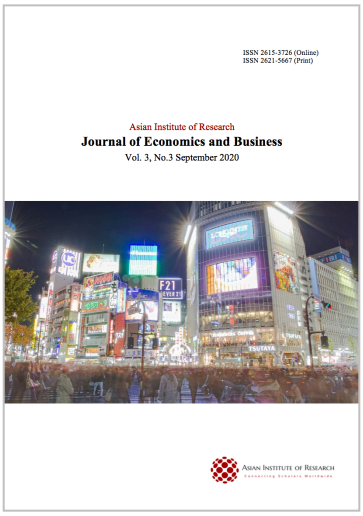

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Examination of Potentialities of Vietnam as FDI Destination

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Abstract
Globalization has made worldwide mobility of money extremely easy. The investors prefer to invest in places that offer attractive returns and are relatively less risky. The inflow of FDI gives developing countries access to capital that would otherwise be not available. FDI also provides much needed foreign exchange and therefore helps to adjust some of the macroeconomic imbalances in developing countries. Vietnam is in the growth mode, trying to boost the growth rate from all corners, but the resources available is limited and very often insufficient, hence the country is competing against others to make the investment climate more investor-friendly and project itself as an investor-friendly destination for the FDI. The main objectives of this study are to find out the status of Vietnam as a destination for FDI, the factors that attracts FDI into Vietnam and how these can be enhanced, and the factors that hinder the flow of FDI into Vietnam and how these can be reduced. This study is based on secondary data and covers a period of five years. The study analysis various determinants of FDI like market size, economic growth, infrastructure, political risk, corruption, labor market, raw materials, technological readiness, innovation, financial system, taxation, cost of capital, ease of doing business and government policies. The study reveals that Vietnam has the potential, decent growth, political stability, organized financial system and acceptable policy that makes it attractive to foreign investors and suggests measures to enhance the attractiveness, similarly highlights the hindrances to the inflow of FDI into Vietnam and suggests measure to reduce them.

Keywords: Foreign Direct Investment, Investor-Friendly Environment, Multinational Corporations

1. Introduction

Foreign Direct Investment (FDI) is playing the role of cornerstone for both government and private organisations. FDI enables the corporations to quickly acquire new products, technologies and new markets for their existing products. It is observed that companies investing overseas experience higher growth rates and is able to diversify their sources of income. A sustainable flow of FDI can generate sustainable development in the host economy. FDI is directly associated with higher level of production, therefore, it provides the country an opportunity to reduce unemployment and stabilise its political condition. In the developing economies, FDI is responsible for technological advancement. But, with such economic advantages, FDI inflows also bear certain disadvantages (Fernandez & Joseph, 2016). For example, if the FDI becomes successful and profitable then the capital essentially flows out from the host country to the investor's country. It may also cause industrial disruption in the domestic country.

World Economy has seen a rapid rise in foreign direct investment for more than three and half decades. World Investment Report (2018) stated that there has been a decline in global FDI by 23%, i.e. $1.43 trillion. Even with this decline the FDI to developing economies remained stable at $671 billion in 2017. Asia was the largest recipient of FDI in the World with a total of $476 billion inflows in 2017 (Singh, 2019). The inflow of FDI gives developing countries access to capital that would otherwise be not available, as Transnational Corporations (TNCs) often have privileged access to capital from the international banking sector. Similarly, FDI provides much needed foreign exchange and therefore helps to adjust some of the macroeconomic imbalances in developing countries. Many countries in Asia, Africa and in the Middle East are in the growth mode but the resources available for development with them are limited and insufficient, hence all these nations are competing against each other to make the investment climate better and project itself as the best FDI-friendly destination.

Vietnam, officially the Socialist Republic of Vietnam, is a Southeast Asian country. it is the 16th most populous country in the world, with an estimated population of more than 95 million. Table 1 gives the data on the inflow of FDI into Vietnam during the period 2013 to 2018.

Table 1. Foreign direct investment in Vietnam: net inflows (US$ in Million)

	2013	2014	2015	2016	2017	2018
Net inflows	8,900	9,200	11,800	12,600	14,100	15,500
Increase		300	2,600	800	1,500	1,400
Y-O-Y Growth		3.37%	28.26%	6.78%	11.90%	9.93%

Source: compiled from World bank database

The inflow of FDI during the last five years has increased by US$ 6,600 million, from US$ 8,900 million in 2013 to US$ 15,500 million in 2018, an increase of approximately 74%. The net inflow of FDI into Vietnam had a growth of only 3.37% in 2014, but in 2015 there was a remarkable growth of 28.26%, thereafter the annual growth rate has declined.

The main objectives of this study are to find out the potentialities of Vietnam to attract FDI. The study also purports to highlight the factors hindering the inflow of FDI and potential incentives to attract FDI into the country. The findings of the study would help the investors to arrive at a better decision regarding FDI into Vietnam, and similarly help the regulators and other stakeholders to formulate appropriate policies and take necessary steps to enhance the FDI attractiveness of Vietnam. This paper is organized as follows: Section 2 presents a literature review on FDI. Section 3 states the methodology. Section 4 focusses on analysis and discussions, and Section 5 concludes the paper.

