
VIETNAM: POTENTIAL MARKET FOR ATTRACTING FOREIGN DIRECT INVESTMENT AFTER THE COVID-19 PANDEMIC

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Abstract: The COVID-19 pandemic, which has had a broad and deep influence on all countries, is currently unfolding in a complex manner. The world economy has entered a deep recession. Vietnam, a country with a high level of economic openness and substantial international connectivity, has also been hit by the COVID-19 outbreak. Vietnam's economy, on the other hand, has maintained its development, with an anticipated GDP growth rate of 2,91 percent. Following the COVID-19 pandemic, Vietnam is progressively becoming a promising market for attracting foreign direct investment due to key socioeconomic policies and goals, as well as the country's remarkable advantages and position in the international arena.

Key words: *Vietnam, potential market, foreign direct investment, economic growth, sustainable development*

JEL Code: F15, F21, F43, O47

1. Introduction

According to the United Nations Conference on Trade and Development (UNCTAD), due to the negative impact of the pandemic, global foreign direct investment (FDI) are estimated to decrease by 30% to 40% in the period 2020-2021 (UNCTAD, 2021). All sectors were affected, but FDI fell sharply and clearly in the service sectors related to consumption such as: Aviation, hotels, restaurants, manufacturing industries and the energy sector. The contraction of FDI seriously affects developing countries, including Vietnam.

Despite the impact of the COVID-19 pandemic on global investment flows, the quantity of investment money coming into Vietnam, as well as realized capital, is still on the increase. This demonstrates that the potential of attracting FDI is favorable, given that

many major, medium, and small investors from industrialized nations are increasingly shifting their investments to Vietnam. Vietnam is currently regarded as a "potential market" for high-quality FDI inflows. Following the COVID-19 outbreak, many big multinational businesses and enterprises are seeking investment possibilities to diversify their supply chains and reduce their reliance on the Chinese market.

“Over half of Japanese businesses in Vietnam and India have plans to expand their in-country operations, a recent survey showed, in a sign of the shift towards reducing reliance on China.” (Kyodo, 2021)

In addition, the world economy is operating in the context of the implementation of the fourth industrial revolution and the digital economy. Therefore, with the advantages of stable development, success in COVID-19 prevention and control has helped Vietnam become an "ideal destination" to attract investment and post-pandemic sustainable economic development.

2. Theoretical Basis of economic development in Vietnam

Changes in production structure and the introduction of new goods, new products, new methods and technologies, new manufacturing processes, raw materials, and new energy sources are also very important for any country's economic development. Mladen M. Ivic (2015) stated that economic growth entails a country's economy becoming more involved and successful in the global economy. The expansion involves an ever-increasing percentage of accumulation in national income. As a result, economic growth is a tremendously complicated process and phenomenon. Economic growth, as measured by the percentage increase in national income per capita, cannot be a reliable indicator of the level of economic progress attained. So, economic growth encompasses not just an increase in GDP and national income, but also any long-term socioeconomic changes in a country's economy. It is critical that political economics, above all, addresses economic development issues. First and foremost, the goal of developing and implementing development and economic policies.

In Vietnam, the concept of economic growth emerged in the early 1960s in the framework of two strategic tasks (An Nhu Hai, 2019): supporting the establishment of socialism in the North while fighting for the freedom of the South, and national reunification. However, the principles of economic growth were realized and became the core theory to execute a socio-economic development plan only after 1986, in response to the country's urgent need for changes started and led by the Communist Party of Vietnam.

- Prior to the year 2000, the fundamental characteristics of economic development were established with factors such as economic growth, progress, social fairness, and environmental protection in mind. These

elements are in tight interaction with one another, with economic growth playing an essential part in establishing material circumstances for other aspects to accomplish.

- Since 2001, rapid, effective, and sustainable development has been regarded as the most significant guiding concept for exploring and selecting solutions for the country's socioeconomic growth. The socio-economic development strategy for the period of 2011-2020 requires that: “Rapid development must be associated with sustainable development, sustainable development is an integral element of the Strategy”. “Sustainable development is the basis for rapid development, rapid development is to create resources for sustainable development. Rapid development and sustainable development must always be closely linked in the socio-economic development plans and policies” (Communist Party of Vietnam, 2011). “The solution to implementing the Strategy is to renovate the growth model from mainly developing in width to rational development between width and depth.” (Communist Party of Vietnam, 2011).

