

Factors Affecting the Attraction of Foreign Direct Investment in Hanoi - Vietnam

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Abstract

For developing countries, attracting foreign direct investment (FDI) plays an extremely important role, contributing to improving production capacity, developing markets, promoting growth, and forming a dynamic economy. This research article aims to clarify the factors affecting the attraction of foreign direct investment (FDI) in Hanoi city (Vietnam), in the context of the 4.0 industrial revolution. This is the basis to suggest useful solutions for Hanoi to promote FDI attraction in the coming years.

Keywords: Foreign Direct Investment, FDI, growth, Capital investment

1. Introduction

Foreign direct investment (FDI) is an important capital source of the economy, not only a driving force contributing to economic growth, development, and international economic integration, but also contributing to creating create jobs, increase capital, technology, management capacity, and business ability. This has had a positive impact on infrastructure development and technology transfer, especially in the manufacturing sector.

With the competitive advantage of an open investment environment, stable politics, sustainable socio-economic development, abundant and high-quality human resources, Hanoi Capital – Vietnam - is always one of the attractive localities for foreign investors. Thanks to those advantages, foreign direct investment flows into Hanoi in recent years have tended to increase, especially after Vietnam signed and implemented bilateral and multilateral free trade agreements (FTAs). However, the reality is that attracting FDI capital in Hanoi is still limited and does not meet development requirements.

By 2030, Hanoi will attract foreign investment capital in depth associated with sustainable development goals; Prioritize quality projects, products with added value and high competitiveness focusing on the fields of: urban infrastructure development, smart city

construction; Supporting industries use modern, environmentally friendly technology; information technology field projects; Research and Development; tourism, financial services, banking; human resource training; high-tech agriculture, safe clean food... At the same time, the city approaches to receive investment from companies and corporations in the high-tech field, enhances innovation and receives knowledge transfer from other countries. FDI enterprises, improving management capacity and efficiency in the field of processing and manufacturing technology in the city.

Thus, identifying factors affecting Hanoi's FDI attraction is necessary so that Hanoi can achieve these goals.

2. Research Overview

Research on factors affecting FDI attraction has always attracted the attention of many scientists in all periods. Because each stage of development is different, and it will lead to change the influencing factors.

Hanh et al (2017) researched and analyzed statistical data from 1988 to 2016 on capital sources, number of projects, investment fields, and countries investing in Vietnam; The study also includes three main factors affecting the quality of FDI attraction in Vietnam, namely resources, infrastructure, and other supporting policies. In this study, the supportive policy factor is said to have the greatest impact (Hanh et al., 2017).

Thuy Nguyen (2016) commented that foreign investment companies have demonstrated more international competitiveness and become a growth engine for Vietnam. However, while FDI inflows are meeting some expectations, Vietnam's development capabilities still have much potential for improvement. In the new global context, Vietnam should reform its FDI policy to attract more FDI in both quality and quantity (Thuy Nguyen, 2016).

Nguyen Duc Nhuan (2017) conducted empirical research to identify and quantify factors affecting foreign direct investment attraction: Case studies in localities in the Red River Delta. The results show that there are 8 basic factors that greatly impact investment decisions in these localities as follows: (1) Infrastructure; (2) Human resources; (3) Quality of public services; (4) Investment industry advantages; (5) Local brands; (6) Investment policy; (7) Living and working environment; (8) Competitive input costs. Among these 8 factors, investment policy and human resources are the two factors that have the most impact on investors. Similarly, research in the field of agriculture in Hanoi, research results by Nguyen Thi Mai Huong, Kieu Thi Mai (2021) show that there are 5 factors: Infrastructure, services; Natural condition; Economic environment; The social environment; Institutions and policies all have an impact on attracting FDI capital into agriculture in Hanoi (Thuy Nguyen, 2016; Nguyen, 2021).

Some other studies emphasize project quality factors, state management effectiveness in attracting FDI capital (Nguyen Nguyen Dung, 2020); factors of foreign economic relations and international economic integration (Minh Khang, 2020); factors of high quality human resources (Ngo Thang Loi and Bui Huy Cuong, 2022).

