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FDI INFLOWS INTO VIETNAM AFTER JOINING THE WTO

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ABSTRACT

Foreign direct investment (FDI) has taken a crucial role in Vietnam's development process since the launch of Renovation in 1986. After Vietnam's accession to the World Trade Organization (WTO), a large amount of FDI capital flowed into country, up to 140 billion USD, due to the openness of country's economy; more transparent, predictable investment environment; and several national advantages. There was a switching of FDI capital from industrial sector to service one together with a downward trend in agriculture. Like previous period, Vietnam's FDI capital sources came mostly from Asia-Pacific region and European economies (net capital, technology exporters). This is probably owing to Vietnam's integration with emphasizes on dynamic Asia-Pacific region. Another interesting finding was that, geographical allocation of FDI was characterized by concentration on three main key economic regions: the Red River Delta (surrounding Ha Noi, Hai Phong, and Quang Ninh), the Central region (surrounding Da Nang), and the Southeast region (surrounding Ho Chi Minh City) owing to better infrastructure, abundance of skillful labor force, and bigger market size. To use/attract FDI capital more effectively and to enhance the role of FDI in Vietnam's development process, some suggestions were proposed.

Keywords: Determinant, foreign direct investment, World Trade Organization, trend, Vietnam.

Đầu tư trực tiếp nước ngoài vào Việt Nam sau khi gia nhập WTO

TÓM TẮT

Đầu tư trực tiếp nước ngoài (FDI) đóng một vai trò cực kỳ quan trọng trong quá trình phát triển của Việt Nam kể từ khi tiến hành đổi mới năm 1986. Sau khi gia nhập Tổ chức Thương mại Thế giới (WTO), một lượng lớn vốn FDI đã chảy vào Việt Nam, lên tới trên 140 tỷ USD, do sự mở cửa của nền kinh tế trong khuôn khổ gia nhập WTO và các lợi thế quốc gia hấp dẫn của Việt Nam. Trong đó, chúng ta chứng kiến sự chuyển dịch của vốn FDI từ lĩnh vực sản xuất công nghiệp sang lĩnh vực dịch vụ, và xu hướng giảm sút rõ rệt vào lĩnh vực nông nghiệp. Nguồn vốn FDI vào Việt Nam đến chủ yếu từ các nước ở khu vực Châu Á-Thái Bình Dương và Châu Âu-những quốc gia dồi dào vốn và có tiềm năng về công nghệ. Một xu hướng khác là vốn FDI tập trung vào ba khu vực chính là đồng bằng sông Hồng (bao quanh tam giác kinh tế phía bắc gồm Hà Nội - Hải Phòng - Quảng Ninh), miền Trung (bao quanh Đà Nẵng) và Đông Nam Bộ (bao quanh thành phố Hồ Chí Minh) bởi các vùng này có hạ tầng tốt, lao động dồi dào, và quy mô thị trường lớn hơn. Một số giải pháp ngắn gọn mang tính định hướng cũng được đề xuất nhằm giúp cho việc thu hút và sử dụng vốn FDI hiệu quả hơn trong quá trình phát triển của Việt Nam thời gian tới.

Từ khóa: Đầu tư trực tiếp nước ngoài, nhân tố ảnh hưởng, tổ chức thương mại thế giới, Việt Nam.

INTRODUCTION

Lots of Vietnam's economic indicators prove that attracting foreign direct investment (FDI) capital with conductive policies has been a key to success in the process of industrialization - modernization and economic development. FDI has positive impacts on host country through generating new financial, managerial, technological resources on one hand, and increasing the employment, export on the other hand. Moreover, FDI may also have the linkage effects through transferring know-how, managerial skill, and advanced technology to domestic enterprises that promoting the efficient development of the economy. Vietnam's accession to the World Trade Organization (WTO) is regarded as a milestone for the much-heralded FDI investment boom period. Just after 5 years of accession, Vietnam has attracted about 140 billion USD of FDI capital. This raises the question of: what are the main trends and determinants of such large amount of FDI capital flowed into country after WTO accession? This will be important implication for the design of assistance policy to attract/use FDI capital more effectively in the coming time. From this perspective, the rigorous analysis should be done to provide the richer “picture” of FDI inflows into Vietnam recently. Based on updated, personal calculated FDI figures set from Vietnam General Statistics Office (GSO), Ministry of Industry and Trade, Authorities as well as previous studies, the author this paper’s focuses on examining the trends and the determinants that stimulated profusion of FDI capital into Vietnam in the post WTO accession period (2006-2010) in comparison with previous duration (1988-2005).

This paper is organized as follows. The subsequent section starts by regarding the legal framework and FDI policy in development process of Vietnam. Then, section 2 portrays the trends with regard to the growth/shift of FDI registered capital, FDI by economic sectors, FDI by countries, and regional FDI in the post WTO accession (2006-2010) in comparison with previous duration (1988-2005). Final section specifies the determinants that induced FDI inflows into country in the post of WTO accession. Some suggestions are also proposed to enhance the role of FDI in Vietnam’s economic development process. The methodologies employed in this paper were the qualitative, quantitative research tools and analysis.

