

PATTERNS AND SOLUTIONS FOR FDI CAPITAL INVESTMENT IN HANOI: PRINCIPAL THEORY OF PRACTICE

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Abstract. FDI attraction in Hanoi has achieved some results but has not created a breakthrough factor for the economy in the long run. Specially, Hanoi has potentials and advantages in compared with many other localities but has not attracted large FDI projects using high technology. Thus, effective FDI is still limited, no attraction, spreading to the whole economy of the city. The questions of what to do and how to attract FDI capital are raised in order to achieve better results, and higher efficiency to create a big change for the city. This article provides an assessment of the situation and suggests ideas that contribute to the clarification of such issues.

Keywords: FDI capital, efficiency, ASEAN economic community, competition, strategic investors.

1. Introduction

Although Hanoi has made much progress than many localities in the country, it has shown many inadequacies. Accordingly, the contribution to the national GDP is about 10%, the contribution to state budget revenue of the new country is barely 18%. It is not worthy of one of the big economic ships Ho Chi Minh City and Hanoi (while Ho Chi Minh City contributes about 26-27% of GDP and national budget revenues). There could be many causes of this situation, but the attraction of FDI has not been successful and not effective. It is supposed that discussing the development of Hanoi must have new ideas and strategies. Facing this situation, the article would like to present some ideas on FDI attraction in Hanoi to increase its role as a leading country in the Vietnamese economy and increase the GRDP per capital city.

2. Content

2.1. FDI attraction in Hanoi

Attracting FDI capital of the whole country in general and in Hanoi in particular is still inadequate and needs to discuss. State management offices and heads of state offices

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in Hanoi and Vietnam are responsible for this. For a systematic analysis of the author of the paper, some of the important points are described below:

2.1.1. FDI attraction in Vietnam

The United States considers to be the world's leading technology, however, its rank in terms of registered FDI in Vietnam is only seventh. Korea, Japan are the leading countries that hold the source technology always in the first and second place in investing FDI in Vietnam. FDI capital from ASEAN countries accounted for 26% of total FDI into Vietnam. The fact that ASEAN countries usually have only medium or advanced technology; so with such rate the technology of FDI projects in Vietnam seems to be not high [9]. Although there are no official surveys, according to some economic experts, only about 20% of foreign invested enterprises has got advanced technology whereas the remains have medium and low technology. Nevertheless, FDI enterprises have created about 70% of the value of Vietnam's exports. This proves that FDI enterprises are still able to compete internationally. One of the most worrying things is how FDI enterprises may damage the economy of Vietnam through transfer pricing and by environmental pollution without any agency to analyze and evaluate.

Table 1. FDI attraction from countries entering Vietnam
Accumulated until December 31, 2017 (valid project)

Country and territory	Number of projects		Registered capital up to 2017	
	Project	% of Total	Tr USD	% of Total
In the whole country	24803	100	234.121	100
1. Korea	6549	26,4	57861	24,7
2. Japan	3607	14,5	49307	21,1
3. Singapore	1973	8,0	42540	18,2
4. Taiwan	2534	10,2	30867	13,2
5. Hong Kong	1284	5,2	17934	7,7
6. People's Republic of China	1817	7,3	12023	5,1
7. United States	861	3,5	9894	4,2
8. Thailand	489	2,0	9289	3,9
9. England	318	1,3	3465	1,9
10. Cay-men Island	293	1,2	1759	0,8

Source: Statistical Yearbook 2013, GSO

Since 1988, when Vietnam started attracting FDI, Vietnam attracted an average of US \$12.6 billion registered capital per year, but its capital was only US \$5.7 billion per year. Compared with the amount of the remittances Vietnam received annually from Vietnamese living abroad, the figure was US \$5.7 billion a year. Thus, the effective use of remittances was an extremely important issue for Vietnam.

By 2017, the Asean region had 3400 FDI projects in force with a total registered capital of \$53.87 billion. On average of US \$19.5 million/ project. Singapore led with 1,973 projects with total investment capital of US \$42.5 billion, accounting for 78,9% of total registered capital. Malaysia ranked the second with 572 projects with total investment capital of US \$12.2 billion, accounting for 23,8% of total investment. Thailand ranked the third with 488 projects with a total registered capital of US \$9.3 billion, accounting for 17,2% of total FDI inflows into Vietnam.

FDI capital in ASEAN is concentrated mostly in the field of real estate business (accounting for 30% of registered capital), followed by manufacturing (24,2% of registered capital), services, food, accommodation (12,8%) and telecommunications services (11,4%). Other fields account for only 1% of the total registered capital.