2. Literature Review

Foreign direct investment is widely perceived as a powerful development engine for many receiving (host) countries. The study by Osunkwo (2020) attempted to estimate the impact of Foreign Direct Investment on Economic Growth of Nigeria for the period 1980-2018, it was found that FDI has a positive and significant impact on GDP. Virtually all countries are actively seeking to attract FDI, because of its expected favorable effect on income generation from capital inflows, advanced technology, management skills and market know-how (Cho, 2003). The motivational factors such as natural resources, market resources, strategic resources, efficiency resources, locational advantages, etc., influenced Multinational Enterprises (MNEs) to perform various activities in the host countries. Initially MNEs search for the customers in host countries and conclude by encompassing productive activities when foreign market confers higher value to the firm (Bhattacheryay, 2018).

Numerous studies have been conducted in different parts of the world and majority of the studies have inspected the effects of determinants of FDI inflow and found that relevant determinants include the size and growth potential of the host market, economic stability, economic growth, infrastructure, geographical location, human capital, interest rate, per capita income, exchange rate, wage rate, quality of institutions, etc., The presentation of the literature review is sequenced in such a manner that the literature relating to market size is presented first, followed by political stability and then all literature relating to all other factors are arranged chronologically.

Market size is expected to have a positive relationship with FDI. Market-oriented FDI aims to set up enterprises to supply goods and services to the local market. The general implication is that host countries with larger market size, faster economic growth and a higher degree of economic development will provide more and better opportunities for these industries to exploit their ownership advantages and therefore, will attract more market-oriented FDI (OECD, 2000). The study by Resmini (2000), looking into manufacturing FDI, finds that countries in Central and Eastern Europe with larger populations tend to attract more FDI. The studies by Kravis & Lipesey, (1982), and Na & Lightfoot, (2006) revealed that FDI inflow has been largely attracted by the market size and market potential. Xaypanya, Rangkakulnuwat & Paweenawat (2015) investigated the significant factors determining foreign direct in Cambodia, Laos, and Vietnam (ASEAN3) and Indonesia, Malaysia, the Philippines, Thailand, and Singapore (ASEAN5), and found that market size and infrastructure facility are significant factors to attract FDI. Dunning (1973) studied econometric models using a statistical analysis of surveys on the determinants of FDI and found that market force such as market size, growth and per capital income in the host country, and cost factors like labor cost and inflation as factors attracting FDI. Casi & Resmini (2010) inspected the determinants of FDI in the EU region and found that the main determinants are GDP growth rate, labor costs, and market potential. The study by Makki, Somwaru & Bolling (2004) on US food processing industry found that market size, per-capita income, and openness significantly affected US food processing firms' decisions to invest abroad. Thus one may presume that large host countries with high growth rate and higher per capita income attract higher foreign direct investment due to larger potential demand.

Khachoo & Khan (2012) conducted a study to examine the determinants of FDI in 32 developing countries from 1982 to 2008 using an econometric model. Their empirical results showed that market size, total reserve, and infrastructure were positively related to FDI inflows.

Political stability and reliability determine the FDI inflows. TNCs prefer stable government so that their investment is protected. Political instability may be in the form of the negative attitude of the government towards TNCs, non-allowance of fund transfer, currency convertibility, war, bureaucracy and corruption. Political stability can also be measured by the number of changes of democratically elected governments (Gedam, 1996). The study by Root & Ahmed (1979), and Schneider & Frey (1985), looking at aggregate investment flows into developing economies found that political instability significantly affects FDI inflows.

Tax policies including corporate and personal tax rates influence inward FDI. Other things being equal a country with lower tax rates should stand a greater chance of attracting FDI projects than a country with higher rates (Chandal, 2003).

According to Neumayer & Indra (2005), availability of raw materials provides investors with an added advantage with regards to producing efficiently.

The study of Uwubanmwen & Ajao (2012) shows that trade openness, interest rate, government size, and GDP exerted a positive control on cross-border investments in Nigeria and a negative relationship was found between FDI and exchange rates.

According to Milner (2013), the presence of a productive labor force is one of the determinants that influence the scope of FDI in a country.

A glance at the literature on advantages of inflow of FDI shows that the foremost advantage of FDI is increased revenues that can be used for expanding growth opportunities in the investment destination. According to Almutawa & Maniruzzaman (2014), investments by foreigners refers to additional revenue that supports various economic projects of a country. According to Muysken & Samia (2006), unemployment rates are reduced as a result of capital injections and job opportunities from foreign-based companies. FDI also increases the competitive advantage of a country by developing financial and business hubs that boost economic growth. Mina (2007) points out that FDI promotes the economic growth of a nation by stimulating various sectors of the economy such as manufacturing and tourism.

In brief, the trend in FDI flows differs by region and country. Although FDI has innumerable effects on the economy of host countries and most countries are trying hard to attract FDI, the inflow of FDI continues to be uneven, with some countries getting the lion's share and others barely getting any.

