construction industry, reducing the proportion of agriculture, forestry, and fishery. By 2017, Vinh Phuc province has had an economic structure of Industrial-Construction 59.62%, Services 31.68%, and Agriculture and Forestry 8.52%.

The scale of the economy has increased significantly over the years, which has created favorable conditions for the provincial budget revenue. From a province that depended on the Central budget, in 1997, the province's new budget was 114 billion VND. After five years, in 2002, its budget revenue reached over 1,000 billion VND. By 2004, Vinh Phuc province was able to balance its budget expenditures and contribute to the Central budget. In 2009, the province's budget revenue exceeded VND10 trillion and by 2014 it exceeded VND 20 trillion; and in 2017, the budget revenue was over 28.7 trillion (280 times more than that of 1997).

Together with the increase in revenues, the total annual budget expenditures have also been increased, creating favorable conditions for the province to invest in socio-economic infrastructure. At the same time, the province has invested in its agriculture, rural areas and farmers, contributing to the improvement of the material and spiritual life of the local farmers, ensuring the security and order in its rural areas, creating the foundations for the provincial socio-economic development. So far, the face of Vinh Phuc's urban and rural areas has been transformed.

General evaluation: After more than 20 years after since the re-establishment, Vinh Phuc has successfully brought about important and comprehensive achievements in the fields of economy, culture, and society. The economic growth rate remains high for years, the scale of the economy is continuously and firmly increasing; the technical infrastructure is highly invested and upgraded towards a modern direction, the socio-cultural fields have made great

progress, and the material and spiritual life of the people has been constantly improved.

To attain such sufficient achievements, during the past few years Vinh Phuc has implemented some certain effective solutions:

Firstly, the province has accurately identified the role and trend of foreign direct investment in each stage of development, seizing the opportunity to timely set out the suitable policy guidelines;

Secondly, the province has paid attention to planning and investment in infrastructure development to attract investment;

Thirdly, the province has been drastic in administrative procedures reform, creating transparency, fairness, and equity. All administrative procedures that relate to investment activities must be simple, lightweight, without any addition of costs or troubles and harassment for the investors. The province has always accompanied the businesses, cared for their operations, timely solved problems and obstacles for enterprises when investing in the province, and at the same time, created the most favorable conditions for investors to learn about and invest in Vinh Phuc.

Fourthly, the province has had the policy to harmonize the relationship between investors and the local people, contributing to employment stabilizing, ensuring social security and equality, creating a consensus among the people;

Fifthly, the province has focused on improving and promoting the investment environment;

Sixthly, the province has emphasized on training a skilled and qualified workforce to meet the labor demand of foreign direct investment enterprises and drastically implemented the construction of housing for laborers.

Views, objectives, and orientation to attract investments in Vinh Phuc province in the future

Points of view:

Firstly, the province's strategy of investments attraction must be in coherence with the general strategic direction of the whole country, in line with the socio-economic development strategy of the province in every certain period, suitable with the infrastructure, market, and human resources, etc. development orientation.

Secondly, in the international context and the socio-economic situation of the country at present and in the coming time, it is essential for the province to clearly define the orientation to attract investments to serve the cause of industrialization and modernization, sustainable economic - social development, and to solve unemployment issues, to contribute to the budget, boost technology transfer, protect the environment, and to improve the external relations, etc. It is also necessary to clearly define the province's views on foreign investment as a business area, operating under the legal framework and the market signals.

Thirdly, together with the attraction of investment capital, the local government needs to pay attention to the management of the business operation after the issuance of investment registration certificates and the efficient use of foreign investment by raising the capacity and efficiency of state management of foreign investment as well as strengthening the coordination among ministries, between ministries and central agencies and departments as well all over the province in foreign investment attracting, using and managing.

Objectives:

The province's objective is to serve the renewal of the growth model, to restructure the economy of the province, to improve the competitiveness of the economy, and to contribute to sustainable development for the long term. In particular, the role of the FDI is to help the economy grow in harmony, in width, and in depth.

In the immediate future, the objective of enhancing the competitiveness of the foreign investment sector by 2020 is to develop the foreign investment sector with higher potentials for technology and involving high-tech solutions in some parts of the production instead of solely assembling and processing as for the time being; concurrently, increasing the added value of products made in Vietnam.

Orientation:

Orientation of investment fields: The province offers favorable support for projects that are high in scientific and technological contents, environment-friendly, and able to make great contributions to the socio-economic development; or capable of joining the global value chain; or in the fields of electronics, telecommunications, mechanical engineering (manufacturing and assembly of automobiles, motorcycles, etc.), building materials, new materials and supporting industries of the automobile, motorbike and electronic industries; industrial zone infrastructure development and construction, tourism projects, international universities; the province also calls for investments in the service sectors such as finance, banking, insurance, health care, and education and training.

Orientation of investment area: In the coming time, the province will focus on attracting investment projects in industrial zones, raising the occupancy rate in industrial parks, linking industrial development with environmental protection for thoroughly handling the environmental pollution in industrial parks and clusters. Moreover, the province will step by step formulate regional industrial centers so as to encourage the development of supporting industry projects for the automobile assembly and vehicle component industries;

Orientation of partners: The province will focus on attracting FDI from multinational corporations, supporting enterprises, small and medium enterprises of Japan, Korea, etc, and look forward to potential partners from Europe (Germany, Italy) and the USA.

With the breakthrough viewpoints and directions, and flexible and attractive policies to draw investments, support businesses, and efficiently exploit the province's advantageous potentials in the economy, resources, and people, Vinh Phuc continues to be a successful destination for all domestic and foreign investors. Vinh Phuc is determined to make breakthroughs in cooperation and sustainable development.

BINH DUONG: TYPICAL FDI ATTRACTION MODEL AND SUCCESSFUL TRANSFORMATION AFTER 30 YEARS

HUYNH THANH LIEM
CHAIRMAN OF BINH DUONG PEOPLE'S COMMITTEE

After 30 years of reform, the foreign-invested economic sector has become a major component of the Vietnamese economy as a whole and of Binh Duong's in particular, playing an active and impressive role in many fronts of the province's economic integration – development process. As of August 2018, Binh Duong has received more than $B 31.2 of pledged FDI, among which, more than 3,300 projects are still running, placing the province on the third place nationwide. The 3,000 plus projects totaling $B 22.5 in pledged capital operating in the processing industry have elevated Binh Duong from a mostly agricultural economy to a highly industrialized and urbanized province among the Southern key economic region.

FDI and the transformation of Binh Duong Province after 30 years of reform

In the past years, FDI has been an important complementary source of capital to facilitate economic and social development in Binh Duong. In the few years of Reform, the domestic capital was limited. The Foreign Investment Act that soon followed added a crucial source of funding towards the province's development. In recent years, FDI has been consistently accounting for 47 to 50 percent of the total social financing in Binh Duong, proving once again that FDI has become a major force in pushing industrialization and modernization of the province. In 1997, Binh Duong had an economic structure of 50.45 – 26.8 – 22.8 percent for industry – services and agriculture, respectively, of which, total industrial output was valued at only 4 trillion VND. Total export was $M 363, mostly consisting of light industry and crafted goods. Both domestic and foreign investment was poor, while urbanization rate was merely 24%. As of present day, Binh Duong Province has made a big leap forward, boasting economic metrics an order of magnitude greater than they were at the beginning of Reform. Specifically, during 2011-2015, GRDP grew 14.5% on average; GRDP grew 9.15% in 2017; per capita, GRDP amounts to 120 million VND. In the first half of 2018, GRDP grew 7 percent on a year-over-year basis.

With almost 72% of FDI funneled into manufacturing, FDI enterprises are responsible for more than 67% of Binh Duong's total value of industrial output, boosting the province's overall manufacturing capacity. In 2017, Binh Duong's Industrial Production Index increased by 10.9% year-over-year. The FDI sector dominates total output across several industries such as livestock feeds (75.5%), fish feeds (86.1%), textile (86.6%), carton manufacturing (70.4%). Foreign capital also helps shift the province's economic structure towards industry and services. In 2017, Binh Duong had an economic structure consisting of 63.99 – 23.68 – 3.74 – 8.59 percent for Industry, Services, Agriculture and Import tax net of subsidy, respectively.

FDI enterprises have pushed the industrialization and modernization of Binh Duong via transfer and transformation of manufacturing processes. Technological advancements in manufacturing and management have been applied and transferred to domestic partners, enabling domestic engineers, technicians, managers to approach the latest technologies. The fact that many conglomerates with hi-tech products from countries and regions such as Japan, South Korea, and Taiwan - namely Far Eastern Corp. (Taiwan), Kolon Industries Corp. (Taiwan) - have invested in Vietnam means more opportunities for Vietnam to develop its own technological infrastructure. FDI enterprises are pushing domestic ones to continually upgrade technologies and management processes to deliver better quality, thus more competitiveness on domestic as well as international markets. Notably, many Vietnamese experts working at FDI enterprises are gradually replacing foreign ones in running advanced processes as well as management positions. FDI enterprises' efficiency has been raised as a consequence of enterprises increasing capital investment and production capacity, which produces a ripple effect on the rest of the economy via the collaboration among the FDI sector and the domestic sector. This effect can either be vertical among businesses in a supply chain, or horizontal among businesses in the same industry. Additionally, FDI enterprises are forcing domestic ones to adapt to the increasing rate of globalization.

Things that fall short of expectation

Besides the aforementioned strengths, Binh Duong Province has its share of weaknesses in utilizing foreign investment efficiently, among which: (i) the human resource needed for key industries is lacking; (ii) industrial growth causes pollution and a number of social issues. The province's industrial capacity has grown significantly in scale but not in depth – in fact, it has the characteristics of an offshore outsourcing industry and a structure that is lacking in real technicality. The proportion of domestic value added, either direct or indirect, is not high enough given the imbalance in terms of industries involved. For a period, FDI enterprises focused on labor-intensive projects due to low wages, then on resource-intensive ones to take advantage of the relatively low prices of natural resources. In recent years there have been projects focusing on assembling and finishing certain products.

The transfer and integration of technologies from FDI enterprises has been discussed for many years but has yet to materialize. During the first years of foreign investment, most projects were joint ventures. However, the number of joint ventures declined over time. Attracting such projects can facilitate technologies transfer, human resource development, legal compliance and labor disputes settlement. In recent years, many multinational and transnational conglomerates have established presence in Vietnam. This is an opportunity to achieve the goal of developing technologies and human resource for Vietnam.

Binh Duong Province's upcoming plan to attract investment

Industry 4.0 has offered many opportunities as well as challenges. On May 4th, 2017, the Prime Minister issued Directive No. 16/CT-TTg on the strengthening of the ability to access the Fourth Industrial Revolution. It is necessary to come up with solutions to leverage and connect foreign investment with this revolution. With the Government's determination to innovate, create and act, Binh Duong has made a lot of efforts to improve the investment and business environment, creating a more favorable and transparent legal framework for enterprises, of FDI enterprises are a part of, to operate and grow.

Binh Duong has promulgated the Investment Promotion Program for the period of 2016-2020 with the objectives of: (i) attracting financially strong partners and large corporations to invest in traditional markets; (ii) attracting foreign investment in hi-tech industries with high added value, less labor-intensive and environmentally friendly, attracting more investment into industrial parks and industrial complexes; (iii) focusing on attracting domestic investment in supporting industries, supplying materials for large corporations, joining the global value chain of multinational corporations. In order to further promote industrial development along with achieving the objective of sustainable economic development, Binh Duong Province has identified solutions to be implemented in the coming time as follows:

First: To develop and complete the necessary mechanisms and policies to attract investment in the province. To supplement and perfect the planning and push for the building of infrastructure for industrial parks and clusters in order to create a large stock of clean land to attract investment in the development of high-tech industries as a prerequisite for industrial development. To continue to redirect industrial zones outside of industrial clusters and inside residential areas towards trade, services, urban and hi-tech industries. To focus on attracting investment in industrial development both in scope and in depth, prioritizing hi-tech production projects, financially strong investors and projects with a high level of value added while producing low pollution level and a high rate of contribution to the national budget. To encourage investment in the development of supporting industries, prioritize the development of supporting industries in the field of manufacture and assembly of machinery and equipment, electronic, supporting industries for production and assembly of automobiles and motorbikes; to pilot the planning on development of industrial parks and supporting clusters.

Second: To study and promulgate policies to mobilize extrabudgetary funds for infrastructure, technical and traffic work, especially important external transport projects within the province in a coordinated manner. To prioritize the proper connection between national highways, provincial roads and district roads, with the national transportation system and the provinces in the Southern key economic zone. To efficiently use state budget investment capital to focus on the projects which have spillover effects and promote the attraction of investment. To invest in step by step synchronous and modern infrastructure for electricity supply, water supply and drainage, waste treatment and basic environmental protection to meet the production demand as well as resident's welfare in the province.

Third: To push for reform of administrative procedures and strengthen the anti-corruption framework in order to create a more favorable business environment for enterprises. To formulate mechanisms and policies to support start-ups and to help domestic enterprises realize to the maximum of their potentials; To promote the role of business associations in seeking business partners, investment cooperation and support to improve the level of corporate governance.

Fourth: To devise a solution for high-quality human resource development, especially leaders and technical officers, through standardization of training systems towards regional and global standards. It is required to implement proposals on labor skill improvement to meet business' needs, in order to train and improve the quality of human resources to meet the demand of the business.

Fifth: To implement the Smart City proposal based on the study of successfully implemented smart cities in the world (such as Eindhoven and Netherlands). It requires the development of an active collaboration system among different stakeholders in the province such as enterprises, local government and the people to mobilize the collective strength and community creativity. It needs to set breakthrough targets for synchronizing implementation, with focus on people rather than technology, in order to benefit all stakeholders.

In summary

30 years is sufficient to affirm that the reform policy of the Party and the Government which aims at global integration, foreign investment and market-oriented economy, is proper and timely to help the country recover from the economic crisis, to set the foundation for further global integration and to achieve many targets in the past years. With extensive efforts of the leaders, local people and all economic components, Binh Duong province has made impressive achievements in foreign investment attraction and socio-economic development over the time. With well-built institution and long-term vision of provincial leaders, Binh Duong hopefully continues to be an attractive destination for domestic and foreign investors. Besides attracting investment to implement sustainable development targets, the efficient use of foreign investment will also play an important role in the socio-economic development of Binh Duong province in particular and of the country in general.

THE BREAKTHROUGH PROCESS TO BECOME A BRIGHT SPOT FOR FDI ATTRACTION OF HA NAM PROVINCE

NGUYEN XUAN DONG
CHAIRMAN OF HA NAM PEOPLE'S COMMITTEE

In 1997, Ha Nam province was re-established with favorable geographical location and natural condition; however, there also existed a lot of difficulties of an agricultural province: backward industrialization; undeveloped trade and services; insignificantly invested infrastructure; limited budget revenue; poor social infrastructure; human resources both lacking quantity and having a structural imbalance.

The period of recovering and focusing on infrastructure construction (1997-2010)

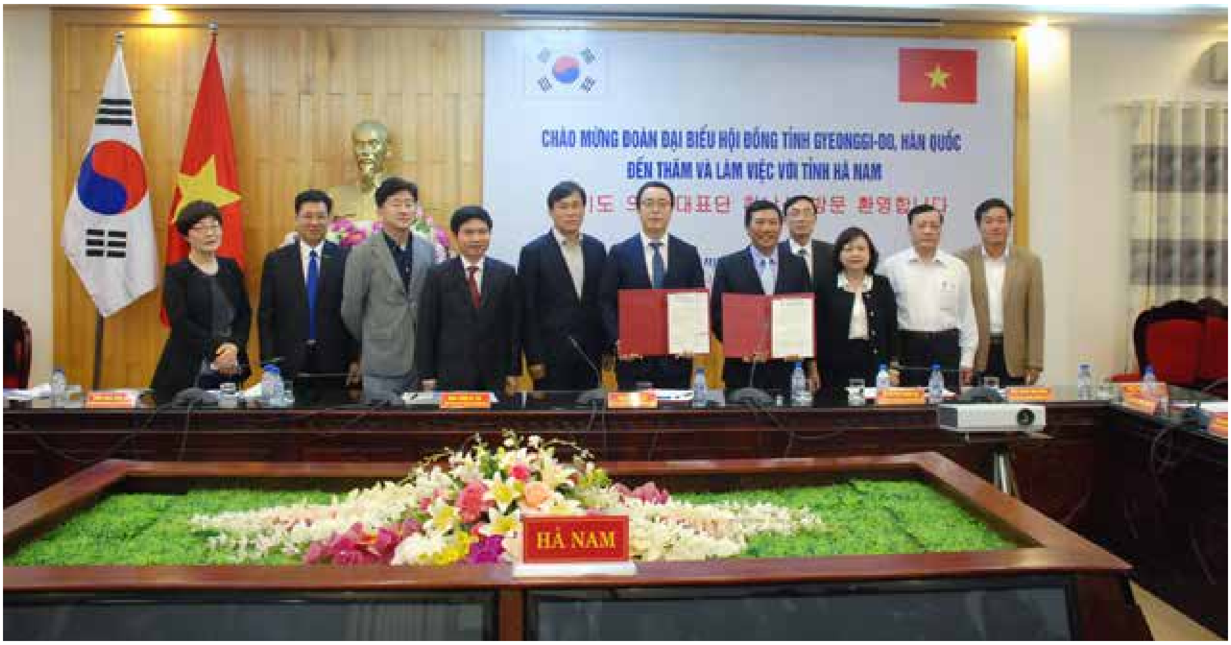
When being split into a separate province, agriculture accounted for 52% of the province's economic structure; there were only 50 enterprises provincewide, the annual budget revenue was just VND 72.4 billion. From the above situation, it was the greatest desire of the government and the people of Ha Nam province to put their effort into overcoming difficulties, unite as a whole, focus intellectual, and to find a leading policy to help the province grow strongly.

Ha Nam focused on mobilizing all resources for infrastructure development; at the same time, fostered the investment environment, creating the most favorable condition for domestic and foreign investors and enterprises in the province. As a result, Ha Nam quickly overcame the difficult stage, thence seized opportunities, boosted strengths, exploited its resources and favorable potentials to focus on socio-economic development. Thanks to that, by 2010, Ha Nam rose to become a province with a good growth rate, an average economic growth rate of 11.5% *(compared to that of 1994)*; The economic structure: in 1997, agriculture, forestry, and fishery accounted for 48.3%; industrial construction amounted for 19.1%; and service accounted for 32.6%; By 2010, agriculture, forestry and fishery made up 21.4%; industrial construction 48.1%; and service 30.5%. In the period of 1997-2010, Ha Nam attracted 50 FDI projects with the total registered capital of USD 335.6 million. The investment projects mainly focused on major fields such as textiles and garments, jewelry, food processing, etc.; 5,612 jobs were created.

The period of breakthrough, renovation, and integration (2011 to present)

Ha Nam determines investment attraction, especially foreign direct investment (FDI) attraction, as the main driving force for socio-economic development, mobilizing human resources for investing in development, contributing to the effective exploitation of domestic resources, expanding international economic cooperation, creating a comprehensive power for industrialization and modernization. FDI has become the "nudge" for a breakthrough in the economic development and implementation of social security policies in the province. With the aim of making a breakthrough, renovation, and integration, Ha Nam has actively coordinated with Ministries, Central divisions, and media agencies to release documents for investment promotion and advertisements, providing investors and enterprises with information through conferences and workshops, working with foreign partners and organizations such as Japan External Trade Organization (Jetro), Korea International Cooperation Agency (Koica), etc. and representatives of Vietnamese agencies in foreign countries; organized Ha Nam investment promotion conferences in big provinces and cities of Vietnam; regularly held conferences to meet with FDI enterprises; attended the conferences and workshops organized by the Ministry of Planning and Investment, the Ministry of Foreign Affairs, the Ministry of Industry and Trade; developed investment promotion materials (Guidebooks, profiles, investment attraction project portfolio, DVDs, etc.) in English-Vietnamese, Korean-Vietnamese, Japanese-Vietnamese, etc. Ha Nam has coordinate with Investment newspaper, Vietnam and the World newspaper, Business Forum magazine, KBS station (Korea), NHK station (Japan), etc. to develop introductions on Ha Nam's investment environment. The province has sent investment promotion delegations to foreign countries; established the Korea and Japan Investment Support Desk to assist businesses; signed economic and cultural exchange and cooperation and investment promotion agreements with provinces of Japan and Korea. In particular, so far, Ha Nam has made 10 commitments with investors:

(1) Commit to provide sufficient electricity 24/24 for businesses; (2) Ensure the infrastructure and essential services supply for the enterprises, including: electricity, water, telecommunications, waste and wastewater collection and treatment; (3) Quickly tackle administrative procedures, in which issuing investment certificates within 3 days, processing administrative and e-tax procedures conveniently and accurately; (4) Assist enterprises in labor training and provide skilled and disciplined workers; (5) Provide clean land without charges for companies to build housing for workers and accommodate the workers' demand of services, social infrastructure, and entertainment; (6) Support and create the best conditions for businesses with the needs to expand their operations, change business and production strategies, adjust investment certificates; (7) Have customs services for industrial parks and quickly complete e-customs formalities; (8) Ensure the security outside the borders of the businesses, guarantee the safety of life and property for laborers working for the enterprises; (9) Ensure no strikes; (10) Establish hotlines



of the Secretary of the Provincial Party and Chairman of the Provincial People's Committee to receive information and timely resolve the recommendations from enterprises.

In parallel, Ha Nam fully utilizes the advantages of its geographical location, focusing on the investment to complete the comprehensive infrastructure, enhance public service quality, fundamentally reform administrative procedures, etc., particularly:

Geographical location: A province in the Red River delta, the Southern gateway of Hanoi capital, neighboring the Northern Vietnam key economic region. Ha Nam has the advantageous roadway, railway, and waterway systems, with existing advantages such as the National Route 1A, Cau Gie-Ninh Binh Highway, National Route 38, National Route 21, etc. and the North-South railway.

Infrastructure: Ha Nam has 8 industrial zones with a total area of 2,534 ha. So far, 6 industrial zones have operated and were comprehensively invested in terms of infrastructure with easy transportation. Among them, Dong Van III is the Japanese-exclusive industrial park.

Abundant and high-quality human resources: Ha Nam's population is over 800 thousand people, of which 55% are in working age, 59% are trained laborers. University and college systems have fundamentally satisfied businesses' demand for a high-quality workforce.

Service, social infrastructure, entertainment systems: The province has been implementing investments to provide for the investors' essential needs; financial service system; housing for workers, professionals; buses for workers, etc.

Focus on improving the quality of services for the people and enterprises, accelerate administrative reforms; timely solve problems, especially quickly process investment procedures; Strengthen investment promotion, enhance capacity and investment promotion skills, and officials to directly complete administrative procedures for investors; Create specific mechanisms supporting projects with large investment capital and potential of great impact on the provincial socio-economic development (budget contribution, high added value, sustainable development).

Thanks to the aforementioned efforts, during this period, Ha Nam achieved some breakthroughs in investment attraction. In the past years, Ha Nam has always been on the top list of FDI attraction: From 2011 to present, the province has attracted 193 FDI projects (increased nearly 4 times compared to that of the 1997-2010 period), the registered capital was USD 2.3 billion (increased more than 7 times compared to that of the 1997-2010 period). Up to now, there have been 243 FDI projects (mainly from Korea and Japan) with the registered capital of over USD 2.7 billion. In particular, in this period, Ha Nam has attracted some projects with large investment such as the LED lights manufacturing, assembling and processing project of Seoul Semiconductor Vina Co., Ltd, with the registered capital of USD 300 million; the printed circuit boards and electronic devices manufacturing project of Wooyoung Hi-Tech Vina Co., Ltd, with the registered capital of USD 130 million; the motorcycle factory project of Honda Vietnam, with the registered capital of USD 120.5 million; the radiotelegraphy-based telecommunication devices and LED lights manufacturing project of KMW Vietnam Co. Ltd, with the registered capital of USD 100 million, etc.

The development of FDI enterprises is a crucial factor in the economic restructure and makes positive contributions to the provincial economic development: Budget contribution of FDI enterprises in the province has reached VND 2,004.9 billion, accounting for 40.7% of the total revenue of enterprises in the province and equalling 32% of the total provincial budget revenue in 2017; Creating jobs for 58,273 laborers, comprising 44.3% of the total number of laborers working in the province's enterprises; the industrial production value of FDI businesses reached VND 40,911 billion, accounting for 52.04% of that of the whole province. In the 2011-2017 period, the average economic growth reached 13.5% (compared to 2010). Economic structure: In 2011, agriculture, forestry and fishery - 20.7%, industry and construction - 49.3%, services - 30%; In 2017, agriculture, forestry and fishery - 10.6%, industry and construction - 59.7%, services - 29.7%.

The orientation of foreign investment attraction of the province in the forthcoming time

In the upcoming time, Ha Nam will continue to accelerate administrative reform, improve the investment environment, effectively implement public administrative services from the provincial to the grassroots levels, create a favorable environment for enterprises. Flexibly apply appropriate policies to attract key investors. Promulgate preferential mechanisms to encourage investment in the fields of urban development, technical infrastructure development, social housing, welfare constructions; investment in agriculture and rural areas, etc. Research and propose policies to stimulate and attract investment of multinational corporations as well as give specific policies to each key corporation and partners (Japan, Korea, etc.)

Attract more capital resources in training and developing the human resources, modernizing the vocational training system; Take high-quality technical workers as the breakthrough; Maintain the implementation of specific projects to develop the local workforce and adopt policies of attracting outside laborers for FDI businesses.

Renovate the investment promotion process (including investment promotions, approaches, tools and FDI efficiency indexes): Make a thorough change in the organization and implementation of investment promotion, build a national brand; Provide full services, guarantee professional services: (1) building brand/image, (2) promoting and creating favorable conditions, (3) advocating policies, (4) post-investment services; Expand the network of investment promotion consultancy and overseas representatives in traditional FDI resource markets in prioritized industries; Support FDI enterprises via Japan Desk, Korea Desk; Assist FDI enterprises in connecting with domestic companies; Accelerate on-site investment promotion through foreign organizations (Jetro, Kotra, Jica, Koica, etc.) and enterprises already investing in the province.

Regularly organize dialogue conferences with enterprises to understand their expectations, difficulties, and problems. Whereby, timely address those obstacles and create favorable conditions for companies to develop their production and business.

Accordingly, Ha Nam province will prioritize foreign investment attraction in some following sectors:

Attract supporting industries, high-technology applied industries and agriculture, high added value products which have competitive advantages on the market and are environment-friendly. Attach special importance to large enterprises and corporations from developed, industrialized countries such as Japan, Korea, and Europe (in terms of mechanical engineering, assembly, electricity, electronics, hi-tech, environmentally friendly and energy saving products, etc.).

Processing industry, pharmaceuticals (beer, milk, soft drinks, medicines, agricultural product processing).

Attract prestigious foreign universities and hospitals to invest in the Nam Cao college area (926 ha) and the provincial high-quality medical center (1,513 ha); Cooperate with international schools on vocational training; Attract every resource to strongly develop and modernize the vocational training system to meet the market's demand and science-technology development; Attract medical tourism establishments from countries with advanced healthcare system; Encourage overseas investors in the functional areas of the national tourist attraction Tam Chuc (5,100 ha); Prioritize services for industrial development, especially in industrial zones, and logistics services, etc.

Focus on perfecting the investment procedures, implement comprehensive infrastructure construction in industrial zones (Thanh Liem, Thai Ha industrial park) and concentrated wastewater treatment in industrial clusters.

QUANG NINH
INNOVATIVE - DYNAMIC – CREATIVE

NGUYEN DUC LONG
CHAIRMAN OF QUANG NINH PEOPLE'S COMMITTEE

Quang Ninh province is located in North East area of Viet Nam, covering an area of 12,000 km2, population of 1.2 million. Quang Ninh has all geographic characters of Viet Nam; so the province is considered as a miniature of Viet Nam. Our sea and islands are unique with the beach of 250 km length. The province is also rich in natural resources, with coal, kaolin, clay, glass sand, limestone… Besides, the province is ranked as one of best province for tourism with a lot of famous sceneries. Especially, Ha Long bay has been recognized as "Natural Heritage" for twice and is considered among New Wonders of the World.

Quang Ninh is also known as the only province has both land and sea border with China; is considered as most crucial and dynamic trading gateway between Viet Nam, China and ASEAN. Along with natural advantages, Quang Ninh enjoys "golden population" out of which more than 60% are in working age, 63% of the population have been trained. Our people are known with the tradition of diligence, creativeness, discipline, unite and industrial style.

Recently, Quang Ninh is also evaluated by the government as the province with strong development, creativeness and breakthroughs in Viet Nam, especially in in term of administration reform, economy restructure, business environment improvement and infrastructure development. Besides, Quang Ninh is also considered by independent organizations (Vietnam Chamber of Commerce and Industry-VCCI and United States Agency for International Development- USAID) to has the best economic governance quality in the country. In order to boost foreign direct investment (FDI) attraction into Quang Ninh, we are focusing on the some main missions.

The Comprehensive Provincial Plan has been well prepared. Quang Ninh focuses on building and preparing province and district planning as a comprehensive system. We have officially announced the Province's Strategic Plan towards 2020, vision to 2030, which is consulted by world's leading agencies as McKinsey, BCG (U.S.)... The plans has received appreciation

from economists, experts, central agencies and ministries for its comprehensiveness, modernity and being favorable for business.