Table 2. Top FDI capital attracted in 10 localities

	Number of projects in force until 2017		Registered capital until 2017	
	Total number of projects	Average per capita of project, Tr. USD	Billion USD	% of the country
1. Ho Chi Minh	7333	6,0	43879	13,7
2. Binh Duong	3305	9,2	30339	9,5
3. Hanoi	4500	6,1	27638	6,6
4. Dong Nai	1472	18,5	27349	8,5
5. Ba Ria - Vung Tau	363	73,9	26838	8,4
6. Hai Phong	606	25,11	15209	4,7
7. Thanh Hoa	102	135,4	13819	4,3
8. Ha Tinh	62	187,3	11613	3,6
9. Quang Nam	84	59,6	5816	1,8
10. Phu Yen	57	140,9	4969	1,6

Source: Statistical Yearbook 2017, GSO

FDI in Vietnam from ASEAN countries accounted for approximately 22% of total capital from all countries in the world (Singapore alone accounted for 12,7%). FDI from Northeast Asia accounts for 48%; followed by European countries accounted for about 22,2% and from the United States and Canada accounted for about 6,6%. Projects coming from ASEAN countries are mainly producing consumer goods and focus on trade and services.

2.1.2. FDI attraction in Hanoi

Hanoi ranked third of the top 10 FDI attracting countries. The average capital of each project is about \$ 6 million and an average of \$ 7-8 million per hectare (while in Ho Chi Minh City, an average of \$ 6 million per project and an average of about 12-13 USD / 1 ha). In case of Hanoi in particular and the Red River Delta in general, the land is narrow. Thus, the land saving and efficient use of land are strategic issues.

Table 3. Foreign direct investment (FDI) is valid Accumulated until 2017 of Hanoi

Country and territory	Number of projects		Registered capital		Accumulated capital	
	<i>Project</i>	<i>% of total</i>	<i>Project</i>	<i>% of total</i>	<i>Million dollars</i>	<i>% of total</i>
Whole city	4250	100	27640	100	19046	100
Inside:						
- Agriculture and fisheries	20	0,5	113	0,4	62	0,3
- Mining	3	0,07	27	0,1	21	0,1
- Manufacturing and processing industry	771	18,1	7729	27,9	5425	28,4
- Build	644	15,1	2080	7,5	1433	7,5
- Retail trade, car repair	755	17,8	1311	4,7	896	4,7
- Transportation, warehousing	116	2,7	376	1,4	267	1,4
- Catering services	208	4,9	1662	6,0	1154	6,1
- Information Communication	463	10,9	2010	7,3	1398	7,3
- Trading real estate	115	2,7	8302	30,0	5624	29,5
- Activities of science and technology	773	18,2	1002	3,6	897	4,7
- Education and training activities	136	3,2	310	1,1	214	1,1
- Activities of art, entertainment,	27	0,6	411	1,5	261	1,4

Source: Statistical Yearbook 2017, GSO

According to statistics from Hanoi, in the period 1988-2017, on average, Hanoi attracted about USD 635 million implemented capital (69% of registered capital). Of the total FDI capital attracted, the processing, manufacturing and real estate industries accounted for 58%.

Table 4. FDI capital attraction in Hanoi by country and territory (accumulated until 31/12/2017)

Country territory	Number of projects		Registered capital	
	<i>Project</i>	<i>%</i>	<i>M. USD</i>	<i>%</i>
Total	4250	100	27640	100
Singapore	320	7,5	5618	20,3

Japan	959	22,5	5385	19,5
South Korea	1440	33,9	5340	19,3
Malaysia	103	2,4	2031	7,3
Hong Kong	141	3,3	1129	4,1
Taiwan	147	3,4	435	1,6
Thailand	70	1,6	363	1,3
China	351	8,3	409	1,5
America	121	2,8	293	1,1
Indonesia	9	0,2	134	0,5

Source: Statistical Yearbook 2017, GSO

By 2017, For example, if visitors came to Hanoi were about 13 million, of which, about 3 million were international visitors, they stayed about 4 days and if each of them spent about 1200 USD, Hanoi also exported on-site approximately \$3.5 billion (equal to about 5.3 times the FDI capital per year), indicating an important aspect for Hanoi to pay attention to both attracting FDI and increasing local exports.

2.2. A brief look at the impact of the ASEAN economic community on Hanoi's FDI attraction orientation

2.2.1. There are quite large markets and the economy is growing rapidly

ASEAN had a population of about 644 million in 2017 and will have about 700 million people by 2025, about 775 million people by 2050. This is a big market. If the GDP per capita is estimated at \$10,000 by 2050 and the expenditure is about 60%, the total purchasing power of people has reached nearly \$5 trillion a year. If Vietnam takes 10% of this category, it equals about \$500 billion a year (it is about 2.5 times of Vietnam's current GDP; and if GDP growth rate in Vietnam is about 6% per year, it equals to 48% of Vietnam's GDP by 2050).