1. THE LEGAL FRAMEWORK AND FDI POLICY IN PROCESS OF VIETNAM’S ECONOMIC DEVELOPMENT

Vietnam has emerged as one of the most successful countries in terms of economic development in Asia. The economy has posted annual growth of around 7 percent in over two decades of Renovation since 1986. The country has also prospered since accession to the World Trade Organization in 2007. Vietnam for first time joined the group of medium income countries in 2010. These achievements resulted from three main factors. First, it has benefited from internal restructuring program focusing on the supply side, which leads to the extension of investment and output, making a transition from agriculture base toward manufacturing and services. Second, Vietnam’s restructuring program aimed in the strategy that promotes the foreign resources (FDI, ODA, etc) to expand the investment and speed up the reform process. Third, Vietnam has been accelerating the integration to the global economy especially with dynamic Asia-Pacific region. The latter two combined factors may be so-called the “outward looking policy”. [1]

Particularly, due to the success generated by regional neighbor countries, the role of FDI has been recognized and emphasized since early 1990s. In the context of Renovation, to attract the foreign resources, the Foreign Investment Law was issued in 1987. This was supplemented and amended several times to provide the legal frame work for operation of foreign enterprises in Vietnam. However, in the late 1990s, foreign enterprises were imposed many regulations and requirements (*e.g.,* achieving a certain localization rate, exporting with certain proportion, self balancing the foreign currency from export to meet the demand of import, and so on) in investment licensing. These violate the provisions of Article III (national treatment) and XI (quantitative restriction) of General Agreement on Trade and Tariffs (GATT) 1994. Upon the claims of foreign investors and to qualify the provisions of the WTO, the Investment Law 2005 and Enterprises Law 2005 were promulgated. The issues of afore-mentioned Laws forwarding the international standard were matching with WTO’s provisions.

The WTO accession, in which Vietnam promised bounding thousands of tariff lines (average tariff rate will be reduced from 17.2% to 13.4% gradually till 2015), removing the violated measures on investment of foreign

[1] Tran Van Tho, (2004), “Foreign Direct Investment and Economic Development: The Case of Vietnam”, *Working paper,* p. 3.

investors, abolishing prohibited subsidies, ensuring the intellectual property protection, opening the domestic service markets etc. All these make Vietnam's investment environment more attractive, predictable, and transparent in the eyes of overseas investors. The Vietnam's open economy together with several national advantages including abundance of young-cheap labor force, potential domestic market, good position, and political-economic stability are considered as causality for the much-heralded FDI inflows in to country. Just after 5 years of joining the WTO, Vietnam has attracted over USD 140 billion of FDI capital. The next items will detail the overall trends and determinants of FDI flowed into Vietnam after its WTO accession (2006-2010) in terms of FDI registered capital, FDI by economic sectors, FDI by countries, and regional FDI in comparison with previous phase (1988-2005).

2. THE TRENDS OF FDI INFLOWS INTO VIETNAM AFTER ITS WTO ACCESSION

This item will examine the trends of FDI inflows into Vietnam after its WTO accession (2006-2010) with the regard the growth/shift of FDI registered capital, FDI by economic sectors, FDI by countries, and regional FDI in comparison with previous duration (1988-2005).[2]

2.1. FDI registered capital in Vietnam after its WTO accession

Figure 1 shows the overall trends of FDI inflows into Vietnam by the number of projects, the amount of registered and implemented capital during 1988 - 2010. Generally, both the number of new licensed projects and registered capital soared rapidly in the first half, and then declined dramatically in second half of 1990s. FDI picked up in early years of new millennium, and then suddenly rocketed after Vietnam joined the WTO. Specifically, from 37 projects and 341.7 million USD registered capital in 1988, these figures reached at 372 projects and 10164.1 million USD in 1996. The first half of the 1990s is usually referred to as the first "investment boom" period in attracting FDI of Vietnam. In duration 1988 - 1995 Vietnam attracted 1620 investment projects and 19265.2 million USD registered capital. Compared to the increase of registered capital was far lower of implemented capital, 6517.8 million USD.

The launch of Asian Financial Crisis in 1997 resulted in the dramatic decline of FDI inflows into Vietnam in the second half of 1990s despite the fact that positive factors (the potential market and the receiving of intellectual and financial cooperation from developed countries and international community) remained unchanged. Japanese and other foreign investors diverted their investment sites from ASEAN countries like Thailand, Malaysia etc to Vietnam as potentiality. The regulations and legal shortcomings have not been improved as expected. Particularly, the complicated, inefficient bureaucratic administration has disappointed overseas investors. [3] Although Vietnam remained a relatively closed economy during the Asian Financial Crisis, a large portion of FDI derived from the region caused a drop of FDI inflows. [4] The FDI figures bottomed out in 1998. In this period, there were 1724 investment projects with registered capital of

[2] Vietnam was accepted to join the WTO on 7th November 2006 and officially became the 150th member on 11st January 2007, but Vietnam witnessed the new wave of FDI inflows into the country since 2006, so the author added the year 2006 to the five - year duration (2006 - 2010) to analyze. To the FDI figures in 2008, different authorities in Vietnam offered different figures, author used the figures in the breaking page on the website: http://www.gso.gov.vn/default.aspx?tabid=392&idmid=3&ItemID=8686 (Accessed in January 8th, 2012) to analyze; this figures are matched with the figures published on *Vietnam Economic Times*, January 2010, p. 54.

[3] *Ibid.* [1], at p. 4.

[4] Nguyen Ngoc Anh and Nguyen Thang (2007), "Foreign direct investment in Vietnam: An overview and analysis the determinants of spatial distribution across provinces", MPRA Paper No. 1921, p.7, *mpra.ub.uni-muenchen.de/.../MPRA_paper_1921.pdf* (Accessed in May 4th, 2012).

around $26,259 million. Implemented capital was some $12,944.8 million, nearly doubled in comparison with previous duration, $6,517.8 million.