The economic-socio infrastructure has been invested to meet development needs. We are actively focus on building economic and traffic infrastructure creating motivation for development, especially the project of highway connecting to Ha Noi and Hai Phong (officially put into operation from September 1st 2018, shortening the travel time from Ha Noi to Ha Long about 1.5 hours), Ha Long - Van Don - Mong Cai highway (actively implemented), Van Don International Airport (put into operation by the end of 2018), Cai Lan international deep sea port…Also, we promote the development of new urban areas, industrial parks, infrastructures for education, trade and healthcare… Our new infrastructures match international standards, to serve demand of investors.

Promoting business environment improvement, support for investors and corporations. Quang Ninh commits to support, consult and create favorable conditions for investors. Administrative procedures are simple and being carried out transparently, quickly. The province is recognized by business community through the Provincial Competitiveness Index (PCI) and the Public Administration Reform (PAR) index which was always ranked among the leading provinces and cities in Vietnam over the years. In 2017, both PCI and PAR index of Quang Ninh were ranked in first position. These efforts are considered as important "soft elements" in the trend of the 4.0 industrial revolution to compete and attract investment. Moreover, the establishments of the Investment Promotion Agency - IPA, provincial and district administrative centers, and e-government, etc. have contributed to the significant improvements in administrative reform for investors, reducing costs and time, improving the transparency, creating confidence for the foreign and domestic business community in the province's business and investment environment.

Besides, Quang Ninh is developing the first Special Economic Zone in Viet Nam-known as Van Don Special Economic Zone with the orientation of developing an economic zone of being outward, lean management, simple administrative procedures, and special laws. The Special Economic Zone will implement special favorable policies to promote global competitiveness. Especially, we will create favorable policies in financing, banking, security, tax, land use, house… to promote investment in the tourism complex with Casino (allowing Vietnamese to visit), as well as entertainment, culture, finance, banking, high technology, information technology, media, eco-agriculture…

To exploit the potentials and advantages of the province, bring values to the investors and community. In recent years, Quang Ninh has paid attention to attract foreign investment. Until present, we attracted 120 FDI projects with total investment capital of $6.23 billion. In the trend of integration and development, many economic agreements of Vietnam have just signed, along with the advantages and efforts of the province, Quang Ninh's FDI is expected

to increase significantly, to bring benefits to investors and contribute to develop the province become a modern service-industrial province and an international tourism center both in the North region and in the country, the focused areas are: transportation and tourism infrastructure, supporting industries, creative industries, hi-tech industries, education and healthcare, high-tech agriculture...

Especially, Quang Ninh warmly welcomes and hopes to cooperate with domestic and foreign investors. We commit to create most favorable conditions for you to live, to work and to do business. Our policy will ensure stabilization, friendliness and safety for investors. You will find in Quang Ninh with convergence of interests and spread of opportunities and new investment values. Your success is the ruler for our value and success. In addition, Quang Ninh province wishes to cooperate with other localities in the region, to continue to promote the strength of the regional connection to enhance the comparative advantages of each locality, to create coordination and support in attracting FDI effectively, to limit the unreasonable competition, to create a harmonious and sustainable development for the benefit of each locality, the whole region and the whole country./.

PROMOTING THE ADVANTAGES AND POTENTIAL OF FDI ATTRACTION IN HAI DUONG

NGUYEN DUONG THAI
CHAIRMAN OF HAI DUONG PEOPLE'S COMMITTEE

Hai Duong is located in the center of the Red River Delta in the Northern key economic zone including Hanoi – Hai Phong – Quang Ninh. The favorable geographic location with an evenly developed transport system, including, roads, railroads, river ways etc., within close proximity of two international airports which are Noi Bai – Hanoi and Cat Bi – Hai Phong, along the Con Minh (China) – Hanoi – Quang Ninh route, and industrial parks situated along National Route 5 and National Route 18, has facilitated the attraction and implementation of investment projects. The province's current population is 1.7 million people, 60% of whom are in the working age with high professional skills. They are the important human resrouces for investment projects. In the province there are now 18 industrial parks with the total area of 3,517 ha, including 11 industrial parks which have received investment for infrastructure development with a fill rate of 64%; and 33 industrial clusters with the total area of 1,400 ha which have been planned to attract investment. In addition, in recent years, the province has always been making an effort to improve the investment and business environment, creating a soft advantage in open policies and mechanisms, and simplified administrative procedures to help enterprises and investors gain the fastest and most advantageous access to the locality.

In the past years, Hai Duong has made significant and comprehensive achievements in all areas. Specifically, in the first 6 months of 2018, the total Gross Regional Domestic Product of the province (GRDP against comparative prices of 2010) increased by 9.04% compared to the first six months of 2017; the economic structure has been shifting in the right direction, the proportion of industry increases rapidly; the proportion of agriculture, forestry, fishery – industry, construction – service shifted from 20.1% - 47.7% - 32.2% in 2016 to 15.9% - 52.5% - 31.6% in 2017.

By now, in Hai Duong province there are 383 FDI investment projects, with the total capital of 7.6 billion USD from 23 countries and territories. In the first 8 months of 2018, the province had attracted 464.7 million USD, increasing by 93.8% compared to the same period in 2017. The total disburse in the first 8 months of 2018 of FDI enterprises in the provinces is estimated at 350 million USD, increasing by 8.3% compared to the same period of 2017, raising the total investment disburse of FDI enterprises in the province to 4.4 billion USD, accounting for 61.9% of the total registered capital. FDI projects have currently been attracting and providing over 170,000 direct labor jobs in the locality and surrounding areas as well as thousands of indirect jobs. The investment projects attracted so far are largely focused on the areas of automobile manufacturing and assembly; cement production and sale; agricultural product processing for export; production and processing of animal feed; production of electronic parts, processing of agricultural products and food, development of infrastructure and services etc.

For sustainable and long-term development and maximizing the province's advantages, in recent years the Province has been implementing investment attraction policies with a shift from quantity to quality, with more rigorous and in-depth selection for each investment project, toward attracting projects using high technology, clean technology, projects with high capital and the ability to produce competitive products and high export to international markets, while rejecting small scale individual projects with low capital, a high level of land use and projects using outdated technology, causing environmental pollution. In particular:

In the agriculture sector, the attraction of investment projects in the areas of plant and livestock breeding; biological technology application, agricultural preservation and processing should be prioritized. Centralized production areas should be builts to link agriculture with the processing industry.

In the industry field, priority should be put on attracting investment into the production of industrial products with high technology, clean technology, information technology, supporting industries, mechanical, electrical, electronic products such as automobile manufacturing and assembly, steel structure, electrical and refrigeration devices, information and telecommunication devices, printers, fax machines, new construction materials, medicine for human etc.

In the service field, investment is encouraged in the following areas: commerce, supermarket, restaurant; tourism, finance, trasportation, telecommunications, insurance, consulting, science and technology, education and training, high-quality healthcare etc.

On the basis of existing potential and advantages, the Province has also proposed many solutions for foreign investment attraction, which include:

- Create a favorable investment environment, attracting investment capital, especially FDI capital is a significant policy of the province in recent years, in order to effectively mobilize and utilize resources, helping to boost rapid and sustainable socio-economic development, creating the foundation to become an industrial province by 2020. Hai Duong Province has identified three breakthrough areas, which are: improvement of the quality of human resources, administrative reform, in which the focus is on reforming administrative procedures to be quick, open, and transparent; promote investment in the socio-economic infrastructure, focusing on investment in the development of the technical infrastructure, mobilizing resources for the investment and development of transport and urban infrastructure, as well as the infrastructure of industrial parks and the social infrastructure etc.

- Create the most favorable conditions for all domestic and foreign enterprises for the effective execution of investment and manufacturing/business activities. The Province has directed relevant departments, agencies, and sectors in the province to improve the quality of service and the responsibility sense of officials and public servants in the implementation of assigned tasks and responsibilities; Properly implement the review and reduction of unnecessary administrative procedures which have been creating obstacles for enterprises, shorten the time to handle administrative procedures related to the enterprises' investment and business activities, especially the procedures concerning land acquisition, land allocation, taxation, customs, asset valuation, permit granting for foreign workers etc.

Always follow and support enterprises, care for, support and develop an even closer relationship with businesses in operation in the province, creating the most favorable conditions for the effective manufacturing and business activities of the enterprises. Organize meetings and dialogues annually and biannually between leaders of the provincial People's Committee, state management agencies and representatives from enterprises, investors, and trade associations/organizations to promptly grasp and resolve the enterprises' difficulties, problems, and petitions. Strictly comply with the regulation on the responsibilities of the Head in handling enterprises' petitions. The departments, agencies and sectors assign organization and unit leaders to act as the contact point to participate in solving enterprises' petitions; making public the address or email address to receive enterprises' petitions, while publicizing the handling of enterprises' petitions on the province's website as well as the website of the province's local departments, agencies, and sectors.

- Develop a database for the province's investment promotion activities, including information on socio-economic development planning; sector and zone planning; industrial park and cluster planning etc. and investment support information such as investment and construction expenditures, labor recruitment etc. Regularly update the directions and policies for socio-economic development, sector and industry development in the province, publish on the investment promotion e-portal and website of the Province and on the website of relevant departments, agencies, sectors, and units.

- Strengthen business connections, diversify and improve the quality of business supporting services (especially services in providing market information, business partners search, information on labor and employment support services); Support the training costs of highly-skilled

workers to meet the demands of businesses; Support in consulting on legal issues and the implementation of administrative procedures in areas such as land lease, land clearance, import-export, customs, taxation, permit for foreign workers etc.

- Renovate the method of investment promotion and diversify the channels of investment advocacy and promotion through reputable domestic and international agencies, forums, economic organizations, representative offices of Vietnam overseas and foreign organizations for investment promotion in Vietnam such as: Investment Promotion Center - North Viet Nam, Korea Trade Promotion Corporation, Japan External Trade Organization (JETRO), Korean Chamber of Commerce and Industry (KCCI), Taipei Economic and Cultural Representative Office in Hanoi etc. Strengthen the coordination between state agencies and investors in industrial park infrastructure in investment approach and promotion.

- Continue stepping up the reform of economic institutions, reviewing and promptly promulgating documents on investment order and procedures, public-private partnerships and selection of investors under the Investment Law, Law on Enterprises, Law on Construction, Law on Land, Law on Environmental Protection etc. Regularly update, quickly and promptly communicate and disseminate the policies of the Party and laws of the State to enterprises, implement in an open and transparent manner the plans of sectors and industries so that investors can have equal access. This will create opportunities for enterprises and associations to participate in the proposal and monitoring of the implementation, progress and quality of the reforms implemented by the departments, agencies, and sectors.

- Ensure the full and stable supply of electric, water, internet, post – telecommunications and finance/banking service infrastructure. The province has requested agencies and organizations such as the Department of Information and Communication, Posts and Communication, Hai Duong Power Company, Hai Duong Water Supply Single Owner Company and all banks in the province. Regularly enhance and improve the quality of services, invest in equipment, techniques, and modern technologies to maximize the service and fulfillment of enterprises' requirements.

Ensure stable political security and social order: be proactive in grasping the security and order situation have solutions to ensure the enviroment of security and order for economic, political and social activities in the area. Be active in coordinating and graspoing the situation of enterprises to be ready and prepared in preventive measures, prevent complicated incidents, minimizing strikes, slow downs, public disruption etc. helping businesses and investors feel assured in their manufacturing and business operations.

It is believed that, with strong and drastic measures in improving the investment and business environment, to bring into full play existing advantages and potential and the proactiveness in policies that encourage investment expansion and attraction, Hai Duong will have new breakthroughs in attracting capital, as well as continue to be the ideal destinations for foreign investors in the coming years.

PROMOTING FOREIGN DIRECT INVESTMENT IN HIGH QUALITY AGRICULTURE IN LAM DONG

NGUYEN VAN YEN
VICE CHAIRMAN OF LAM DONG PEOPLE'S COMMITTEE

Vietnam's Law on Foreign Direct Investment was adopted by the National Assembly on December 29, 1987 serving as the key and first legal foundation for foreign investors to do business in Vietnam. After 30 years of implementation of Vietnam's Law on Foreign Direct Investments, many FDI businesses have been involved in agriculture in Vietnam, which has made significant contributions to the national socio-economic development including the development of Lam Dong province.

As a mountainous province in the Southern part of the Central Highlands, Lam Dong spreads over an area of 9,783 square kilometers and has a population of 1.3 million people; the province is located 320 km from Ho Chi Minh City and is blessed with land, water resources, human resources and ecological conditions that are favorable for large-scale agriculture production and development of the processing industry. Some specialties of Lam Dong that benefit from its agricultural advantages compared to other provinces include: tea, coffee, mulberry fruits, dairy cattle, cold-water fish, vegetables, flowers and fruits of premium quality and temperate and subtropical origins. Over the past years, the province has achieved relatively comprehensive socio-economic developments with the 2017 growth rate reaching over 8%, GRDP per capita of VND 54.2 million, a 4.3% increase in the total agricultural production

value and agriculture accounts for 46.8% of the economy.

After 30 years of efforts to attract foreign direct investments, there have been 203 foreign direct investment projects in the province from 23 countries and territories with a total registered capital of USD 1.6 billion. Until now, there are 103 operating projects in the province with a total registered capital of USD 530.93 million; there are 77 FDI businesses operating in the agriculture sector with a total investment of nearly USD 267 million.

There are only few investment projects in Lam Dong province with rather small investments and the investments actually made by FDI businesses account for around 5% of the total investments in the society on average annually. The investments have partly contributed to the local socio-economic development. The FDI businesses account for over 50% of the total export turnover of the province on average, helping the economy increase its foreign currency reserves over the past years. Socially, FDI projects provide decent employments to around 10,000 workers and thousands of seasonal workers and trigger the development of the related services. The (2017) income per capita is VND 5.2 million.

Foreign direct investments in Lam Dong province have significantly facilitated the high-tech agriculture sector to take shape. Investment projects in the agriculture sector and projects that combine agricultural production with processing have added values to agricultural produces which are the province's advantages. Produces such as vegetables, flowers, Olong tea, etc., have become well-known brands in local and international markets. It's worth mentioning several projects such as the project in which flowers, decorative plants and flower seeds are cultivated by Dalat Hasfarm since 1994, Seed Research and Production Project by Bejo Vietnam in 2012, etc. Impressed with the high-tech agriculture models, many businesses and farmers in the project areas have adopted and replicated the models, which has helped increase the value of their agricultural produces and agricultural processing products and robustly facilitate the local socio-economic development. This has motivated domestic businesses to enhance investment in agriculture. Until now, there are around 1,425 domestic businesses and institutions investing in the agriculture sector; 327 businesses are involved in 393 projects on forestry and forest land over a total area of 56,798 hectares. In addition, there are now 173 agricultural cooperatives, 249 cooperative groups, 949 farms in the province; large-scale and relatively concentrated specialized farming regions have been taken shape. High-tech agriculture has obtained certain successes and nearly 52,000 hectares of agricultural land has been allocated for high-tech agriculture purposes. Various innovated technologies, equipment and technical solutions have been employed by people and businesses in agricultural production (such as glass houses, automatic irrigation, hydroponics, automatic nutrient feeding, etc.,) which has boosted the average production value to VND 158 million per hectare annually (of which: vegetables from high-tech farming generate VND 400 – 500 million per hectare annually; flowers from VND 800 million to 1.2 billion per hectare annually; high quality tea around VND 250 million per hectare annually; coffee nearly VND 240 million per hectare annually). In Lam Dong province, the brands of 20 agricultural produces have been recognized and certified and 09 businesses have been recognized as high-tech agricultural businesses; Under the support of JICA (Japan), the "Dalat – the magical culmination of a peaceful land" of Lam Dong province has been registered to and recognized by the National Office of Intellectual Property of Vietnam with the key produces including: vegetables, flowers, Arabica coffee and farm tourism.

The attraction of investment in agriculture, particularly the involvement of foreign businesses in high-tech agriculture has left strong impacts on farmers' awareness and helped farmers change their mindset and take more vigorous steps to apply science and technology in production, thereby improving productivity and value of agricultural produces, better using agricultural land, accelerating the industrialization and modernization process in the rural and agriculture sectors, facilitating socio-economic development, contributing to local budgets, creating jobs; at the same time, agriculture businesses (particularly FDI ones) have enhanced the transfer of new technological advancements and serve as the contact points for: large-scale processing that meets the established standards, establishment of partnership and linkages for off-taking and exporting the key produces of the province to other countries; this has helped Lam Dong province to strengthen its leading position in high-tech agriculture development.

In order to ensure businesses in general and FDI businesses in particular into agriculture, Lam Dong has initiated the following major solutions:

Efforts to attract investment projects are carried out based on existing regulations and guiding documents at the national level. Furthermore, in order to specify the regulations, mechanisms and policies issued by the national agencies, Lam Dong authority has also put in place various mechanisms to encourage and attract businesses' involvement in agriculture through specific policies that facilitate and attract investments in agriculture in the province. Under these policies, the areas, scales, regions and projects that are eligible for investment incentives in agriculture are determined along with the respective funding from the local budget on a project-by-project basis. Some of the polices and documents include: Project on tailored policies that offer incentives to investments in agriculture; list of investment-ready projects in the province; guidelines on the procedures, orders and management of investment projects funded by sources other than the local budget in the province; publication of the list of investment-ready projects eligible for tailored mechanisms and policies in order to develop Dalat and the adjacent neighborhoods.

Administrative procedure reforms should be strengthened towards adoption of the one-stop-shop and interagency one-stop-shop mechanisms at the state administrative agencies from the provincial to grassroots levels; measures should be reviewed and taken to improve the indicators with low scores in order to improve the "Provincial Competitiveness Index (PCI)", "Public Administration Reform Index" and "Public Administrative Performance Index (PAPI)"; guidelines and assistance are provided to businesses regarding completion of online administrative procedures, submission and return of documents through postal services, etc., in order to reduce costs incurred by businesses and investors and improve local competitiveness.

Measures are taken to improve the investment and business environments, strengthen the national competitiveness; offer enabling investment and business environment, reduce start-up costs, input costs, encourage technological innovations and improve businesses' competitiveness.

Businesses are offered regular access to communication and information so that they can obtain information on the province's investment and socio-economic development directions and plans as well as investment incentive policies; there is also a need to strengthen provision and dissemination of information and guidance on compliance with the commitments under international cooperation regimes (ASEAN, WTO, APEC, ASEM, etc.,) in order to improve the integration capacity, export market access and expansion for businesses.

Dialogues should be held with businesses twice per year to tackle their difficulties and hurdles; investment promotion activities should be carried out within and outside the province. Lam Dong highlights the significance of cooperation and partnership with other provinces locally with a view to introducing and advertising the agricultural production potentials and attract investments in agriculture and rural development; the cooperation and collaboration has led many investors from other provinces to visit Lam Dong and locate their investment projects in the province.

Planning should be finalized to define zoning for crop cultivation lands, cattle lands in order to guide the large-scale concentrated production, particularly the regions, zones dedicated to high-tech agriculture in order to attract investors with large-scale and concentrated projects that combine production with processing and consumption; regular assistance is maintained to support development of agriculture produce brands and expand the consumption markets.

Apart from the achievements, efforts to attract foreign investors to the agriculture sector of Lam Dong province are still restricted by the following constraints:

Although agricultural production represents the province's strength, the land available for investors is very limited; the province has defined multiple zones for concentrated high-tech agricultural production but businesses still have to negotiate the land compensation with households. On the other hand, as the agricultural land in the province is higher than the national average, the clearance and compensation costs are substantial, which discourages many investors. This explains the plateau of investment in agriculture over the past time, particularly among FDI business.

Currently, the research and development of new varieties (particularly flower varieties to meet local and export demands) have not met the requirements; Over the past period, Lam Dong province has imported more than 90% of new vegetable, flower and therefore has not yet been able to produce its seedlings for production.

The linkages among production, processing and consumption of products remain fragile; products are largely consumed locally while the export markets have not been expanded and the number of long-term contracts remains limited, particularly with foreign markets; the fragmented and scattered production scales remain popular. The consumption markets are not sustainable; the linkages have not been soundly established; chain-based consumption of products by the major retailers remains limited; technical barriers, quality of international market; there is a lack of organization/agencies that provide businesses with assistance for analysis, market forecasts and recommended outputs for sale.

In order to effectively attract foreign investments in agriculture, Lam Dong province would like to share several lessoned learned for attraction of investments into agriculture as follows:

On a regular basis, review, and improve the quality of planning, management of land planning, planning for agricultural, small-scale industry and services development along with development of commodity-scale production; to publish the list of investment-ready projects from time to time which serves as the reference for investors to make investment decisions; make planning, plans and investment-ready projects open and transparent. The investment and business environments should be improved constantly along with investment assistance; focus should be given on reform and simplification of administrative procedures, adoption of inter-agency one-stop-shop mechanism, compliance with the plans and intentions on development and assistance of small and medium-sized enterprises so as to offer favorable conditions for businesses, local and foreign investors.

To encourage FDI businesses to partner with household farmers under the regime in which farmers contribute land to the investment projects or farmers provide human resources to be utilized by businesses in the course of implementation of the projects in accordance with the approved planning.

To encourage attraction of agricultural FDIs into projects that are less resource-intensive and involve high level of science and technological applications, projects on production of seedlings, processing industry and agricultural machinery so as to ensure quality agriculture development that offer more added value rather than added quantity.

In selecting FDI businesses, priority should be given to large-scale corporations with financial, technological and market power in order to attract investments in production, processing and exports to their markets globally. Lam Dong province is presently collaborating with JICA to pilot the Agro-industrial Park model to attract Japanese investors who will establish linkages with local farmers in production, processing and exports of local agricultural products to Japan.

Measures should be taken to facilitate local FDI businesses to deal with difficulties in order for them to smoothly implement their projects and businesses are encouraged to expand their agriculture projects through partnerships and linkages with local farmers to support exports of agricultural products; businesses are also encouraged to consider making a shift in terms of the production model towards adoption of organic agricultural production.

ATTRACTING FDI TO PROMOTE SOCIO-ECONOMIC DEVELOPMENT IN CAN THO

VO THANH THONG
CHAIRMAN OF CAN THO PEOPLE'S COMMITTEE

Located in the center of the Mekong Delta, Can Tho City is an economic, political and cultural center of the region; is the Western capital with a unique culture of water and orchards; and is where the ethnic cultural identity of the Kinh, Hoa, Khmer, etc. is combined and preserved.

Can Tho is a young city with high overall potential in the general dynamic development of the Mekong Delta. Along with advantages of geographical location, natural conditions and diverse natural resources, culture and historical traditions have shaped a distinctive mark about Can Tho and its people. These factors have laid a solid foundation for the city development at present and in the future.

Over the past few years, the city has seen a positive growth and its estimated gross regional domestic product (GRDP – compared to price of 2010) in the first six months of 2018 is VND28,478.4 billion, 7.43% higher than the same period. Regarding the economic structure (at current price): Agro-forestry-fishery accounts for 8.01%; Industry and construction sector makes up 32.55%; and Trade and service sector accounts for 53.93%. Index of industrial production (IIP) is rather high, increases by 7.36% year over year and industrial sectors also increase by 6.1 - 7.4%[1]. For industrial products, 29 out of 40 products have seen the accelerating index[2].

The mild climate and fertile soil are favourable conditions and advantages for Can Tho to develop its agriculture with key productsof rice, specialty fruits (such as Phong Dien orange, star apple, Ha Chau Baccaurea, etc.), pangasius, cage aquatic products, cattle and poultry.

Currently, several key industries with competitive advantages have been formed in Can Tho such as processing of aquatic products, textiles and garments, footwear, food processing, plastic - rubber, chemicals, etc. Curently, in the city, there have been 8 industrial parks (total planned area of over 2,300 ha), and 6 of them are

1 In which: The figure for processing, manufacturing industry rises by 7.40% ; that of production and power distribution goes up by 7.38%; and that of water supply and waste treatment management increases by 6.11% over same period last year.

2 To be specific: Index increase of ready-made garments is 44.0%; of agricultural medicine is 38.0%; of mechanical products is 27.8%; of aquaculture food is 19.0%; of frozen fish fillets is 12.2%; of beer and soft drinks is 14.0%; of wooden products is 12.4%, etc.

in operation. By the end of July, there have been 239 projects with the total registered capital of USD 1.68 billion, of which, 23 are foreign direct investment (FDI) projects with the total registered capital of USD 377.02 million. At the same time, the city has planned and called for investments in 03 Hi-tech Agricultural Parks of 364 ha (the total area of Hi-tech Agricultural Park 1 in Thoi Lai is 20 ha, of Can Tho Hi-tech Agricultural Park in Co Do is 244 ha and of Hi-tech Agricultural Park 3 in Co Do is 100 ha) to fully satisfy the demands of domestic and foreign investors.

Also, nearby regional major rivers and a dense river system here have created for Can Tho an ecosystem of water and orchards with evergreen fruit trees. Along with unique cultural characteristics, Can Tho has the potential and strength to develop tourism with typical products such as ecotourism of water and orchards, homestay, cultural, historical and revolutionary destinations, traditional handicrafts, and resorts. Every year, the city welcomes about 7.5 million visitors and nearly 2 million overnight stays. This is the potential to develop investment projects in tourism and related infrastructure such as Con Son tourist resort, Phong Dien ecotourism resort, Can Tho amusement park, etc.

In addition to the favourable waterway transportation, the city has a lot of advantages in road and air traffic systems with national highways linking provinces and localities in the region (National Highway 1, National

Highway 91, National Highway 80, etc.), especially the exploitation of new routes at Can Tho International Airport, and the port system of Can Tho Port, Tra Noc Port, Cai Cui Port. These are advantages for the development of the logistic center of the Mekong Delta. Taking such advantages and the support from the government, the city has proactively planned and called for investments in two major projects: Class-II Logistics Center of Mekong Delta economic sub-region in Can Tho city and Can Tho Aviation Logistics Center on Vo Van Kiet street, Binh Thuy district.

Furthermore, with the population of nearly 1.3 million people and over 75% of which are at working age, local workforce is of high quality and dynamic. Also, with a system of universities, colleges, vocational colleges, and professional secondary schools, Can Tho is a destination of training and timely provision of professional and skilled labors for businesses and investors in need of local labors.

Transport infrastructure of roads, waterways, air and information technology is relatively complete. Application of information technology in management and administrative procedure reform has been strengthened to meet requirements of enterprises and local people, and one clearly demonstrating this fact is that the number of enterprises conducting online enterprise registration reached 23.6% of the total dossiers for settlement in 2017 and 44.4% in the first 6 months of 2018. Provincial Competitive Index (PCI) of the city has been continuously improved, in 2017, the

city ranked 10 out of 63 municipalities and provinces (one higher than that of 2016 and four higher than that of 2015) with the total score of 65.09.

Dialogues and discussion are frequently organized in order to resolve difficulties of enterprises/investors, to support start-ups, to improve the business investment environment, etc. Investment promotion activities have been reformed, becoming more active and diversified, for instance: promoting the image of Can Tho and its people through reports of socio-economic, culture and people of Can Tho in meetings and working occasions with foreign missions during or oversea trips of investment and trade promotion.

For the time being, 7,522 enterprises and 370 domestic and foreign investment projects are in efficient operation in the city; many of which have increased their investment capital and expanded their businesses.

The FDI project of Can Tho City was launched in 1988. In spite of being one of the cities in the Mekong Delta, being the destination of the first foreign joint ventures were implemented, the number of FDI projects here is not very high. As of 2005, there were 36 FDI projects in the city with the total investment of USD 140 million. FDI inflows into Can Tho city are also unstable. During the opening period of 1988-1995, the city attracted about 1-2 projects each year; In the period of 1996-2003, when Can Tho city was still directly under Can Tho province and enjoyed certain preferential policies, the number of foreign investments showed positive signals with 04-06 projects per year. From 2004 to 2005, the number of new FDI projects granted annually was 6 projects on average with the registered capital of about USD 19 million. Over the five-year period of 2011-2015, the number of FDI projects attracted was 35, 16.67% higher than that of the period 2006-2010 (30 projects). One of the remarkable results in attracting foreign investment is 8 projects registered in 2016 with the total investment of USD 226 million.

By the end of July 2018, Can Tho city has 79 FDI projects, with the total investment of about USD 692 million, in the fields of processing aquatic products; commerce, car and hotel services; tobacco production, trading of vegetable and animal oil, garments production and trading, real estate, trading, processing and packaging of agricultural products, fast food, etc.

One of the reasons for low FDI is unattractive investment incentive policies when Can Tho becomes a centrally-run city, preferential policies on land rent and corporate income tax for difficult areas no longer exist, leading to high land rent (urban land price). In addition, Can Tho's potential and investment environment have not been really well-known to investors.

Acknowledging its potential and advantages as well as difficulties in attracting investment, especially foreign investment, in recent years, in addition to preferential mechanisms and policies of the government, the city has created better investment and business environment, such as: supporting investor in access to information, investment procedures and project implementation; providing preferential policies on investment in and out of industrial parks; shortening the duration of administrative procedures required by the regulations.

In addition, the city also supports enterprises through investment promotion programs, market connection, trade promotion, product introduction, etc.; improves investment environment, raises its competitiveness for investment attraction and enterprise development; and regularly reviews list of projects called for investment with more detailed information in order to help investors easily study and understand the projects.