3. Methodology

The main objectives of this study are to find out the status of Vietnam as a destination for FDI; the factors that attract FDI into Vietnam and how these can be enhanced, and the factors that hinder the flow of FDI into Vietnam and how these can be reduced. The study is solely based on secondary data collected from local, regional and international agencies like Government of Vietnam, State Bank of Vietnam, World Economic Forum, International Monetary Fund, Transparency International, World Bank group, United Nations and various publications of the statistical departments, governments, and the press. The study covers a period of five years from 2014-2015 to 2018-2019. The collected data are tabulated and analyzed using appropriate analytical tools.

4. Analysis and Discussions

Determinants

The Global Competitiveness Report 2019 published by the World Economic Forum assesses the competitiveness landscape of 141 economies, providing insight into the drivers of their productivity and prosperity. These 141 economies account for 99% of the world's GDP. The competitiveness ranking is based on indicators organized into 12 'pillars': Institutions; Infrastructure; ICT adoption; Macroeconomic stability; Health; Skills; Product market; Labor market; Financial system; Market size; Business dynamism; and Innovation capability. Each indicator, or 'pillar' uses a scale from 0 to 100, to show how close an economy is to the ideal state or 'frontier' of competitiveness in that area (Global Competitiveness Report, 2019). The Report series remains the most comprehensive assessment of national competitiveness worldwide. Table 2 presents the year-wise ranking of Vietnam by global competitiveness index for the year 2014 to 2019.

Table 2. Global Competitiveness Index: Ranking of Vietnam - 2014 to 2019

Year	**2014**	**2015**	**2016**	**2017**	**2018**	**2019**
Global Rank	68	56	60	55	77	67

Source: Compiled from Global competitiveness reports 2013- 2014 to 2019

The data in Table 2 shows that the relative ranking of Vietnam has declined from rank 55 in the year 2017 to rank 67 in the year 2019, which could be either Vietnam is going back in competitiveness or other countries are enhancing their competitiveness at an accelerated pace and leaping forward which is pushing Vietnam back in the relative ranking. This calls for an analysis of various determinants of FDI beginning with market size.

4.1. *Market Size*

Market size, growth in market size and market efficiency are important determinants of FDI. The market size and the growth prospects of the market of the host country are important pull factors and are positively related to the level of FDI flows (Dunning, 1993; Chandalert, 2000). A huge market size allows the attainment of economies of scale, and transaction costs are lower in countries with higher levels of economic development (Caves, 1971; Zhao & Zhu, 2000).

Vietnam is the third largest market in Southeast Asia, and one of the fastest-growing economies in the world. The population of Vietnam is more than 95 million, the GDP is US$770.23 billion and GDP per capita income is US$ 2,739.82 according to the International Monetary Fund, World Economic Outlook Database (October, 2019). The market size can be measured by the population and the growth of population of the country. Vietnam is the 16th most populous country in the world, with a constant population growth rate. By 2030, the population will grow to 105 million, as forecasted by Worldometers. A larger population means a better domestic market that can consume goods and services provided by investors. The growing population, brings plenty of opportunities for the investors both domestic and international. This definitely will attract more FDI. Table 3 gives the global ranking for Vietnam on market size for the period 2014 to 2019.

Table 3. Market size: Global Competitiveness Index Ranking of Vietnam – 2014 to 2019

Year	**2014**	**2015**	**2016**	**2017**	**2018**	**2019**
Global Rank	34	33	32	31	29	26
GDP PPP (Billion $)	359.8	510.7	552.3	595.5	590	631

Source: Compiled from Global competitiveness reports 2013- 2014 to 2019

Throughout the period of study Vietnam's position had been improving quite gradually from rank 34 in 2014 to an appreciable level of 26 in the year 2019. Together with a growing population, the middle class of Vietnam is increasing faster than of any other Southeast Asian nation. The market research firm Nielsen estimates the middle class in Vietnam to grow to 44 million residents by 2020 and to 95 million by 2030. This will support consumerism making Vietnam a profitable target for foreign investors.

4.2. Economic Growth

Over the past decade, growth in advanced economies has been very weak. Many emerging economies - including Argentina, Brazil, Russia, India and China - are experiencing some slowdown or stagnation. In least-developed economies, growth remains well below potential and highly volatile. Productivity growth started slowing down well before the financial crisis of 2008. Between 2000 and 2007, total factor productivity (TFP) annual growth averaged just 1% in advanced economies and 2.8% in emerging and developing economies. TFP then plummeted during the crisis. Between 2011 and 2016, TFP grew by 0.3% in advanced economies and 1.3% in emerging and developing economies (Obstfeld & Duval, 2018). Corporates do not operate in vacuum, they are highly influenced and attracted by the environmental factors and economic growth of the economy in which they do business. Corporates in high growth economies can envisage to growth at a higher rate than those in the low growth countries as the environment highly influences the entity. For emerging economies like Vietnam FDI is often referred to as the most effective way to transfer capital and technology from other economies especially the developed ones. Table 4 shows the annual percentage growth rate of GDP at market prices based on constant local currency, for Vietnam during the period 2014 to 2018.