Vietnam's main priorities are rapid economic growth and avoiding the middle-income trap. To attain this goal, Vietnam has chosen the ‘dual economy’ model, in which particular geographical regions and economic sectors are prioritized and can reach a higher rate of growth than the rest of the economy.

3. Vietnam - 'exceptional success model' for sustainable investment post-COVID 19 pandemic

3.1. Vietnam's economic achievements surprise the world

Currently, Vietnam is regarded as a global success story, with economic growth rates among the greatest in the world during the previous decade. Vietnam has fled poverty, moving to execute and accelerate the country's industrialization and modernization from an agrarian, backward, small-scale economy with a GDP of just 14 billion USD and GDP per capita of only approximately 250 USD in the early years of “Doi Moi”. It has achieved significant and comprehensive economic successes in a variety of areas, making advances in the 2016-2020 era and emphasizing its accomplishments over its 35-year “Doi Moi” period.

According to the World Bank (2020), Vietnam's Human Capital Index would rise from 0.66 to 0.69 between 2010 and 2020. Despite decreasing levels of state spending on health, education, and social security, Vietnam's human capital index remains higher than the average of nations with similar income levels.

Furthermore, according to the Lowy Institute's evaluation findings for the Asia Power

Index 2020, which was released on October 19, 2020 (Hervé Lemahieu & Alyssa Leng, 2020), Vietnam increased one level, from 13 to 12 out of 26 countries and territories, including New Zealand. Vietnam is likewise regarded as the country with the greatest ranking improvement, with a 1.3-point rise. In which the index of diplomatic influence rose by 3 levels as a result of the successful management of the COVID-19 pandemic. In addition, Vietnam's measures of economic competitiveness and defense network have improved.

Based on the speech of H.E Pham Binh Minh, Minister of Foreign Affairs on National Defense Journal, in 2019, Vietnam has established diplomatic relations with 189/193 United Nations member countries. Vietnam also has commercial, trading, and investment relations with around 224 countries and territories globally. By 2020, Vietnam has signed 15 FTAs (by 2020, Vietnam has ratified and properly implemented the EVFTA; participated in the signing of the Regional Comprehensive Economic Partnership (RCEP) and signed the FTA Vietnam - UK), is negotiating two FTAs, has strategic and comprehensive partnership relations with 30 countries around the world, and is a signatory to over 500 bilateral and multilateral agreements in a variety of fields. Vietnam is recognized as a market economy by 71 countries.

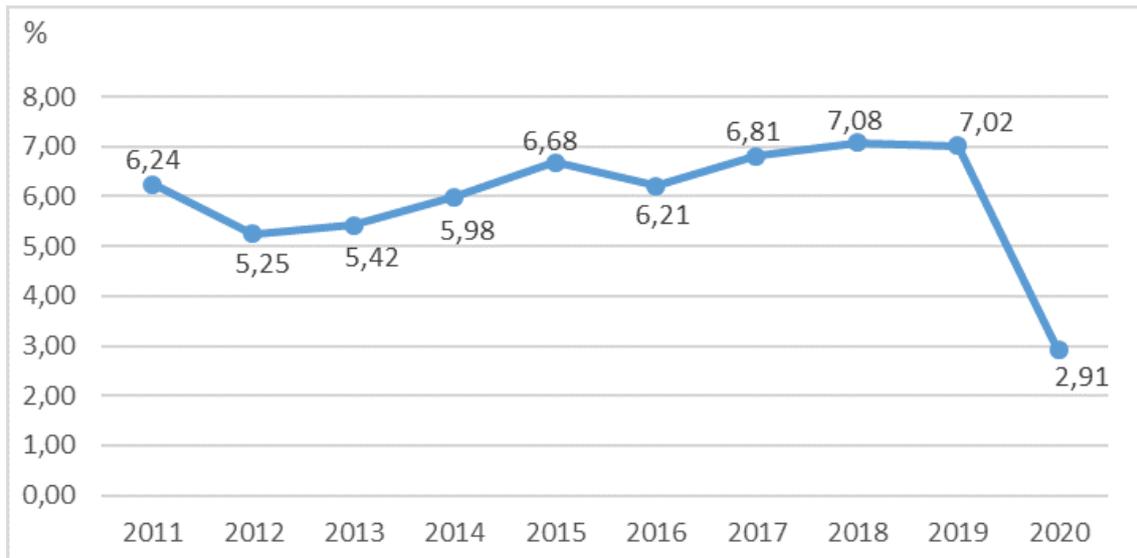
		Beginning economic reform (from 1986)	2019
	Gross domestic product	US\$ 14 billion	US\$ 262 billion
	GDP per capita	US\$ 250	US\$ 2,800
	Economic growth	4.4%	7.02%
	Poverty rate	53% in 1993	under 4%