Thanks to favorable natural conditions, rich natural resources, abundant human resources, increasingly synchronous infrastructure, and a reasonable and open investment attraction policy, and values from the city's promoted strengths potentials, Can Tho has had comparative advantages to other regions.

At present, Can Tho city is implementing Decree No. 103/2018/ND-CP dated August 7, 2018 of the Government providing certain particular policies for investment, finance, budget, and delegation of powers tailored for Can Tho city, which will be an important motivation for attracting investment in the city. At the same time, Can Tho is carrying out investment policies to support enterprises and investors in approach and implementation of investment projects from stages of investment preparation, compensation, site clearance, and technical traffic infrastructure construction; to support investment in doing business; support and invest in hi-tech agriculture projects; to provide credit; human resources training, investment promotion, technological innovation, etc.

Aware that internal force is the fundamental and long-term factor while external force is also important for local development, Can Tho always welcomes and accompanies domestic and foreign enterprises and investors. In the future, we will give priority to calling for domestic and foreign businesses and investors to invest in key areas in line with the city's conditions with new and highly feasible investment trends, for example hi-tech agriculture, preservation industry, logistics, agricultural product processing; culture-tourism, transport and tourism infrastructure, urban infrastructure, housing and shopping malls.

Along with the infrastructure getting more completed, human resources of higher quality and the city's advantages, local enterprises and investment projects have significantly contributed to economic growth, improved efficiency of investment resources, enhanced the capacity of industrial production and raised the competitiveness of three levels, including the city, enterprises, and products. Also, they have created a supportive connection between the city's advantages and investment flows, generated distinctive characteristics of the city to make a difference to other neighboring areas in the Mekong Delta, turned Can Tho into a destination for domestic and foreign investors and promoted international integration./.

RENOVATION OF FOREIGN INVESTMENT PROMOTION ACTIVITIES

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During the 30-year journey of attracting and monitoring foreign direct investment (FDI) in Vietnam, the foreign investment sector has made a positive contribution to the socio-economic development. So far, there have been 26,500 projects with a total registered capital of $ 334 billion from 129 economies. FDI accounts for approximately 25% of total investment and about 20% of GDP. Thanks to the leadership of the Party, the governance of the Government and the active implementation of ministries, provinces, business communities, workers and people where investment projects exist. Investment promotion plays a remarkable role in the process, from promoting new investment to supporting to solve difficulties for investors during the implementation of the project (after-care services).

Investment promotion strategies in the world usually develop in three phases: welcoming, marketing, and targeting policies. Although there has not been a separate strategy on investment promotion, the investment promotion policies in Vietnam in the last 30 years have undergone three phases of development and gradually improved according to the periods of development of the foreign investment policy as well as the process of globalization of the economy.

The welcoming phase

Attracting foreign investment implemented since the end of 1987 was one of the important policies in the process of Vietnam's transition to a multi-sector economy. In the first phase, foreign investment policy has initially created a legal framework for foreign investment. In the context of the economy with a low starting point, lack of necessary resources for growth, foreign investment has promptly added the essential capital to the economy. By 1995, FDI contributed 30% of total investment capital. Investment promotion in this period was quite limited and not really focused. In the Law on Foreign Investment in 1996, investment promotion was first regulated as one of the tasks of the state management of foreign investment. However, the scope of

investment promotion activities is simply promotion in the formulation and selection phase of the project.

FDI inflows into Vietnam plummeted in the late 1990s due to the regional financial crisis . In response to the negative impact of the crisis, the Government issued the Resolution No. 09/2001/CP-NQ dated 28 August 2001 to enhance the attractiveness and efficiency of foreign investment flows into Vietnam. The scope of investment promotion activities in this period has been extended to the post-licensing phase, aiming at foreign-invested projects and enterprises in order to support and promote existing investors to deploy and expand their operations in Viet Nam. With the new orientation in the scope of investment promotion, registered capital has increased annually since 2002 and accounted for more than 20% of total registered capital while it only accounted for 10% of the total registered capital in the previous phase.

The marketing phase

In the world, this phase often starts by setting up a national investment promotion agency. In Vietnam, the Foreign Investment Agency, established in 2003, marks a new step in the development of investment promotion in Vietnam, in terms of scope, functions as well as organizational structure. Investment promotion has gradually become one of the important tasks in the state management of foreign investment at various levels and sectors. The regional and provincial investment promotion agencies was gradually established and developed. Most of local investment promotion centers (IPCs) were established and came into force during this period[1]. Until now,

1 Especially, Da Nang and Ho Chi Minh City established the Investment Promotion Agency before 2003

52 out of 63 provinces and cities have had an Investment Promotion Centers with different organizational models.

Investment promotion activities in this period mainly focused on image building and promoting Vietnam's investment environment in the form of conferences and seminars in Vietnam. Promoting activities with printed materials such as investment guidebooks or CDs were conducted but they were limited and had not become annual activities. Investment promotion activities abroad were also relatively insubstantial, largely in the form of integrated activities in the diplomatic agendas of the Party and State leaders. The basic cause was that although the investment promotion bodies has been established there were lack of funds for investment promotion activities, together with the lack of professional staff in most of the IPCss.

The targeting phase

The regulation on the formulation and implementation of the National Investment Promotion Program that was issued in conjunction with Decision No. 109/2007/QD-TTg dated 17 July 2007, along with the allocation of the state budget for investment promotion activities have marked an important progress in the investment promotion activities, moving from the passive manner to the active manner. Mid-term and annual national investment promotion programs are built in line with orientations for attracting foreign investment in each period. Decision No. 03/2014/QD-TTg of January 14, 2014 by Prime Minister on State management of investment promotion activities has created a legal framework to uniform state management, coordinate and organize the implementation of investment promotion activities throughout the ministries and central to the local levels. Management of investment promotion activities was initially in good order and investment promotion activities have gradually been implemented in parallel with the regional and provincial socio-economic development plans to mobilize social resources for investment promotion. National coordination mechanisms for investment promotion activities have been gradually formed and put in operation to reduce duplication, spreading and wasting resources.

Investment promotion activities have been expanded in its scope and forms. Traditional forms of investment promotion such as conferences and seminars in Vietnam have been maintained and expanded into investment promotion activities in potential countries. Guidebooks and CDs introducing Vietnam's investment environment are reviewed and updated annually, then disseminated via diplomatic channels. Investment promotion representatives are actively sent to potential investment markets such as the United States, Japan, Korea, France, Germany, Singapore, and Taiwan (China). Investment promotion delegates are also regularly assigned to potential countries under the national investment promotion programs, which take advantage of the opportunity to mobilize investment from the headquarters of large corporations, leverage the investment promotion channels through financial institutions, investment funds, consultancy firms and international organizations.

Dialogue with enterprises and investors are organized periodically such as semi-

annual business forums, dialogues in different sectors and in some provinces, contributing to solve problems faced by investors and improve the investment environment. Partner-oriented investment channels have been initially established and put into stable operation (Japan Desk and Korea Desk). The investment promotion websites have been working stably in English and Japanese, contributing to promoting the Vietnam's investment environment and investment policy to a large number of investors.

The after-care services (supporting the existing investors) have been widely applied by many provinces and specified in regulations of state management in investment promotion. As such, many dialogue on policies to solve difficulties for enterprises are organized frequently from central to provincial levels. At the central level, there are the biannual Vietnam Business Forum (VBF) and Vietnam - Japan joint initiative. At the provincial level, besides meetings with investors and provincial leaders, it is also set up one-stop shop to handle administrative procedures. This is considered as a tool to specify the commitment of leaders of different levels in Government to support and remove obstacles for investors in during their operation and production stages.

Limitations

Looking back over Vietnam's last 30 years, the investment promotion has obtained certain achievements, contributing actively to the general success of foreign investment attraction in the recent time. Although Vietnam has basically moved to the active investment promotion phase, the investment promotion activities still have limitations and need to be rennovated and improved in order to meet the new orientations for foreign investment attraction in the coming time.

(1) State management of investment promotion still lack the linkages and coordination between central and inter-ministerial; between central and provincial level, so investment promotion activities are still overlapped and duplicated.

(2) State management of investment promotion in some provinces sometimes does not strictly follow the provisions of the Investment Promotion Regulation; the investment promotion programs still lack the specific objectives, necessity, content and progress, focal point and budget, leading to unfeasibility.

(3) Investment promotion activities have been carried out under the partners and the sector but still spread and distributed. Investment promotion activities lack professionalism; content and forms are not abundant, creating duplication and waste of resources. On site investment promotion is not received full awareness and careful attention, while this is the important information channel important to new investors. The connection and support interested businesses in finding out investment opportunities after the workshop, investment promotion conference has not been effectively implemented.

(4) Information, publications and investment promotion materials are still updated slowly: most of the websites on investment promotion are not updated regularly. The publication and investment promotion materials are focused only on the form of expression, the given information has not closely followed the requirements of investors leading to low information efficiency.

(5) The capacity of the investment promotion units has not met the requirements: the qualifications and capacity of the investment promotion centers and units are far from the regional and world level. The officials in charge of investment promotion have not been standardized in: business, foreign language, ability to analyze and approach to pursue opportunities and potential investors.

(6) Investment promotion activities in foreign countries still exist many issues: many activities are organized overwhelmingly at large scale creating wasteful and ineffective accordingly (mostly is investment promotion conferences); certain practical activities like supporting for enterprises, market survey connected investment are still little and attended improperly; there is little or no updated information on the investment opportunities and agencies focusing on investment promotion and investment support are still lacking. The investment promotion departments located in the host country have not been invested properly,

causing difficulties for the implementation of the investment promotion agencies.

Innovation directions

In order to realize the FDI attraction trend in the coming period, it is necessary to thoroughly renovate investment promotion, from the institutional framework; organizational structure; investment promotion approach and tools and national branding to uniform all scattered activities (investment promotion aboard, trade promotion, small and medium enterprise development, promotion of innovation / business capacity).

(1) On the approach, it is necessary to move investment promotion from passive to active form in traditional FDI markets for prioritized industries; expand the network of investment promotion representatives in these markets; Assist investors in the process of applying for investment approval, closely coordinate with related agencies in handling difficulties and problems arised during project implementation to encourage enterprises to re-invest and expand the project

(2) In-depth, systematic and regular study of the movement trend of the world FDI; global value chain, especially paying attention to the formation, development and trend of the chain; value chain of some potential partners; regional and international market developments of certain oriented sectors, industries to attract investment in each period; clarifying the geo-economic combination and complement between Vietnam and its potential partners; the structural complementary links between Vietnam economy and its potential partners (resource structure, capital structure, technology, human resources ...) to adjust the investment promotion strategy annually or periodically.

(3) Develop effective coordination mechanisms between foreign relation agencies, trade promotion and investment promotion agencies in order to well carry out active investment promotion activities in traditional and potential foreign investment markets in prioritized sectors and trades.

(4) The contents of investment promotion should provide sufficient information to investors on macroeconomic information, industries and sectors of specific projects such as Vietnam existing production capacity; needs in the coming time; information on roads, electricity, water, distance to ports, airports, human resources ... Investment promotion activities should have focused national and regional characteristics, showing inter-sectors and inter-regions following the value chain and directions to attract foreign investment. Especially, for the sectors and fields that are in the strategy of attracting foreign investment, the investment promotion should be carried out accordingly to the specific project and investment partner.

(5) In term of institutional frameworks, in the long term, it is possible to study the application of national and private sector investment promotion models to enhance governance capacity as model of EDB (Singapore) or MIDA (Malaysia). In the short term, the role, functions, tasks and resources of the investment promotion agencies should be strengthened.

EVALUATION AND IMPACT ANALYSIS

(6) Ensure professionalism in the main functions of the investment agencies at the central and local levels on: (i) image building, (ii) investment promotion and facilitation; (iii) assist investors in their operations. Study the possibility of organizing national and local investment promotion centers into a vertical management system to avoid wastefulness and improve efficiency; institutionalize the coordination mechanism among these investment agencies.

(7) In terms of investment promotion staff, it is necessary to strengthen the capacity for the staff and set up ad-hoc teams consisting of experts from ministries/specialized agencies, provinces, associations, multinational corporations operating in that field ... to promote specific sectors or important projects.

(8) On the investment promotion tools, it is urgent to build a national database of foreign investors, including potential partners and investors (Fortune 500 companies, international investment funds..) in sectors that are in line with orientation of FDI attraction in Vietnam and local enterprises. Set up a template for Vietnam investment promotion activities from the website, promotion documents (guidebooks, leaflets), films, environmental broadcast clips and investment opportunities on the media to the project profile; study digital mapping for investment promotion.

(9) Develop an Investor Tracking System, a tool commonly used in investment promotion agencies to ensure the best possible service and retention of potential investors.


NOVOTEL

DEVELOPMENT OF ECONOMIC ZONES LINKED WITH ATTRACTION OF FOREIGN INVESTMENT

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The role of Industrial Parks (IZs) and Economic Zones (EZs) in attracting foreign investment

The formation of IPs and EZs has been associated with the process of reforming (Doi Moi) and openning of the economy initiated by the the Communist Party of Viet Nam at the Sixth National Congress in 1986, and guided by the directions in various Party's policy documents.

With regard to industrial parks, the Seventh National Congress set out guidelines and policies for strong and comprehensive reform of the economy towards industrialization and modernization of the country through the Socio-economic stabilization and development strategy 1991-2000. A series of socio-economic development programs were launched to realize the 7th Congress's Resolution, including the policy of developing industrial parks and export processing zones with the establishment of Tan Thuan Export Processing Zone in Ho Chi Minh City (1991) and the Issuance of the Export Processing Zones Regulations (Decree No.322 / HDBT of the Council of Ministers dated 18 October 1991) and Industrial Parks Regulations (Decree 192/CP of the Government dated December 28, 1994).

Following this, the strategic direction of development planning and distribution of IPs and EPZs was specified in the Resolution of the 8th National Party's Congress (1996): "To establish concentrated industrial zones (including export processing zones and hi-tech parks), to enable the construction of new industrial establishments. To strongly develop rural and peri-urban industrialization. To upgrade and improve the existing indutrial facilities in cities and towns, relocate the facilities that can not handle pollution outside the city, restrict the construction of new industrial zones interspersed with residential areas."

The Political Report of the 9th Congress (2001) on the 2001-2010 Socio-economic Development Strategy continues to affirm: "To plan reasonable distribution of industrial establisments across the country. To effectively develop industrial parks, export processing zones, building a number of hi-tech parks, forming large industrial clusters and open economic zones". The Political Report at the 10th National Congress (2006) once again reaffirmed the policy of "Developing some open economic zones and special economic zones, improving the efficiency of industrial parks and export processing zones", emphasizing the policy of promoting economic growth along with sustainable development, including sustainable development of IPs and EPZs.

The political report of the 11th Party Congress (2011) and the Socio-Economic Development Strategy 2011-2020 provided the orientation of developing industrial zones and export processing zones in a sustainable and in-depth manner: "To ensure rational arrangement of industries in different regions; to promote the efficiency of existing industrial parks and clusters, and step up industrial development in the form of product clusters and groups, creating large-scale and high-efficiency industrial complexes."

Coastal economic zone is identified as a 'breakthrough' new development model for regional economic development and supports regions and territories with favorable conditions to exploit the advantages of natural conditions and geo-economic and geo-political location for economic development for economic development and international economic integration; to mobilize to the utmost internal resources, seek and apply new economic institutions and policies to actively integrate into the international and regional economies; to combine economic development with maintaining national security and defense.

The Fourth Plenum of the Central Committee of the Communist Party of Vietnam (VIIIth Congress) in 1997 set out the policy to conduct the pilot construction of some special economic zones (EZs) and free trade zones in coastal provinces.

The Resolution of the 4th Plenum of the Party Central Committee's (10th Tenure) on Vietnam's Strategy on the Sea until 2020 asserted that Vietnam must become a strong marine nation to create wealth from the sea on the basis of promoting all potentials from the sea and comprehensive development of marine industries with a complex and modern structure, creating a rapid and sustainable development with high efficiency; By 2020, the coastal and marine economy should contribute about 53-55% to the country's GDP, in which the EZs are identified as the main driving force.

In addition, the Politburo put forward its views on the formation of EZs in Notices No.79-TB/TW dated 27 September 2002 and No.155-TB/TW dated 9 September 2004 of the Party's Central Committee; Resolution No. 39-NQ/TW dated 16/8/2004 on economic development and security and national defense in the North Central and Central Coast to 2010.

As such, the Party's resolutions of various Congresses since 1986 have formed a system of consistent views of the Party on the development of industrial zones and economic zones; confirming the important role of the IZs and EZs in attracting the investment resources of the society, including both domestic and foreign investment, to create a spill-over effect for socio-economic development at both local and national levels.

Attraction of foreign investment to IPs and EZs

Regarding the planning and establishment of IPs and EZs, by June 2018, 326 IPs had been established with a total natural land area of over 95,000 hectares, of which 230 had been put into operation and 96 IPs were in the process of land acquisition and compensation. The occupancy rate of the IPs was 54%, and in the fully-operating IPs the occupancy rate was over 73%. The number of coastal economic zones established nationwide is 17 EZs with a total land area and water surface of over 845 thousand hectares. Ninh Co EZ of Nam Dinh province is identified in the planning but not yet established.

In recent years, industrial zones and EZs have brought into full play the advantages of synchronous infrastructure as an enabling environment for production and business, thus attracting large investment capital, both domestic and foreign direct investment (FDI). Annual share of FDI capital invested in industrial zones and economic zones accounts for 60-70% of the total FDI capital of the whole country. Following is a detailed assessment of foreign direst investment IPs and Ezs:

Achievements

Firstly, IZs and EZs have attracted a large number of FDI investment projects and capital. By the end of June 2018, the IPs and EZs had attracted over USD 174 billion of FDI capital in over 8,000 projects. In the period 2013-2017, the IPs and EZs attracted an additional $62 billion in FDI, with the average amount of capital invested in IPs and EZs of over $12.4 billion per year. Compared with 2013, the total FDI capital in IZs and EZs in 2017 increased by 1.6 times, which means the 12% growth in attracting capital every year. In the period 2013-2017, the cumulative number of investment projects up to 2017 increased by 1.5 times, an increase of 2,600 projects compared to the cumulative number of FDI projects in 2013, a growth of over 500 investment projects/year. In addition, in the period 2013-2017, the disbursement rate of FDI projects in IPs and EZs increased across investors from all countries: the average disbursement rate of FDI was 36% in 2013 and 64% in 2017. These figures show that there have been positive achievements in attracting foreign investment in IPs and Ezs, which have become more attractive to foreign investors. This is the basis for further promoting and attracting FDI capital flows in the coming time.

Secondly, there have been positive changes observed in the quality of FDI inflows into IPs and EZs:

Industrial Parks and Economic Zones are increasingly attracting FDI projects of large-scale and high technology. The average registered capital of FDI projects in IPs and EZs kept increasing in the period of 2013-2017: while the average investment capital of FDI projects in 2013 was about US$20 million/project, it increased to $22 million/project in 2017. The growth was higher for the IPs, where the average registered capital of FDI projects in 2013 was $14.5 million/project and $17 million/project in 2017, about 17% increase.

In terms of attracting large-scale projects, according to preliminary statistics, there are about 500 investment projects with the capital of over US$100million (equivalent to about VND2,100billion) in IPs and EZs, including some billion-dollar projects such as Samsung (South Korea) investments in Bac Ninh, Thai Nguyen, Ho Chi Minh City with a total capital of US$14.3 billion; steel project of Formosa Group in Vung Ang Economic Zone, Ha Tinh with the capital of $10billion; LG Group investment (Korea) in Dinh Vu-Cat Hai EZ and PP plastic production project of Hyosung Group (Korea) with total investment of over USD1billion ...

In terms of technology, IZs and EZs have attracted high-tech projects such as the Samsung Group's (South Korea) project in Bac Ninh, Thai Nguyen and Ho Chi Minh City; Kyocera Group's (Japan) project in Thang Long II Industrial Park, Hung Yen Province; automobile propeller production project of Robert Bosch Group (Germany) in Long Thanh Industrial Park, Dong Nai province; Investment project of Doosan Group (Korea) in Dung Quat Economic Zone, Quang Ngai province ... In the past 03 years, the number of projects with high technology, modern investment in IPs and EZ has been steadily growing.

The number of FDI projects in the processing and manufacturing sector accounts for 70-80% of the total number of foreign investment projects in IPs and Ezs, hence significantly increasing industrial production in IPs and EZs. Large-scale FDI projects have provided opportunities for Vietnam to develop key industrial sectors, namely smart cell phones, oil and gas, steel and shipbuilding with the pioneering large-scale projects being implemented and put into operation in IPs and EZs.

Thirdly, the attraction of large-scale FDI projects to business in IPs and EZs has contributed to expanding the scale of FDI projects and contributing to the large-scale production. Prior to the development of IPs and EZs, the majority of Vietnam's industrial establishments were small and medium-sized factories. Besides, the models of production have also changed from individual production facilities to the formation of concentrated, highly-linked production clusters, such as the fiber textile - power plant complex of Formosa Group in Nhon Trach III IP, Dong Nai Province and Samsung Mobile Group in Bac Ninh with main factory and component manufacturing satellites.

Fourthly, FDI projects in IPs and EZs have contributed to the establishment of a number of electronic and mobile supporting industries in the North, such as the Samsung Group project in Bac Ninh and Thai Nguyen provinces, project of LG Group in Dinh Vu-Cat Hai EZ, Hai Phong City, project of Canon Group (Japan) in Thang Long Industrial Park, Hanoi, which enabled around 200 supporting enterprises produce components and accessories, contributing to the initial formation of auxiliary industries in Bac Ninh province and neighboring areas.

Shortcomings and causes

Firstly, FDI projects in IPs and EZs are still not diversified and do not focus on a specific sector and have low linkages. Therefore, it is not yet possible to create large-scale production clusters to increase the competitiveness of the industrial production sectors, especially the manufacturing and processing industries of Vietnam.

Secondly, a significant number of FDI projects in the IZs, EZs invest in areas with low technology content, limited use of domestically-sourced raw materials, semi-finished products or skilled workers, resulting in low added value and limited spill-over effect.

Thirdly, apart from some high-tech projects, a significant number of FDI projects in the IZs use medium technology. The transfer of technology in FDI projects to develop production in Vietnam is still limited.

Fourthly, some FDI projects in industrial zones and EZs have not really paid attention to environmental issues, especially investment in equipment and technologies in order to improve the effectiveness of environmental protection. The above restrictions are mainly caused by 3 factors: (i) in the past, foreign investors came to invest in Vietnam as well as in the IPs and EZs mainly for the purpose of exploiting Vietnam's cheap labor, energy and resources; (ii) Vietnam has not attracted many investors with source technology or large international industrial manufacturers in the world; (iii) the coordination and linkages between foreign investors and domestic producers in production development, especially in processing and manufacturing industries is limited.

Assessment of opportunities, threats and solutions to attract FDI into IPs and EZs

Opportunities

Firstly, the IP model, EZ is the long-term development model of Vietnam. Mechanisms and policies for the development of industrial zones and EZs have been increasingly improved: recently, the Government has issued Decree No. 82/2018 / ND-CP dated 22/5/2018 on management of IPs & EZs, including some new IPs such as supporing, ecological and serviced urban IPs to enable the improvement of IPs' performance and efficiency. In addition, IZs have attracted a relatively large amount of private capital for the infrastructure development, accounting for over 90% of total investment capital for infrastructure development in the IPs. Moreover, in the past few years, capital support from the state budget for investment in the improvement of essential technical infrastructure in industrial zones in the areas with difficult socio-economic conditions and EZ has increased. Up to now, infrastructure facilities in IPs and Ezs have been basically developed serving the purpose of attracting investment and production development.

Secondly, IPs and EZs possess necessary advantages in attracting foreign investment as follows:

Investment incentives: According to the provisions of the 2014 Investment Law, both IPs and EZs enjoy investment incentives. In the Law on Corporate Income Tax, investors in IPs and EZs are entitled to CIT incentives, namely: 2-year tax exemption for industrial zones and 50% CIT reduction in 4 subsequent years (except for industrial zones in stable socio-economic areas); investors in Ezs enjoy the highest tax incentives of 4-year exemption and a further 50% reduction in the next 09 years as well as 10% tax rate in 15 years. In addition to CIT incentives, investors are also entitled to preferential duties on imports for the creation of fixed assets of investment projects in IPs and EZs and other incentives such as land rents and investment credit.

Infrastructure conditions: The coastal economic zones are located in areas with advantages for production development, service provision and investment attraction. They are mainly located in areas suitable for construction of important infrastructure works (deep water ports or airports) to facilitate the development of large-scale production.

The industrial zones receive synchronous technical infrastructure and clean land, which enables investors to conduct their projects immediately. Processing and manufacturing projects often require longer cost recovery period and larger initial capital. Reducing the time needed for construction of factories helps save costs and reduce the risk, which attracts more investors.

Market opportunities and attractiveness for investors:

Vietnam has been deepening its integration into the international economy through bilateral, multilateral free trade agreements and international trade institutions, such as: WTO, ASEAN, bilateral free trade agreements with Korea, Japan ... under which goods made in Vietnam will find more opportunities to penetrate many international markets. In addition, Vietnam has a large population (over 90 million people) with a young population structure and growing consumer demand. In recent years, the economic growth rate has averaged over 6%, a high level in the region and the people's income has also increased positively. Hence, Vietnam is a potential market that attract foreign investors who want to invest in order to take advantage of this market opportunity. Moreover, factors such as: (1) stable political environment; (2) sustained macroeconomic fundamentals; (3) improved physical infrastructure, especially transport connectivity among provinces and economic zones; and (4) the improving legal framework on business and investment towards a more streamlining system with reduced administrative procedures have improved the attractiveness of business & investment environment in Vietnam in general and IPs and EZ in particular.

Challenges

Firstly, despite recent improvements in the technical infrastructure of the IPs and EZs, they are still not complete and modern enough to compete with the region and international IPs and EZs. On the other hand, the demand for investment capital in technical infrastructure of IPs and Ezs is huge. In the meantime, the state budget resources are constrained and the mobilization of private capital has not met the demand due to the long paypack period of investment in technical infrastructure.

Secondly, differences in business culture & philosophy and competition for investments among developing countries are significant barriers to maintaining the speed of attracting foreign investment into the IPs and EZs.

Thirdly, the development of supporting industries is still limited, impeding the creation and development of linkages in production between FDI enterprises and domestic producers. This is also a barrier for Vietnam to bring into play the efficiency of FDI and increase value added in Vietnam instead of simply engaging in simple production with little added value in exports by FDI enterprises. On the other hand, under-developed supporting industries also discourage foreign investors from expanding their production and business as well as transfering technology in Vietnam.

Fourthly, the attraction of foreign investment in industrial production development in IPs and EZs is associated with greater environmental protection challenges, such as the problem of industrial waste treatment, exploitation of resources to provide materials for production. Besides, environmental protection requires investment in technology and capital. These are challenges that Vietnam needs to address effectively in order to ensure sustainable development in the whole country in general and in IPs and EZs in particular as they continue to promote FDI attraction.

Fifthly, in order to attract high quality FDI flows into IPs and EZs, human resources with high technical skills and high responsibility must be developed. However, at present, the quality of workforce in Vietnam in general and human resources serving IPs and EZ in particular has limitations; the proportion of trained laborers is still low and the availability of skilled workers has not met the demand of the labor market and integration. The gap between vocational education and the needs of the labor market is growing.

Directions and Solutions

Directions

First, it is important to focus on attracting foreign investment to facilitate the development of IPs and EZs into processing and manufacturing key areas, focusing on a number of key industries with competitive advantages, such as: mechanical engineering, electrical and electronics, shipbuilding...

Second, some coastal IPs and EZs with existing large-scale projects and favorable geographic location should continue to attract more and more reputable foreign investors to form large-scale and specialized clusters, with high linkages between enterprises in IPs and EZs.

Third, the attraction of foreign investment in IPs and EZs must ensure environmental protection and be in tandem with the development of socio-economic infrastructure to ensure sustainable development; the quality of FDI inflows into IPs and EZs must be improved with the priority given to projects in line with industrial revolution 4.0, using high technology, modern and environmentally friendly.

Fourth, to develop models of new industrial parks such as eco-industrial zones, service urban centers and supporting industrial zones to improve the quality of technical infrastructure, facilitate the attraction of high-quality FDI flows into IPs and EZs.

Solutions

First, to boost further the attraction of foreign investment, focusing on attracting large industrial groups with source technologies for processing and manufacturing. For investment projects with significant spillover effects on IPs and EZs, the mechanism of preferential investment negotiation should be allowed as applied by some countries such as Malaysia and Singapore.

Second, to improve investment incentive mechanisms and policies for the development of supporting industries and promote the cooperation between domestic auxiliary enterprises and exporting FDI enterprises in the IPs & EZs to participate in the global value chain.

Third, to continue investing state budget capital and mobilizing other capital sources to complete the technical infrastructure of coastal economic zones in a synchronized manner to create conditions for attracting foreign investment, especially the coastal economic zones which already have large-scale investment projects.

It is important also to reform the investment climate and regulatory mechanism in some coastal economic zones with special preferential investment incentives and enabling public services to facilitate FDI attraction, development of some key processing and manufacturing actors with regional integration.