Table 4. Economic growth of Vietnam - 2014 to 2018

Year	**2014**	**2015**	**2016**	**2017**	**2018**	**Average**
Growth rate	5.98%	6.68%	6.21%	6.81%	7.08%	6.55%
Global Rank	37	20	23	18	10	

Source: Compiled from TheGlobalEconomy.com, reports 2014 to 2018

The global average growth rate for 2018 was 3.31%. In 2018 Vietnam had the 10th highest growth rate of 7.08%. During the last five years Vietnam was growing at an annual average rate of 6.55%, which is one or the highest in the world. Currently the global growth is slowing amid sluggish investment and weakening trade. Like many countries, Vietnam's economy is facing challenges, with consumption softening and investment slowing, which calls for immediate action from all stakeholders to retain the progressive growth of the economy for a better future.

4.3. Infrastructure

Infrastructure is a major determinant of FDI. Excellent infrastructure plays a major role in the productivity and profitability of Multinational Corporations (MNCs), and thus, their decision about FDI location. Table 5 gives the global ranking of Vietnam for the period 2014 to 2019 based on road connectivity, quality of road infrastructure, railroad density, efficiency of train services, airport connectivity, efficiency of air transport services, liner shipping connectivity, efficiency of seaport services, utility infrastructure, electricity access, electricity supply quality, exposure to unsafe drinking water and reliability of water supply.

Table 5. Infrastructure: Global Competitiveness Index Ranking of Vietnam - 2014 to 2019

Year	**2014**	**2015**	**2016**	**2017**	**2018**	**2019**
Global Rank	81	76	79	79	75	77

Source: Compiled from Global competitiveness reports 2013- 2014 to 2019

Infrastructure sector is a key driver for the economy. The sector is highly responsible for propelling Vietnam's overall development and the Government is continuously investing in infrastructure projects and is keen on initiating policies encouraging the private sector players to heavily invest in the infrastructure projects, that would ensure time-bound creation of world class infrastructure in the country. In spite of all this, the infrastructure still seems to be insufficient and Vietnam is ranked 77 in the Global competitiveness report, 2019. For getting a clearer picture a probe is made into the Logistics Performance Index.

4.3.1. Logistics Performance Index

Logistics is the backbone of trade, and good logistics can reduce trade cost and make countries compete globally. Getting logistics right, means improving infrastructure, skills, customs and regulations, policies and governance at the right proportion. The Logistics Performance Index (LPI) is reported by the World Bank once in every two years, based on qualitative and quantitative data on six core performance components: (1) The efficiency of customs and border clearance, (2) The quality of trade and transport infrastructure, (3) The ease of arranging competitively priced shipments, (4) The competence and quality of logistics services, (5) The ability to track and trace consignments, (6) The frequency with which shipments reach consignees within scheduled or expected delivery times. Table 6 gives the ranking of Vietnam 2014 to 2018.

Table 6. Logistics Performance Index: Ranking of Vietnam - 2014 to 2018

Year	**LPI Global Rank**	**Parameter-wise Global ranks**					
		Customs	**Infrastructure**	**International shipments**	**Logistics competence**	**Tracking & tracing**	**Timeliness**
2014	48	61	44	42	49	48	56
2016	64	64	70	50	62	75	56
2018	39	41	47	49	33	34	40

Source: Logistics Performance Index, 2014 - 2018, the World Bank

Vietnam's ranking in the Logistics Performance Index has improved from 48 in 2014 to 39 in 2018, in spite of a decline in 2016. The improvement is appreciable in all the six pillars but the national has to take more serious steps to improve on this in order to enhance its competitive advantage. The position of Vietnam among the emerging markets is at rank 11 according to the Agility Emerging Markets Logistics Index, 2019

4.4. Productive Labor Market

The vibrant diversified labor force in Vietnam attracts foreign direct investments. When international investors look for an investment destination, considerations about the skilled nature of the labor force is a matter of priority that determines their scope of success in a country (Brakman & Garretsen, 2008). Table 7 gives the data for the labor force which comprises people with ages 15 and older who supply labor for the production of goods and services during the period of study. It includes people who are currently employed and people who are unemployed but seeking work as well as first-time job-seekers.

Table 7. Labor Force in Vietnam - 2014 to 2018

Year	**2014**	**2015**	**2016**	**2017**	**2018**	**2019**
Labor Force (million)	54.92	55.53	55.77	56.38	56.83	57.25
Global Rank	10	11	11	11	11	12

Source: Compiled from TheGlobalEconomy.com reports 2014 to 2018

In 2019 the labor force in Vietnam was 57.25 million. Throughout the period of study Vietnam had been retaining positions 10 to 12, and the demographics of Vietnam is young. According to Worldometers, the median age in Vietnam is 30.8 years, and Nielsen has estimated that 60% of Vietnamese are under the age of 35.
Now let us look at the labor market efficiency, Table 8 gives the ranking for Vietnam on labor market efficiency during 2014 to 2019 based on cooperation in labor-employer relations, flexibility of wage determination, hiring and firing practices, redundancy costs, active labor market polices, workers' rights, ease of hiring foreign labor, internal labor mobility, effect of taxation on incentives to work, pay and productivity, reliance on professional management, and the ratio of women in labor force.