To confront with the difficult conditions brought about by the continued decline of FDI inflows, the Government of Vietnam proposed some assistance policies since 1998. In 1999, a Prime ministerial Directive stimulated the implementation of a series of policies focused on improving the investment climate including reductions of electricity and telephone charges, and office opening approval fees for foreign-affiliated businesses, cutting down the individual income tax for foreign residents. The Foreign Investment Law was amended as well. The amendment has made Vietnam's investment more comparative with neighbor countries. Legal changes first, helped facilitate the establishment of Joint ventures; domestic enterprises were eligible to participate in FDI projects as Vietnamese partners. Second, foreign owned enterprise business activities became more advantageous owing to the new provisions on value-added tax. Third, concerning the registration regulations, the "negative list" was mentioned to which investment fields were divided into areas that the inspections of applications were necessary and those were not, and latter a certificate of approval would be issued after registration. However, the implementation of laws was still not very transparent and frequent changes in industrial policies made the investment unpredictable. [5] Even though the FDI inflows, then started to rebound as countries in the region recovered from the 1997 Asian Financial Crisis together with the signing of the US - Vietnam Bilateral Trade Agreement (USBTA) in 2000. It is undeniable that USBTA took the important role in stimulating the US investors invested to Vietnam. FDI inflows have grown up steadily from $3,142.8 million in 2001 to $6,839.8 million in 2005. The total FDI capital flowed into Vietnam in 2001 - 2005 period was $20,702.2 million, lower than that in duration 1996 - 2000, $26,259 million. In contrast, the implemented capital was at higher level, $13,852.8 million compared to $12,944.8 millio.

To qualify the provisions in Trade Related Investment Measures agreement (TRIMS), and related agreements like Subsidies and Countervailing Measures agreement (SCM) etc of the WTO, a large number of laws, sub-law documents have been supplemented, amended, and issued to facilitate the institutional reform. The Master Plan of Administrative Procedure Simplification in the fields of state management for the period 2007 - 2010 (called Project 30) has been carried out comprehensively at all levels, engaging all state administrative agencies, citizens and businesses. Some of the worthy notable Laws are Investment Law and Enterprise Law promulgated in 2005. Major changing points of these new Laws related to investment including the following: Firstly, these Laws apply for both foreign and domestic investors (both are equal in investment activities in Vietnam matching the national treatment principle). Second, lots of prohibited regulations/requirements previously imposed on foreign enterprises have been abolished (*e.g.,* export with certain proportion, achieve the certain localization, dual price policy, give priority to buy and use domestic goods and services or have obligation to purchase goods and services from domestic manufacturers or service providers, self balance foreign currency from export to meet demand of import etc). Third, foreign investors have more rights to actively join some fields that restricted before like banking, financing, insurance, retailer, brokerage, telecommunication, securities, rice export etc.

Generally, joining the WTO is regarded as milestone to speed up the reform in many domestic sectors including institution related investment. Direct investment increases resulting from the higher stability and predictability of legal system and business environment accompanied by the degree of open economy. Above all, duration 2006 - 2010 (after

[5] *Ibid.* [4], at pp. 4-5.

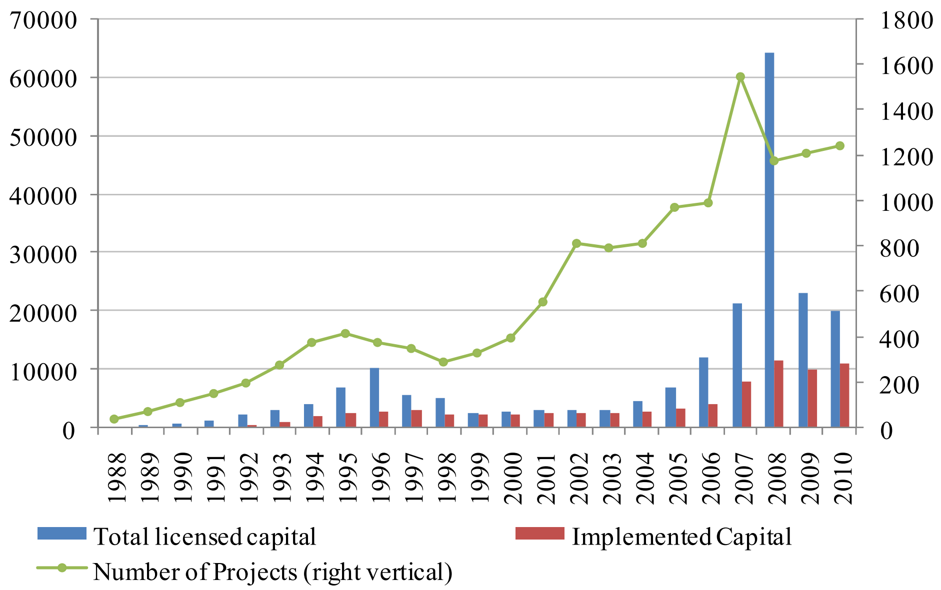
Vietnam's WTO accession) was a very successful period of attracting the FDI inflows of Vietnam. We witnessed the "abrupt increase" of FDI inflows in both registered capital and number of new projects in this duration.

Particularly, in 2006, the year when Vietnam finished negotiations to join the WTO, 987 new FDI projects were licensed and 486 previous licensed projects continued, adding the capital as a result total registered capital of the year to around $12,003.8 million. This was one of the typical events of Vietnam's economy in 2006.

Jumped into 2007, the first year Vietnam became the full membership of the WTO, there were 1544 new projects in whole country together with 379 previous licensed projects. Total registered capital of this year reached to $21,347.8 million, an increase by 77.84% compared with 2006.

In 2008, the second year of being the WTO member, Vietnam attracted a huge amount of FDI capital of about $64,011 million of both 1171 new projects and 397 previous licensed projects, 3 times higher than that of 2007. This was the largest figure of registered capital in a year in history of attracting FDI in Vietnam.