Fourth, to focus on the development of human resources serving high technical and technical levels for the development of IPs and EZs on the basis of strengthening the link between training establishments and industries in order to shift the competitive edge from low-skilled, low-cost labor to one of high-tech labor at reasonable cost.

Fifth, to reform the business and investment environment of IPs and EZs through further improvement of mechanisms and policies on IPs and EZs, enhancing the implementation of the "one-stop shop" administrative mechanism at IPs and EZs, applying information technology in the regulation of IPs and EZs, developing new IPs and EZs with higher efficiency and create enabling conditions to attract FDI inflows into IPs and EZs.

Sixth, strategies must be developed for IPs and EZs to attract foreign investment in line with local development conditions and potentials, especially there needs to be a separate strategic direction for coastal economic zones, enhancing the linkage between EZs and limiting the internal competition in attracting foreign investment among IPs and EZs.

SPILL-OVER EFFECT OF FDI ON DOMESTIC BUSINESSES: REALITY AND SOLUTIONS

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Over the past 30 years, FDI has played an important role of complementary source of capital, accounting for approximately 25% of the country's total investment, helping maintain Vietnam's high economic growth rates compared to the rest of the region, and accounting for about 19% of GDP. In 2017, the FDI sector contributed nearly $8 billion, accounting for 14.4% of the total budget revenue. Approximately 58% of registered FDI is concentrated in the manufacturing and processing industries, generating 50% of industrial production value, contributing to forming some key industries of the economy such as oil and gas, electronics and telecommunication. Executed cumulative FDI at the end of June 2018 is estimated at USD180.7 billion, equivalent to 56% of the total effective registered capital.

Another important contribution of FDI is the creation of a technological spillover effect, which contributes to improving the technology through technology transfer and the transfer of management skills to Vietnamese people, creating pressure for competition and technology innovation for domestic enterprises, thereby promoting productivity growth. However, the spill-over effect of FDI to domestic enterprises is still limited due to many reasons, including internal factors, characteristics and

capacity of domestic enterprises. Therefore, this paper focuses on analyzing the status of innovation, the technology transfer through the FDI channel, the inadequacies of the legal framework, especially the policies affecting the efficiency of technology diffusion, on which basis some policy suggestions will be provided.

Current situation of FDI spill-over effects

The spillover effects of FDI are often considered from multiple dimensions, in terms of four main impact channels, namely: (i) impact of input-output interaction between FDI enterprises and domestic firms, resulting from forward effect or/and backward effect; (ii) the impact of technology diffusion and transfer between FDI and domestic enterprises; (iii) impact by learning and applying effective management practices leading to increased competitiveness; and (iv) impact by improving labor skills in the process of training and learning knowledge and skills from FDI enterprises. In particular, the spill-over effect of technology transfer is much expected by the FDI receiving countries. In fact, most developing countries have designed policies that encourage the transfer of technology from the FDI to the domestic sector, thereby improving their technological capabilities, competitiveness and the ultimate goal is to increase labor productivity of domestic enterprises.

According to a number of quantitative studies, FDI attracted to Vietnam has created a positive spillover effect to promote innovation and technology transfer, thereby improving the productivity of domestic enterprises (Carol et al., 2015; Nguyen Thi Tue Anh et al., 2015, Trinh Minh Tam, 2016, Pham The Anh, 2018). However, the level of positive impact is low, mainly due to the competition capacity and learning ability, purchase of machinery associated with technology transfer, while diffusion through production linkages or participation in the supply chain of the domestic enterprises remains weak. This is also the main reason for limiting the spillover effect received from FDI. In addition, FDI projects mainly focus on assembling and processing with low local content and low value creation in Vietnam. While the amount of FDI attracted has been significant and the rate of disbursement has increasesd, but still few domestic enterprises are participating in the value chain of FDI enterprises, so the impact of technology diffusion from FDI enterprises to domestic sector remains below potentials, not meeting the development requirements of the country in the coming period.

The spillover effects of FDI in some sectors such as information technology & telecommunications, petroleum, finance & banking... are due to rapid technological changes of the domestic business sector. In other areas, obsolete technology is an inhibiting factor to production linkage and spill-over effect. According to the Department of Science and Technology (of MOIT), most of our enterprises still use backward technology, lagging 2-3 generations compared to the world average. For enterprises in the manufacturing sector (accounting for about one third of total enterprises), the enterprises using advanced technologies account for under 20% (mainly FDI companies).

Current situation of technology transfer and innocation and production linkage through FDI channel

Technology and innovation have been the "chronic lowlands" with the lowest ratings in many years in Vietnam's national competitiveness map. According to the World Economic Forum's (WEF) Global Competitiveness Report 2017-2018, Vietnam is ranked 55th out of 137 countries. The factors considered as the long-term weakness of Vietnam, with low scores, low rank and not much improvement over the past few years, include the innovation capacity of enterprises (ranked 79), quality of scientific research (78), availability of experts and engineers (ranked 78), the number and quality of local suppliers (ranked 105 and 116), the breadth of the value chain (ranked 106).

According to "Readiness for the Future of Production Report 2018" published by the World Economic Forum (WEF), out of a total of 100 assessed countries, Vietnam belongs to the group of countries that are not ready for future production, especially in terms of human resource development and technological innovation with their low scores, specifically: (i) Vietnam ranked only 70 out of 100 in human resources, with the index of highly qualified labors ranked 81/100 and university quality 75/100; and (ii) Vietnam ranked only 90th in terms of technology & innovation, with 92/100 position in technology platform, and 77/100 in innovation capacity . Compared to other countries in Southeast Asia, we rank behind Malaysia (ranked 23rd in terms of technology and innovation and 21/100 in human resources), Thailand (41/100 technology and innovation, 53/100 on human resources) or the Philippines (59/100 technology and innovation and 66/100 on human resources). Vietnam ranks are almost equivalent to those of Cambodia (83/100 and 86/100, respectively).

The speed of technological innovation is another weakness of Vietnam. The global competitiveness rating for 2017-2018 shows that Vietnam's Technology readiness dimension is only 71/137, much lower than Singapore (14) and Thailand (60). In particular, Vietnam was ranked 112th for the sub-dimension on availability of new technology, 93rd for the ability to absorb technology at the enterprise level, and 89th for the technology transfer from the FDI company ranked 89. The imports of backward, incompatible and inefficient equipment and technology are still found. According to the "Technology and competition in processing and manufacturing sectors in the period 2009 - 2012" survey[1], only about 11% of enterprises have developed new technologies. A GSO's survey (2014) also shows the limited participation of enterprises in R & D activities: only 6.23% of surveyed enterprises participate in R & D activities. This fact suggests that Vietnam needs to create a favorable environment together with new institutions and policies for the enterprise sector in order to promote the improvement of technology and innovation, thus promoting the transformation of the growth model in Vietnam.

The World Bank (2017) study also shows that compared to other countries in the region, Vietnamese enterprises are making great efforts to improve their products and processes but rarely able to introduce new products with totally new functions compared to ones already existing in the market. In addition, while a large percentage of firms claim to spend on R&D, the share of average spending on R&D spent by enterprises of their total revenue is still lower than most other Southeast Asian countries, and very few Vietnam's enterprises invest in knowledge that has been licensed or patented to support innovation efforts. About 23% of Vietnamese enterprises claim to have introduced a new product or service or a significant improvement over the past three years. This is a moderate level compared to other regional countries, for example Cambodia and the Philippines recorded over 30%, while Thailand, Laos and Malaysia recorded a significantly lower score (Figure 2). However, only a small

1 Conducted by GSO and CIEM.

proportion of Vietnamese enterprises think that their improvements are new to their markets, compared to their peers in other countries. The most important feature of the new products introduced by the Vietnamese enterprises is to improve quality, like other countries except Laos. However, it is worth noting that product innovation in Vietnam takes place more frequently than other countries for the sake of reducing costs, but less frequently in the case of introducing entirely new features (Figure 2).

Figure 1: Product innovation

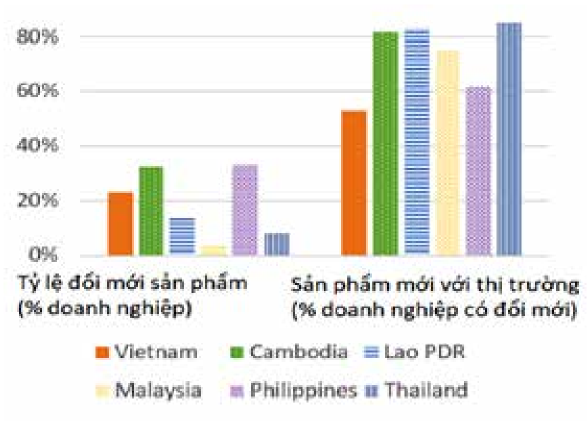
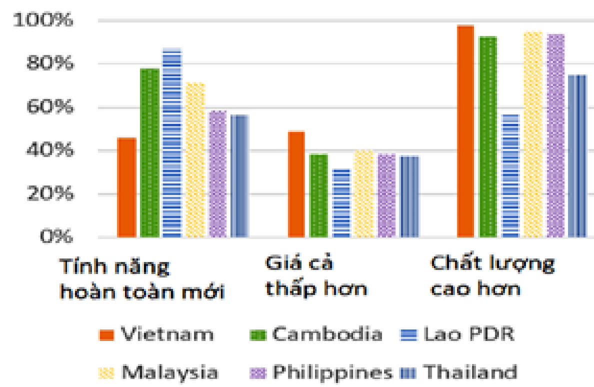


Figure 2: Features of new products



Source: The World Bank (2017)

Regarding the technology transfer, according to the Ministry of Science and Technology[2], the number of approved technology transfer contracts in the industrial sector accounted for 63% of the total, agricultural products and food processing 26% and medicine/ pharmaceutical and cosmetics 11%. Accordingly, many new technologies have been transferred and many new products have been produced in FDI enterprises; and in association with the implementation of the technology transfer contract many officers and staff have received training and retraining to update knowledge to meet new requirements. The transfer of technology from FDI enterprises also contributes to the development of domestic technology in the competitive context of the market mechanism.

However, it is necessary to acknowledge the fact that the competitiveness of our products in the international market is limited because most of the technologies used in FDI projects are the ones that have already been widely used in the original country; moreover, the awareness of compliance to legal regulations in the technology transfer contracts is still low and enforcement effectiveness is limited. The factors that inhibit the technology transfer process include the economic management mechanism that does not facilitate the technology transfer; limited investment in S&T; sporadic technology transfer activities which lack sufficient planning and strategy; limited capacity of Vietnam's technology companies. In addition, there are gaps in

2 Nguồn: https://dotatest.vn/thuc-trang-va-giai-phap-chuyen-giao-cong-nghe-o-viet-nam/

appraisal of technology, which may result in excessive pricing of technology, causing immediate and long-term damage to the Vietnamese parties.

In general, the level of technology transfer of the FDI sector to the domestic sector is not commensurate with its role and potential. According to a research by Nguyen Quynh Tho (2017), the low level of technology transfer is reflected in several aspects as follows:

Firstly, the number of technology transfer contracts in Vietnam is still very limited. According to the Association of Foreign Invested Enterprises (2015), all technology transfer contracts are implemented in the form of transfer from the parent company to a subsidiary in Vietnam, but no contracts confers transfer from FDI enterprises to domestic counterparts. According to the "Competitiveness and technology at enterprise level in Vietnam from 2010 to 2014" survey by CIEM (2015), if considering enterprises from the same industry and from other sectors, about 80% of technology transfer occurs between domestic enterprises, while technology transfer from FDI enterprises for domestic and other businesses accounts for less than 20%.

Secondly, investment partners from the countries that hold the source technology are few. By the end of 2015, the size of registered capital of projects of countries that own technology sources such as the United States, Japan, EU is still very modest in the total FDI projects, accounting for more than 15% of registered capital, and nearly 75% are investors from other countries, mostly from East Asia. Therefore, if the technology level or technology transfer is closely linked to those who own the original technology, it can be said that Vietnam has little access to modern technology through FDI. In other words, this implies the limitation of Vietnam's access to high-quality FDI flows, or partnerships with source technology.

Thirdly, the level of modernity and update of technologies transferred to Vietnam is very low. In fact, many surveys of FDI enterprises suggest that many machines and technologies imported into Vietnam are not new technologies but old instead, even entirely depreciated, and Vietnamese workers are simple charged with simple processes. At present, only 5% of FDI enterprises do transfer high technologies, while 15% transferred poor, backward technologies which require only simple labor.

Fourthly, the low localization rate also limits the level of technology transfer. Localization rate in Vietnamese industries is very low. Considering the localization rate of Japanese enterprises alone, JETRO data (2016) shows that this ratio of Vietnam is very low and much lower than that of other neighboring countries. By 2015, the localization rate of Japanese enterprises in

Vietnam was only 32.1%, while Malaysia recorded 36%, Indonesia 40.5%, Thailand 55.5%, and China 64.7% .

Fifth, the technology gap also produces adverse effect on technology spillovers from FDI to domestic manufacturing enterprises. The greater the technology gap, the more difficult domestic firms will find to access and copy new technologies from FDI, thus limiting the ability to absorb technology from FDI. Although the quality of technology of FDI enterprises in Vietnam is relatively low, the general technology level of FDI is still higher or equal to that of advanced technology available in the country. The major technology gap with domestic enterprises is considered as an important barrier, especially for domestic enterprises with backward technology, making the technology spillover effects from FDI much lower than expected. Therefore, in order to maximize the positive effect of technology diffusion from FDI, it is necessary to focus on solutions to close the technological gap between domestic and FDI enterprises.

On linkage between FDI and domestic enterprises: The World Bank's assessment (2017) on competitiveness and linkages of SMEs shows that at present small and medium enterprises in Vietnam are mainly third-tier suppliers, mainly involved in the production of simple and low value-added materials and/or simple components, therefore their participation in the value chain is limited. The situation of supporting industries (SI) development shows that there is a lack of links among SIs, between upstream and downstream enterprises, between domestic and foreign invested enterprises. This limits the linkage between SIs in the same industry/sector to form strong industrial linkage clusters capable of satisfying large orders from foreign investors; and there have yet to be established SI companies capable of leading other smaller businesses. Industry associations have not been effective in connecting SIs to create a foundation for large production base. In addition, the links between the SI companies and the research and training institutions remain weak and ineffective.

A study by MPI and World Bank (2018) suggests that useful links between FDI and domestic firms in Vietnam show a number of gaps, particularly with regard to linkages between efficiency-seeking investors like Samsung and other investors in Vietnam aiming at manufacturing to supply to the world market. Even when a connection between FDI and domestic firms exists, most of those links are only related to low added value inputs or inputs of no commercial value such as packaging material. The MPI and World Bank Report (2018) also suggests a strong need to focus on the group of efficiency-seeking FDI investors who have the most potential to improve the capacity of Vietnamese industries and promote the development of supporting industries in the country for competition in the international market.

Some policy issues

With the over 30-year presence of FDI, Vietnam's legal framework to attract and improve FDI has improved, including many policies aiming at promoting the spillover effects of FDI. However, the current status of policies related to innovation, technology transfer and linkage between FDI and domestic enterprises still poses many shortcomings, including:

First, incentive policies on technology transfer have been improved but the enforcement has been slow, weak and lacks consistency, obstructing and slowing down technology transfer activities and their spillover effects. A good example of this is the Foreign Investment Law (1987) which states that technology transfer is an important target of foreign investment policy. However, not until 1990 was the first Ordinance on technology transfer promulgated in Vietnam. Other examples are Decree No. 11/2005/ND-CP on technology transfer, 2006 Law on technology transfer, Investment Law 2005 and 2014 with more incentives for technology transfer, but still limited effectiveness and poor enforcement, resulting in low acceptance and interest among FDI enterprises.

Second, the system of tax incentives and construction subsidies for selected FDI sectors and fields has not proved effective. On the basis of the incentives to attract FDI in general, some tax incentives have been adopted by the Government to guide FDI investors by a number of different criteria: geographical location, economic sector, high technology park, high-tech areas, scientific research for technological development, critical infrastructure development, software production, education and training, environment…, among which investment in the high-tech sector enjoys the highest incentives (CIT rate of 10% for 15 years, tax exemption for the first 4 years and reduction of 50% in the next 9 years), providing that they meet the set-out criteria. However, the impact of this policy on the allocation of investment resources in is limited, and investment capital has not been attracted to more disadvantaged areas in with difficult socio-economic conditions. Besides, the targets in these legal documents are not clearly defined, which makes tax incentives and subsidies inaccessible to the right beneficiaries. For example, the CIT Law prescribes the application of tax incentives to "hi-tech sectors such as electronics", but does not clearly define what is high-tech rather than just the sector name, and as a result 'electronic assemblies' are also considered to be eligible and subject to incentives.

Third, R&D policies and incentives have not been effective. Although Vietnam has promulgated, reviewed and amended many legal documents to encourage R&D activities, such as the Science and Technology Law 2000 and its amendments in 2013, 2014; Decrees guiding the implementation of the Laws including Decree No.08/2014 on the establishment of science and technology organizations, Decree No.95/2014 on investment and financial mechanism for S&T activities, under which enterprises will have to spare from 3% - 10% of taxable income to set up their S&T development fund. However, the effectiveness of these policies is limited due to the poor management mechanism and weak enforcement effectiveness. Besides, the operation mechanism of science and technology fund is unclear, causing difficulties for enterprises in accessing and operating their funds, thus discouraging them from investing in R&D. There are also many other weaknesses concerning human resources, research materials, laboratories, cooperation between research institutes, universities and enterprises in Vietnam.

Fourth, the policy system to promote linking domestic and foreign enterprises also show many inadequacies. Although the Government has paid more attention to policies to support linkages between domestic and foreign enterprises through joint programs, regulations on localization rates, infrastructure development, labor rotation, human resources training, however, the results are still limited due to delays in the formulation and implementation of policies. In fact, SI and final product production are two sides of a coin, inseparable from one another, and this is also an important cause of slow development of the supporting industry. FDI enterprises themselves also have to import spare parts and accessories, resulting in higher costs.

As a consequence, Vietnam is increasingly reliant on imported inputs, increasing its dependence on outside suppliers, which means higher risk before negative shocks that adversely impact on prices and companies' competitiveness. Thus, the lack of SI is a big challenge for Vietnam. In the context of deeper integration into the regional and global economies, especially facing with the challenges of implementing AFTA commitments, the development of supporting industries strong enough to supply raw materials for FDI enterprises is becoming increasingly difficult in the absence of protective barriers for domestic producers as in the past.

Regarding the human resources development policy, the current legal framework on human resources development, in both knowledge and skills training and labor rotation has not been effective in creating linkages between domestic and foreign enterprises. Moreover, new human resource development policies focus on the quantity rather than quality. Many companies complained that graduates from universities and training institutions do not meet the requirements of the labor market. The World Bank's 2012 survey on the skills responsiveness of college graduates to the requirements of employers in seven East Asian countries shows that Vietnamese graduates are severely deficient in terms of work skills, creative thinking, information technology, leadership and problem solving skills. The Vietnam Development Report 2014 also shows that employers experience difficulties in recruitment due to candidates' lack of required skills or due to the scarcity of labor in some occupations. While the economy is lacking high-skilled labor in many industries such as design, human resource management, senior business leadership, law, environmental science, information technology engineering, biotechnology study, electronics, mechanics ..., graduates are mainly bachelors of finance, banking, accounting and law... Moreover, Vietnam seriously lacks skilled technical workers to increasing productivity and competitiveness, as high school graduates choose to go to college instead of vocational training.

Some models of industry linking in some sectors with the participation of big multinational corporations (MNCs) have been successful, but mainly involving supplying materials and processing (Unilever Vietnam and Samsung Vietnam are typical cases), and are relatively rare. The main reason is that the internal strengths of domestic enterprises are not sufficient to implement joint programs. Apart from Vietnam's gaps in technology, the degree of linkage and spillover effects also depends on the business sector and business strategy of FDI companies in Vietnam. Moreover, joint training and research programs between FDI enterprises and training and research centers and local universities are still very few and weak and needing real support mechanisms from the government.

Solutions to enhance the spill over effects from FDIs

The assessment of the current status of innovation, technology transfer and the linkage between FDI and domestic firms suggests that Vietnam has achieved encouraging results in attracting FDI, thereby creating positive spillover effects and supporting the productivity of domestic enterprises. However, the level of spillover effects is still below the potential and expectation. Accordingly, two basic sets of policy solutions should be considered, including:

First, to implement a set of solutions to adjust and improve the substance of FDI policy towards promoting the spillover effect to domestic enterprises.

The financial preferential policies, adjust the incentives for FDI need to be reviewed and uniform implementation across the country ensured. Financial incentives needs to be granted in a selective, focused and proportionate manner; The incentives need to be stable, identification criteria to be specified in detail, guidance on incentives is to be published for uniform understanding and implementation nationwide, accompanied by the requirement for outcomes. On that basis, detailed regulations are to be adjusted and specify the sectors that encourage FDI attraction and the types of investment incentives. The two most important criteria for determining the scope of FDI attraction is that the attracted FDI must: (1) increase the competitiveness of the product and (2) create positive spillovers to the domestic sector and increase the competitiveness of the economy.

The policy of industrial zone development needs to be adjusted in the direction of prioritizing the formation of industry clusters, facilitating production linkages between FDI and domestic enterprises, thereby establishing a supply relationship between industrial zones and increase the efficiency of FDI. A new objective needs to be added to develop these industrial zones into industry clusters and adjust investment promotion targets, giving priority to large and capable investors who are able to cooperate with domestic enterprises and use inputs supplied from domestic enterprises and vice versa. At the

same time, focus needs to be givin to support policies in order to form and develop S&T enterprises, technology incubators and S&T enterprise incubators in the industrial sector. Capital needs to be proactively mobilized for in-depth investments; scientific and technological development funds of groups and corporations are to be utilized effectively to invest in scientific and technological activities.

The incentives for FDI to improve the technological spillover effects should include: (i) sector-based incentives: In the manufacturing sector, FDI in exploitation/mining sector should be limited. Priority should be given to attracting FDI into: high technology which is appropriate for the development level of Vietnam, low energy-consumption and environmentally-friendly industries; safe food processing using significant domestic inputs and supporting industries for priority industries to attract investment; (ii) performance-based incentives should be adjusted and directed towards attracting FDI for R&D, technology transfer and vocational training activities. These activities require significant knowledge and capital, which will serve the transformation of growth model associated with economic restructuring, so the projects involving activities should be given a policy priority; (iii) product-based incentives: Priority should be given to projects that create products with high added value products, energy saving, environmental protection equipment, using domestically-sourced inputs, capital-intensive and knowledge-intensive where the FDI sector has obvious advantages compared to the domestic sector; and (iv) investor-based incentives: in order to achieve the adjusted goal of the FDI policy, it is necessary to encourage the attraction of qualified investors, to conduct selective rather than massive choice of investors. The selection of qualified investors also means implementing a sustainable FDI mechanism which harmonizes economic, social and environmental considerations.

Secondly, to implement a series of measures to support domestic enterprises to increase participation in the value chain of FDI enterprises

To support information and connection between FDI and domestic enterprises, strengthening the role of business and industry associations.

To support the improvement of technology capacity of domestic enterprises, to open up opportunities for these enterprises to participate in the production network of FDI enterprises: to review financial and non-financial policies to support technology innovation enterprises to adjust to increase the absorption and application of more modern technology; to meet the requirements and open up opportunities for production linkage with FDI enterprises. To establish business and technology training centers as well as technical support centers for small and medium enterprises; to develop databases of Vietnamese enterprises in the domestic supporting industry and adopt preferential measures for supporting industries (capital, human resource development, provision of technology information, participation in product exhibition).

To conduct research and develop criteria for "production linkage with domestic enterprises" in reviewing FDI projects. Accordingly, projects with commitments of production linkage or technology transfer with domestic enterprises will be prioritized. Horizontal linkage with major FDI enterprises as the key player will create a spillover effect (for example through regulations on technology transfer, mutual learning through purchase contracts...) and engage Vietnamese companies in the value chain (both pulling and pushing effects).

To support the improvement of the quality of human resources for enterprises. To review and evaluate the capacity of vocational training institutions. Training program need to be reviewed and revised, with priority to be given to the prioritized industries with more time devoted to practice. The application of the tripartite training model (enterprises – training institutions - regulators) need to ne encouraged to train high-skilled human resources as required by enterprises. Close links with prestigious institutions and training institutions overseas need to be enhanced to train high quality human resources. Programs to assist workers to obtain international skills certificates are to be strengthened. Economic groups and domestic and foreign enterprises should be encouraged to actively participate in the training of technical workforce.

VIETNAM'S COMPETITIVENESS IN ATTRACTING FDI IN THE ERA OF INDUSTRIAL REVOLUTION 4.0

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In the past 30 years (1988 - 2018), foreign direct investment has contributed positively to the development of Vietnam in many aspects such as promoting growth and shifting economic structure towards modern institutions and integration, increasing the investment capital for the whole economy and contributing to the state budget, creating jobs and promoting foreign trade ... The industrial revolution 4.0 (IR 4.0) is predicted to have strong influence on almost all socio-economic activities of mankind, including FDI attraction.

Competitive advantages of Vietnam in attracting FDI

Since opening up to receiving FDI inflows, Vietnam has increasingly proved to be strongly attractive to foreign investors compared to other countries in the region. In 2016, the FDI inflows into Vietnam became the second largest in the ASEAN region (after Singapore). It is worth noting that compared to some countries in the region, Vietnam has in recent years received much higher FDI inflows from outside the ASEAN region[1]. This shows the diversity of origins of investors coming from other continents. Significant achievements in attracting FDI compared to other countries in the region are due to the following major competitive advantages:

The first is the low labor cost and the abundant workforce: Viet Nam's population in 2017 was 93.7 million. With nearly 55 million people in working age, Vietnam has the third largest workforce in Southeast Asia (after Indonesia and the Philippines). In addition to the size advantage, Vietnam's still low average salary per worker is considered as the most important reason for attracting FDI enterprises to invest in Vietnam instead of other countries in the area[2]. Compared with the rest of the "Asian tigers"[3], Vietnam has the lowest average wage for workers. Thus, in the competition for FDI attraction for labor-intensive industries such as textile and garment, electronic component assembly, food and beverage processing... Vietnam clearly has advantages over other countries in the group in terms of abundant workforce

1 *In 2015, 81.8% FDI inflows into Vietnam came from outside ASEAN while the proportions for Indonesia, Malaysia, Myanma and Cambodia were 43.8%, 75.9%, 21.0% and 75.0%, respectively.*

2 In 2017, if Vietnam's monthly average salary was 1.0 (nominal USD), this figures in other countries were: China = 3.8, Malaysia = 4.2, Thailand = 2.8, Indonesia = 1.6, the Philippines =1.3, Cambodia = 0.6, and Singapore = 24.6.

3 *Including: Malaysia, Thailand, Indonesia, the Philippines and Vietnam.*

and low labor costs. Besides the "Asian tiger" group, Vietnam in the past also had to compete with China in attracting FDI into the labor-intensive sector. China's wages have significantly increased and hence its attractiveness to FDI investors has declined. However, instead of China, Vietnam is currently competing with other ASEAN countries (such as Myanmar and Cambodia) and South Asian countries (India and Bangladesh) in attracting FDI in this sector.

Second, the market advantage: With a population of nearly 100 million people, Vietnam is considered an important consumer market in the business expansion strategy of the world's leading corporations. Market size tends to expand rapidly as people's living standards improve, especially due to the rise of the middle class. Therefore, in addition to the high demand for traditional consumer goods such as food, beverages, construction materials or household goods... the demand for new goods and services, such as real estate, hospitality, education, wholesale and retail[4] also strongly attracts FDI investors. In Southeast Asia, Vietnam has the second largest population, only after Indonesia and the Philippines, much larger than the rest of the region, hence having a competitive edge in developing the above-mentioned domestic market-based industries. Besides the attrative domestic market, FDI enterprises in Vietnam also have easy access to densely-populated markets such as China, Japan, Korea, India and Southeast Asia.

In addition to the obvious advantages of labor and markets, Vietnam's competitiveness in attracting FDI compared to other countries in the region has also been greatly enhanced by the advantages of stable political environment, geographic location, investment incentive policy, improving business environment and deepening international economic integration.

Beside the above-mentioned competitive advantages of attracting FDI

4 By 20 June 2018, real estate attracted 17.0% of registered FDI; the figures for hospitality, education and retail were là 3.8%, 2.0% and 1.3%, respectively.

in comparison with other countries in the region, Vietnam is also inhibited by some important limitations:

First and foremost is the quality of workforce. Labor productivity plays a decisive role in determining efficiency and is considered as the most important criterion for assessing the quality of labor force. In this regard, Vietnam is significantly underperforming the neighboring countries[5]. The low quality of labor force significantly reduces Vietnam's competitiveness in FDI attraction, especially in the context of slow improvement of human resource quality, and an increase in average earnings per capita is much faster than productivity growth at many points. Moreover, this creates a vicious circle in the exploitation of human resources in Vietnam: High-quality labor shortages → FDI enterprises focus on investing in labor-intensive sectors → workers find many job opportunities that do not require training and therefore have little interest in improving their skills, and training institutions are not pressured to improve the training quality → lack of high quality labor. In the current context, Vietnam can only really get out of this vicious circle by making breakthroughs in education coupled with more reasonable orientation in attracting FDI.