Table 8. Labor Market Efficiency: Global Competitiveness Index Ranking of Vietnam - 2014 to 2019

Year	**2014**	**2015**	**2016**	**2017**	**2018**	**2019**
Global Rank	49	52	63	57	90	83

Source: Compiled from Global competitiveness reports 2013- 2014 to 2019

An efficient labor market, easy availability of skilled labor, the ready availability of training facility and capacity to attract and retain right talent from within the country and other parts of the globe are the most important factors that attract international investors. Vietnam is ranked 83 out of 141 nations ranked which is appreciable. The country also invests more money in education than other developing countries, but there is still lots of room for improvements if Vietnam wants to boost its FDI attractiveness. To improve this Vietnam may have to look into its education and training system and ensure that the students graduating out of their higher education institutions have the knowledge and skills matching their peers graduating out of globally high ranked universities, and that the training institutions in Vietnam are providing trainings that are globally the best. As far as the investors are concerned they can be assured of the ready supply of skilled manpower, but they have to select the most suitable candidates and give them the right orientation.

Vietnam is still a country with low labor costs, the minimum wages in Vietnam remain less than half of what the wages are in China. Vietnam with its low minimum wage and growing economy is a great low-cost alternative to China and more and more investors are setting up their manufacturing companies in Vietnam.

4.5. Political Risk

TNCs usually assess political risk before investing in any country. There are many forms of political risks, but the extreme form is the possibility that the host country will take over a subsidiary. However, this form of political risk is an extreme case and not very common in today's global world. The more common forms of political risk include the negative attitude of the host government to TNCs, blockage of fund transfer, currency inconvertibility, war, bureaucracy, and corruption. Credendo Group provides business and economic data for 200 countries and have classified country risk under different indicators like political risk short term, political risk medium/long term, special transactions risk, transfer risk, expropriation risk and political violence risk; under each of these indicators countries are classified into seven categories: from 1 (low risk) to 7 (high risk); among them the last three are related to direct investments, and let us probe into that a little bite.

4.5.1. Transfer Risk

The currency inconvertibility and transfer restriction risk refers to the inability to convert and transfer out of the host country any funds related to the investment. The average value for Vietnam during the period of study is 4 for each year from 2014 to 2019. Which indicates that currency inconvertibility and transfer restriction risk is average for Vietnam.

4.5.2. Expropriation Risk

The risk of expropriation encompasses all discriminatory measures taken by a host government which deprive the investor of its investment without any adequate compensation; and also includes events of embargo, change of (legal) regime and denial of justice, and the probability of a negative change in attitude towards foreign investments. The average value for Vietnam during the period of study is 3 for each year from 2014 to 2019. Which indicates that expropriation risk is low in Vietnam.

4.5.3. Political Violence Risk

Political violence includes all violent act(s) undertaken with a political objective; and includes: terrorism (political, religious and ideological objectives) and political violence damage (damage to material assets as a result of political violence); business interruption as a result of political violence damage. In order to assess the political violence risk, the index looks at the actual levels of internal violence in and external conflict with a country, but also at the conflict potential that arises from (lingering) internal and external tensions, frustration and dissatisfaction. The average value for Vietnam during the period of study is 3, which indicates that the political violence risk is low for Vietnam. Table 9 gives the consolidated ranking for the period 2014 to 2019.

Table 9. Country Risk: Credendo Group Index Ranking of Vietnam - 2014 to 2019

Year	**2014**	**2015**	**2016**	**2017**	**2018**	**2019**
Transfer risk	4	4	4	4	4	4
Expropriation risk	3	3	3	3	3	3
Political violence risk	3	3	3	3	3	3

Source: Compiled from Credendo Group index reports 2014 to 2019

The international investors can be sure that they will get a warm welcome in Vietnam, their funds will not be blocked, enjoy easy convertibility, and less bureaucracy bottlenecks. Now let us go deeper look into the levels of corruption in Vietnam.

4.5.4. Corruption

Corruption distorts competition and investment and hinders free and fair trade. The study by Mauro (1995) found that corruption lowers investment and thereby economic growth. The study by Tanzi & Davoodi (1997) shows that corruption increases public investment while reducing its productivity. In regard to foreign direct investment, studies have shown that there exist economic consequences of corruption, the study by Smarzynska & Wei (2001) revealed that foreign investor's choice of entry mode may be affected by the extent of corruption in a host country. Corruption makes dealing with government officials, for example, to obtain local licenses and permits, less transparent and costlier, particularly for foreign investors. In this case, having a local partner lowers the transaction cost, such as the cost of securing local permits. At the same time sharing ownership may lead to technology leakage. Both costs of local permits and losses from technology leakage are positively related to the extent of corruption in a host country.

When corruption level is sufficiently high no investment will take place. Transparency International (TI) has published the Corruption Perceptions Index (CPI) since 1995, annually ranking countries by their perceived levels of corruption, as determined by expert assessments and opinion surveys. The CPI generally defines corruption as 'the misuse of public power for private benefit.' Table 10 displays the ranks assigned to Vietnam during the last six years.