Owing to the 2008 Global Financial Crisis, the total FDI inflows into Vietnam fell down dramatically to $23,107.3 million of 1208 new projects and 351 previous licensed projects in 2009 approximating 36% of total registered capital, and a decrease of 64% in comparison with previous year. But this still was a



Note: Including supplementary capital to licensed projects in previous years.
Source: General Statistics Office of Vietnam, Vietnam Ministry of Industry and Trade (2011). [6]

Figure 1. FDI registered capital in Vietnam during 1988 - 2010 (million USD)

[6] Web: http://tttm.vecita.gov.vn/dstk.aspx?NewID=37E&CateID=98 (Accessed in February 19th, 2012).

great amount of FDI inflows into Vietnam. [7]

The FDI inflows continued maintaining the downward trend in 2010 and stopped at $19,886.1 million with 1237 new projects and 269 previous licensed projects, accounting for 86% over the same period in 2009. In the context of world economic recession, this was still a considerable figure of FDI capital in Vietnam. [8]

In duration 2006 - 2010, average annual FDI inflows into Vietnam surged to $28,071.2 million . Vietnam attracted the total FDI capital of about $14,0356 million at the same period, two times higher than that in comparison with the duration 1988 - 2005, $66,244.5 million, and accounting for 72% of the total FDI capital flowed into Vietnam from 1988 to 2010, $19,4572.2 million [9] Total implemented capital of this duration was $44,630.1 million, 1.34 times higher than that of duration from 1988 - 2005, $33,315.4 million.

Overall, despite the negative impacts of the world economic recession and the cut down of FDI capital of overseas investors, Vietnam still attracted large amount of FDI capital after joining the WTO. Duration 2006 - 2010 can be referred to as the second "investment boom" period of FDI in Vietnam. However, The ratios of implemented capital remained quite low comparing with registered capital, 50.29% in duration 1988 - 2005, and 31.80% for the phase 2006 - 2010, expressing the limited FDI capital absorptive capacity of Vietnam's economy mostly due to poor infrastructure, lack of skillful labor force, and weak institution. This suggests that the boom of FDI notwithstanding in Vietnam recently is only in the first step. Promotional efforts will help little to attract and absorb FDI capital if economic fundamentals are not conducive to the FDI inflows.

2.2. FDI by economic sectors in Vietnam after its WTO accession

Table 1 illustrates the detailed breakdown of FDI capital by smaller economic sectors, number of projects and their shares in Vietnam during 1988 - 2010. This figure provides a clearer picture of the main trends of FDI inflows into Vietnam. Obviously, in the phase 1988 - 2005, FDI inflows focused on *Industry and construction* (sharing 68.12% total projects and 65.86% total registered capital) in which *Processing and manufacturing industry* and *Construction* dominated the field covering 66.5% total projects and 57.91% of total registered capital. This was followed by *Service* sector (sharing 23.11% total projects and 28.58% total registered capital) wherein three main service sectors (*Real estate, renting business activities, advisory*; *Hotels and restaurants*; *Transport, storage, and communication*) took the majority, 18.16% total projects and 24.47% total registered capital. *Agriculture, forestry, and fishing* shared the minority, 8.77% total projects and 5.56% total registered capital. This is no surprise that Vietnam's economy structure has been dedicated towards processing - manufacturing based industries dictated by garment, textile, footwear, automobile, motorbike assembling using cheap labor, and industries consume large amounts of energy and materials such as cement, steel etc. [10] Furthermore, exports and

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[7] "Global FDI inflows witnessed a 47.1% decline from 2.10 trillion USD in 2007 to 1.11 trillion USD in 2009 as Transnational Corporations (TNC) delayed investment plans during the cause of the global financial crisis. The rush to strengthen balance sheets at the onset of the crisis coupled with the scarcity of credit, led to delays in investment projects and a slowdown in mergers and acquisitions", available on "BMI View on FDI Attractiveness of Vietnam in year 2011", http://www.vietpartners.com/statistic-fdi.htm (Accessed in June 4th, 2011).

[8] According to the statistical figure, Vietnam attracted around 15 billion USD of FDI capital in 2011. This was still the significant number for the FDI inflows into Vietnam at the current recession of world economy.

[9] Accumulation of projects having effect as of 31 December, 2010, figures of Vietnam GSO, 2011.

[10] Nguyen Quang Thai (2011), "Greater competitiveness and effectiveness must result from any new economic model", *Vietnam Economic Times,* pp. 18-19.

Table 1. FDI by economic sectors in Vietnam during 1988 - 2010

	Sector	Pre-WTO Accession (1988 - 2005)				Post-WTO Accession (2006 - 2010)			
		Number of projects	In percent	Registered capital (million USD)	In percent	Number of projects	In percent	Registered capital (million USD)	In percent
1	Industry and construction (= 1.1+1.2+…+1.4)	4958	68.12	43629.5	65.86	3587	58.35	73382.6	52.28
1.1	Processing and manufacturing industry	4699	64.56	33191.9	50.10	2945	47.9	57977.9	41.31
1.2	Construction	141	1.94	5173.3	7.81	553	9	4594.8	3.27
1.3	Mining and quarrying	95	1.30	3336.2	5.04	37	0.6	7650	5.45
1.4	Electricity, gas, and water supply	23	0.32	1928.1	2.91	52	0.85	3159.9	2.25
2	Agriculture, forestry, and fishing	638	8.77	3684.6	5.56	100	1.63	622.2	0.44
3	Service (= 3.1+3.2+…+3.9)	1683	23.11	18930.4	28.58	2460	40.02	66351.2	47.28
3.1	Real estate, renting business activities, advisory services	872	11.97	6258.2	9.45	1203	19.57	46272.7	32.97
3.2	Hotels and Restaurants	233	3.20	5154.1	7.78	159	2.59	13289	9.47
3.3	Transport; storage; and communication	218	2.99	4663.5	7.04	301	4.9	3578.2	2.55
3.4	Recreational cultural and sporting activities	90	1.24	1084.1	1.64	47	0.76	774.9	0.55
3.5	Finance, banking, insurance	59	0.81	798.4	1.20	12	0.2	286	0.2
3.6	Health and social work	35	0.48	471.0	0.71	46	0.75	743.9	0.53
3.7	Wholesale and retail trade; and repair motor vehicles, etc.	82	1.13	370.9	0.56	384	6.24	1049	0.75
3.8	Education and Training	79	1.09	113.1	0.17	54	0.88	225.5	0.16
3.9	Community, social and personal service activities and others	15	0.20	17.1	0.03	254	4.13	132	0.1
	Total (= 1+2+3)	7279	100	66244.5	100	6147	100	140356	100