Second, the quality of institutions and infrastructure are among major obstacles facing Vietnam in the competition with other countries in the region in attracting FDI. Key constraints often cited by FDI investors include the ability of physical infrastructure (transport, logistics) and other non-transparent costs. Despite the efforts made by the Government and local authorities to remove these barriers, this is still a significant obstacle in many areas and localities.

Vietnam's competitiveness in the context of IR 4.0

IR 4.0 is expected to have a profound impact on various aspects of mankind development, including FDI because of its impact on capital mobilization capacity, economic structure, transport capacity and information dissemination... Vietnam's competitive advantage in the context of IR 4.0 needs to be assessed against two target groups: (1) traditional competitors in the region and (2) FDI original countries, given the tendency of *backshoring* of FDI investors under the influence of IR 4.0 and Vietnam's competitive advantage in attracting FDI from these countries.

Vietnam's competitive advantages over regional traditional competitors

IR 4.0 has a strong impact in terms of either fading or amplifying the current advantages in attracting FDI. The impact of IR4.0 on Vietnam's basic advantages includes:

First of all, Vietnam's abundant labor resources and low labor cost are forecasted to be significantly impacted by the IR4.0. The overarching impact of IR4.0 on employment is to reduce the need for simple labor (due to the trend of widespread use of automation, robotic technologies in the future) and the need for quality human resources to master the use of smart devices in production. Job competition occurs not just between people and people, but between people and machines. Manpower Group's 2016 Report

5 In 2016, with Vietnam's average labor productivity of 1.0 other countries' scores were as follows: China = 2.4, Malaysia = 5.4, Thailand = 2.7, Indonesia = 2.3, the Philippines =1.8, Cambodia = 0.9, Singapore = 12.1.

on "Manpower Shortage" forecasts that by 2020, the number of simple jobs will drop sharply, replaced by jobs requiring more complex skills[6].

In the near future (in the next 10-15 years), Vietnam still maintains its advantage of abundant labor force and low labor cost due to still modest application of automation and robotics in certain fields (such as assembly of electronic components, garment ...), where simple, manual labor is still needed[7]. Moreover, labor costs in Vietnam will still be relatively cheap relative to other countries in the region (due to still significant gap which is not easy to narrow in the short run). However, given the current speed of development and rapid diffusion of IR4.0, it is expected that in the long run (over 15 years), the advantage of abundant and cheap labor force will be exhausted due to the replacement of machines and higher demand for high quality labor.

Second, the advantage of domestic market size in Vietnam is expected to continue in the IR4.0 era. With a large population and high growth rate of income per capita, the consumption market in Vietnam has tended to expand for both groups of goods and services: (1) IR4.0 infrastructure (smart phone, telecommunication technology...) and (2) consumer products and services using IR4.0 technologies (robot, food service, transportation...). In addition, the prospect of directly absorbing the achievements of IR4.0 while skipping IR3.0 applications not yet applied in Vietnam and the country's still medium-low level of living standards are considered attractive for FDI investors in many fields[8]. Vietnam's neighboring markets are also expected to expand not only due to the impact of factors of production capacity and foreign trade policy, but also due to the significant impact of IR4.0. Vietnam owns initial advantages in terms of market size and labor force as well as geo-political position compared with other countries in the region (Cambodia, Myanmar, Laos), therefore standing a high chance to be selected by FDI investors in IR4.0 application infrastructure as a data and information hub of the region.

In the context of IR4.0, the effect of real space will be blurred by cyberspace; however, the geographical position of Vietnam will still be a significant competitive advantage because of the gaps in specialization in production and the capability of participating in the good value chain among countries. It should be noted that despite the increasing spill-over effect of cyberspace, the market for physical goods is constantly increasing, so those countries with favorable positions for international trade such as Vietnam remain attractive for FDI in the region. In addition, Vietnam has a remarkable advantage in the production of tropical agricultural products and the distance of transportation of raw materials and semi-processed goods from Vietnam to

6 The report gives a number of notable forecasts: 36% of jobs will require the workers to be able to solve the complex problem as a core skill, 19% of jobs requires social skills and 18% of jons require processing skills; about 65% of children born in the period 1995 - 2012 in the future will do jobs that have not yet appeared at this time due to the rapid development of technology.

7 The German-based Adidas CEO recently said 13 companies had about 90 percent of the manufacturing base in Asia; and even though Adidas plans to increase production and automate the entire " Fast Factories "in Germany and Atlanta, USA, using robots and training mannequins to produce 3D-ready sports shoes, the automation plants will produce only about one million pairs of shoes, a tiny fraction of the 360 million pairs the company sells globally.

8 In many fields such as finance and banking, the applications of IR 3.0 have been limited (for example, payment by card instead of cash...) and it is quite possible for Vietnam to apply directly new forms of payment in the context of IR 4.0 instead of repeating the journey stepped by developed countries. Low living standards of Vietnamese people means the current limited consumption of many types of goods and services,

North American or EU markets is quite far. Therefore, direct investment in processing facilities in the raw material area is expected to be a trendy choice for foreign investors for the sake of saving production costs.

Beside these advantages, Vietnam's competitiveness in attracting FDI in the context of IR4.0 is significantly reduced by the following factors:

First, the institution is predicted to be an obstacle, due to the fact that many institutional factors are difficult to be replaced completely by IR4.0 machines and technologies (such as policy formulation, legislation, management and supervision capacity...). However, under the influence of IR 4.0 (application of artificial intelligence and big data in information analysis and decision making, application of new technologies in management and monitoring...) and the Government's determination to reform, transparency and openness towards global institutional standards will be improved. This is important in creating confidence for FDI investors and improving the Vietnam's competitiveness in FDI attraction.

Second, the quality of human resources remains a constraint for Vietnam in the context of IR4.0 because the gap in quality of labor force in Vietnam compared to many countries in the region is even increasing, because the ability to apply the achievements of IR 4.0 will change labor productivity very quickly. The quality of Vietnam's labor force is forecasted to improve thanks to reforms in education[9] and the pressure to transform to compete with the workforce in the region because with the new technologies of IR 4.0, many economic activities in Vietnam's territory can be conducted by nationals of other countries.

The third is financial and infrastructure constraints for IR 4.0. Compared with some countries in the region such as Singapore, Thailand, Malaysia, Indonesia, financial capacity for infrastructure and human resources to receive 4.0 IR of Vietnam is constrained by the high internet price[10], underdeveloped and unsynced national digital data systems. However, in certain aspects, such financial and infrastructure constraints for IR4.0 in Vietnam give more space for FDI investors in this field.

Competitiveness in the backshoring trend[11]

According to enterprises surveys, the reason why backshoring is chosen by investors includes lack of alignment between their development strategies and the FDI recipients' ones, quality of products manufactured overseas, locan consumers' demand in time of delivery and product design, and the increasing cost of labor in the receiving countries. The increasing trend of backshoring will be more robust in the context of IR 4.0 for two main reasons: (1) the cheap labor force advantage of receiving FDI developing countries now decreases with the increased ability of

for which the market size is expected to grow strongly in the IR 4.0 era, such as Grab transport services (due to difficulties in owning an individual vehicle), or online shopping…

9 It should be noted that the effects of reforms in education and training are always lagging, so the risk of lagging behind relative to some countries in the region is quite possible.

10 *According to a survey by BDRC Contiental and Cable.co.uk, as of December 14, 2017, the average monthly cost for broadband in Vietnam was $ 62.3, while the majority of other Southeast Asian countries offered lower prices such as Thailand (26.9 USD), Singapore (39.0 USD), Malaysia (42.5 USD), Philippines (53.7 USD), Cambodia (52.9 USD).*

11 The backshoring trend is interpreted as the change of location of enterprises that have previously conducted offshore investment now return to invest in their home countries.

immediate adoption of IR 4.0 applications in developed countries with high quality human resources; (2) production in developed countries will be more effective due to the application of automation and robotic technologies (instead of employing many workers in FDI-recipient developing countries) and higher convenience in meeting the demand of the local market (with reduced transportation costs and ensured quality assurance…).

In the competition to attract FDI with the investing countries, Vietnam has the following advantages:

Consumption market is the most important advantage: with the large population and location within (or near) 3 of the 4 most populated regions of the world (East Asia, South Asia and Southeast Asia), the demand for consumption of goods and services, especially essential products requiring geographical allocation such as food, drinks, travel... is very big. These product groups, even in the context of IR 4.0 and backshoring, still need to be allocated in the consumption market place for the highest economic efficiency. In addition, the advantages of available local materials and the convenience of access to neighboring markets clearly present Vietnam with more advantages of attracting investors from the EU, North America and the Southwest Asia compared to backshoring.

The tax land rental incentives are also a competitive advantage compared to investing developed countries. In addition, although under the influence of IR 4.0, the theory of comparative advantage will still hold true: Developed countries (accounting for the majority of backshoring businesses) will choose to produce high value-added products or items, while less developed countries (in the near future), such as Vietnam, will still have to undertake production of low-value products or items.

Some policy recommendations for improving competitiveness

Based on the above analysis, in order to improve Vietnam's competitive position in attracting FDI with other countries in the region and other developed countries, it is necessary to synchronously and effectively implement the following policy groups:

Firstly, policies to address institutional bottlenecks: the context of IR4.0 requires institutional reform in general and specific institutional issues directly related to FDI attraction in particular to be addressed. The mainstream approach to these institutional changes is to align to the impacts of IR 4.0, making good use of the achievements of IR 4.0 and approaching international standards, specifically:

Institutional improvement in FDI management towards international standards in the context of IR4.0 needs to be implemented in the following directions: (1) strengthening the application of 4.0 IR achievements in management, especially data and space management application (ensuring proper implementation of planning, management of environmental impact...) to improve management efficiency by saving time and costs incurred; (2) timely updating technology changes in areas related to FDI activities in the IR4.0 (eg. the impact of new production and business technologies on the natural and cultural environment) to respond appropriately on the principle of interfering with policies and administrative measures only when such activities are detrimental to the public and national interests.

Forms of investment promotion need to change drastically in the context of IR 4.0 as the transmission of information

and data across borders becomes simpler. Therefore, it is necessary to have policies in place to promote modern forms of investment promotion with high spill-over effect to foreign investors such as webGIS application[12].

In addition to the above two works, the Government should establish a regulatory sandbox. In this approach, the competent state authority should promptly promulgate laws and legal guidelines to timely respond to rapid changes due to the impact of IR 4.0. Those policies are experimented and controlled by a Review and Supervision Committee. After a period of testing, these policies will be approved for broad use if proved efficient or stopped if found not feasible or ineffective.

Secondly, policies to address bottlenecks in human resources need to be synchronized with those directly relevant to the operation of the FDI sector:

For managers, training and capacity building policies will have to be put in place (for both knowledge and skills), requiring integrated thinking and good problem-solving skills in the context of IR4.0. In addition, there need to be preferential policies in recruiting qualified managers to meet the requirements of work in the context of IR 4.0.

For the direct labor force, further reforms are needed in the training of human resources to meet the requirements for knowledge and skills of labor in the context of IR4.0. In the immediate future, it is advisable to select and invest a number of training facilities providing multi-disciplinary training to meet the demand for integrated human resources in the 4.0 CME era, rather than the overly-specialized training as before. In addition, attention should be paid to education to raise awareness about occupations in the context of IR 4.0: people should be encouraged to actively equip themselves with the necessary knowledge and skills with focus on creativity and proactiveness instead of passive thinking, waiting for simple manual labor as in the past.

For domestic businessmen: The development of local businessmen, especially in innovation start-ups, will create great attraction for FDI investors. Therefore, in order to develop this mass, the Government should adopt policies to support the innovation start-ups and educated entrepreneurs in order to change their mentality in doing investment in general and cooperation with the FDI sector in particular.

Thirdly, to address infrastructure bottlenecks in FDI attraction in the context of IR4.0, the Government should focus efforts on early deployment of 4.0 infrastructure to promote the advances of IR 4.0 in general and enhancing competitiveness in FDI attraction in particular. To address the financial constraints for this activity, the Government should confirm its main role as

12 The advantage of applying webGIS over conventional information dissemination (through website, investment promotion conferences, etc.) is: (1) Helping FDI investors easily find initial information about the territory or the sector of their interest from WebGIS,such as geographical location, connectivity to the market, current status of land use, current status of infrastructure, population and workforce distribution… In addition, other information on the status of investment, priority sectors of investment, rent, ... of the territory calling for investment is also displayed; (2) WebGIS also helps managers in Vietnam improve their performance in providing information for promoting investment, facilitating coordination of investment promotion activities with trade and tourism promotion activities.

an enabling and guiding actor, or assuming the provision of "seed" investment in more challenging projects that are difficult to attract FDI, while leaving the main source of funding for the IR4.0 infrastructure to be mobilized from the domestic private sector and the FDI sector.

Fourthly, the Government should early identify and promulgate policies to attract FDI for strategic sectors (new generation of FDI), giving priorities to industries that are strongly influenced and have potentials to apply the achievements of IR. 4.0 in Vietnam, especially agriculture, tourism, information technology and finance.

In agriculture, the impact of 4.0 IR is expected to dramatically change agricultural production thanks to achievements in biotechnology. Early selection of key agricultural products with competitive advantage and promotion of research and application of IR 4.0 for such products (in all stages: planting, harvesting, storing and processing) is a reasonable choice to promote investment and attract FDI into agriculture.

In tourism, IR 4.0 is predicted to support more tourist activities such as searching for information about tourist places and hospitality services[13]. With great potential and for tourism development and significant space for capital investment, tourism is considered as a key sector that will attract large FDI inflows. However, the government should adopt solutions to make planning information more transparent (especially the planning for the developing tourism areas) to give confidence for FDI investors (due to the long-term nature of this type of investment), attaching more importance to the promotion of tourism as well as addressing the inherent weaknesses of the tourism industry (infrastructure, human resources, etc.).

The information technology sector receives the strongest impacts of IR 4.0; therefore, in order to develop and enhance the competitive capacity to attract FDI into this sector, the key solution needed by the Government of Vietnam is to give priority to investment in human resources (in both domestic human resources and overseas Vietnamese experts and foreigners), while upgrading the IT infrastructure to catch up with the regional and international practices. Along with physical improvement, IT-related policies should be geared towards international standards in order to facilitate the connection, sharing of data and information, thereby enabling efficient use of these key resources in the context of IR 4.0.

The financial sector is strongly influenced by IR 4.0 but also expected to receive special attention of FDI investors. However, due to the very sensitive nature of the sector, IR 4.0 financial activities can only achieve high efficiency and sustainability in a transparent legal framework, which is aligned to international standards. Therefore, in order to attract FDI investors and promote the application of IR4.0 financial technologies (Fintech, Findata), the Government should promulgate policies to standardize the aspects of financial technology (security, methods of payment...) as soon as possible.

13 Eg. Accommodation searching function of Airbnb.

RECOMMENDATIONS FOR A NEXT GENERATION FDI STRATEGY 2020-2030

KYLE KELHOFER
IFC COUNTRY MANAGER CAMBODIA, LAO PDR, AND VIETNAM

Introduction

Vietnam is an FDI success story. Since the early economic reforms initiated 30 years ago under Doi Moi, FDI has become a major driver of Vietnam's economic development. Competitive wages, stable political and economic environments, sound infrastructure, a favourable geographic location as well as a robust investment and trade policy framework have led to dramatic increases in FDI inflows. By any measure, the country's FDI attraction achievements have been exceptional. In 2016, FDI into Vietnam exceeded inflows into other ASEAN countries, except Singapore. As a percentage of GDP, Vietnam's FDI inflows already exceed those of China and India (and all large ASEAN countries, except Malaysia). The year 2017 also witnessed Vietnam post a record in FDI disbursement (US$17.5 billion), against a backdrop of global declines in FDI flows during 2017 of 23 percent (Source: UNCTAD 2018).

While Vietnam should be congratulated on these achievements, there remains significant opportunities to further leverage FDI and strengthen linkages with domestic firms for more spill-over effects and domestic value-added. Recognizing these opportunities, Vietnam's "Vision 2035" stresses the need to move up the value chain, with an emphasis on local linkages, value addition, skills and innovation. To

avoid the "middle-income trap" and achieve high income status, it is clear that Vietnam requires a 'next-generation FDI strategy' to leverage value-added and FDI spillovers to unlock the benefits FDI bring. To take this important next step, the Government of Vietnam has been working with IFC since 2017 to develop a next generation FDI strategy and strategic vision 2020-2030.

Leveraging Vietnam's Socio-Economic Development Strategy (SEDS) (2011-2020) and aligned with Vietnam 2035, Toward Prosperity, Creativity, Equity and Democracy (published by the Ministry of Planning and Investment and supported by the World Bank Group), this Next Generation FDI Strategy sets out to answer the question how to attract higher value added activities, requiring higher skilled labor thereby increasing value added of export goods leading to the integration of Vietnamese firms in global value chains. Furthermore, the strategy also diligently considers the policy, reform, institutional, promotional, investment climate, environmental and investment incentive implications.

Two notable hallmarks of the Next Generation FDI Strategy recommendations are:

First, advancing from attracting "right investors" for Vietnamese products (i.e. investors who only take advantage of what Vietnam currently offers such as incentives, low labour cost) to developing the "right products" (e.g. right policies/environment) for the type of investment Vietnam needs to attract.

Second, it is an outcome of a fully participative and consultative process involving all key stakeholders, grounded in extensive research, analysis and market intelligence.

The strategy's development and implementation process are not static. Adjustments are needed as FDI demand-side dynamics change and effective dialogue and feedback from notable platforms (such as the "30 years of FDI in Vietnam" Conference), are also essential to enhance effective strategy implementation. To that end, this note aims to update stakeholders and conference participants on the:

Rationale and desired outcome of the Next Generation FDI Strategy;

Summary of successes to date;

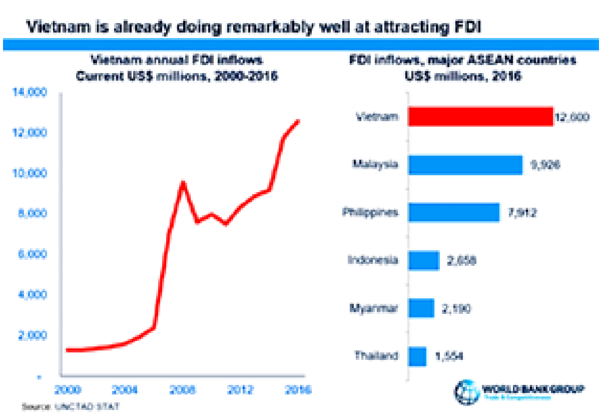
Growing realization that a policy shift is needed;

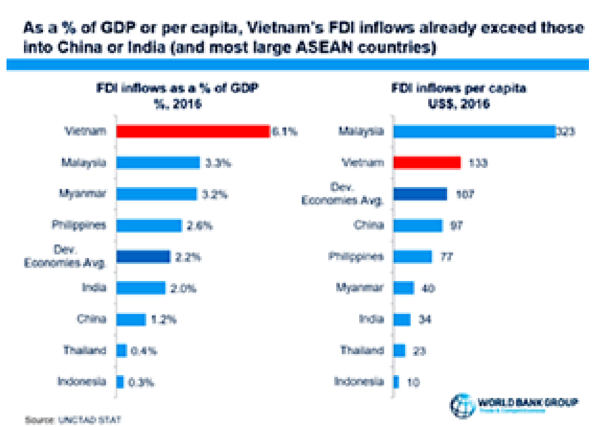
Barriers to achieving higher value-added and spillover benefits from FDI;

Recommendations to overcome barriers and challenges.

FDI-related Successes to Date

Vietnam has already posted remarkable achievements in attracting FDI compared to its regional peers as depicted in the following charts:





Set against the overall FDI approval and implementation achievement targets for the SEDP (2011-2015), the SEDP (2016-2020) is currently (Q3 2018) on a trajectory to surpass new FDI registration and implementation targets by a considerable margin. Furthermore, the General Statistics Office of Vietnam revealed (5 July 2018) the country had attracted $20.33 billion in FDI during the first half of 2018, with the lion

share of investment is flowing into services and manufacturing sectors.

Exports for the first half of 2018 also totalled $113.39 billion, a 16 percent increase over the comparable period in 2017.

Sharpening the focus on the correlation between foreign investment and trade dynamics, 71 percent ($80.86 billion) of the total exports and 58.6 percent (65.21 billion) of the total imports were generated by foreign corporations in Vietnam. Such a high import bill characterizes the duality of the Vietnamese economy, in terms of the limited domestic value-added in exports and local linkages and sourcing, which triggered the demand for a Next Generation FDI Strategy and is a topic revisited under the 'barriers' section of this paper.

Although these FDI numbers are impressive by any standard, progress is still being made towards increased FDI-local firm linkages, technology transfers, innovation and a significantly enhanced domestic value-added share of exports.

Headline FDI Successes Mask Barriers to Maximizing Value-added and FDI Spillovers

Vietnam has reached a critical juncture. Amid the backdrop of such impressive headline numbers and Vietnam attracting a greater share of the ASEAN FDI pie, many observers and stakeholders will inevitably and invariably question the efficacy of a 'next generation strategy' when the current 'laissez-faire' investment promotion is manifesting in such significant flows of FDI. This section of the paper will try to answer this fundamentally important question, as maximizing the full potential impact of FDI will be a challenge in the absence of some strategic policy shifts.

It is important to understand Vietnam's expectations and influencing factors which, essentially, can be re-traced to the Socio-Economic Development Strategy (SEDS) 2011-2020. While visionary and commendable, cracks appeared five years into the SEDS, whereby it became increasingly self-evident that Vietnam was still on low-a-trajectory to meet several of the key objectives as highlighted below.

Core Objectives of Socio-Economic Development Strategy 2011-2020	Status: Q4 2017/Q1 2018
'Strongly develop production force with increasing higher level of science and technology'	A skills gap remains. Less than 20 percent of the current labor force has professional qualifications, while more than 700,000 new jobs need to be created every year to keep up with labor force growth
'Concentrate on the comprehensive renovation of national education system'	Investors interviewed (by IFC team Q2 and Q3, 2017) did not sense improvements in this area and indicated a growing mismatch between skills demand and supply
'Give priority to the development of products which have competitive advantage and possibility to join in the production network and global value chain in such industries as high technology, ICT and pharmaceuticals strongly develop support industry'	Eight years into the strategy and some traction is being gained. The integration of local SMEs in global value chains is, more or less, conspicuous by its absence. This is another reason why the Next Generation FDI Strategy has a razor-sharp focus on local supplier development to enable such linkages
'Strongly develop services industries, especially services with high value, potential and competitiveness'	Vietnam has core attributes in this area, but they are seldom systematically and proactively marketed to a well-defined target audience. Furthermore, important service industries that underpin the functioning of global value chains have entry restrictions and other barriers leading to sub-optimal FDI outcomes
'Harmoniously and sustainably develop regions, build up new urban and rural areas'	FDI has been highly concentrated. More than 70 percent of FDI to date (Source: FIA 2017) has been concentrated in just 11 of Vietnam's 63 provinces
'Develop and implement programs on innovation/national technology'	Within the World Economic Forum Product Complexity Readiness Index 2018, Vietnam had an exceptionally poor score for 'technology and innovation'

Laws and policies still bear hallmarks of an 'aspiration' rather than 'implementation'

While the overall policy framework is clear (e.g. SEDS 2011-2020), implementation is still weak and evidenced by the recurrence of challenges identified several years ago. Major horizontal and vertical weaknesses are not helping. Horizontal, such as extensive overlaps between ministries, manifest in lack of convening power and extensive fragmentation as a result of poor cooperation and coordination. Vertical, such as ineffective coordination and synchronization along with potentially wasteful overlaps between national and sub-national levels, perpetuate a 'race to the bottom' scenario when it comes to incentives.

The FDI-related extract from the SEDP (2016-2020) commendably and unequivocally stipulates amending laws and policies to attract high value-added, technologically advanced export-oriented and environmentally-friendly FDI with a high localization ratio with accompanying investment in infrastructure, supporting industries and establishment of R&D centers by foreign companies. Yet, half way through the SEDP 2016-2020 period, reforms are hesitant at best and institutions with an investment promotion mandate have not changed their modus operandi.

To attract the type of investment already defined within SEDP 2016-2020 and which will be necessary throughout the upcoming period, several shifts in approach and policy are required as illustrated below:

Shifts needed in approach and policy to maximize value-added and spillovers from FDI	
Situation up to mid-2018	**Next Generation FDI Strategy Targets**
Investors' primary motivations: Low labor costs Low-cost utilities Risk-diversification alternative to China	Investors' primary motivations: High labor skills Resource-efficient technologies Superior location within ASEAN FTA
Investment Promotion: Reactive, cross-sector open-door "When investors come"	Investment Promotion: Proactive, targeted promotion "To attract the investors Vietnam wants"
Main marketing tool: Broad incentives to attract investors Based on short-term cost advantages	Main marketing tool: Holistic sector strategies to attract investors Based on long-term competitive advantages
Incentives focus: Fiscal incentives Based on FDI $-value	Incentives focus: Performance-based incentives Based on local value-addition
IPA's/FIA's primary role: Investment approval and monitoring	IPA's/FIA's Reconstituted primary role: Investment promotion and facilitation along with outward FDI
Consequences: Dual economy with little local content	Consequences: High local value-addition

Recommendations for Next Generation FDI

This section summarizes the main recommendations in terms of priority sectors to be targeted for pro-active investment promotion if Vietnam wants to attract higher-value FDI as well as the eight breakthrough recommendations needed to achieve maximum success in doing so.

Sector prioritization and targeting

This section presents the main findings of a sector FDI opportunity prioritization

exercise conducted to help identify sectors where FDI will add most value and where impacts on desired outcomes of the Next Generation FDI Strategy can be maximized.

A total of 30 potential sectors representing primary, secondary and tertiary sectors of the economy were evaluated against the 'Next Generation' criteria. The methodology for investment promotion targeting selection reflects the confluence of market demand-side dynamics and Vietnam having a competitive position (now or within the duration of this strategy). It is also aligned with targeting strategies adopted by 'high performing' investment promotion agencies internationally. Based on the analysis conducted by IFC, the top priority sectors for proactive investment promotion and representing higher-value FDI are as follows:

Short-term priorities: critical to strengthen local value-addition and competitiveness

Manufacturing

High-grade metals/minerals/chemicals/ plastics and high-tech components

Industrial machinery and equipment

Services

Logistics as well as maintenance repairs and overhaul

Agriculture

High-value innovative agricultural products

Tourism

High-value niche tourism services.

Short-term priorities: narrow window to beat competition

Manufacturing

Automotive and transport equipment, both original equipment manufacturers (OEMs) and suppliers

Environmental technologies (equipment for wind, solar, water conservation).

Medium-term priorities: in parallel with sector liberalization and skills development

Manufacturing

Pharmaceuticals and medical equipment

Services

IT and knowledge services (KPO – accounting, design)

Financial services/Fintech

Education and healthcare services.

It should also be highlighted that these sectors are not the only ones Vietnam should welcome and attract FDI into, they require pro-active targeting and promotion to win FDI in the right segments based on alternative location options available to these investors and the finite resources available at the central investment management agency and its provincial counterparts. This does not mean FDI in other sectors should not be welcomed. On the contrary, all responsible investors should be embraced and receive professional service. However, this list merely indicates where the balance of pro-active promotion (as opposed to re-active promotion) and policy reform should focus to maximize development impacts within the limitation of finite resource availability. Furthermore, it deserves explicit mentioning that although Vietnam must shift focus to higher value FDI with higher skilled labor content and contribution to growth and competitiveness, investments in basic assembly and BPO type operations should not be ignored and still lay the foundations to move up the value chain and will remain critical for job creation in less developed provinces for years to come.

Most FDI strategy documents have a three to five-year horizon, with annual reviews and adjustments made where necessary. These regular reviews should include the scope of priority sectors for pro-active promotion. In a fast-changing world, few people would have predicted even 10 years ago how technology would impact on traditional sectors and create new industries. The exponential growth of sectors like Fintech, wearable technology, artificial intelligence, robotics, drones and the impact of disruptive technologies are all evidence that continuous 'market sensing' and agility are required to stay competitive as an FDI destination, including an ability to create the conditions for new such industries to be attracted and flourish in Vietnam.

Investment policy reform agenda

There is a growing realization that a policy shift must take place – one that is strategic and readily implementable, anchored in concrete institutional, policy and investment climate reforms to attract the next generation of FDI and maximize the full potential benefits for Vietnam. The following eight recommendations represent a 'blueprint' to place Vietnam on a breakthrough trajectory towards resolving challenges, driving reforms and attracting the next generation of FDI needed to sustain the country's ambitious inclusive economic growth targets.

Eight Breakthrough Reforms

1. **Implement major skills supply push to enable next generation FDI**
2. **Build-upa "next generation FDI" to lead strategy implementation**
3. **Overhaul current incentives framework**
4. **Modernize investment promotion and prioritize sectors for pro-active promotion**
5. **Introduce Business Environment/ Investment Climate 4.0**
6. **Introduce concrete policies that increase FDI linkages and spillovers**
7. **Open up sectors to FDI that underpin competitiveness and growth**
8. **Introduce strategic Outward FDI promotion policies**

Implement Major Skills Development Initiative

The aim here is to accelerate the transition from growing skills gaps to a superior supply of skilled labor. In the future, skills provision combined with a fully enabled environment and superior FDI and domestic investment services will constitute the main differentiators for Vietnam vis-à-vis competing ASEAN locations. With some urgency, Vietnam needs a National Skills Development Strategy, for which the departure point is a comprehensive skills survey of demand and supply.