Table 10. Corruption: Global Ranking of Vietnam - 2014 to 2018

Year	**2014**	**2015**	**2016**	**2017**	**2018**	**2019**
Global Rank	119	111	113	107	117	96

Source: Compiled from the Corruption Perceptions Index 2041 to 2018 by Transparency International

The ranking by the Corruption Perceptions Index shows that the nation has to improve a lot in containing and controlling corruption, the data in the table shows that there is appreciable improvement, buy not sufficient to sit back and relax. Hope the government takes necessary steps to wipe out corruption.

4.6. Interest Rates

High interest rates tend to slow the growth of an economy and reduce the demand for the TNC's products and thus can negatively impact the flow of FDI. High loan interests translate into cost burden of a company and have been evidenced by the companies that decide to halt operations and move to other regions with low interest rates. From the perspective of an investor, low interest rates are better as compared to high rates because returns are high when the interest charges are low. Reduction of interest on loans is being introduced by the government of many countries for the purpose of creating an ideal environment for both domestic and international investments. Destinations with such incentives are bound to attract more investors than destinations with high interest rates. Lending rate is the bank rate that usually meets the short- and medium-term financing needs of the private sector. This rate is normally differentiated according to creditworthiness of borrowers and objectives of financing. Table 11 gives the lending interest rates in Vietnam during the period 2014 to 2018

Table 11. Lending interest rates in Vietnam - 2014 to 2018

	2014	**2015**	**2016**	**2017**	**2018**
Interest Rate	8.66%	7.12%	6.96%	7.07%	7.40%
Global Rank	77	86	87	81	71

Source: Compiled from TheGlobalEconomy.com reports 2014 to 2018

The global average lending interest rates for 2018 was 11.41%. The lending rate in Vietnam is lower than the global average and is decreasing year after year, which is a good sign as the lenders can avail loans at a lower cost, as the cost of capital impacts the corporate decisions and return on investment measuring parameters. Furthermore, Vietnam's central bank, the State Bank of Vietnam, has cut interest rates from February 2020 and has asked commercial banks in the country to lower their interest rates.

4.6.1. Developed Financial System

The presence of financial institutions with sufficient liquidity and transparency to grant quick loans at competitive rates is an important determinant. As of end-2018, the credit institution system in Vietnam included one totally state-owned bank, three banks with state holdings of above 50%, three compulsorily acquired commercial banks, 28 joint-stock commercial banks, two policy banks, one Cooperative Bank, nine banks with 100% foreign-owned, two joint-ventured banks, 49 foreign bank branches, 26 finance companies and finance leasing companies, four microfinance institutions and 1,183 people's credit funds (State Bank of Vietnam). Table 12 gives the ranking for Financial System of Vietnam 2014 to 2019 based on the availability of domestic credit to private sector, financing of SMEs, venture capital availability, market capitalization, insurance premium, soundness of banks, non-performing loans as percentage of loan portfolio value, credit gap and banks' regulatory capital ratio

Table 12. Financial System: Global Competitiveness Index Ranking of Vietnam - 2014 to 2019

Year	**2014**	**2015**	**2016**	**2017**	**2018**	**2019**
Global Rank	90	84	78	71	59	60

Source: Compiled from Global competitiveness reports 2013- 2014 to 2019

The rank of Vietnam had been improving throughout the period of study, from 90 in 2014 to 60 in 2019, but has to do more to strengthen the financial system.

4.7. Tax Rates and Clarity of Taxation Policies

Lower tax will give corporates and individuals more after-tax income that could enhance the wealth of the corporates, and individuals could use for buying more goods and services, or for saving. Investors prefer lower-tax locations to locate or relocate their businesses.

4.7.1. Corporate Tax

Table 13 gives the corporate tax rates for few selected Southeast Asian Countries, and the averages.

Table 13. Corporate Tax Rates (in %) for select Southeast Asian Countries - 2014 to 2019

	2014	**2015**	**2016**	**2017**	**2018**	**2019**
Indonesia	25	25	25	25	25	25
Malaysia	25	24	24	24	24	24
Philippines	30	30	30	30	30	30
Singapore	17	17	17	17	17	17
Thailand	20	20	20	20	20	20
Vietnam	22	22	22	20	20	20
Asia average	22	21.98	21.41	21.08	21.21	21.09
Global average	23.88	23.77	23.62	24.06	24.02	23.79

Source: Compiled from KPMG data

The corporate tax rates are quite reasonable in Vietnam. During the period of study, the corporate tax rates in Vietnam is at the lower end among the Southeast Asian countries; the tax was reduced to 20% since 2017, which has made it lower than the Asian and the global averages. The policy makers may reduce the tax rates little bite more to make Vietnam friendlier to the corporates operating in Vietnam and to attract MNCs from around the globe to invest in Vietnam.

4.7.2. Income Tax

Table 14 gives the individual income tax rates for few selected Southeast Asian Countries, and the averages.