Source: Personal calculated from figures of General Statistics Office of Vietnam (GSO, 2011)

FDI are complementary which explains why FDI in Vietnam is mainly concentrated in the export - oriented manufacturing sector. [11]

Duration 2006 - 2010, fragility of investment structure is fairly discernible after Vietnam's WTO accession. The share of FDI capital in *Industry and construction* has diminished slightly from 65.86% in duration 1988 - 2005 to 52.28% in duration 2006 - 2010. FDI capital in *Processing and manufacturing industry* still conquered the field but dropped out from 50.10% to 41.31%. The share of *Agriculture, forestry, and fishing* of total registered capital declined severely from 5.56% to 0.44% at the same time. FDI inflows turned significantly positive to *Service* sector especially in *Real estate, renting business activities, and advisory services.* The ratio of *Service* sector to total registered capital swelled from 28.58% in duration1988 - 2005 to 47.28% after Vietnam accessed to the WTO, in which *Real estate, renting business activities, and advisory services* boosted stridently from 9.45% to 32.97%. This implies Vietnam is not only a competitive place for processing - manufacturing projects, but also a potential destination for foreign services providers.

The rise in *Real estate, renting business activities, and advisory services* after Vietnam's WTO accession could be explained as follow. Firstly, Vietnam has opened its domestic service

[11] Sajid Anwar and Lan Phi Nguyen (2010), "Foreign direct investment and economic growth in Vietnam", *Asia Pacific Business Review,* Vol. 16, Nos. 1-2, pp. 197-198.

markets for foreign investors following the framework promised to the WTO and signed Free Trade Agreements. Secondly the potentiality on reaping big amount of profit from those services was also a factor making this field attractive to overseas investors. Thirdly, real estate market in Vietnam is still very bright. Vietnam's economy continues to grow with high level (around 7% in average). Its investment environment has been further improved. The speed of urbanization in big/excited economic cities was accompanied by a considerable number of foreign experts working for foreign invested enterprises, transnational and multi - national companies (TNCs, MNCs). Besides that, the head quarters of the domestic and foreign companies tend to upgrade to modern offices, especially in banking, financing, and insurance fields. So, in the coming time, the demand of office, apartment for rent will continue to increase. Fourthly, at the moment, real estate market in some Asian countries has almost been saturated. It will be no longer profitable for investors. Vietnam is in the early stages of the urbanization process. Demand for housing, offices, shopping centers, entertainment parks, hotels, restaurants, and resorts is going to amplify. However, the current world economic recession will make this sector face with challenges.

In contrast to Real estate, renting business activities, advisory services, the application of the restrictions of other service sectors like finance, banking, insurance; transport, storage, and education and training has limited in attracting FDI inflows. The ratios of FDI capital in transport, storage, and education and training were around 2.55% and 0.16% respectively, and Finance, banking, insurance sector was some 0.2%. Vietnam's opinion is to gain these fields for domestic investors.

On the whole, besides the *Industry and construction* and *Service* sectors attracted large amount of FDI capital, there still exist the industries being neglected such as *Agriculture, forestry, and fishing* in both pre-and-post WTO accession. This shows that FDI in Vietnam is largely focused, while the Government of Vietnam has been inviting foreign investors in all economic sectors and areas. At the moment, there are around 50 countries/territories invested in agriculture in Vietnam such as Japan, South Korea, and Thai Land etc. Most of investment projects are in small sizes and lack of sustainability. As shown in Table 1, FDI in Agriculture has reduced from 8.77% in pre-WTO accession period to 0.44% in the post WTO Accession. It is obvious that, poor infrastructure of agriculture field is a factor preventing the FDI inflows. Furthermore, the high risk level due to the dependence on weather and climate, slow capital recovery, and the barriers in procedures of land renting have led foreign investors to "shrink hands" when considering investment in agriculture. Additionally, agriculture projects often undertake in rural area with less assistance and poor labor quality. That is why overseas investors tended to invest in those fields with low risk and short time for capital payback like animal food manufacturing, agriculture products processing (vegetables and fruits) serving for export (according to figures on media network, these fields cover around 75% of total FDI capital in Agriculture). Attracting FDI in agriculture is meaningful for Vietnam, as FDI may take important role to establish the production with large scale, enhance the value of agricultural products, create jobs, transfer new technology, and be capable of participating in global value chain. Furthermore, there is abundant labor force is in rural regions available. This suggests that the Government of Vietnam, authorities, and stakeholders should have stronger supporting policies focusing on improving the efficiency and quality of planning for each department, and each product, creating preferential support mechanism to encourage FDI in agriculture sector (*e.g.,* capital and credit, land renting, commercial promotion, development infrastructure, training human resources in rural regions etc).