In addition to address skills gaps, the domestic business practices gap (transparency, governance, business practices, safeguards, expertise) must be filled for domestic firms to obtain more and higher value supply chain roles.

Strengthen Institutional Framework: build-up 'next generation' Foreign Investment Agency

A more integrated 'focal point' model with an influential public-private management board, tempered by characteristics of high-performance institutions in the region and beyond, will be better placed to take advantage of global value chain-led growth opportunities. It will also forge and capitalize on synergies between FDI, export promotion, SME development, FDI linkages and technology transfers along with special economic zone development, outward FDI and innovation. Such a 'next generation FIA' will involve a clear separation of the regulatory and promotion functions and enhance next generation strategy implementation.

Overhaul Incentives Framework: rebalance to performance-based incentives

Vietnam should better align its current regime with next generation FDI objectives bearing in mind that 'profit-based' incentives are less suitable for encouraging supplier development, green technology, value addition and workforce training compared with performance (behavioural)-based incentives. Neither is the true impact of the current incentive regime clear nor is it known to what extent has 'additionality' (i.e. the incentive triggered a benefit to the host economy which would not have occurred otherwise) criteria been satisfied. A mind-set shift is needed away from the pervasive, but outdated notion, that Vietnam can only compete on cost - to one based on comparative advantages and unique value proposition.

Modernize Investment Promotion: reactive to targeted proactive promotion

There is pressing need to fundamentally change the way in which investment promotion, national branding and provincial coordination is organized and conducted. Beyond advancing from a largely reactive and approvals-based approach to highly proactive and targeted FDI promotion, Vietnam's key performance indicators on FDI need updating to shift from reporting on dollar value of FDI approved/received to better measuring and monitoring the quality of FDI received in terms of technology, innovation, export performance, value-added, value chain fortification and local sourcing.

Introduce 'Investment Climate 4.0': commensurate with business needs in the digital age

Of all the global mega-trends to impact on FDI during the period of next FDI strategy implementation, Industry 4.0 will continue to be the most challenging and potentially disruptive. Industry 4.0 needs a 'business environment 4.0'. The implication being that Vietnam must 'leap-frog' from 'playing catch-up' to offering a superior investment climate. This means outdated 'paper-based' regulations and G2B systems are replaced with user-friendly online solutions and substituting cumbersome and outdated 'positive lists' (licenses, approvals, permits, incentives) with a streamlined 'negative list'.

Open-up Key Sectors: that underpin competitiveness and facilitate next generation FDI

Restrictions on investment in communications, logistics, education, health and financial services remain which can be critical to global value chains or serve as catalysts for sustained economic growth and competitiveness. Key actions recommended include: (i) systematically review the validity of existing legal and regulatory restrictions and procedural barriers to FDI in key priority sectors, (ii) review the implications of the upcoming CPTPP (Comprehensive and Progressive Agreement for Trans-Pacific Partnership), (iii) relaxing foreign ownership and equity restrictions in key sectors such as financial services (based on cost-benefit analysis vis-à-vis economic development objectives) and (iv) re-evaluate the objectives and validity of investment screening across all sectors to ensure a 'level playing field'.

Introduce Strategic Outward FDI Promotion Policies: accelerate economic diversification

Outward FDI, like inward FDI promotion, can be a helpful policy tool to achieve the same objectives of economic diversification and upgrading by supporting national champions to go abroad and access new markets with resources to acquire new technologies, know-how or distribution networks. In so doing, outward FDI can also significantly help Vietnam achieve the 'Next Generation FDI Strategy' objectives. However, assistance to outward FDI is limited to bureaucratic oversight and approvals, when a transition is needed to provide pragmatic and practical assistance to help local companies acquire new know-how or technology and enter export markets, while mitigating the associated market entry risks and costs.

Implement Policies that Increase FDI Linkages and Spillovers

The FDI-local firm linkages topic has been discussed frequently and predates Resolution 103/NQ-CP issued by the Prime Minister in August 2013, articulating that value-added and FDI spillovers be leveraged to unlock benefits FDI bring. Intervention must focus on effectively implementing existing policies, rather than advocating new measures when existing policies have yet to be delivered. Furthermore, reinvigorated policies must be grounded in fully understanding the root causes of poor implementation to date.

It should be noted that increased domestic value addition (DVA) can be achieved by greater sourcing from both locally-owned companies and foreign-owned local suppliers. Therefore, on the one hand linkages between FDI and local companies must be strengthened, but on the other hand OEMs' good qualified global suppliers should be attracted. All these together will help Vietnam build up a strong supplier base, which is an important factor to attract higher value FDI.

With support from IFC, a targeted supplier development pilot program is already underway in Vietnam anchored within the Ministry of Industry and Trade. To effectively contribute to one of the most critically important components of supplier development and linkages, namely 'match-making', Vietnam's investment promotion agency should build its capacity in anticipating and responding to the sourcing needs of foreign investors. Developing a national supplier database is an indispensable tool to support match-making and overcome information failures.

EU – VIETNAM FREE TRADE AGREEMENT: A SHORT CUT FOR VIETNAM TO ATTRACT GOOD-QUALITY FOREIGN DIRECT INVESTMENT FROM THE EUROPEAN UNION

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AMBASSADOR/ HEAD OF THE EUROPEAN UNION DELEGATION TO VIETNAM

Undoubtedly, Vietnam has been very successful in attracting Foreign Direct Investment - annual FDI inflows have increased by almost 1000 % over the last 10 years. In 1987 Law on Foreign Investment was ratified by the National Assembly which officially kicked off the reform of the economy of Vietnam towards integration into the world's economy.

FDI has proven to be a major driver of Vietnam's economic development and has contributed to the impressive growth rates averaging 6.5-7% over the past decade. FDI has created resources for the government and jobs for the people. With its population of almost 100 million, the Vietnamese market is extremely attractive for investors. In addition, a network of FTAs concluded by Vietnam offers competitive access to other markets. These are the factors that can make Vietnam an important destination for investment in the region.

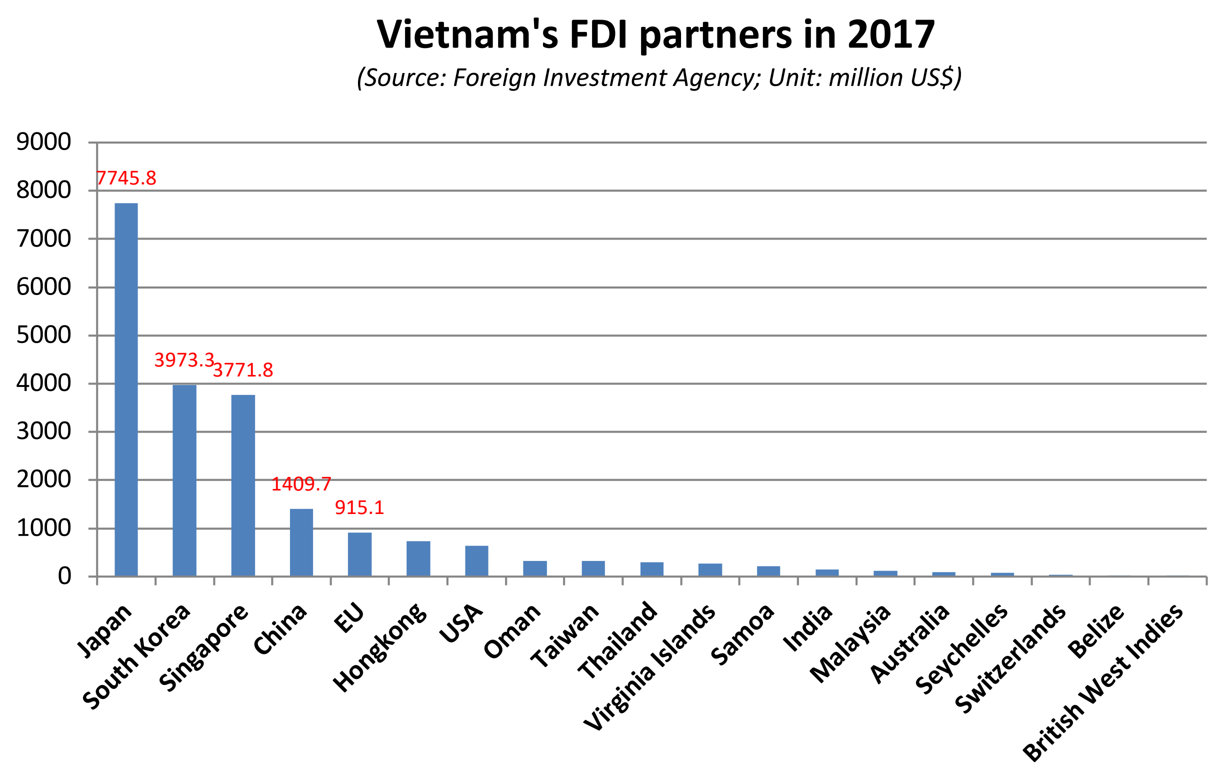
However, after 30 years of this rapid economic development, Vietnam needs "better" investment that will leave more value in the country, create higher skilled jobs and that would support the government's policy of sustainable development respecting the environment and the society. The so-called "next generation of FDI" is needed for

Vietnam to continue its impressive economic development path and upgrade the profile of its economy.

This is exactly what the European investment can bring to Vietnam. The EU investment can offer investment in high-tech, environment-friendly and less energy consuming sectors. European business does not only bring technology and quality jobs but also responsible business practices. This quality European investment can create useful linkages with local companies and integrate them in the global value chains.

The European Union (EU) is a global player in all realms of trade, investment and development aids. At the end of 2015, the foreign investment stocks held by the EU economic actors worldwide amounted to €6,892 billion. The EU-28 currently accounts for more than one third (37.4%) of the world outward's investment flows. It also has the highest share of the global exports of goods and services. The data[1] published by Eurostat indicates that in 2016 the EU took the lead with 17.9% share in the global exports. At regional level, the EU by all means is the most important source of investment for ASEAN, with €234 billion worth of FDI stocks in 2015.

However, the current European FDI in Vietnam does yet not meet its full potential. Over the past decade investment from the EU accounted for US$ 23.9 billion in capital and 2,133 in number of projects. The EU's ranking in comparison with other important FDI partners of Vietnam during the past 10 years varies from 3rd to 6th position. Up to now, the EU investment in Vietnam has concentrated mainly in industrial processing and manufacturing (accounting for 35% of the US$23.9 billion). Electricity generation is also an important sector attracting up to 18% of its capital. The EU's presence in other economic sectors remains modest if compared with Korea or Japan, and extremely small compared with its potential. Although the EU has been the biggest non-Asian FDI partner of Vietnam, its ranking in the list of Vietnam's FDI partners (cumulative basis since 1988) is at 5th position after Korea, Japan, Singapore and even Taiwan[2]. In 2017 alone, the EU ranked fourth with US$915 million in committed FDI.



1 This is the latest available data on global trade and investment, published officially by Eurostat in its Statistical Book 2017 Edition.
2 Investment from Taiwan into Vietnam, like the case of Hong Kong and Macau, are believed to also include investment from mainland China.

The EU and Vietnam have just concluded an ambitious 21st century trade deal: the EU – Vietnam Free Trade Agreement[3] and Investment Protection Agreement (IPA) and look forward to sign shortly both agreements. The FTA covers trade in goods and services, government procurement, high level of protection of Intellectual Property rights. The FTA will undoubtedly create new opportunities for our investors. EU investors will benefit not only from increased market access, but also from the new investment protection provisions that are now an integral part of EU's trade policy. Vietnam and the EU have agreed to high level investment protection standards and to a reformed investment dispute resolution mechanism. The existing 21 Bilateral Investment Treaties (BITs) in force between Vietnam and the EU Member States will be replaced by the IPA once it enters into force.

The agreement includes key investment protection standards including:

- Non-discrimination
- Protection against expropriation without prompt and adequate compensation
- Possibility to transfer and repatriate funds relating to an investment
- Fair and equitable treatment and physical security

While ensuring a high level of investment protection for investors, it preserves the EU's and Vietnam's right to regulate their policies to pursue legitimate public policy objectives.

The agreement sets up a permanent dispute resolution system under which disputes about the respect of one of the investment protection provisions in the IPA can be submitted to a standing and fully independent Investment Tribunal System.

I would also like to share a few recommendations for the government of Vietnam in its future FDI policy. Until now Vietnam's FDI attraction policy relied heavily on tax breaks, concessional rates and import duty exemptions. Many investors have come to Vietnam because of the investment incentives and low labour costs. Attracting innovative, technologically advanced FDI requires a more sophisticated investment policy and tools.

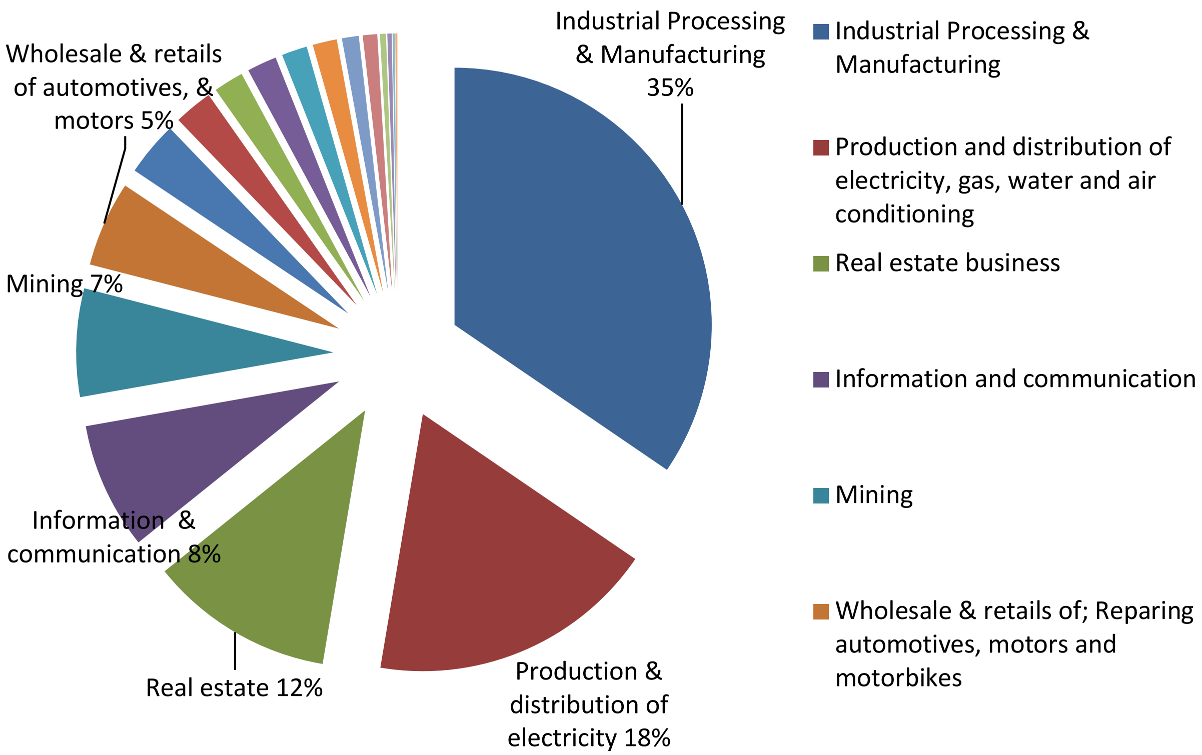
Therefore, Vietnam should continue working towards removing existing trade and investment barriers and improving business climate. In this context, transparency is key for investors to know the regulations and procedures to follow. A fair, transparent, stable and predictable business climate tops in the EU businessmen's priorities when they mull on their investment plans.

It's also vital that Vietnam guarantees a stable legal framework for investors to operate and a functioning enforcement system. We urge Vietnam to improve the recognition and enforcement of foreign arbitral awards and to set up a grievance system for investors to avoid disputes. Vietnam is also strongly encouraged to accede to the ICSID Convention.

3 The EVFTA negotiations were concluded in December 2015. Legal scrubbing process of this FTA finished in June 2018. The FTA text is currently being translated into Vietnamese and 24 official languages of the EU before the official submission for signature and ratification.

Eu-28 cumulative investment per sector into vietnam from 1988 – 2018

Source: Vietnam Foreign Investment Agency



Importantly, the EU investment requires highly skilled workers. This offers Vietnam an excellent chance of job creation with secure income, international standard working environment, acquiring management skills and technical knowledges, and transfer of technologies. Nevertheless, accompanying this opportunity is a challenge that the educational system of Vietnam must cope with to satisfy the needs. Vietnam can be proud of its hardworking labour force and the high literacy rate, however, working with European companies require better preparation, more practical and technical knowledge and experience.

Last but not least, protection of Intellectual Property Rights plays a crucial role in the decision making process of an investment project from European perspective. 39% of total economic activity in the EU (worth some EUR 4.7 trillion annually) is generated by IPR-intensive industries, and 26% of all employment in the EU (56 million jobs) is provided directly by these industries while a further 9% of jobs in the EU stems indirectly from IPR-intensive industries. Furthermore, the IPR-intensive industries account for about 90% of EU exports. These facts should not be underestimated. The existence and proper enforcement of IPRs protection laws is indispensable for attracting FDI from Europe.

Break-down of cumulative investment from eu into vietnam for 1988 – 2018

No.	EU Member States	Number of Projects	Total cumulative capital (million US$)
1	Netherlands	318	9,332.82
2	France	525	3,619.95
3	UK	340	3,489.12
4	Luxembourg	47	2,338.38
5	Germany	304	1,797.79
6	Belgium	68	912.53
7	Cyprus	16	477.99
8	Denmark	131	417.26
9	Italy	88	388.15
10	Sweden	64	349.77
11	Poland	14	182.59
12	Slovakia	9	151.78
13	Austria	31	143.90
14	Spain	67	93.58
15	Czech Republic	37	90.06
16	Hungary	17	63.56
17	Bulgaria	9	30.99
18	Finland	18	22.60
19	Ireland	17	20.80
20	Slovenia	4	3.27
21	Estonia	3	0.26
22	Portugal	3	0.13
23	Greece	2	0.05
24	Latvia	1	0.01
Total		**2,133**	**23,927.35**

Source: Vietnam Foreign Investment Agency

The EVFTA will address some of the above issues. It will strengthen transparency about regulations in Vietnam. It will also increase IPR protection beyond the standards of WTO: EU innovations, artworks and brands will be better protected against being unlawfully copied, including through stronger enforcement provisions. But most importantly, the FTA will create a stable legal framework for trade and investment relations between the EU and Vietnam that will enable us to cooperate and achieve a winwin solution.

THREE DECADES OF ATTRACTING FDI IN VIETNAM: ACHIEVEMENTS AND CONSIDERATIONS

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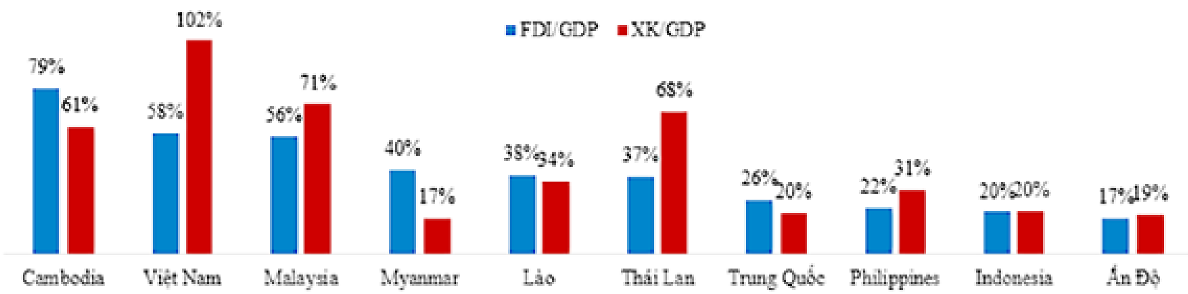
Fairly speaking, efforts to attract foreign direct investment (FDI) have been one of the highlights or most noticeable achievements of Vietnam since the Reform was initiated, regardless of existence of unexpected problems or results. FDI has contributed to improve the competitiveness of Vietnam's economy, create more jobs and increase State budget. FDI accounts for nearly 20% of GDP, approximately 15% of budget revenues (exclusive of crude oil revenues contributed by FDI businesses and personal income tax revenues in the sector), more than 70% of export turnover and create employment for nearly 4 million people. FDI has also played its active part in enhancing multilateral and more diverse foreign relations between Vietnam and other countries. The fact that multiple investors from powerful economies in the world have heavily been involved in investment in Vietnam has ensured better security and strengthened global geopolitical relations despite potential risks associated with several FDI projects. The FDI attraction results have been part of a broader opening and international integration efforts made by Vietnam.

However, Vietnam is facing the most challenging issue of failing to make the most of or being unprepared to make the most of the benefits offered by foreign investments such as learning experience from other countries and integrating itself into the global economy to reach higher in the value scale. The economy is increasingly reliant on the FDI sector. It has been more than three decades and Vietnam has not well "learned" the FDI lesson. Though high expectations were placed on many FDI projects, they are still operating as "oases" which utilize the advantages of Vietnam's economy for their own benefits while failing to create spill-over effects and form sectoral clusters with a high rate of localization and better global competitiveness. Vietnam is also facing the great challenges of environmental pollution and national security risks in attracting FDI.

Achievements

As foreign investors aim to maximize their investment returns, their money is only poured into places with competitiveness to gain profits. In this regard, Vietnam is an FDI destination. Regionally and globally, Vietnam has done very well in attracting FDI. During 1989-2017, the inward FDI in Vietnam totaled USD 129 billion, an equivalent to 58% of 2017 GDP, the second highest in the region.

Figure 1: FDI during 1989-2017 in relation to 2017 GDP and export turnover in relation to 2017 GDP



Source: Illustrated by the author based on the World Bank's data

FDI can be categorized into mining of resources, utilization of domestic market protection policies, onsite export of services (tourism, real estates) and utilization of the economy's competitive advantages. The first two categories of FDI often have larger roles to play in the beginning and do not offer significant benefits to an economy while the last two usually bring about positivity.

Table 1: Cumulative FDI during 1989-August/2018

No.	Sector	Number of Projects	Registered FDI (billion USD)	Proportion (%)
1	Processing and manufacturing industry	12,796	189.1	57.10
2	Real estates business	697	56.2	16.97
3	Production and distribution of power, gas, water and air conditioners	124	21.9	6.62
4	Accommodation and food	693	12.6	3.80
5	Construction	1,533	10.5	3.17
6	Trade in and repair of automobiles, motorbikes	3,091	6.7	2.01
7	Mineral mining	110	4.9	1.49
8	Transportation and warehouse	700	4.8	1.44
9	Education and training	413	4.3	1.31
10	Arts and entertainment	132	3.6	1.08
11	Agriculture, forestry and fishery	502	3.5	1.04
12	Information and communication	1,753	3.3	0.99
13	Science and technology	2,641	3.1	0.94
14	Water supply and waste treatment	68	2.4	0.73
15	Health care and social assistance	135	1.9	0.56
16	Finance and banking	65	1.2	0.35
17	Other services	151	0.8	0.23
18	Administration and support services	344	0.6	0.18
Total		**25,953**	**331.2**	**100**

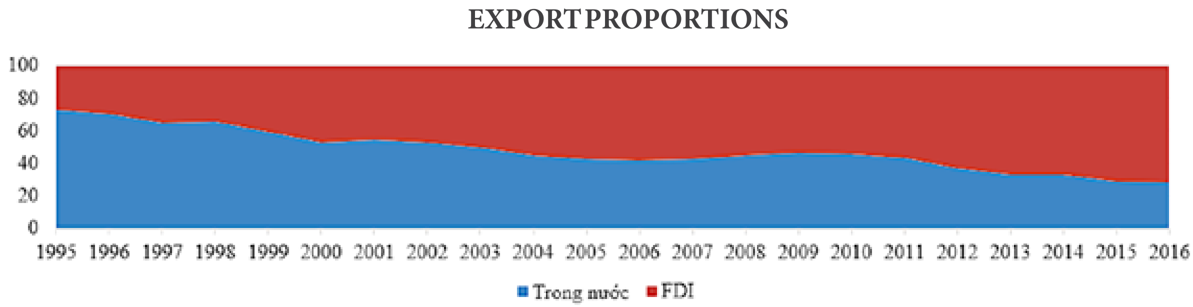
Source: Foreign InvestmentAgency, MPI

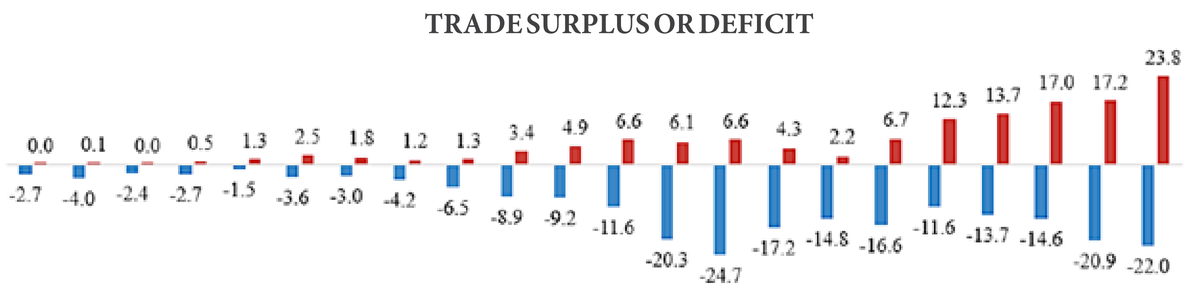
As can be seen from Table 1, during the 1989-2017 period, a total registered FDI of USD 331 billion in Vietnam is distributed across four categories of FDI. The processing and manufacturing industry accounts for the largest part of 57.1%. The processing and manufacturing industry is often characterized by two categories of FDI, namely the utilization of the economy's advantages and the utilization of protection policies. The former has a more significant role to play than the latter, particularly during the recent years. If FDIs from the other sectors are taken into account, the former accounts for an even larger part. The real estates and hotel FDI accounts for more than 20%. As a result, FDI that generates additional values or utilizes the economy's advantages accounts for a very significant proportion out of the total FDI. The FDI in the mining sector only accounts for USD 4.9 billion.

The data indicate that the FDI flowing into Vietnam for utilization of its advantages will be gone if the advantages are not utilized and this is very substantial as it is not just about FDI for mining of natural resources like other countries. In this regard, low-cost labor represents an extremely important factor. Frankly, if left unemployed, they are unable to create values for the society. These advantages will be gone if they are not utilized, which demonstrates how significant FDI is.

It is particularly important that FDI has contributed to a very high competitiveness of the Vietnamese economy, which is reflected in the proportion of export out of the GDP. In 2017, the figure reached 102% in Vietnam, the highest of the countries being compared. FDI has an especially important role to play in enhancing exports in particular and improving the economy's competitiveness in general. The proportions contributed by the domestic sector and FDI sector towards exports has reversed during the 1995-2016 period. In 1995, the domestic sector accounted for 73% of the total export turnover and the FDI sector for only 27%; in 2016 the figures have been 28.5% and 71.5% respectively. FDI-driven export surplus has increased with growing value over time. The FDI-driven export surplus helps balance the trade deficit created by the domestic sector and thereby supporting Vietnam's trade balance over years and Vietnam is now following the trend of trade surplus.

Figure 2: Export proportions of the trade surplus or deficit of the two sectors





Source: Illustrated by the author based on the data provided by the GSO Vietnam

It is also noticeable that FDI has contributed to multilateralism and diversify Vietnam's foreign relations with other countries. The fact that multiple investors from powerful economies in the world have heavily been involved in investment in Vietnam has ensured better security and strengthened global geopolitical relations despite potential risks associated with several FDI projects. These achievements are truly crucial.

Emerging issues and challenges

On the perspective of Vietnam, the most challenging issue lies in the fact that almost all businesses or production sectors are acting as “oases” and FDI has not taken root or created spillover effects and formed highly competitive sectoral clusters. In addition, local businesses are now in the early stage of development and have not been able to strengthen their footholds in the global markets. As a result, Vietnam has not been above to move further up in the value scale while facing increasing reliance on the FDI sector. There are seven issues and challenges as follows:

Firstly, the linkage between the FDI businesses in the textile and footwear industry and the local economy has not been close. After nearly three decades of involvement in the Vietnamese economy, FDI businesses are still largely involved in the processing stage and they are unable to move further up in the value scale. Compared to other sectors, local businesses in the textile and footwear industry have made considerable progress. However, FDI businesses and their local partners are seemingly playing on two separate fields without an organic linkage or connection through sectoral clusters.

Secondly, FDI businesses seem to dominate the assembly of electronic equipment or high-tech products. The leading global brands such as Canon, Intel, Samsung, etc. have been present in Vietnam and made enormous investments over the past decade. However, recent assessments reveal that the enabling factors for establishment of an electronics or high-tech sectoral cluster in Vietnam remain at a very early stage. The linkage between local businesses and these “alpha cranes” remains very poor.