Table 14. Income Tax Rates (in %) for select Southeast Asian Countries - 2014 to 2019

	2014	**2015**	**2016**	**2017**	**2018**	**2019**
Indonesia	30	30	30	30	30	30
Malaysia	26	25	28	28	28	28
Philippines	32	32	32	32	35	35
Singapore	20	20	22	22	22	22
Thailand	35	35	35	35	35	35
Vietnam	35	35	35	35	35	35
Asia average	27.2	27.09	27.35	27.65	27.67	27.99
Global average	31.08	30.8	30.97	31.41	31.39	31.23

Source: Compiled from KPMG data

The individual income tax rates are quite high in Vietnam. All the years during the period of study the individual income tax rates in Vietnam is the highest among the Southeast Asian countries, it is also higher than the Asian and global averages. The policy makers will have to give a proper thought as have to reduce it without heavily impacting the revenue of the nation. Lower income tax reduces the cost of running a business, because at the time of salary negotiations the prospective employee looks at the after-tax annual pay package offered. The country will have to carry out reforms in the taxation policy to attract highly talented and skilled workforce needed for the domestic and MNCs operating in the country.

4.8. Strategic Location / Global Connectivity

Vietnam has a strategic location as it is located in the center of ASEAN. It is close to other major markets in Asia, the most notable neighbor of them being China. Its long coastline, direct access to the South China Sea and proximity to the world's main shipping routes give perfect conditions for trading and foreign direct investments. The number of trade partners are also increasing due to the improved global competitiveness and ease of doing business.

4.9. Availability / Easiness to Import of Raw Materials

Availability of raw materials means that international investors can do business in the country without having concerns for the supply of production materials. Vietnam is reasonably endowed with mineral resources like coal, phosphates, rare earth elements, bauxite, chromate, copper, gold, iron, manganese, silver, zinc, offshore oil and gas deposits, and timber. These wide range of raw materials that can be used for manufacturing processes has motivated many foreign investors to invest in the country. The import export policy is quite friendly and liberal, which permits manufacturers to import those raw materials that are not readily available in the country. But, the government will have to still improve the polices to attract more FDI into the country

4.10. Technology Adoption and Innovation

Technology is an important consideration made by foreign investors because it determines the scope of operational efficiency. From an investment perspective, the lack of efficient technology systems implies that operations would be slow and costly, and, thus, there will be a need for choosing destinations with a higher level of technology. Table 15 gives the ranking for Vietnam on ICT adoption during 2014 to 2019 based on mobile-cellular telephone subscriptions, mobile-broadband subscriptions, fixed broadband internet subscriptions, fiber internet subscriptions and internet users.

Table 15. ICT Adoption: Global Competitiveness Index Ranking of Vietnam - 2014 to 2019

Year	**2014**	**2015**	**2016**	**2017**	**2018**	**2019**
Global Rank	99	92	92	79	95	41

Source: Compiled from Global competitiveness reports 2013- 2014 to 2019

In ICT adoption Vietnam has improved quite gradually at appreciable rate and has reached rank 41 in 2019 from a very low rank of 99 in 2014. But it still has room for improvement, hence it is suggested that the policy makers take more initiatives to encourage faster adoption of ICT. Table 16 gives the ranking for Vietnam on innovation friendliness during 2014 to 2019 based on diversity of workforce, state of cluster development, international co-inventions, multi-stakeholder collaboration, scientific publications, patent applications, R&D expenditures, prominence of research institutions, buyer sophistication and applications made for trademark.

Table 16. Innovation Capacity: Global Competitiveness Index Ranking of Vietnam - 2014 to 2019

Year	**2014**	**2015**	**2016**	**2017**	**2018**	**2019**
Global Rank	87	73	73	71	82	76

Source: Compiled from Global competitiveness reports 2013- 2014 to 2019

In innovation friendliness Vietnam is having a lower rank of 76, which calls for immediate intervention from the part of the policy makers. Now let us look at the ranking of by Global Innovation Index (GII), which ranks on criteria that includes institutions, human capital and research, infrastructure, credit, investment, linkages; the creation, absorption and diffusion of knowledge; and creative outputs. Table 17 gives the ranking of Vietnam in the Global Innovation Index during 2014 to 2019.

Table 17. Global Innovation Index: Vietnam's Ranking - 2014 to 2019

Year	**2014**	**2015**	**2016**	**2017**	**2018**	**2019**
GII	71	52	59	47	45	42
Innovation Inputs	100	78	79	71	65	63
Innovation Outputs	47	39	42	38	41	37

Source: Compiled from the Global Innovation Index 2014 to 2019

Over the last six years, Vietnam's ranking has improved quite appreciably from a low rank of 71 in 2014 to rank 42 in 2019. Its ranking in innovation inputs has improved from 100 in 2014 to 63 in 2019. Similarly, the innovation outputs have also increased from 47 in the year 2014 to 37 in the year 2019. The above data shows that Vietnam requires more investments and more friendly policies to enhance technology adoption and innovations. This is a huge opportunity for both domestic and international investors to invest and reap high returns and at the same time make Vietnam a better place to live and do business.

4.11. Ease of Doing Business

The World Bank Group's Doing Business Report ranks economies based on their ease of doing business. A high ease of doing business ranking means the regulatory environment is more conducive to the starting and operation of a local firm. Table 18 gives the ranking for Vietnam from 2015 to 2020.