VGP

Key metrics show socioeconomic growth under the leadership of the Communist Party of Viet Nam, Source: VGP News

The COVID-19 has complicatedly evolved, affecting the socioeconomic operations of countries all over the world; the US-China trade war persists. Natural disasters and diseases have had a major influence on economic activity and people's lives in the United States; unemployment and underemployment rates have been high. However, with severe

and effective remedies in supplementing the twin aim of "avoid pandemic while developing socio-economic development", the Vietnamese economy still achieved excellent outcomes, with economic growth maintained. Despite the fact that GDP growth in 2020 was the lowest in the period 2011-2020, in the context of the COVID-19 pandemic, this was a victory for our country in the group of countries with the greatest growth rates in the world.



Vietnam's GDP growth rate in the period 2011-2020

Source: General Statistics Office of Viet Nam

The aforementioned accomplishments have led to Vietnam becoming a country with incredible and stable growth in the globe, progressively becoming a promising market to attract foreign investment in the current time.

3.2. Vietnam: an effective response model for controlling COVID 19

Vietnam's success can be attributed to its extensive experience dealing with infectious diseases, significant investments in public health infrastructure, and a commitment to early intervention - Vietnam was the first country recognized by the World Health Organization to have severe acute respiratory syndrome, or SARS in 2003. "Vietnam's handling of SARS is a tale of decisiveness, cooperation and luck, in which early detection and strong infection-control measures under the guidance of international experts gave Vietnam an edge" (Ellen Nakashima, 2003). Soon after, this type effectively resisted Avian Influenza H5N1. Many of the prevention methods employed for these illnesses are being applied again during the Covid-19 pandemic, along with new ones.

Due to the COVID-19 pandemic, and in the spirit of "sticking to the work properly," citizen protection has been adopted by Vietnam early and declared on an unprecedented scale, especially in the face of large outbreaks overseas. In addition, the Vietnamese

government continues to establish the best possible circumstances for hundreds of rescue planes to safely return residents home. In order to be strong in the prevention and control of the COVID-19 pandemic, the army has been deployed to Vietnam's border areas with neighboring Cambodia, Laos, and China since the beginning of 2020 to prevent unlawful entrance.

Vietnam's achievement in managing the COVID pandemic in 2020 is a significant turning point for other countries across the world. Vietnam's reaction to COVID-19 has been extraordinary, and while part of its success may be attributed to the country's specific circumstances, many of Vietnam's lessons can be generally applicable to other countries, including the following:

- First, invest in public health infrastructure, such as field hospitals and concentrated isolation zones positioned away from residential areas.
- Second, early intervention, such as blocking borders and wearing masks, as well as testing and social separation, assists Vietnam in limiting community spread before it becomes uncontrollable.
- Third, closely track disease origins in order to implement targeted containment methods.
- Fourth, completely reveal facts and be open and honest with the public about the condition.
- Fifth, include stakeholders, multi-sectors, and multi-sectors in decision-making, and promote participation with suitable solutions to prevent disrupting company operations and development. The country's socio-economic situation.

The post-pandemic world, in the words of the Australian government, has become “*poorer, more dangerous and more disorderly*” (Samantha Maiden, 2020). Despite the global influence on the pandemic, Vietnam has risen to become one of the best countries to prevent and control the pandemic, the economy is rated as “Asia's fastest growing” and ensuring social-security issues for the people, worthy of a new mid-range power in the region.