Thirdly, several production and manufacturing sectors have received favorable policies such as sugar, automobile assembly and manufacturing for a long period of time but the outcomes delivered by FDI business have not met expectations. Several sectors were selected for red-carpet treatment but some of the foreign-invested businesses seem to only take advantage of the favorable treatment to sell their products at a higher price in the local market of Vietnam without placing emphasis on stages that offer additional added values in order to improve the competitiveness of the Vietnamese economy.

Fourthly, FDI inflows into real estates account for a large proportion and pose potential national security and defense risks. It is not unusual to witness the inflows of FDI into this sector. However, the related projects are often located in areas which are vulnerable in terms of the national security and defense. Moreover, real estate speculation has resulted in suspended planning and therefore led to social issues which should be well taken note of.

Fifthly, there are excessive incentives, policy inconsistency and competition among the local regions. It is often quite complicated to anticipate the related benefits and costs of incentives while at the same time Vietnam has to compete with other countries and therefore there may be cases in which excessive incentives were offered to investors. Additionally, the extended decision-making limit and fierce competition among provinces in this regard have encouraged FDI businesses to further

break up their projects and relocate to enjoy incentives as a result of the race to the bottom at the local level. This issue requires genuine emphasis as Vietnam is the one who has to deal with its consequences.

Sixthly, transfer pricing or transfer of profits abroad has emerged as a huge challenge for Vietnam at present. How to cause foreign-invested businesses to publish their operating profits and thereby paying additional taxes in Vietnam remains an extremely nerve-racking question.

Seventhly, there are potential security and environmental risks. Environmental disasters did happen and investment projects that pose national security and defense risks have been revealed. This represents challenging issues for Vietnam to tackle in order to mitigate unexpected impacts of FDI.

Reasons for failure to unleash the advantages of FDI

As discussed earlier, the failure to utilize the advantages of foreign investors with market linkages, excellent management capacity and abundant funding has been one of the most significant challenges for Vietnam. To put it bluntly, this represents an inherent issue for Vietnam and is further exacerbated by three major shortcomings namely education quality, innovation-based research and development capacity and copyrights and intellectual property.

Firstly, due to education shortcomings, there is insufficient skilled or proficient labor in Vietnam. In fact, Vietnam's most important advantage over the past decades has been low-cost labor. However, this only works for processing or uncomplicated manufacturing sectors rather than the sectors that require skills and proficiency.

Secondly, as the research and development and innovation capacity is restricted, local businesses have failed to establish the linkages with or become providers of supporting products or services for FDI businesses, particularly when it comes to components or stages that require a high level of intelligence.

Thirdly, failure to safeguard the intellectual property rights has caused foreign-invested businesses unwilling to share and establish long-term relations or partnership with local businesses. This is a story told by a former senior executive of a corporation involved in assembly of high-tech equipment in Vietnam when the author conducted an assessment of the corporation.

Conclusion and policy recommendations

To put it fairly, attraction of foreign investments has been one of the highlights or most remarkable achievements of Vietnam since its Reform regardless of unexpected issues or outcomes. These achievements are associated with the opening and international integration successes in Vietnam. However, the most challenging issue facing Vietnam is how to make the most of or be prepared to make the most of the benefits offered by foreign investments such as experience learning, integration into the global economy in order to move further up in the value scale.

In order to thoroughly utilize the advantages of FDI as well as improve the competitiveness and productivity of the economy, Vietnam should emphasize the three reasons for the foregoing challenges.

Firstly, to establish an education system, particularly tertiary education, that can deliver highly proficient and innovation-oriented human resources.

Secondly, to enhance research and development and innovation capacity. This solution is closely linked to the first issue.

Thirdly, to ensure that the intellectual property rights are exercised and minimize the incidence of copyright and intellectual property infringement in Vietnam.

Moreover, Vietnam is also confronting one of the extremely crucial issues, which is to control the race to the bottom at the local level in Vietnam. Vietnam should consider adoption of a one-time incentive for FDI businesses operating in Vietnam rather than maintaining the current regime in which local authorities are authorized to offer repeated and separate incentives to FDI businesses. As a matter of fact, Vietnam should also consider a scenario in which in the course of global competition, FDI businesses can relocate not only among local regions but also to other countries and this question is really challenging to deal with.

Finally, FDI achievements have been significant and the challenges it poses have also been enormous. In order to capture a comprehensive and objective view of FDI in relation to the policies that unleash the potentials and mitigate unexpected impacts, there is a need for Vietnam to separate attracting FDI from capitalizing on the opportunities it offers. Without bias, regarding the former, Vietnam has been performing very well. However, Vietnam is facing various issues related to how to utilize the opportunities or unleash the advantages of FDI along with designing adequate responses to mitigate unexpected impacts. As the performance regarding the latter has not been substantial, the significance of the former has also been impaired. Moreover, as potentials and advantages of FDI are not duly captured, excessive FDI may have led to unanticipated consequences./.

FDI ENTERPRISES' PARTICIPATION IN THE SUPPLY CHAIN: ADVANTAGES AND DIFFICULTIES FOR DOMESTIC ENTERPRISES

LE DUONG QUANG
CHAIRMAN OF THE VIETNAM ASSOCIATION FOR SUPPORTING INDUSTRIES

After 30 years of operation within the territory of Vietnam, although there are contrasting opinions from different angles, no one can deny the significant contribution of the foreign direct investment (FDI) sector to our country's economy. According to statistics by the end of 2017, the FDI sector contributes about 21% of GDP; FDI capital accounts for about 25% of the total investment capital in the whole society. FDI enterprises have created over 50% of the industrial manufacturing value of the whole sector. Of the total value of export turnover of 214 billion USD of the whole country in 2017, the FDI sector accounts for 72.6%. These figures have somehow provided an overall view of the indispensable role that the FDI sector plays in the socio-economic development of our country in the era of reform.

However, it can be seen that there are not only bright colors in the FDI picture. Throughout the past 30 years, in each period we have reviewed and evaluated the strengths and drawbacks of FDI attraction, utilisation, and management to draw lessons of experience and come up with appropriate solutions and policies of adjustment. One of the drawbacks which has been pointed out in a recent report of the Ministry of Planning and Investment to submit to the National Assembly is that: the ripple effect (of the FDI sector) is not significant, the coordination between FDI enterprises and domestic enterprises has not been up to expectation. In fact, there have been numerous opinions on different forums or the media, etc. that the participation of domestic firms in the supply chain of FDI enterprises still remains limited, with the main emphasis on processing and assembly; supplies, raw materials for production, parts, components, semi-finished products (even screws), etc. for assembly are still mainly supplied by foreign suppliers. Such opinions seem not to be too far from the truth, therefore they should be adequately identified to come up with solutions to improve the situation.

Hence, through activities of the FDI sector in practice over the past 30 years, what difficulties and advantages have domestic firms been facing in their participation in the supply chain of FDI enterprises?

First of all, in terms of advantages. Over the past 30 years, it is easy to notice that the legal framework relating to investment-business activities has generally been increasingly improved, which in turn has helped to significantly improve the investment and business environment for enterprises in all sectors. As for the FDI sector in particular, apart from the abovementioned common advantages, with the trend of shifting investment capital flows of the world in the process of globalization, Vietnam having political stability and being located in the region with the fastest and most dynamic economic growth on the planet, as well as having abundant human resources and competitive labor costs compared to other countries in the region, etc. still offers many attractive elements to investors, especially large corporations and multinational companies, and we have all the reasoning to believe that in the coming time, many more new corporations and companies – even high-tech companies – will come to Vietnam. The fact that in 2017 alone there was a series of large-scale projects being granted the investment registration certificate like the Nghi Son 2 Thermal Power plant, Van Phong 1, Nam Dinh 1, Samsung Display, Block B – O Mon gas pipeline, a capital raise of 500 million USD of LG, etc. or Hyosung group's plan to invest around 6 billion USD into Vietnam is the concrete proof of this trend. This will surely create many new opportunities for Vietnamese firms to join the supply chain that they have to know how to leverage.

Regarding the trend of capital shift, there is one issue in current affairs worth noticing. It is the impending trade war caused by the US imposing high tariffs on a number of countries, first of all, China. Vietnam will no doubt be affected by this war, but in the area of FDI attraction, it should be considered as an opportunity. In fact, there is now a wave of investors pulling out of China, and Vietnam is one of the first destinations to be given priority for their selection.

Policies on FDI attraction have also had highly important adjustments. Instead of attracting investment by trends in the early years which is the case for even projects having the capital of only hundreds of thousands of USD (it is hard to determine a proper supply chain for these projects), now we have formed a direction of focusing on attracting big corporations and companies, large-scale projects, high-tech industries with low environmental impact. This adjustment helps to provide a direction for Vietnamese firms when considering the possibilities of joining the supply chain, thus they can have better preparation to be ahead of the trend.

Another advantage that should be noticed is that there are now an increasing number of Vietnamese firms which have been improving their awareness, capacity and proactiveness, with clear development strategies, a daring attitude with a focus on investing on both technology and human resources training, the ability to leverage diverse market development channels, IT tools, with the initial approach to artificial intelligent (AI), etc. A majority of these are young entrepreneurs, who are properly trained with a new way of thinking and a proactive attitude. If they are encouraged and facilitated to develop, they will be a force with high potential to become the links in the supply chains within the FDI sector. Even in the Vietnam Association for Supporting Industries – an organization recently established (in 2017) which has now only gathered 200 member enterprises, there are dozens of companies specialized in manufacturing parts, components, machinery parts, equipment, software, etc. supplying to FDI firms and exporting to companies abroad.

The abovementioned advantages are foundational and can be considered the necessary conditions to expect that in the near future there will be an increasing number of Vietnamese companies with a foothold in the supply chain of the FDI sector. In our opinion, the "sufficient" condition is that most foreign investors when making an investment in Vietnam wish to have a stable local supply of equipment, materials, energy and a wide network of local firms in supporting industries because it helps to reduce production costs and the time it takes to introduce the product to the market, increase competitiveness, and maximize profit. Vietnamese companies on the other hand also want to participate more in the supply chain of foreign firms, because first of all, it will ensure a stable output for them, as well as bring about the chance to improve technological capacity and management skills, helping them to integrate more deeply and effectively in the region and the world. Thus, the facilitating condition here is that both sides have the same aspiration and need each other. The only remaining issue is how to connect these aspirations. In supporting such connection, the role of organizations such as the VCCI, or trade associations of Vietnam like (VAFIE), (VASI), (VAMI), (VITAS), (LEFASO), etc., or associations representing foreign firms in Vietnam such as AmCham, EuroCham, InCham, etc. is highly important.

However, the practical situation in the past 30 years has shown that the participation of Vietnamese firms in the supply chain of the FDI sector is facing a number of difficulties and obstacles.

The first one is concerned with the legal framework, mechanisms, and policies. When issuing the Law on Foreign Investment, the objective had been clearly identified, which is attracting capital, leveraging market relations, acquiring new technologies and advanced management skills, helping domestic firms in regional and global integration. However, in fact, in many years, especially in the earlier period, the policies issued seem to focus more on the objective of attracting capital without due attention to encouraging FDI firms and domestic firms connect and cooperation with one another. The initiatives have not aimed for encouraging the improvement of the rate of supplying goods and services domestically or requiring investors to take on the responsibility of participating in the development of the domestic supply chain, therefore it is hard for domestic firms to access and join the supply chain. In the coming time, the fine-tuning of the legal system on investment in progress should pay appropriate attention to this issue. In addition, it is not redundant to reiterate one of our weaknesses which is the fact that issued policies still lacks

stability and predictability. Many foreign investors have said that they understand Vietnam is an economy in transition, the changes in policies are understandable, but because changes are too fast, too sudden, with no latency period in implementation and furthermore totally unpredictable, the investors, therefore, cannot plan long-term development and business strategies; as a result, it is very hard to attract big, long-term projects or develop accompanying supply systems.

The second type of difficulties is concerned with the fact that FDI enterprises, in general, have very high requirements in the quality of products, services provided and progress of delivery, which many Vietnamese firms have not yet able to fulfill. This difficulty subjective by nature, if Vietnamese firms fail to improve themselves, they will not be able to join the "playground". Thus, there remains a conflict similar to the "the chicken or the egg" type, when FDI enterprises want to place orders, they will require Vietnamese firms to prove their capabilities, which include having modern technologies, advanced quality assurance systems, even certificates in environmental management or social responsibility, etc. Meanwhile, Vietnamese enterprises (most of which are small and medium-sized, even very small businesses) want to have secured orders and outputs for the confidence to take out loans and invest in plant expansion and procurement of modern machinery (which are now mostly specialized equipment), or recruit highly skilled human resources, etc. To resolve this problem, in addition to the tight coordination, trust development, and capacity building for risk management, etc. from both sides of enterprises, additional support is still needed, first of all from the associations, investment consulting firms and credit firms, etc.

In addition, there is one more difficulty faced by Vietnamese firms when participating the supply chain, which is the fact that some manufacturing industries have regular, constant change in terms of product models (such as mobile phones which are released in various models every year). This has forced Vietnamese firms wanting to participate in the supply chain to have really careful considerations and calculations as well as excellent managing capacity to meet the demands.

The lack of trained, highly-skilled human resources is also having a significant impact on FDI capital attraction as well as the development of the supply system for this sector.

Lastly, in terms of difficulties, a fact that must be mentioned is that the process of administrative reform in general in Vietnam, first of all, administrative procedure reform has not achieved breakthrough results, therefore, it is still a barrier for the operation of enterprises in general and the participation progress and supply chain expansion of the FDI sector in particular. Firms in supporting industries wanting to build or expand factories, warehouses, take out loans or carry out procedures for material and equipment import, etc. are still facing many obstacles. According to statistics of the VCCI, at present, nearly 97% of Vietnamese firms and small to medium enterprises (in supporting industries this figure may even be higher), 60% of these enterprises are still facing difficulties in taking out loans. Except for business registration which is currently quite favorable, the application for business permits, construction permits, permits and licenses relating to the environment, labor safety and the prevention of fire and explosion etc. mostly faces drawn-out, complicated, time-consuming procedures which at times even make firms lose opportunities and spirit.

From the above analysis, it can be seen that, with an undeniable role in the Vietnamese economy, the FDI sector still needs encouragement and facilitation for development. Once FDI enterprises develop, the opportunities for Vietnamese enterprises participating in the supply chain will also significantly expand. Conversely, when domestic supporting industrial firms – the main component to make up the links in the supply chain – are strong and developed, it can be one factor to attract foreign investors. In the world there are nations considered as "tax heaven"; maybe no one has ever dared to think about the future when Vietnam becomes an "investment heaven", but we have all the reasons to believe that once we are fully aware of the advantages – disadvantages – opportunities – challenges, when we know how to leverage existing advantages to make the right decisions and strategies, Vietnam will be one of the most attractive destinations to foreign investors. Undoubtedly, after this meeting, the Government will have timely directions to provide the orientation for foreign investment activities in the coming time. As for the community of companies in supporting industries, on this occasion we would like to suggest some of the following recommendations:

Firstly, the Government should direct functional agencies to continue fine-tuning the legal system on investment to create the most favorable conditions to attract even more investment from big corporations all over the world to invest in Vietnam, especially big corporations and companies from countries like the USA or the G7 Block. In this process, special attention should be paid to initiative mechanisms for the development of the supply chain in Vietnam as well as the initiatives and facilitation for the development of firms in supporting industries.

Secondly, at present, the role of trade associations is particularly important, therefore it is recommended that the Government pays attention to facilitating and helping these associations to perform their duties even better. On the other hand, it is recommended that the Ministry of Home Affairs and sector managing ministries pay even more attention to supporting the activities of these associations, listen to their feedback to issue appropriate policies to the development requirements as well as management objectives.

Thirdly, the Government should continue to direct administrative reform in a drastic manner, to create a favorable environment and especially to establish confidence in enterprises./.

STRENGTHEN THE LINKAGES BETWEEN VIETNAM AND JAPAN ENTERPRISES TO PROMOTE SUPPORTING INDUSTRY

HIRONOBU KITAGAWA
CHIEF REPRESENTATIVE OF JETRO HANOI

Vietnam is a luring investment destination for Japan

Vietnam is considered an investment destination of great interests for Japan; the number of investment inflows into Vietnam from Japan has been following a growing trend over the recent years. Statistics indicate that in 2017 there were 601 expanded and new investment projects from Japan with a total capital of USD 8.7 billion. The records were crashed in terms of both the number of projects and investment funding, placing Japan on top of the list of countries and territories investing in Vietnam. Out of the top 5 projects with the largest investment in Vietnam for construction of thermal power plants, Japanese businesses are involved in three. We are proud that Japanese investments have contributed to Vietnam's economic growth over the past years.

In the first half of 2018, several large-scale projects such as "Development of Smart Cities" in Hanoi has helped Japan to retain its position as the country with the most investments in Vietnam.

A survey conducted last year by JETRO among Japanese businesses operating in Vietnam revealed that up to 70% of the businesses planned to expand their operations in Vietnam. This represents a high percentage compared to other countries in ASEAN. According to a survey conducted

in Japan questioning the participants about "Countries, territories in which Japanese corporations placed their branches and continue the operation expansion plans", the proportion of businesses that chose Vietnam has increased in three consecutive years, which indicated that Vietnam continues to be the destination of interest for many Japanese investors.

Diversification of investment areas

Compared to the neighboring countries, Japanese businesses prefer Vietnam as the investment destination for manufacturing business due to its competitive advantages in terms of low-cost labor and stable investment environment. Furthermore, over the recent years, the income per capita has also been rapidly improved along with the stable development of the national economy, which has accelerated the development of the market size in Vietnam and thereby attracting interests from investors in various areas. In fact, analysis of Japanese investors visiting JETRO Hanoi for consultation indicate that more than 70% are interested in non-manufacturing sectors ranging from education, agriculture, hotel and food services. Particularly, Vietnam with abundant labor and a developing market will become a destination of great attraction for the Japanese businesses who are facing a diminishing market in Japan as a result of a population decline.

Moreover, Japanese businesses also highly appreciate the perseverance and diligence as well as the growing Japanese language proficiency of Vietnamese workers, which greatly facilitate mutual communication. The focus on training and development of high-tech human resources helps Vietnam become not only a technological software developer but also a hub for high-tech research and development in the future.

Improving business environment

In order for Vietnam to maintain foreign investment attractiveness, there is a need to settle the outstanding issues. According to a survey on the performance of Japanese businesses in Vietnam, the risks of doing business and investment in Vietnam mostly named by the Japanese businesses include: significantly increasing labor costs, incomplete legal framework, inconsistent law enforcement or complicated administrative and tax procedures.

Regarding the issues arising out of the administrative procedures, clearly improvements have been made by the Government of Vietnam in order to facilitate efficient operations of businesses. It is promising that within the Vietnam – Japan cooperation framework, together we have developed the "Vietnam – Japan Joint Initiative" programme to discuss and recommend improvements to the investment environment in Vietnam. We strongly hope that the Government of Vietnam will put into operations more regimes like the "Vietnam – Japan Joint Initiative" programme to directly hear the voices of foreign businesses. Taking into account international laws, the shortest pathway for Vietnam to attract investments will be through building a transparent legal framework and ensuring its explicit and reasonable enforcement in order to facilitate operations of businesses.

Given the increasing prevalence of global trade protectionism, Vietnam and Japan have been striving to put the Comprehensive and Progressive Agreement for Trans-Pacific Partnership (CPTPP), which is considered a breakthrough in facilitating free trade, into operation. The realization of the free trade agreements like the CPTPP will further strengthen the investment attractiveness in Vietnam.

Developing supporting industries

As highlighted in our survey, one of the most significant issues facing Japanese businesses in Vietnam is "low level of localization of materials and components in Vietnam". The survey indicates that the localization level of materials – components in the manufacturing sector in Vietnam stays at 33% which is lower than 67% in China and 57% in Thailand. Therefore, manufacturing businesses are highly reliant on imports from China, Thailand and some neighboring countries for materials and inputs. While this is considered an outstanding issue in the manufacturing sector, it also indicates untapped potentials of the supporting industries in Vietnam.

The development of supporting industries requires the presence of a training system that supports small and medium-sized enterprises in this area. Furthermore, there is also a need to establish an approach to improve the production values for supporting industries in Vietnam. We believe that in order to provide high-quality inputs that satisfy foreign businesses' expectations, it is necessary to listen to the businesses themselves and thereby establishing a system of technical advancements to improve product quality. Vietnam needs to define its areas of focus in the manufacturing sector in order for Japan to provide more effective assistance through a more convenient cooperation mechanism.

Training of human resources is also a very crucial area and it is necessary to put in place a system that offers training and skill improvements starting from the training level such as tertiary schools. In Japan, training programmes aiming to improve work efficiency and professional skills are provided at work and the development of the education programmes that equip the youth with practical skills at work such as the system of vocational schools (Kosen) has also been emphasized. There are huge potentials for cooperation between Vietnam and Japan in realizing the human resources training programmes of this type.

JETRO to continue to offer investment assistance in Vietnam

JETRO has been relentlessly assisting the inflows of investments from Japan to Vietnam. Most recently, within the framework of the visit to Japan by State President Tran Dai Quang in May 2018, we cooperated with the Ministry of Planning and Investment of Vietnam to organize the "Vietnam Investment Promotion Conference" in Tokyo. On the 45th anniversary of the diplomatic relation between Vietnam and Japan and the development of the extensive strategic partnership between the two countries, the topics of discussion during the Vietnam Investment Promotion Workshop aimed to take our bilateral relation to a new height in various areas. In the course of the conference, the leaders of the two countries witnessed the signing of multiple cooperation agreements; the three new Certificates of Investment Registration from Japan into Vietnam, 13 MOUs and one permit for launch of a Vietnam – Japan flight route have all further strengthened our belief in the investment promotion and economic cooperation between our two countries in the future.

JETRO Hanoi has made persistent efforts to provide consultancy to Japanese businesses who are interested in investing in Vietnam. Aiming to facilitate businesses who intend to make new investments in Vietnam during their early stages of doing business in the country, JETRO Hanoi has launched the temporary office space services called "JETRO Business Support Center Hanoi". Additionally, in order to develop the supporting industries in Vietnam, we have also developed a series of "Outstanding Vietnamese businesses in the supporting industries" in Japanese and circulated the documents among the Japanese businesses and organized the annual event of "Japan Exhibition on Supporting Industries" in Vietnam to connect Vietnamese businesses with their Japanese counterparts.

With a view to catch up with the current trends and satisfy the needs of Japanese businesses, we have also proposed new business opportunities in Vietnam to the businesses. In December 2017, JETRO launched the "Industrial Revolution 36" with focus being placed on the establishment of the production value chain on the basis of Japan – Vietnam cooperation in the agriculture, forestry and fishery sector so as to create new business opportunities through application of information technology or involvement of other sectors in agriculture and thereby forming the joint Vietnamese – Japan value chain. We have also organized study tours to Vietnam for Japanese businesses in the agriculture sector to explore the business and cooperation opportunities.

Furthermore, we have also produced reference readings on the society and life in Vietnam in order to provide the Japanese businesses in the consumption sector with additional information and updates.

Regarding human resources, JETRO has enhanced its cooperation with Foreign Trade University in training of high-quality human resources that meet the practical requirements of the Vietnam – Japan bilateral trade relations. In the foreseeable future, we are launching the "JETRO Lectures" programme in Foreign Trade University as a reality subject which is instructed by the executives of leading Japanese businesses in Vietnam in order to equip students with an overview of the operations, issues and requirements of the Japanese businesses who are interested in doing business in Vietnam.

We hope that as part of broader investment activities of Japan in Vietnam, the training of human resources and proposals of new business directions will also play their significant parts in Vietnam's economic development. In this regard, JETRO wishes to further contribute to the economic development in Vietnam along with enhancing Japan's investments in Vietnam.

CHALLENGES AND RECOMMENDATIONS FOR VIETNAM IN ATRACTTING FDI IN THE FUTURE

DENIS BRUNETTI CO- CHAIRMAN
NICOLAS AUDIER CO- CHAIRMAN
THE EUROPEAN CHAMBER OF COMMERCE IN VIETNAM

The European Chamber of Commerce in Vietnam (EuroCham) is honoured to contribute to this important conference on Foreign Direct Investment (FDI) in Vietnam. The fact that we are celebrating three decades of FDI along with chambers of commerce from around the world is a testament to the success of the Government in opening up Vietnam's markets and liberalising the trade and investment environment.

The last three decades have been a period of profound change. Since the Law on Foreign Investment in 1987[1], Vietnam has transformed itself from a low to a middle-income nation. Strong economic growth, averaging 6.4 percent in the 2000s[2], has created jobs, raised standards of living, and created new opportunities for millions of people.

Just as Vietnam has grown, so have we. EuroCham was formed in 1998 with 60 members. Today, we number almost one thousand, including some of the world's leading enterprises in sectors and industries across the length and breadth of Vietnam. Over this time, we have seen how

European business succeeds when Vietnam succeeds. For this reason, we applaud the Government's strong record of attracting FDI and welcome its commitment to continue doing so in the future.

Foreign investment has been the engine of Vietnam's economic development. Greater openness to international trade, sound macroeconomic policies and low inflation has given foreign enterprises the confidence to invest here.[3] Since Vietnam became a member of the World Trade Organisation in 2007, the Government has continued to reform its legislation to meet international standards, and both market access and investment incentives have continued to grow as a result.

1 "30 Years of Foreign Investment Policy Improvement" Vietnam Investment Review, 7 December 2017. Available at: <http://www.vir.com.vn/30-years-of-foreign-investment-policy-improvement-54504.html> last accessed on 25 August 2018.

2 "Vietnam Overview" The World Bank (2016). Available at: <http://worldbank.org/en/country/vietnam/overview> last accessed on 31 January 2018.

3 "Vietnam and ADB" Asian Development Bank (2017). Available at: <http://adb.org/countries/viet-nam/main> last accessed on 31 January 2018.

Today, Vietnam's favourable investment environment; competitive production costs; strong economic prospects; growing middle class; young, well-educated workforce; and advantageous location in South East Asia make it an attractive destination for investors.[4] These positive changes can be seen in Vietnam jumping 14 places in the World Bank's 2017 Ease of Doing Business report, rising to 68 out of 190 economies around the world.[5]

Vietnam has seen significant growth in FDI since it began to allow foreign investment in 1988.[6] In the first 11 months of 2017, total FDI capital reached over US$33 billion – an annual increase of more than 80 percent. The processing and manufacturing sector received the largest share, with just under US$15 billion, or 45 percent of the total. Electricity production and distribution received the second-largest share, with just over US$8 billion, while real estate received US$2.5 billion, making it the third-largest sector in terms of FDI.[7]

European Investment in Vietnam

Bilateral trade and investment between the European Union and Vietnam have been growing ever since formal diplomatic ties were established in 1996. The differences between our two markets have created a relationship that benefits both. For instance, Europe's advanced technologies and high-tech equipment have helped to service Vietnam's manufacturing sector. On top of this, the EU has been a strong supporter of trade liberalisation in Vietnam, helping to accelerate its international integration.[8]

For these reasons, the European Union has become a growing source of investment for Vietnam. The EU is now the fifth-largest foreign investor in the country[9], and figures from the Ministry of Planning and Investment (MPI) show that, as of Quarter II 2017, European firms had almost 2,500 registered investment projects worth US$44 billion. These projects accounted for 10 percent of total FDI and 14 percent of total attracted FDI capital.[10]

In 2016, trade in goods between the EU and Vietnam was worth over €42 billion: European imports from Vietnam accounted for €33 billion, including products such as footwear, textiles and clothing, coffee, rice, seafood and furniture. Meanwhile, European exports to Vietnam accounted for €9 billion, including products such as electrical equipment, aircraft, vehicles and pharmaceutical products.[11]

4 "Doing Business in Vietnam" PricewaterhouseCoopers (2017) p. 5; "Vietnam Sees Stronger Growth Momentum" The World Bank. Available at: <http://www.worldbank.org/en/news/press-release/2017/12/11/vietnam-sees-stonger-growth-momentum> last accessed on 31 January 2018.
5 "Doing Business: Measuring Business Regulations" The World Bank. Available at: <http://www.doingbusiness.org/data/exploreeconomies/vietnam> last accessed on 1 February 2018.
6 "Vietnam: Foreign Investment" Santander. Available at: <https://en.portal.santandertrade.com/establish-overseas/vietnam/investing?&actualiser_id_banque=oiu&id_banque=0&memoriser_choix=memoriser> last accessed on 3 February 2018.
7 "Vietnam: FDI Strategy for 2018-2023" Dezan Shira & Associates (2017). Available at: <http://www.vietnam-briefing.com/news/vietnam-fdi-strategy-2018-2023.html/> last accessed on 3 February 2018.
8 "Guide to the EU-Vietnam Free Trade Agreement" Delegation of the European Union to Vietnam (2016) pp. 13-14
9 "Countries and Regions: Vietnam" European Commission. Available at: <http://ec.europa.eu/trade/policy/countries-and-regions/countries/vietnam/> last accessed on 31 January 2018.
10 Thu, T. (2017) "EU Inflows to Ride Out EVFTA Delays" Vietnam Investment Review. Available at: <http://www.vir.com.vn/eu-inflows-to-ride-out-evfta-delays.html> last accessed on 3 February 2018.
11 "European Union, Trade in Goods with Vietnam" European Commission Directorate General for Trade (2018). Available at: <http://ec.europa.eu/trade/policy/countries-and-regions/countries/vietnam/> accessed on 7 August 2018.