2.3. FDI by countries in Vietnam after its WTO accession

Table 2 indicates the division of FDI by top 15 investors in Vietnam during 1988 - 2010. In period 1988 - 2005, the top 15 foreign investors accounted for around 84.65% of total projects, and 86.88% of total registered capital. Foreign investors in Vietnam in this duration were subjected by regional investors (Singapore, Taiwan, Japan, South Korea, Hong Kong, Malaysia, and Thai Land). Asian investors accounted for 67.1% of total projects and 59.1% of total registered capital. Although, the United States of America (USA) was a late comer, its investment has increased significantly since 2001 after signing the USBTA. [12] It means trade liberalization within the framework of USBTA had the positive impact on Vietnam's FDI inward. [13] The European investors as a whole covered 10.73% of total projects and 20.86% of total registered capital. This was followed by Australia and Cayman Islands.

In duration 2006 - 2010, the top 15 biggest investors covered 85.60% of total projects and up to 93.83% of total registered capital, in which Malaysia was the largest investor covering 12.08% totally registered capital. The next was Taiwan holding the proportion of 10.88%. This was followed by South Korea sharing 10.67%. Then were United States of America and Japan giving out 10.40% and 9.67%, respectively..

After WTO accession, Vietnam has not only attracted traditional foreign investors, but also new foreign investors such as Switzerland, Denmark, and Germany etc. From analysis above, an important mark is that FDI in Vietnam came mainly from Asia-Pacific region, USA and EU.

The pattern of source FDI countries in both pre-and-post WTO accession indicates the strong presence of Asian New Industrial Economies (NIEs), Japan, EU countries, and latter USA. The Asian NIEs, since the mid-1980s, became the net exporters of capital and started to undertake FDI in ASEAN countries owing to the loss of their comparative advantage in labor intensive industries in mother countries. Thus, in the context of Renovation and Vietnam's "open-door policy" with abundance of young labor force but low wage have created the opportunities for NIEs as promising location of labor-intensive industries like garment, textile, footwear etc. We should also be aware that, the USA embargo imposed on Vietnam up to 1995 made firms from Japan and other advanced economies in diplomatic alliance with USA could not have sustainable move, and leaving the chance for Asian NIEs. Finally, the end of USA sanction, joining the ASEAN in 1995, together with signing a series of FTA (USBTA, AFTA, ACFTA, AKFTA), and the WTO stimulated the various investors worldwide from USA, Japan, EU, East Asia investing in Vietnam. Probably, this is compatible with Vietnam's integration to the global economy with emphasis on Asian-Pacific region. Moreover, these countries are the net exporters of capital with advanced technology. The USA, Japan, South Korea and Singapore firms tended to undertake investment in more capital-intensive industries such as auto/motorcycle and metal mechanics that are Vietnam's import-substitute industries. The firms from these advanced countries are usually in large sizes as well. The enterprises from other countries like Hong Kong, Taiwan etc have concentrated in labor - intensive industries, for instance shoes, apparel, and textile, and characterized by medium and small sizes. This is consistent with their technology level. [14]

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[12] *Ibid.* [5], at p. 7.

[13] See more Nguyen Nhu Binh (2012), "Trade liberalization and foreign direct investment in Vietnam", *ASEAN Economic Bulletin*, http://findarticles.com/p/articles/mi_hb020/is_3_19/ai_n28969761/ (Accessed in May 4th, 2012).

[14] *Ibid.* [6], at pp. 8-9.

Table 2. Top 15 investors in Vietnam during 1988 - 2010

Order	Countries and Territories	Number of projects	In percent	Registered capital (million USD)	In percent
Top 15 investors in Vietnam during 1988 - 2005 (Pre-WTO accession)					
1	Singapore	484	6.65	9327.6	14.08
2	Taiwan	1615	22.19	8656.5	13.07
3	Japan	684	9.40	6907.2	10.43
4	South Korea	1185	16.28	6145.4	9.28
5	British Virgin Island	305	4.19	4737.8	7.15
6	Hong Kong	520	7.14	4707.3	7.11
7	France	217	2.98	2834.4	4.28
8	Netherlands	80	1.10	2420.1	3.65
9	USA	319	4.38	2304.7	3.48
10	United Kingdom	89	1.22	1985.0	3.00
11	Russia Federation	90	1.24	1840.0	2.78
12	Malaysia	214	2.94	1772.2	2.67
13	Thai Land	182	2.50	1633.5	2.46
14	Australia	161	2.21	1513.7	2.28
15	Cayman Islands	17	0.23	768.1	1.16
	Top 15	*6162*	*84.65*	*57553.5*	*86.88*
	Others	1117	15.35	8691.0	13.12
	Total	7279	100	66244.5	100
Top 15 investors in Vietnam during 2006 - 2010 (Post - WTO accession)					
1	Malaysia	199	3.24	16948	12.08
2	Taiwan	711	11.57	15267	10.88
3	South Korea	1596	25.96	14978	10.67
4	USA	308	5.01	14605	10.40
5	Japan	664	10.80	13569	9.67
6	Singapore	475	7.73	13252	9.44
7	British Virgin Islands	199	3.24	11011	7.85
8	Cayman Islands	26	0.42	6353	4.52
9	Thailand	121	1.97	4757	3.39
10	Brunei	78	1.27	4609	3.28
11	Canada	47	0.76	4533	3.23
12	Hong Kong	260	4.23	3733	2.66
13	Netherlands	70	1.14	3182	2.27
14	Samoa	47	0.76	2485	1.77
15	China	461	7.50	2412	1.72
	Top 15	*5262*	*85.60*	*131694*	*93.83*
	Others	885	14.40	8662	6.17
	Total	6147	100	140356	100

Source: Personal calculated from figures of General Statistics Office of Vietnam (GSO, 2011)

2.4. FDI by region in Vietnam after its WTO accession

Table 3 indicates the FDI inflows into Vietnam by region during 1988 - 2010. For the phase 1988 - 2005, FDI inflows have passed over the provinces and cities in whole country. Ecological allocation of this duration was characterized by a concentration in two regions with big/excited economic cities such as Ho Chi Minh City, Ba Ria - Vung Tau, Dong Nai, Binh Duong in Southeast, and Ha Noi, Hai Phong, Hai Duong, Hung Yen, Vinh Phuc in the Red River Delta. Those two regions covered around 80% in both total registered capital and total projects.