3. Research Results

With the characteristics of the 4.0 industrial revolution, the article focuses on the main factors affecting Hanoi's FDI attraction, which are:

3.1 Service Infrastructure

This is the factor that has the greatest influence on the investment decisions of foreign investors in Hanoi. The advantages of infrastructure will help investors reduce investment costs, increase benefits, and facilitate the establishment of factories, production, and business facilities. This factor is strongly influential in decisions and plays more important than other factors. This also implies that foreign investors prioritize investing in production and business development in places where they have satisfied infrastructure conditions over places with poorer infrastructure. They place particular emphasis on the existence of well-developed infrastructure such as the availability and quality of electricity, water, irrigation, and road services, traffic, bridges, ports, and communication technology.

Hanoi is currently developing according to the urban cluster trend. Hanoi's role as a central urban area is determined by its important economic geographical location, where it has a convenient transportation system for its own socio-economic development, and promoting development of other urban areas in the region. The city has mobilized many resources to invest in key projects and transportation infrastructure projects. Urban infrastructure projects are invested synchronously and modernly, strongly promoting their key role to ensure that Hanoi maintains its position as a center of politics, economics, science and technology, and culture education.

Currently, roads are one of the strengths of Hanoi City; The formed expressways contribute to connecting traffic, serving the transport of goods and passengers, as well as promoting socio-economic development for 4 important economic corridors in the Northern region, of which Hanoi is located central development. Hanoi City's industrial parks are all linked to the transportation system and network according to the capital's planning. Hanoi also has special strengths with Noi Bai international airport, connecting with countries in the region as well as around the world; have electricity, telecommunications, and information infrastructure systems to attract foreign investors, especially in the fields of urban development, production, science, and technology...

Today, Hanoi is an important traffic hub of the Capital Region, the whole country and is gradually reaching out to the region. With traffic leverage, Hanoi has become one of the localities attracting the most investment in the country, with a comprehensively developed economy including industry - agriculture, services, tourism... with a profound influence spread to all parts of the country. Hanoi contributes nearly 13% of the country's GDP; contributing 43% of GRDP, 43.8% of budget revenue of the Red River Delta and is in the top 10 most attractive destinations for cross-border investment in 2022 (Politburo, 2019).

3.2 About the Economic Environment

Hanoi's economic environment is an important factor among the factors affecting the

investment decisions of foreign investors in the City. Currently, the Capital's economy holds the leading position and is the driving force for the development of the Northern key economic region, playing an increasingly important role in the economy of the whole country. Overcoming the period of decline due to the impact of the Covid 19 pandemic, Hanoi is the leading locality in the Vietnam in attracting FDI with strong "flows" of investment capital from many countries around the world, and in many investment segments: manufacturing, trade, smart city urban area projects, high-tech development projects... Hanoi continues to strongly improve the investment environment, actively integrating internationally through a series of measures, such as completing planning, institutional reform, promoting digital transformation in many fields, information transparency and many other attractive policies.

As a result of promoting the economic environment factor, Hanoi has achieved many successes in economic development and attracting FDI in the development of many important fields. Gross regional product (GRDP) in the period 2011-2022 (according to the adjusted GRDP scale) GRDP increases by an average of 6.67%/year. The average income per capita in 2022 is about 6,100 USD, which is the locality with the highest average income for salaried workers in the country (City Statistics Department. Hanoi, 2022).

In 2022, total export and import turnover will be more than 58 billion USD (1.93 times higher than in 2008), of which FDI accounts for 27.4%. Inflation is well controlled; Implement effective management and administration of prices according to the market mechanism with regulation by the State; The consumer price index decreased from 18% in 2011 to 3.4% in 2022, making an important contribution to stabilizing the country's macroeconomic situation. It has attracted over 4.5 thousand new FDI projects with a total registered investment capital of over 33.7 billion USD; FDI enterprises have contributed over 10% of budget revenue, 11% of employees in enterprises, 11% of investment capital for social development,...

The field of science and technology is being invested in and developed, more and more research results are being transferred and applied into practice, bringing efficiency in the fields of production and business, contributing to improving the quality of life. Technological capacity and competitiveness in the process of international integration. From 2016 until now, Hanoi has always ranked 2nd out of 63 provinces and cities nationwide in the information technology industry index.