The Future of Global Trade

Global trade is now at a crossroads. Barriers and tariffs are becoming more widespread, as the U.S. and China impose billions of dollars in new duties on thousands of items from auto parts to food ingredients.[12] But the last three decades have shown that protectionism is bad for business and bad for consumers. It increases the cost of trade, making goods and services less affordable and damaging jobs and economic growth in the process.

Meanwhile, open markets boost trade and investment across borders. Free trade creates a true 'win-win' situation for both sides, with businesses benefitting from lower costs and consumers benefitting from greater access to goods and services. Therefore, to attract more FDI in the future, Vietnam should continue to embrace free trade, open markets and liberalisation. Europe, with its unwavering commitment to free trade, is a strong partner for Vietnam.

The Government of Vietnam has made strong progress in this regard. From the policies of doi moi in 1986 to the Law on Foreign Investment in 1987 to membership of the World Trade Organisation in 2007, Vietnam has been opening up its markets and reforming its legislation to meet international standards.

Vietnam is now part of 16 bilateral and multilateral Free Trade Agreements with 56 economies around the world. This has led to the Government taking further steps to reform its administrative procedures, improve the legal framework, create a more favourable business climate, restructure State-Owned Enterprises and ensure more transparent administration across Ministries and Departments.

These positive changes are being reflected on the ground, not least in EuroCham's Business Climate Index (BCI), where we have been taking the pulse of European businesses in Vietnam since 2010. The BCI gives up-to-date, on-the-ground insight from our members and their perceptions of the business environment. Through our questionnaire, EuroCham members give us their view of the business situation and outlook in the Vietnamese market each financial quarter. Our most recent BCI shows that European companies remain positive about the business environment in 2018, with sentiment in quarter 1 of 2018 remaining consistent with the previous 3 quarters, and just below the all-time peak of 2016.

So, Vietnam is moving in the right direction. The Government is continuing to reform legislation to improve the trade and investment environment, reduce administrative reforms and cut business conditions. This has increased investor confidence in the market and encouraged FDI as a result.

New Opportunities for Vietnam

Today, a number of new-generation Free Trade Agreements gives Vietnam the chance to go even further. In particular, the EU-Vietnam Free Trade Agreement (EVFTA), set to be ratified in 2019, is one of the most comprehensive and ambitious trade agreements ever concluded between the EU and a developing nation. It is the

12 "What's at Stake in US-China Trade War?" *Financial Times*, 19 July 2018. Available at: <https://ig.ft.com/us-china-tariffs/> last accessed on 25 August 2018.

second such agreement reached between the EU and countries in ASEAN, following a recent agreement with Singapore, which should be ratified soon. In signing the EVFTA, Vietnam will join a select group of countries with privileged, tariff-free access to Europe's 700-million-strong consumer market.

Once ratified and implemented, the EVFTA will trigger a gradual reduction of 99 percent of tariffs across a range of products, eliminate technical barriers to trade and protect Intellectual Property Rights. Vietnam will liberalise 65 percent of the value of EU exports to Vietnam as soon as the agreement enters into force, with the remaining phased out over the next decade. Meanwhile, the EU will eliminate duties for 84 percent of tariff lines for goods imported from Vietnam as soon as the FTA enters into force, rising to 99 percent within 7 years. This will boost trade between Vietnam and Europe even further, and help to attract more FDI from European investors.

In short, the EVFTA will open markets, increase trade and make Vietnam a more attractive investment destination for European companies in South East Asia. Vietnam will become a trade and investment hub in the region, well-placed to attract FDI from companies looking to benefit from the new opportunities the EVFTA will bring.

This will have a significant impact on Vietnam's growth and development in the future. The European Trade Policy and Investment Support Project (MUTRAP) has predicted that, over the implementation period to 2025, Vietnam's economic growth will be around 7 to 8 percent higher than would have been the case without the EVFTA. Vietnam's exports to the EU are set to be 50 percent higher in 2020, with imports also seeing significant growth. Meanwhile, real wages for unskilled workers are estimated to rise around 3 percent, with household income rising even faster, as additional labour provides a boost to earnings.[13]

Therefore, the EVFTA will do more than reduce barriers to trade and accelerate Vietnam's growth and development – essential though this is. It will also help to modernise Vietnam's legal framework, strengthen the trade and investment environment, improve safety and quality standards – particularly for food – and boost exports to European markets. This will benefit not just companies and consumers, but also the welfare, wages and living standards of millions of people in Vietnam.

Unlocking the Benefits of Free Trade

However, in order to unlock the full benefits of the EVFTA, and realise its potential to attract new FDI, Vietnam faces a number of challenges. First among these is the need to accelerate the advances of the last few decades in creating a better trade and investment environment for foreign enterprises. In particular, we are concerned that recent legislation, such as that affecting the automotive and wine & spirits industries, undermines Vietnam's recent progress.

Nevertheless, EuroCham applauds the fact that Vietnamese Government, continue to reform administrative procedures and remove business conditions.[14] For instance, EuroCham welcomes MOIT Decision 3610a/QD-BCT dated 20th September 2017, which will reduce and streamline 675 business conditions – over half of the total – in 2017-18.[15]

EuroCham hopes that Vietnam will continue to streamline its administrative procedures and reform its legislation to provide a predictable, stable and attractive environment for foreign investors. If the Government continues on its current path, it will be able to unlock the benefits of the EVFTA and take advantage of the new FDI that the agreement will bring, to the benefit of business, consumers and civil society.

13 Baker, P. Vanzetti, D. and Huong, P.T.L. "Sustainable Impact Assessment: EU-Vietnam FTA" MUTRAP (2014) pp. 48-49.
14 "Whitebook 2018: Trade and Investment Issues and Recommendations" European Chamber of Commerce in Vietnam (2018) p. 13
15 Decision 3610a/QD-BCT.

ENHANCING THE COMPETITIVENESS OF INVESTMENT CLIMATE IN VIETNAM

RYU HANG HA
CHAIRMAN OF KOREA CHAMBER OF BUSINESS IN VIETNAM (KORCHAM)

The foreign direct investment (FDI) in Vietnam has now marked its 30-year anniversary. Over the past decade, the country has witnessed a rapid acceleration in investment inflows, and its total licensed FDI has currently reached $300 billion. In consequence, Vietnam's economy continues to thrive, fueled by rapid growth and development of foreign investment. If we review the past 30 years of FDI in Vietnam, the data demonstrates that the investment has largely focused on real estate to build manufacturing facilities and infrastructures for export. However, we believe that the future investment policy requires a new course of direction that differs from the previous years. Therefore, based on the successful cases of investment that have been unfolded over the last 30 years, we would like to offer a few proposals that will be effective in achieving efficient development and the welfare of the people in Vietnam for the next 30 years as follows.

First, although it is important to attract new investment, it is also essential to create a corporate environment that promotes existing investors to make further investment. In other words, the traditional labor-intensive businesses such as the footwear and apparel sector have had a significant effect on the creation of employment, and many foreign-invested enterprises continue to make investments due to the appealing benefits the Vietnamese labor force offers. As a result, Vietnam has enjoyed a rapid increase in its level of income caused by their tremendous effect on country's job creation. Furthermore, such job creation effect has led to the introduction of advanced technologies, and the quality of employment has continued to rise. Despite the fact that the footwear and apparel sector is currently going through transition that requires highly skilled and trained workers based on the previous industrial characteristics of relying on simple and repetitive manual labor, the industry remains to play a central role in Vietnam's export-sector development. In this regard, the labor market flexibility must be secured to allow corporates to achieve flexible operation and management, and labor laws need to take a larger role in creating a favorable corporate environment. Rigid requirements as to working hours would undermine the efficiency of both the workers and companies and thus I believe that it would be ideal to create a corporate environment that allows flexibility in the hours of work according to each industry.

Second, a bold investment in infrastructure must be made to attract additional quality investment. In particular, if Vietnam continues to achieve the current rate of annual economic growth, a power shortage is certain to follow, whereas the importance of electricity for the stable operation of manufacturing plants cannot be stressed enough. In addition to the power supply, as the development of factory sites and the availability of moderately priced land also act as decisive factors to the establishment of a desirable corporate environment, it is necessary to maintain competitive prices compared to neighboring countries. With regard to other types of infrastructure investments, the country requires development efforts in relation to various infrastructures such as the roads, ports and harbors, wastewater treatment facilities, and the residential housing for workers. Furthermore, it is recommended that the government should provide support for those who work at factories far away from their hometowns to lead happy and productive lives. Failure to achieve such goals could lead to the occurrence of possible delayed effects throughout the industry, which may ultimately destroy the government's credibility and undermine international confidence.

Third, the indispensable requisite for the MPI to attract quality and robust companies is securing technical professionals. In order to improve the quality of business, the work ability of working-level staffs who perform actual tasks is believed to be a significant factor. However, the major difficulty companies currently face, which also continues to hinder the transfer of technology, is the absolute lack of technical personnel. Technology transfer may not be easy if there is a shortage in the local technicians to learn the new technology. Nurturing these technicians can begin from the school stage. According to a study, the upper group of the top 20 schools are largely composed of institutions that foster talents in fields such as military, police, and politics. However, technical universities and colleges in Vietnam appear unpopular among students. Given these circumstances, Samsung provides intensive trainings to its cooperative partners through a 12-week consultant-training program, which has been devised to enhance their technical and managerial capabilities. Once the participants complete their training, the Vietnamese consultants share the skills and knowledge they obtained with other staff within their workplace. So far, these efforts have produced meaningful results by improving the productivity in certain fields by over 80%. Therefore, it is necessary to attract a large number of scholarship students to ensure the gradual transition of the universities to place emphasis on the field of science and technology, rather than the military and police. The plan to build VKIST with a $35,000,000 grant from Korea's KOICA has been recently established, and we look forward to seeing many competent students apply for technical schools. In particular, we sincerely hope that the Vietnamese government would grant scholarship benefits such as the tuition waivers to capable and talented students.

In addition, by introducing a state-managed technical qualification system, we hope that companies will be able to benefit from quality workforce who have passed unified and standardized qualification examinations according to each professional function and the field of technology. In consequence, companies will be able to reduce unnecessary time and costs by reliably resorting to the employment of these qualified talents. This is because it is essential to mass-produce this standardized technical workforce with professional functions in order for the Vietnamese industry to expand and develop into the automotive industry, heavy industry, and chemical fields.

Fourth, it is difficult to establish an ideal investment environment with tax benefits alone. We hope that the government policies that are favorable in overall scope will be effectively accompanied by tax benefits so that such benefits would form only part of a greater scheme. In particular, we sincerely request that sufficient investment to be made on building IT infrastructures to ensure that transparent and expedited administrative procedures take place. In many cases, administrative procedures can easily be simplified by enabling different departments to share information, and the increased use of IT system will allow such procedures to become further transparent. It is highly time-consuming for foreign workers to submit the same information to each ministry to receive a visa or to revalidate the facts that have already been verified, simply due to the change of circumstance.

Finally, investors highly value the credibility and reliability and place them as their top priority. Frequent changes in the law often lead to confusion and unnecessary administrative duties for the companies, which genuinely seek to comply with the laws and regulations of Vietnam. Therefore, the enactment of clear and specific statutes, which ensure that no controversies arise before they are enforced, is necessary, and it will be further helpful in maintaining confidence if the statutes remain unaltered unless serious issues arise. In particular, since the changes in the taxation system that alter the corporate tax, VAT, and income tax significantly affect the profit and loss and other activities of companies, we hope that the tax policy remains stable to remove uncertainty as to the future changes in the tax.

The incentives that have been recently approved by the MPI are often rejected by the General Department of Taxation, causing substantial damage to investors, and such uncertainties would severely undermine the most treasured credibility of the government in the international community. Investors continue to conduct business with confidence in the MPI and with the expectation that MPI will protect their interests. However, if the incidents that damage their trust further occur, they will negatively affect the future investment. Therefore, we sincerely hope that the promised provisions will be kept in the future at national level.

In conclusion, the last decade of the 30 years of FDI in Vietnam has produced the most remarkable results that had not been witnessed in any other countries before. Samsung has made a vast investment of $20 billion, which enabled about half of its mobile phones to be produced in Vietnam, and other large foreign-invested enterprises continue to increase their investment in Vietnam year by year. In recent years, a large number of companies are leaving China to enter Vietnam due to various conditions such as labor costs and changes in the corporate environment. This trend is expected to continue for a considerable period, and Vietnam will remain to be the largest beneficiary among the neighboring countries.

In particular, the current rapid changes in the world economy may allow Vietnam to further rise as one of the most favored destinations for the investment, and the future investment flows are likely to depend largely on Vietnam's future policies. Therefore, in addition to the tax benefits, we look forward to the prioritized establishment of business-friendly policies that would attract even more foreign investment.

SOJITZ - THE JOURNEY OF ONE OF THE FIRST INVESTORS IN VIETNAM

HIRONORI TATEIRI
GENERAL DIRECTOR SOJITZ VIỆT NAM

Vietnam is an agrarian country with an abundance of natural resources, a population of 93 million, and an industrious and high-quality labor force. Following the fighting in the Vietnam War, much of the country's land was destroyed. Believing in Vietnam's potential, Sojitz have been forging, throughour endeavor to support infrastructural advancements and developments in post-war Vietnam, a long-standing collaborative relationship with the country.

Learn about our journey in 3 decades by taking a look at Sojitz's "New way, New value"in Vietnam.

The Pioneering General Trading Company in Vietnam

In 1986, Nissho Iwai (one of Sojitz's predecessor companies) – the first company associating with Western bloc – was given the permission to set up the liasion office in Vietnam.

In 1987, Nissho Iwai collaborated with the Vietnamese government to establish the Nissho Iwai-Vietnam Joint Committee on Economy and Technology. The committee served as a forum for discussing economic reform in Vietnam and helped jumpstart the development of Nissho Iwai's business in the country.

Making Use of Vietnam's Natural Resources

We responded to the government's request for aid by establishing VIJACHIP, an afforestation and woodchip production company, in 1993.

In 1995, Nissho Iwai established Vietnam's first official compound chemical fertilizer manufacturing company, Japan Vietnam Fertilizer Company.

Loteco Industrial Park was established in 1996 - well before any other a Japanese company had built an industrial park in the country. Loteco created the basic foundation to support manufacturing businesses coming to Vietnam, successfully bringing automotive and garment manufacturing and many others.

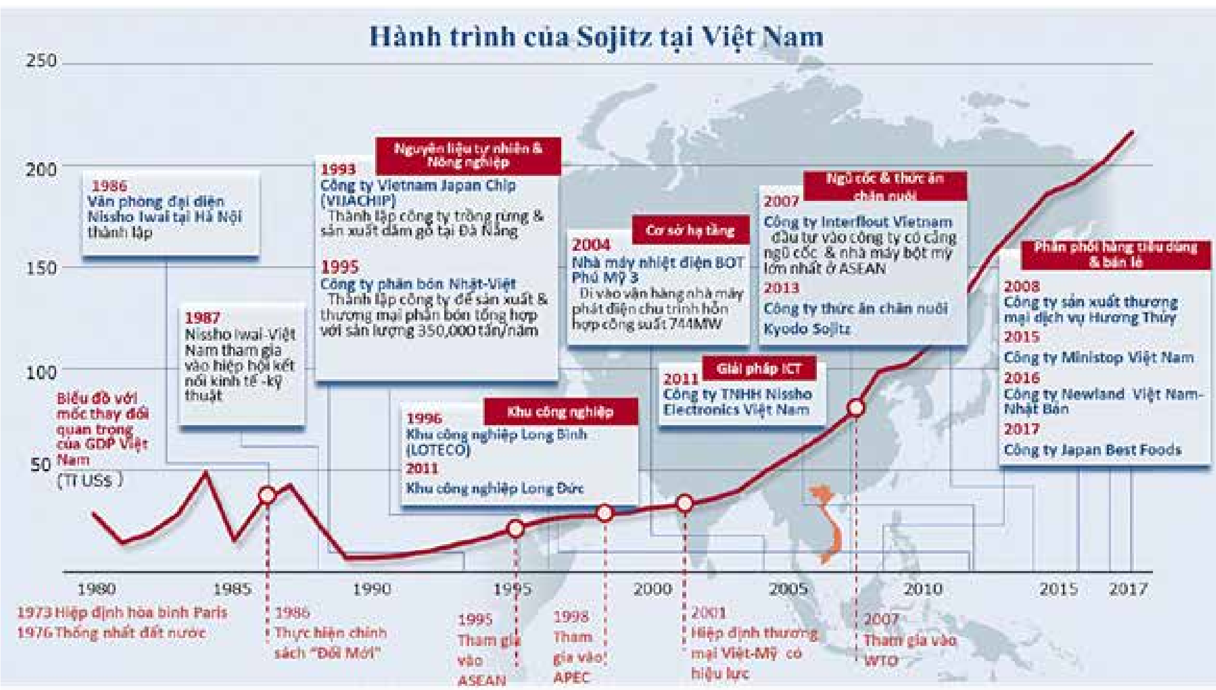
The Asian Financial Crisis

The Asian Financial Crisis broke out in 1997.Vietnam's economy is impacted by the crisis as well, and the country faced financially difficult circumstances.

The first foreign IPP (Independent Power Producer) project was proposed by Sojitz in order to suffice the rising electricity demand with the limited financial burden on the country. Phu My 3 with 744MW output capacity was materialized and began commercial operations in in 2004.

In 2006, Sojitz received a friendship award, which was given to commemorate the 20th anniversary since the opening of the liaison office in Hanoi, the first of such friendship awards to be given to a Japanese company.

Long Duc Industrial Park is a massive industrial area measuring 270ha, established in 2011 utilizing know-how acquired from Loteco and capitalizing on relationships formed with Dong Nai Province.



Targeting the Consumer Market Amidst Globalization

Sojitz reaches the next stage of business development in Vietnam by targeting the consumer market.

Grain and Feed Business

In 2007, Sojitz invested in Interflour Vietnam Ltd. (IFV), one of Vietnam's largest milling companies, in order to meet growing demand for grains amid Vietnam's increasingly Westernized diet. Sojitz also became the first Japanese company to enter the compound feed production and sales business overseas through the establishment of Kyodo Sojitz Feed Company Ltd.

Food Distribution Business in Vietnam

In 2008, Sojitz invested in one of Vietnam's largest food wholesale companies, Huong Thuy Corporation. Newland Vietnam Japan Joint Stock Company was later established in 2016, to provide modern cold chain logistics services.

Constructing a Food Value Chain

Sojitz began opening Ministop convenience stores across Vietnam in 2015. Two years later in 2017, Sojitz established Japan Best Foods Co., Ltd. to supply daily/prepared foods to retailers and restaurants in Vietnam.

Epilogue

Sojitz will continue to develop alongside Vietnam through business projects which promote two types of value: "value for Sojitz" and "value for Society."

The Sojitz slogan is "New way, New value," which means generating new value through new ideas, not bound by convention.

SAMSUNG VIETNAM – THE 10-YEAR JOURNEY FROM AN INVESTMENT DESTINATION TO THE SECOND HOME.

SHIM WON HWAN
PRESIDENT OF SAMSUNG VIETNAM

With Samsung, Vietnam is not only an attractive investment destination, but it has become the corporation's second home. The first 10 years, with miraculous developments have built a solid foundation for Samsung to make innovative moves in the future, from which re-affirm their commitment about long-term investment and prosperous development alongside Vietnam.

Samsung's grand investment plan in Vietnam

In 2008, Samsung officially received the investment permit and started their construction of the Samsung Electronics Vietnam (SEV) factory in Bac Ninh. This is the first project of the grand investment plan in the mobile phone fields of Samsung in Vietnam, which holds an essential role of being the pioneer in Samsung's investment expansion in the journey to turn Vietnam into the corporation's global manufacturing hub.

After 10 years, with the starting investment of 670 million USD for the SEV factory, Samsung is currently the top foreign investor in Vietnam with the total investment of 17.3 billion USD, 26 times more than the original 2008 investment. Until now, Samsung's presence in Vietnam is translated into 6 factories and 1 R&D center, in which SEV (Bac Ninh) and SEVT (Thai Nguyen) are the 2 largest Samsung mobile manufacturing factories in the world; SEHC (Ho Chi Minh city) is the largest electronic appliances factory in the South East Asia region, and SVMC is Samsung's largest R&D center in the South East Asia region. Vietnam plays an important role in Samsung's development strategy, in both production and R&D activities.

Staying true to the commitment of prosperous development alongside Vietnam ever since the first date that Samsung laid the foundation here, the past 10 years were the solid proof of the simultaneous growth of both Samsung and Vietnam. 2017 was a meaningful year for both Vietnam's economy and Samsung Vietnam. Vietnam's export turnover, for the first time in history, has reached over 214 billion USD, and Samsung

Vietnam's export turnover has reached the 54 billion USD milestone, contributed 25% in the total export turnover of Vietnam. This is miraculously 150 times more than the total export value (350mil USD) of Samsung Vietnam in 2009, when SEV first started production.

By June of 2018, Samsung have produced 1 billion hi-tech mobile products in Vietnam. In particular, among these 1,057,433,000 products, the SEV factory produced over 625 million products, whereas the SEVT factory produced over 431 million products. These 1 billion hi-tech mobile products include smartphones, tablets, smartwatches and feature phones.

At Samsung, people come first.

Along with the major contributions for the economy, Samsung Vietnam have created stable jobs for 160,000 laborers, with the stable income and outstanding welfare. In 2008, when SEV was established, there were only 200 people, and in 2009, it was 2,000. As investment and exports increase, employment in Samsung Vietnam has also increased at an alarming rate.

At Samsung, the people come first. That philosophy has always been expressed throughout every aspects of the employees' life. To suffice the "distant work – home bound" demand of the employees, Samsung Vietnam have had nearly 1,000 shuttle buses responsible for daily pickup/drop-off with nearly 20 routes. With the boarding employees, Samsung Vietnam have built several employee dorms, providing around 30,000 fully-equipped accommodations, which is quite hard to find in any other enterprises. The dormitory is not only a place for the employees to rest after work, but also suffice their other needs, which includes many amenities such as cinema, gym, canteen, supermarket, library, hair salon or makeup room…

Maintaining the health and welfare for the employees is also a primary focus at Samsung Vietnam. At each factory, there is a province-standard health clinic to care for the employees. Furthermore, Samsung Vietnam have also built the Examine and Health Enhancing Center, conducting regular examinations and consultations for all of the employees, with the cooperation of numerous top doctors and hospitals in Vietnam.

By connecting with universities and colleges in Bac Ninh and Thai Nguyen, Samsung's employees have the chance to participate in the in-service education courses. Upon graduation, these employees will receive the Ministry of Education's standard degrees. Samsung also organize many skill-enhancing, languages and soft skills training courses that serve the employee's work and livelihood.

With 70% of the employees being female, Samsung Vietnam have always focus on taking care for our female employees, especially the pregnant ones and the young mothers. Currently, there are around 20,000 maternal employees at the SEV factory. All of these employees are receiving special treatment. Apart from the 6-month regulated maternal leave, our registered maternal employees can receive 50% of their salary to stay home and nurture the baby. Besides the daily free meals and 2 special meals/week for maternal women, Samsung even built the modern Mommy rooms, a place for our female employees to extract milk, use their supper, read books and relax together. The company also have a Obstetrics and Gynecology clinic, a place our female employee can go to have sonar check, maternal examinations and receive consultants from the doctors specializing in Obstetrics and Pediatrics.

Committing to a simultaneously prosperous and community-oriented development in Vietnam

With Samsung, Vietnam is the second home, therefore, we take great care of our home by committing to the simultaneously prosperous development ever since the first days in Vietnam.

Accompany the Vietnamese government to develop the support industry is one of the most notable action to prove this commitment. Currently, the level 1 Vietnamese suppliers of Samsung have increased significantly, from 4 at 2014 to 35 currently. We expect to reach 50 by 2020. To actualize this goal, Samsung had and are continuously execute different activities including: the annual "Support Industry" expo with the support from the Ministry of Industry and Trade, a place to search and connect the domestics enterprises into Samsung's global supply chain; organize the "Productivity and Product Quality Enhancing" consulting

programs, instructed by Korean experts ever since from 2015; collaborate with the Ministry of Industry and Trade to train 200 Vietnamese support industry consultants to become the essential personnel in the consultant/education field, in order to help the program to expand, with more Vietnamese enterprises to enhance their own productivity and competitive capabilities, from which contribute to the general development of Vietnam's support industry.

In order to help Vietnam to develop a high-quality human resource, serving the sustainable development of the nation, Samsung also organize many talent nurturing and training programs, including the "Excellent IT Student" sponsorship program, sponsor Vietnamese candidates to participate in the "World Vocation Competition", building the Hope School to create an ideal study and develop environment for children, especially the financial-struggled children; and also renovate and present the "Smart Library" on a national scale.

In our 10 years of operation in Vietnam, Samsung have always focus on social responsibility activities, in order to establish and develop a better livelihood for the community. The notable activities are: Voluntarily blood donation "Chung Dong Mau Viet", Buffalo Bank, Support for the flood victims or Wheelchair Gifting program….

A MESSAGE ON A 10-YEAR JOURNEY OF INTEL PRODUCTS VIETNAM (IPV) TO CREATE A FUTURE FOR INTEL AND VIETNAM

LEE SOO HOOI
GENERAL MANAGER OF INTEL PRODUCTS VIETNAM (IPV)

2018 marks an important milestone in the history of Intel Corporation when 50 years ago (1968-2018) Robert Noyce and Gordon Moore founded Intel with its headquarters based in Santa Clara, California. In the past five years, Intel has been on a path of transformation from a PC company to a data centric company. The 2017 revenue of Intel was US$62.76 billion, maintaining a positive growth for 26 years. Intel currently has 107,000 employees working at 170 offices and facilities across 70 countries. Intel was ranked by Fortune magazine as the most favorite semiconductor company, America's largest green energy user, and 10 years in a row Intel was ranked in top 10 brand names.

Intel established its presence in Vietnam with a representative office back in 1997. In 2006, an important decision was made by Intel when it announced Vietnam as the next destination for building an ATM factory, considered the largest facility of this kind of Intel at that time. After the construction was completed in 2010, the factory was put into operation and started the packaging of chips which were delivered to customers around the globe. By early 2018, Intel Vietnam has manufactured and hit the 1 billion product milestone with the pride of all of them made in Vietnam.

10 years have passed and IPV ATM factory has made significant accomplishments. There are five impactful layers, both direct and indirect, which Intel has casted in Vietnam, according to an independent research report conducted by Fulbright University Vietnam:

First, direct impacts are significant with over US$16 billion of export revenues, over 2,000 jobs (mainly high skilled) and approximately VND 1 trillion of government's revenue by the end of 2017. These impacts will be even larger if the added values, job and revenue contributed by Intel's direct suppliers are included.

The second impact is the promising initial formation of a high-tech cluster, a development that was not there more than 10 years ago when Intel came to

Vietnam. The cluster fundamentals have gradually taken shape, especially at the core where high-tech giants like Intel, Canon, Microsoft, and Samsung … play the key roles. This implies an increasingly clear opportunity for a true high-tech cluster in Vietnam. As the pioneer in laying the foundation for the high-tech cluster, Intel has carried out substantive activities to coherently integrate the components of the cluster. Examples include the HEEAP program and the development of local partners and suppliers, making the activities further rooted in the Vietnamese economy.

Third, being a key player in technology, Intel's investment helps with foreign investor confidence in Vietnam, as evidenced by released FDI data. Intel has in a way become a quality certificate for Vietnam's business environment that can accommodate the most demanding investors.

Fourth, Intel's presence has had an impact on the regulatory landscape and institutional reforms that promotes a better overall business environment. Vivid examples include the implementation of the e-customs and the promulgation of the law on high-tech. In addition, the Vietnamese partners have learnt substantially from Intel to improve their capability, notably their negotiation skills.

Fifth, Intel also brought to Vietnam good practices in management and corporate social responsibility (CSR) culture. Regarding CSR, several programs were launched with visible impacts. One example is that IPV employees have dedicated 170,000 volunteer hours to designed programs to build a more happy and advanced society.

Finally, Intel is very proud to grow together with Vietnam and to be one of the largest American investments in Vietnam to date. Intel has also witnessed many important changes made by Vietnam in legal reforms and improving the business climate. It has resulted in the increasing number of FDI projects committed by investors from around the world while the government is committed to improving regulatory frameworks to enable positive economic growth, create a level-playing field and a balanced and transparent business environment for all in the country. We believe these are important areas for building trust and investment confidence and for a bright future of Vietnam.

On behalf of Intel Products Vietnam, we would like to extend warmest greetings and best wishes to Vietnam for its incredible work in a journey of 30 years of FDI attraction. It is our hope that Vietnam will record even more accomplishments to realize economic development goals in a highly digitalized world and rapid international integration.

Intel Products Vietnam

Total factory space 46,000m^2.

Employees: Over 2,000.

Manufactured 1 Billion units by Q1' 2018.

Started production with latest technology of 10,000 particles per cubic meter.

Packaging latest products for Intel Corp.

Employees donate 170,000 hours of community service.