Table 18. Ease of Doing Business: Vietnam's Ranking - 2015 - 2020

Year	**2015**	**2016**	**2017**	**2018**	**2019**	**2020**
Global Rank	78	90	82	68	69	70

Source: Compiled from the Doing Business Report 2015 to 2020, World Bank Group

Doing Business data for the past six years show that the position of Vietnam has improved from 78th position in 2015 to 70th position in 2020, it is easier to file for a new business, get a construction permit and trade goods across the border. Still more has to be done to make Vietnam more investment-friendly and attractive to FDIs.

4.12. Impact of Current Economic Scenario and Government Initiatives in making Vietnam Investment- Friendly

We are facing a crisis the world has never seen the likes of in modern history, a crisis marked by uncertainty. The planet-wide pandemic has caused untold misery to humankind. People everywhere have been robbed of those they love, parents, grandparents, spouses, children and friends.

The high-temperature argument over blame for the coronavirus is rapidly pushing the United States and China into a potentially dangerous Cold War. Many governments from the US to Europe, Japan and Australia move to cut dependence on China exposed by the pandemic. Even before the outbreak of coronavirus pandemic, many companies had their plans to relocate as the costs in China were already trending up for some time, and because of the trade and economic frictions between China and the United States of America. A study by Japanese investment bank Nomura found that 56 companies relocated production from China between April 2018 and August 2019. Out of which, three companies went to India, two to Indonesia, eight to Thailand, eleven to Taiwan and twenty-six to Vietnam. Thus, Vietnam has a great opportunity to emerge as a global manufacturing hub as foreign companies reassess their production bases in China, especially, when the pandemic and attempts to contain it have sharply cut the world's appetite for China's goods and services.

Almost every element of the way business operate has been drastically altered since the start of the virus crisis. The pandemic has revealed the fragility of the modern supply chain, and companies want to ensure that their supply chain is fit for purpose whilst reducing the similar vulnerability in the future. Along with its location, Vietnam's political and social stability, and the consistency of its legislation regarding trade, make it a natural base for manufacturers feeding into global supply chains, where reliability of supply is a prerequisite. There has been an exodus of manufacturing from China, and Vietnam is the obvious choice for relocation.

Rising labor costs in China increase the prices of products, this has forced manufacturers to look for a market with lower labor costs. Vietnam with its low minimum wage and growing economy has a good opportunity to become the next hub for producing labor-intensive goods. Industries that used to flourish in China are now moving to Vietnam. Thus Vietnam is becoming the hotspot of manufacturing instead of China. In addition to top manufacturing sectors such as textile and clothing, Vietnam's manufacturing is also taking a more high-tech direction.

FDI is a critical driver of economic growth, and is a major source of non-debt financial resource for the economic development of Vietnam. Foreign companies invest in Vietnam to take advantage of relatively lower wages, special investment privileges such as tax exemptions, etc. For Vietnam it is a means of achieving technical know-how and generating employment. Vietnam government's favorable policy regime and robust business environment have ensured that foreign capital keeps flowing into the country. Over the years, Vietnam has implemented many tax incentive policies to attract investment, promote economic development, and ensure development among regions. Recently, the country has announced tax exemption for 4 years and 50% tax reduction for the next 9 years or tax exemption for 2 years and 50% tax reduction for the next 4 years (depending on the project by sector or locality, including extended investment). Prioritized invested projects are entitled to incentive tax rates of 10%, 15% or 17% in 10 years or 15 years. Thus for investors seeking alternative destinations to diversify their manufacturing and supply chains, Vietnam is emerging as an alternative hub for global manufacturing, with low labor costs, incentives and regulatory relaxations for manufacturing, and a reduced corporate tax rate, investor friendly laws.

5. Conclusion

Vietnam is emerging as an attractive hub for businessmen from all corners of the world and a magnet for foreign direct investment. With its quality investment climate and diverse and enormous investment opportunities, Vietnam continues to attract FDI.

A number of global business indexes and global ranking agencies have recognized the advantages offered by Vietnam and has duly ranked Vietnam as an attractive FDI destination. The parameters making Vietnam an attractive destination is the huge market, expanding infrastructure, strategic location, low political risk, decreasing level of corruption, young growing labor force with diversified skills, competitive labor cost, well-organized financial system, technological readiness and innovation, friendly import-export policies, relatively lower corporate taxes, reform-friendly government and a currency, that is not very volatile. Recently, the government has taken many initiatives, and is in the process of announcing a number of reforms, which includes: reduction of the effective corporate tax rates and extended tax holidays based on the quantum of initial investments. Moreover, the current global economic outlook is precarious due to the U.S.-China trade war and the Novel Coronavirus COVID-19. Vietnam is an attractive option for manufacturers fleeing China.

Vietnam must invest heavily in educational and training in order to produce skilled labor and to upskill the existing labor force with skills needed for the modern high-tech manufacturing industry. It should further liberalize its trade policies in order to benefit from the international relations. At the same, the Government has to bring in policies which would curtail the environmental pollution and overexploitation of resources by the FDI projects.

Limitations of this study is that the impact of current Novel Coronavirus COVID-19 is not fully factored into the study, as it is still an ongoing pandemic, hence the investors are requested to factor in that while making the investment decisions.

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