3.3. Vietnam's economic growth to bounce back substantially in 2021

In the face of the COVID-19 pandemic, Vietnam was one of the few countries in the world to achieve positive economic development in 2020. “*While the growth rate was only 2.9% in 2020, in the medium to longer-term, Vietnam's economy is expected to rebound and continue its high potential trajectory of 6.0%-7.0% p.a*” (Krungsri Research, 2021). This will be aided by a steady economic recovery in its key export markets, especially the United States, as well as continuing FDI inflows fueling the export-oriented manufacturing sector and solid domestic demand. However, adverse

growth concerns exist, namely the return of the COVID-19 pandemic.

According to the World Bank's latest economic update titled "*What will be the new normal for Vietnam: the economic impact of COVID-19*" (2020, p.31-36), Vietnam is well positioned to escape the COVID-19 economic trap two main reasons:

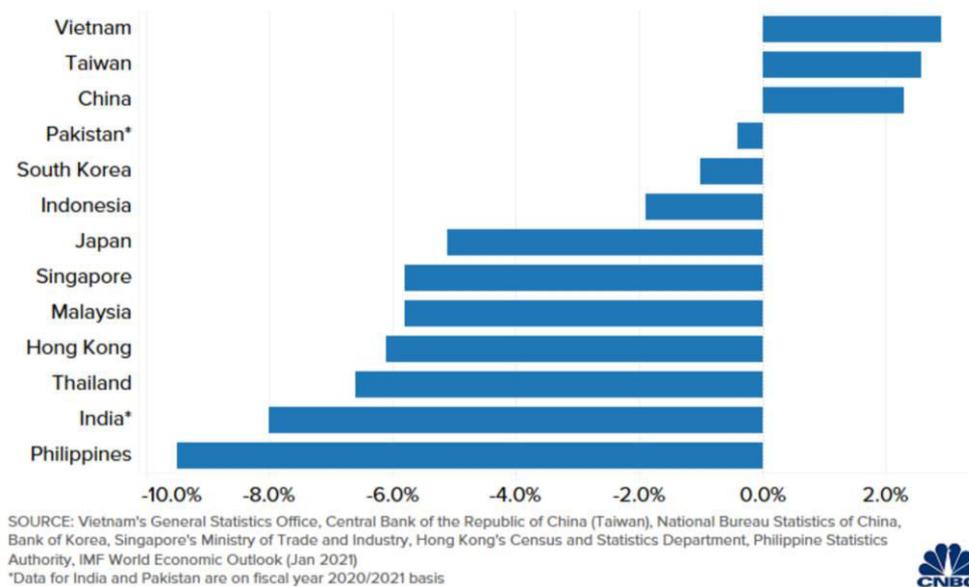
First, Vietnam's budgetary management is excellent. As a result, unlike other nations across the world, the government did not have an urgent need to borrow on domestic or international markets in the previous year. Furthermore, in order to boost aggregate demand even further, this fiscal push should give sensible support to the private sector – particularly family businesses – through a combination of tax relief and financial aid. Vietnam is one of the few countries in the world that has not had to raise its debt since the outbreak began because we have extremely excellent treasury reserves as a result of prudent fiscal management before to the crisis. As a result, the government is in a position to spend more, allowing it to respond to the crisis more effectively.

Second, Vietnam may further diversify its commerce by forming relationships with nations with low Covid-19 infection rates and selling rice (and other agricultural goods) to countries with rising levels of food insecurity. According to the World Bank, Vietnam's main goal has been avoiding the Covid-19 economic trap.

Based to the author's evaluation, the Covid-19 pandemic has had an influence on the economy, causing manufacturing and commercial operations to be delayed. Micro and small-sized businesses, in particular, had to shrink their scale or cease operations. So, in 2021, the Vietnamese government has provided tax rebates and reduced land use fees to companies affected by the COVID-19 outbreak. To help Vietnam's economic recovery, the government has implemented a number of measures to mitigate the effects of the COVID-19 pandemic.