In 1987, ASEAN countries signed the Agreement on Investment Promotion and Protection (IGA). In 1998, the ASEAN countries also signed a Framework Agreement on ASEAN Investment Area (AIA) to enhance FDI in these countries. By 2012, ASEAN countries signed the ASEAN Comprehensive Investment Agreement (ACIA) [2]. By December 31, 2015 the ASEAN countries became the ASEAN Economic Community. Thus, within 30 years, the trend towards liberalization of investment and economy in ASEAN region became reality. That's quite fast pace. Thus, country prepared well for the economic game would gain more benefits and minimize losses in economic exchanges.

Vietnam, along with other ASEAN countries, built the Common Economic Community. Hence, it needed to take into account the possibility of cooperation and competitive pressure. If the population drop in Vietnam is 1.23 times faster than that of ASEAN and Vietnam's GDP is 1.33 times faster than that of ASEAN, by 2050 Vietnam will account for about 15% in term of the population and 12,6% in term of GDP. By

2050, Vietnam's GDP per person will be about 12,300 USD (equal to 82% of ASEAN average, equivalent to 12,300/14970 USD).

Table 5. Forecast of population and GDP of ASEAN and Vietnam by 2050

Year	VIET NAM		ASEAN		Comparing Vietnam with ASEAN, %	
	<i>Population, Million people growth 0.8%/year</i>	<i>GDP growth 6% / year; Billion USD</i>	<i>Population, Million people growth 0.65%/ year</i>	<i>GDP growth 4,5%/ year; Billion USD</i>	<i>Population</i>	<i>GDP</i>
2017	93,7	205,3	644	2555	14,5	8,0
2025	98,6	343	676	3868	14,5	8,9
2040	110,5	821	734	7485	15,1	10,9
2050	119,6	1470	760	11600	15,7	12,6

Source: Author (The author has consulted Vietnam Report 2035 and Vietnam Socio-Economic Development Strategy for 2011-2020)

2.2.2. Competition among countries will be fiercer

Differences in FDI legislation and development will also be a factor in the fierce competition among ASEAN countries in order to attract FDI. At the same time, China and India are also big competitors of ASEAN countries in attracting FDI, including Vietnam. The most developed countries in ASEAN will, of course, shift labor-intensive production to less developed countries, including Vietnam. In the early period, the scale of investment projects was conservative and most of the investment projects focused on industries, serving domestic consumption, commerce, hotels and tourism to exploit Vietnamese market and cheap labor. This situation will last for a number of years. It is important that localities in Vietnam jointly prepare conditions to attract high-tech manufacturing to form their key products.

Table 6. Compile competitive pressures between Vietnam and ASEAN countries

State	Competitive group attracting FDI	Competitive group consuming agricultural products	Competitive group consuming industrial products, services, tourism
2016- 2020	Thailand, Indonesia, Philippines	Thailand, Malaysia, Cambodia	Thailand, Singapore, Malaysia
After 2021	Thailand, Indonesia, Phillipine, Mianma, Laos, Cambodia	Thailand, Malaysia, Cambodia, Myanmar	Thailand, Singapore, Malaysia, Indonesia, Cambodia

Source: Author

The big difficulty of Vietnam is the high cost of production. The administrative procedures have not satisfied the requirements of transparency and publicity enough, although the Government has shown determination to solve problems to attract investors Strategic but limited FDI attraction. Indonesia, Thailand, the Philippines, India and China are still major competitors in attracting FDI.

Table 7. Domestic cost of importers and exporters of some countries (USD/container)

Country	Export Costs	Import Costs
China	500	545
Malaysia	450	435
Hong Kong	575	565
Thailand	625	750
Indonesia	644	660
Vietnam	580	670
South Korea	680	695
India	1095	1150

Source: The World Bank (2011), Working for a free world

2.3. Orientations to attract FDI to Hanoi in the coming years

2.3.1. Strengths and difficulties of Hanoi in attracting FDI investors

Labor force is abundant and labor price is still relatively cheap. In 2017, the population of Hanoi was about 7.66 million. If the population increases at the current level, there will be about 12 million people in 2050 in Hanoi. Hanoi will have a large market, if the purchasing power of the population is about 6,000 USD, in 2050 the total amount of money that people in the North spend would be about \$340 billion on shopping, eating, studying and medical care. Hanoi takes 10% of this market share, it will cost about \$34 billion (more than twice of the city's current GRDP).