Mentioning regional FDI in Vietnam after its WTO accession, like the previous duration, FDI inflows tended to locate in the big/excited economic cities in the Red River Delta and the Southeast region of Vietnam. In duration 2006 - 2010, the Red River Delta and the Southeast of Vietnam attracted 83.84% of total projects and 61.02% total registered capital. However, it must be noted that North Central Coast (including Thanh Hoa, Nghe An, Ha Tinh, Quang Binh, Quang Tri, Hue) and South Central Coast (including Da Nang, Quang Nam, Quang Ngai, Binh Dinh, Phu Yen, Khanh Hoa) are two new regions attracting a considerable amount of FDI capital. Those two regions covered only 5.17% total projects but accounted for 29.35% of total FDI registered capital.

Table 3. FDI by region in Vietnam during 1988 - 2010

	Region	Number of projects	In percent	Registered capital (million USD)	In percent
FDI by region in Vietnam during 1988 - 2005 (Pre - WTO accession)					
1	Red River Delta	1474	20.25	16968.6	25.61
2	North East	326	4.48	2139.5	3.23
3	North West	27	0.37	105.4	0.16
4	North Central Coast	112	1.54	1427.8	2.15
5	South Central Coast	318	4.37	3762.2	5.68
6	Central Highlands	106	1.45	1024.5	1.55
7	Southeast	4571	62.8	35941.2	54.26
8	Mekong River Delta	296	4.07	1977.5	2.99
9	Oil and gas	49	0.67	2897.8	4.37
	Total	7279	100	66244.5	100
FDI by region in Vietnam during 2006 - 2010 (Post - WTO accession)					
1	Red River Delta	1966	31.98	17907	12.76
2	North East	189	3.07	4185	2.98
3	North West	21	0.34	178	0.13
4	North Central Coast	115	1.87	17858	12.72
5	South Central Coast	203	3.3	23334	16.63
6	Central Highlands	68	1.11	505	0.36
7	Southeast	3188	51.86	67738	48.26
8	Mekong River Delta	379	6.17	7936	5.65
9	Oil and gas	17	0.28	1663	1.18
	Errors	*(+1)*	*(+0.02)*	*(- 948)*	*(-0.67)*
	Total	6147	100	140356	100

Source: Personal calculated from figures of General Statistics Office of Vietnam (GSO, 2011)

The question is why FDI focused mostly in these regions in Vietnam? In Vietnam's development strategy, three economic regions have been set and placed the priority of infrastructure investment. They are the Red River Delta (surrounding North economic triangles Ha Noi, Hai Phong and Quang Ninh), the Central region (surrounding Da Nang), and the Southeast region (surrounding Ho Chi Minh City). As a result, these regions have better infrastructure in terms of road, airport, sea port, telecommunication system, fast economic growth, abundance of skillful labor force and input material in comparison with others. The significant differences are easily observed between regions in Vietnam. Three economic regions concentrated most all of industrial zones, export processing zones, economic zones (Nomura, Thang Long, Noi Bai, Ha Noi Dai Tu, Sai Dong, Dai An, in the Red River Delta; Dung Quat, Chu Lai, in the Central; Tan Thuan, Tan Tao, Vietnam Singapore, Bien Hoa 1,2, Song Than, etc in the Southeast). These are also the locations of Vietnam's Universities. Ha Noi, Hai Phong, Da Nang and Ho Chi Minh City are the four largest Cities in Vietnam with international air ports such as Noi Bai, Tan Son Nhat, Da Nang, and Hai Phong, Da Nang, Sai Gon sea ports. Some previous empirical studies (Nguyen,2002); Nguyen, 2006); Nguyen et al., 2007) have proved that uneven allocation of FDI inflows has been attributed to the infrastructure conditions, the quality of the labor forces and the local markets of each province. [15] Furthermore, the policies in attracting FDI inflows of the cities/provinces in these regions are usually better as compared to others in encouraging the foreign investors.

What are the determinants for such large amount of FDI capital flowed into Vietnam after it's joining the WTO? Does the WTO accession have positive impacts on Vietnam's FDI inward? It is understood that overarching objective of the WTO is to help trade flow smoothly, freely, fairly and predictably between many country members in the global trade. [16] Notwithstanding, we know less about the effects of WTO accession on FDI inflows. The next section tries to find these mysterious answers.

3. DETERMINANTS THAT MOTIVATED SUCH LARGE AMOUNT OF FDI CAPITAL FLOWED INTO VIETNAM AFTER JOINING THE WTO

Evidently, The Vietnam's economy openness process following the framework promised to WTO has contributed significantly to the boost of FDI inflows. WTO provides a more transparent and freedom business environment, and less discrimination that any foreign investors who intend to do business in Vietnam require. Level of risk in the business decision has surely decreased rapidly. The tariff cut of the input materials imported abroad to serve the exports, and import tax refund for imported materials using for manufacturing the export products are factors that attracted the foreign investors as well. Because low import tariff of input materials will result in the low output's price and better competitiveness. The removal of quota in textile, garment, footwear, and fishery etc of Vietnam's trade partners also encourages the overseas investors. TNCs, MNCs engaged in export oriented investment tend prefer to locate in a more open economy like Vietnam. As analyzed, there has been large amount of FDI capital flowed into country with a

[15] *Ibid.* [5], at p. 38; Ngo Van Hien (2005), "Mô hình xác định ảnh hưởng của GDP và yếu tố vùng đến lượng FDI vào các tỉnh ở Việt Nam" (Linear Regression Model to determine the effects of GDP and regional factors on FDI inflows into provinces in Vietnam), *Tạp chí Kinh tế và Phát triển,* pp. 46-49; Bulent Esiyok and Mehmet Ugur (2012), "Foreign direct investment in provinces: A spatial regression approach to FDI in Vietnam", MPRA Paper No. 36145, http://mpra.ub.uni-muenchen.de/36145/ (Accessed in April 28th, 2012).