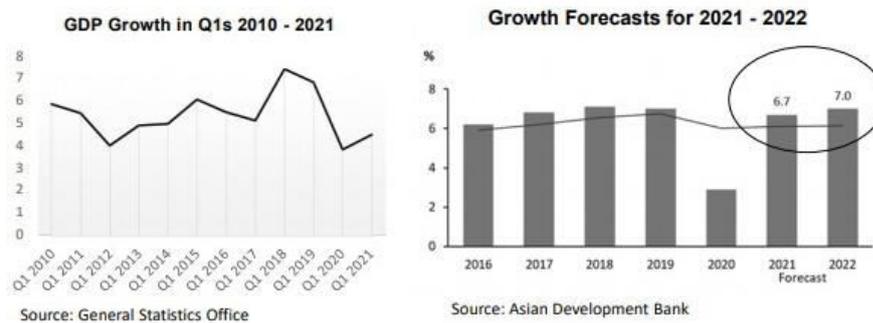
Because of its achievements in controlling the virus and generating good economic growth, Vietnam's role, position, and brand name were considerably enhanced worldwide in 2020. Vietnam aspires to be a developing country with modern industry by 2025, a developing country with modern industry and upper middle income by 2030, and a developed country with high income by 2045.

According to the CNCB, Vietnam is likely the top-performing Asian economy in 2020 — a feat that was achieved without a single quarter of economic contraction at a time when many economies globally were weighed down by the coronavirus pandemic (Yen Nee Lee, 2021).



2020 GDP growth of major Asian economies

According to the Nhan Dan Online (*The voice of the Party, State and People of Vietnam*), the economy is expected to grow by 6.7% in 2021 and 7.0% in 2022 – strong and steady growth made possible by Vietnam’s success in containing the COVID-19 pandemic. Vietnam’s economic growth will be boosted by export-oriented manufacturing, increased investment, and expanding trade. The growth momentum is expected to continue, thanks to ongoing reforms to improve the business environment and Vietnam’s participation in multiple free trade agreements involving almost all advanced economies (Trung Hung, 2021).



Growth Drivers:

- Manufacturing and services
- Public and private investment
- Exports

Vietnam’s growth is forecast to bounce back strongly in 2021 and 2022

Source: Asian Development Bank and General Statistics Office

3.4. Vietnam’s economic prospects for foreign investors

Because of Vietnam's location on the easternmost edge of the Indochinese peninsula,

Vietnam serves as a crucial connection between East, Southeast, and South Asia. The physical ties between these Asian areas, as well as the maritime linkages to the rest of the globe, have formed Vietnam's history and will continue to be important for its future.

In the backdrop of many big, medium, and small investors from industrialized nations increasingly shifting investment into Vietnam, the potential of attracting FDI in Vietnam in 2021 is promising. Vietnam is regarded as a "good land" for inflows of high-quality FDI. Following the COVID-19 pandemic, several big worldwide firms and businesses are seeking for investment possibilities to diversify the supply chain, supply and reduce dependency on the Chinese market. Because of its effectiveness in avoiding pandemics, Vietnam has emerged as one of the most promising contenders to embrace this changing capital flow.

According to the General Statistics Office of Vietnam¹, as of March 20, 2021, the total newly registered capital, adjusted capital, and capital contribution or share purchase by foreign investors, the total amount reached about 10.13 billion USD, an increase of 18.5 percent over the same period last year. In which, there are 234 newly licensed projects with registered capital of 7.2 billion USD, down 69.1% in number of projects and up 30.6% in registered capital over the same period last year; 161 turns of projects licensed from previous years registered to adjust investment capital with the additional capital reaching 2.1 billion USD, up 97.4%. There were 734 times of capital contribution to buy shares from foreign investors with the total capital contribution value of nearly 805.3 million USD, down 58.8%. Realized capital of foreign direct investment in the first quarter of 2021 was estimated at 4.1 billion USD, up 6.5% over the same period last year. The top five FDI partners in Vietnam are primarily Asian nations such as Korea, Japan, and Singapore, with the participation of Western countries among the top FDI partners being fairly low.

Despite the complex evolution of the worldwide pandemic scenario, Vietnam's foreign investment attractiveness remains high. The major cause might be the EU-Vietnam Free Trade Agreement, which went into force on August 1, 2020. In the future, Vietnam will most certainly enter a whole new era of attracting foreign direct investment. With the implementation of the EVFTA, Vietnamese firms will be able to participate in the phases of the new global supply chain, providing an excellent opportunity for Vietnam to fill gaps in regional and global supply chains.