3.3 About the Social Environment

There are many factors in the social environment group, however labor discipline, number of workers and cheap labor costs are the factors that most influence the decisions of foreign investors. Hanoi is considered an attractive investment destination due to its advantages of an abundant and low-cost labor market. With more than 8 million people and the number of people of working age accounting for 51% of the population, this is a young, healthy, dynamic labor source with potential and the ability to absorb advanced knowledge to meet the requirements of the industry. The knowledge economy meets the trend of attracting high-tech FDI capital flows.

The quality of Hanoi's human resources is increasingly high, the number of vocationally

trained workers is gradually increasing, and the quality of training is increasingly improved with positive changes in the diverse occupational structure... has basically met the requirements of foreign invested enterprises. The 4.0 industrial revolution poses increasingly high requirements; therefore, Hanoi city has had many important solutions to improve the quality and effectiveness of vocational training, creating human resources high quality, contributing to increasing labor productivity and improving competitiveness in the new situation. One of those solutions is training linked to businesses and the labor market. Up to now, the Department of Labor, War Invalids and Social Affairs has signed cooperation agreements with 1,150 businesses with the aim of strengthening vocational education connections with businesses. In addition, it also coordinated with the City Association of Small and Medium Enterprises to issue a plan to support vocational training and foster professional skills for workers who are working in small and medium-sized businesses in the City.

However, this is also a factor that is considered a major barrier for Hanoi in attracting FDI. Reality shows that, although compared to previous years, the quality of qualified labor has increased, however, it has not really met the demand. Many businesses today require workers to be not only professionally trained, but also in other factors such as information technology, foreign languages, etc. As a result, they have to face the unemployment, lower income, and many other risks. In particular, the 4.0 Industrial Revolution and the international economic integration are posing many challenges in terms of labor, employment, and the quality of human resources of the country in general and the Capital in particular. Due to the impact of information technology, automation and artificial intelligence, about 1/3 of the jobs in the world today will change, causing about 40% of workers to have to supplement their skills to meet job requirements in the next 10-15 years, and this is also considered a big challenge to Hanoi.

For the ASEAN region, including Vietnam, this rate is forecast to be even higher. In addition, under the negative impact of the Covid-19 epidemic, the number of manual workers and simple workers losing long-term jobs is still increasing; The number of workers who have been trained but do not have high skills or skills find it difficult to find jobs.

As a result, the scale of implemented FDI in Hanoi in 2022 only accounts for about 7.0% of the total local social investment capital (City Statistics Department. Hanoi (2022), while this index of the whole water is about 16.2%, provinces neighboring Hanoi such as Bac Giang are at 33.7%, and Vinh Phuc is 43%. This shows that, although Hanoi city attracts FDI capital at a high level compared to the whole country, the proportion of realized capital/development investment from FDI sources is still modest compared to some surrounding localities. Even though in 2022, the impact of the epidemic will have a certain impact on Hanoi's FDI attraction results, however, looking at the overall results of FDI attraction into Hanoi from 2018 - 2022, it can be seen that the The improvement is not significant. This shows that factors are increasingly influencing FDI attraction into Hanoi in a not very positive direction.

Table 1. Results of attracting FDI capital of Hanoi City

Year	Registered capital (Million USD)	Realized capital		Average 1 project/Total capital (Million dollars)
		Million USD	Compared to total social investment capital (%)	
2018	7.558,7	1.630,6	10,9%	6,5
2019	8.687	1.846.9	11,2%	5,75
2020	3.846,02	1.143,9	6,4%	5,62
2021	1.537,97	1.208,2	6,8%	5,53
2022	1.774.6	1.308,7	7%	5,52
Aug 2023	2.341,39	627,1	-	5,44

Source: City Statistics Department. Hanoi (2022)

4. Conclusion

The article studies the factors affecting Hanoi's FDI attraction on three main keys, which are service infrastructure, economic environment and social environment. With the goal of making Hanoi a destination for investors, creating the most favorable environment for investors to be stable and secure in their development through completing the entire planning system in the city, Researching influencing factors will suggest Hanoi to come up with practical solutions in attracting FDI capital in accordance with the context of the 4.0 industrial revolution.

Competing interests

The authors declare that they have no known competing financial interests or personal relationships that could have appeared to influence the work reported in this paper.

Informed consent

Obtained.

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No additional data are available.

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