[16] Website of the WTO: http://www.wto.org/index.htm (Accessed in May 1st, 2012).

sharp rise in service sector. This means, close economic integration to world trade has strengthened the FDI nexus. In other words, WTO has positive and significant impact on FDI inward into Vietnam. This is consistent with Hanh (2011) conclusion by using the Gravity model and figures of 17 main Vietnam's partners during 1990 - 2008 to examine the impact of WTO accession on the dynamic of FDI inflows into Vietnam. [17] Besides WTO factor, the following national advantages are also important determinants for such large amount of FDI capital in duration (2006-2010).

First Vietnam has abundant, young labor forces. [18] Half of Vietnam's population is at the working age - a very young population. The literacy rate is quite high over 90% (GSO population census in 2009). However, the lacking of industrial working discipline and skillful labor force has been highlighted as problems. Second, Vietnam has potential domestic market with nearly 90 million citizens, a vast potential for consumption. Market size has positive impact on the FDI inflows as it directly affects the expected revenue of the investment. Larger host market provides more opportunities for sales and also profits to foreign firms and, therefore, attracts FDI inflows. Third, located in a rapid growing and dynamic region - Southeast Asia with important marine lines, allowed Vietnam to be a part of the development process. Finally, Vietnam political-economic stability is also an important factor contributing to FDI attraction. Copious numbers of foreign investors confessed that they choose Vietnam for their investment destination just because of cheap labor force and political-economic stability.

Overall, various factors motivated the FDI inflows into Vietnam after its WTO accession. They are national advantages (*e.g.,* cheap labor force, potential domestic markets, good ecological location, and the political-economic stability), liberalization of FDI regulations within the framework of open economy promised to WTO. Among them, WTO accession takes the central/important role that strongly provoked such large amount of FDI capital flowed into country through the further institutional reform, bounding tariffs, and opening the potential domestic markets.

CONCLUDING REMARKS AND POLICY RECOMMENDATION

FDI has played an important role in Vietnam's economic development process since Renovation in 1990s. Several national advantages together with the openness of the economy within the frame work of WTO accession are the main factors for great amount of FDI capital flowed into Vietnam recently. There has been a switching of FDI capital from Manufacturing sector to Service one together with the downward trend in Agriculture, forestry, and fishery. Like previous duration, FDI sources came mostly from Asia-Pacific region and EU countries. Regional FDI was characterized by a concentration in three key economic regions, the Red River Delta, the Central region, and the Southeast region of Vietnam, while other regions were neglected. The implemented ratios of FDI capital in both pre-and-post WTO accession were quite low resulting from the weaknesses of the economy. In other words, poor infrastructure, lacking of skillful labor force, weak institution are the "bottle necks" of Vietnam's economy in attracting and absorbing FDI capital. To attract/use the FDI capital more effectively, and to enhance its role in Vietnam's development process, the following are some brief suggestions:

[17] For further discussion, see Pham Thi Hong Hanh (2011), "Does the WTO accession matter for the Dynamics of Foreign Direct Investment and Trade?" *Economic of Transition*, Vol. 19, No. 2, pp. 255-285.

[18] The survey of Vietnam Chamber of Commerce and Industry in 2011 for Provincial Competitiveness Index (PCI) indicates that two main reasons for FDI enterprises invested in Vietnam are: Cheap labor and Political stability, http://www.petrotimes.vn/thuong-truong/2012/02/doanh-nghiep-fdi-%E2%80%9Cngan%E2%80%9D-gi-nhat-khi-dau-tu-vao-viet-nam (Accessed in February 29th, 2012).

First, the Government of Vietnam should focus on perfecting infrastructure in terms of roads, electricity, seaports, airports, and water supply system on one hand. On the other hand, investment environment should also be further improved with emphasis on regulatory reform, administrative procedures reform, apparatus reform, enhancing capacity for cadres and civil servants, and administration modernization. These are to reduce the obstacles, and to create a clear business environment, transparent/stable legal framework so as to satisfy foreign investor's requirements. Vietnam's FDI attraction strategy needs completing as well. In addition, it's time for Vietnam to seek for the better quality of capital-intensive, advanced technology FDI projects from developed economies like USA, Japan, South Korea, and EU to have sustainable development. Sustainable development obliges the harmonization between economic growth and environment protection that is quite important for Vietnam in the next decades.

Second, the attraction of high quality, capital-intensive, advanced technology FDI projects requires a certain skillful labor force along with better infrastructure. At the moment, attracting FDI based on abundance of cheap labor force is an advantage of Vietnam. After joining the WTO and the pressure of economic development, this will no longer valid, hence, the strategy for training a skillful labor force using various financial sources, Government's target, receiving intellectual and financial cooperation of international community, is necessary.

Third, using the marketing methods to polish Vietnam's images in international community will make its soft power stronger then lobby and promote the FDI inflows. This should be conducted not only by Ministry of Planning and Investment, but also the Ministry of Culture, Sport and Tourism as well as other authorities, cities, provinces, and individuals.

Finally, as aforementioned, FDI in Vietnam concentrating mostly in three key economic regions, the Red River Delta, the Central region, and the Southeast of country, has set in motion the unbalance in development process. To what extent, other regions also have their own potentiality for attracting FDI capital, but they have been forgotten especially in rural/remote regions. To balance the FDI inflows between all regions, Government should have special/significant supporting policies for disadvantage regions.

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