Based on the above mentioned information, the success of Vietnam in attracting FDI should be assessed not just in terms of registered capital or payments, but also in terms of

¹ See more at the website of General Statistics Office of Vietnam: <https://www.gso.gov.vn>

measures to enhance the investment climate. The Vietnamese government has published many resolutions and action plans in order to fulfill its promise to strengthen the investment climate and business community for investors. A new “Law on Corporate Income Tax” has been incorporated into the conditions of the expansion project, which is also eligible for investment incentives. Industrial park investment incentives have been reinstated.

4. Discussion

Vietnam has the chance to restructure and better utilize new positions, therefore establishing itself on the global supply chain map. Vietnam, together with the other ASEAN nations, has the potential to become a hub for attracting international investment, particularly from countries in the Regional Comprehensive Economic Partnership. Vietnam is a viable location with several benefits, particularly in terms of anti-pandemic accomplishments. Vietnam also assures four characteristics that FDI firms look for when investing in a nation. These include competent human resources, and easy-to-use logistical infrastructure, a flexible regulatory framework, and a solid macroeconomic outlook.

Investors, on the other hand, have viewed Vietnam's achievement in terms of its capacity to contain and control the outbreak in the last year for more than other nations vying for FDI with Vietnam. This bright spot gives investors the impression that this is a location that can sustain the production and delivery of products and services to the global economy even in difficult times. However, the dual economy model in Vietnam, while showing some initial success, has caused significant issues (Dapice, 2003; Pincus, 2016) such as some regions are far more advanced and dynamic, whilst others are far more backward and quiet, natural resource exploitation is the primary driver of economic expansion, and this exploitation has resulted in environmental concerns... To overcome these matters, it is important to strengthen the investment environment in order to eliminate obstacles for individuals and enterprises across urban and rural areas, while also capitalizing on possibilities to attract foreign investment in the context of the trend of investment capital mobility, global supply chain. Especially, it is necessary to contain the COVID-19 pandemic, which suggests accelerating economic restructuring, producing standard products based on international standards, simplifying administrative procedures to attract foreign visitors, enhancing the domestic investment climate, and increasing the country's competitiveness.

Despite significant accomplishments, Vietnam's economic development confronts several obstacles as it contends with changing conditions and requirements (An Nhu Hai,

2019):

First, while we recognize the importance of economic growth and regard it as a critical task for development, we still lack a long-term holistic vision of development goals and a route with stages to properly carry out that mission.

Second, although natural resources, particularly land, mining, and marine regions, provide several advantages for economic growth, they have been underutilized. In many locations (particularly on farms), agricultural land is abandoned or used inefficiently. Many companies continue to lose money in the mining industry...

Third, despite being designated as critical resources, human, scientific, and technical resources, in particular, have inherent drawbacks.

5. Conclusion

In a turbulent year marked by the COVID-19 pandemic, Vietnam has emerged as a shining star, effectively controlling the illness and manufacturing a huge number of personal protective equipment for the rest of the globe. Vietnam is on many multinational businesses' investment expansion maps, and it is the leading investment attractiveness country in the ASEAN area. Vietnam has emerged as an important investment destination as well as a popular tourism destination in the Asia-Pacific area during the last two decades.

Recent geopolitical and trade competitions have revealed Vietnam to be a preferred location to regulate the world's production chains, as a country with a population of over 98 million people has enjoyed political stability in countries and free trade treatment from all of the world's major economies. Vietnam's successes after joining the European Free Trade Association, the EU-Vietnam Investment Protection Agreement, the Comprehensive and Progressive Agreement for Trans-Pacific Partnership, and other free trade agreements have helped Vietnam become a potential market for investment in the Indo-Pacific region. Accurately assessing the current situation and enacting appropriate policies to control the pandemic during the fourth wave of pandemic will enable Vietnam to capitalize on opportunities to improve the business and investment environment and develop the country in the third decade of the twenty-first century.

Conflict of Interest

The authors do not have any conflict of interest to declare.

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