Hanoi has a favorable geographical location, where many national and international universities and institutes of scientific research are located. It is easy to go to the seaport and to the international airport, it is also convenient to domestic and international destinations. It can be said that Hanoi has the potential advantages and comparative advantage over the Northern provinces, many central provinces as well as throughout the country. The area used for agriculture in Hanoi is about 157 thousand ha. Under the development plan up to 2030 and vision to 2050, the city can transfer about two thirds of agricultural land to non-agricultural purposes (55-60 thousand hectares for urban construction. The land's fund of the city will have capital from land to about 10-15 trillion VND). Urban population of Hanoi will be about 6.5-7 million people, which promises to attract about 15-16 million tourists each year (especially for international tourists 5-6 million people. clean, organic, high quality for urban people and tourists is very great. Tourism can contribute to the city's GRDP about 13-15%. Hanoi has been a commercial center in the North of Vietnam. In the North, the population will be 55-57 million by 2050. If Hanoi is providing consumer goods, it has a total retail value of about 65 trillion VND. However, agricultural production of Hanoi has not developed as

its potential, and tourism has not exploited the potential and advantages of the city. In the case of Samsung of Thai Nguyen province, about \$16 billion of exports, the total export value of Hanoi is only about \$12 billion. The advantages of comparative advantage are still limited, the promotion of comparative advantage has not brought efficiency correspondance to the potential and advantages of the city.

Laws are still inadequate, and cities do not have enough specific policies to attract foreign investors. Land prices, rising wages and attractiveness to foreign direct investors might be reduced.

2.3.2. Orientation to attract FDI into Hanoi

Hanoi is still in the top 3 provinces attracting the most FDI in the country. The most important thing is that how to attract FDI, how high-tech projects, using less land and less electricity will be applied to bring more efficiency to the leading economy of Hanoi?

Table 8. Projection of FDI in Vietnam in 2016-2020

Unit: Million USD

Year	Total registered capital will attract *
2015	21497
2016	21714
2017	21931
2018	22148
2019	22365
2020	22582

Source: Project KX.01.03/11-15 "Study on adjustment of foreign direct investment policy in Vietnam until 2020"

During 5 years from 2018 to 2020, if the city Hanoi attracted about 11-12% of FDI capital to be able to enter Vietnam (currently 9.6%), the capital could attract about 10-13 billion USD (average \$2.5-2.6 billion per year). The structure of FDI attraction in Hanoi will have to be renovated. In order to strengthen the potential, and comparative advantages of the city in the coming years, the FDI capital attracted to the manufacturing and hi-tech processing industries must account for about 30%, the high tech agriculture accounts for about 7% - 8%, transport facilities and waste treatment is about 15-20%, and construction of new urban areas, real estate, recreation areas account for about 35%. In Hanoi, there should be international amusement parks (like Disneyland in Hong Kong, Minor world in Shenzhen, China, or Santosa in Singapore).

The attraction of FDI to Hanoi should be given priority: i). To develop the Center for Art Performance and advanced Entertainment; ii). Construction of the royal culture center: a place reflecting feudal dynasties in Vietnam with typical royal culture; iii). Continue to build high-tech and innovative parks to provide innovative and scientific technology for the North as well as for the whole country; iiiii). Establishing an international tourism resort chain, linking high-end hotels with high-end entertainment resorts in Ba Vi - Son Tay.

Hanoi could be considered as a land of gold, so far, no big investors, keeping technology leading, has great financial potential and market. Thus, the coming years should attract investment capital from strategic investors from the world's leading developed countries.

Table 9. Estimated investment partners mainly in Hanoi

Investment partners by country	Priority areas calling for investment
1. Japan	<ul style="list-style-type: none"> - Automation equipment, mechatronics for hi-tech fields; supporting industry, medical equipment production - Innovative industry and new material technology - Precision manufacturing technology - The subway
2. America	<ul style="list-style-type: none"> - Information technology, renewable energy, aircraft - New materials technology - Disneyland - regional and international
3. Korea	<ul style="list-style-type: none"> - Technology of mechatronic production - Supporting industries - Hotel, entertainment area
4. EU (especially Germany, France)	<ul style="list-style-type: none"> - Electronic equipment, automobile manufacture, refrigeration equipment, medical equipment, aircraft - New materials technology - The subway - Global Hotel Chain

Source: Author

3. Conclusions

a). FDI attraction still has strategic significance for Hanoi, but it is necessary to renovate the direction and ways to attract FDI capital to bring the potential, strengths and comparative advantages of the city.

b). In order to attract big FDI projects using high technologies and large markets, and hold important positions in a number of global value chains, the Hanoi People's Government will continue to raise the goodwill to develop. Specifically, the Hanoi Government has made a strong commitment that would bring more profits to FDI investors. The Hanoi Government should publicly announce a list of projects that will attract FDI in line with specific roadmaps. The Hanoi Government should also develop a high-quality human resource training program for FDI investors after they are licensed.

c). The Hanoi Government should promote trade and investment effectively. Every year, the trade promotion and investment promotion as well as every 6 months enterprises should be met to remove difficulties for them.

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