

# Research on the Impact of the Business Environment on Attracting Foreign Direct Investment in Hai Duong Province

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## Abstract

In recent years, Hai Duong province has created favorable conditions for investors to inject capital into the region. However, compared to its potential, the amount of foreign direct investment (FDI) flowing into the province remains below expectations. Through research on the current situation of attracting foreign direct investment in Hai Duong, the research team has compiled data on the countries investing directly in the province, categorized by sectors and the total capital for each specific industry. Based on this, the authors propose several solutions to enhance the attraction of foreign direct investment to Hai Duong.

**Keywords:** Foreign direct investment, Business environment

## 1. Introduction

Hai Duong is a province that was re-established 20 years ago, and as such, most of its infrastructure systems have been developed to be relatively modern and synchronized. Additionally, with its geographical advantage of bordering the capital city of Hanoi and being part of the Red River Delta's key economic region, Hai Duong benefits from inter-regional dynamics. The province plays a significant role in the transportation and transshipment of goods between ports and other provinces, facilitating the import and export of raw materials. This helps reduce transportation costs and expands the market for enterprises investing in the province. These are key advantages that make Hai Duong an attractive destination for foreign

investors.

Thanks to the favorable investment environment and well-developed infrastructure, particularly in industrial parks and clusters, Hai Duong has become an attractive “destination” for many investors in recent years.

According to statistics from the Provincial Department of Planning and Investment, in 2016, Hai Duong attracted 28 foreign direct investment (FDI) projects with a total registered capital of 283.6 million USD. By the end of March 2017, the province had attracted nearly 400 FDI projects with a total registered capital exceeding 3.5 billion USD, a 2.78-fold increase compared to 2010. In the first three months of 2017 alone, the province granted investment certificates for 7 FDI projects with a total registered capital exceeding 67 million USD.

These FDI projects come from 18 countries and territories, including China, Hong Kong, Thailand, Japan, South Korea, Germany, the United States, and France, with Japan leading with 97 projects and a total registered capital of 2,106 million USD, accounting for 56.07% of the total projects and 72.04% of the total registered capital.

As a result, the implemented investment capital of FDI projects currently accounts for about 80% of the total registered capital. FDI enterprises have also strictly complied with their obligations to contribute to the state budget. In 2016, tax revenue from the FDI sector reached 1,319 billion VND, and in the first two months of 2017, it reached over 257 billion VND.

These results have been achieved in part due to the establishment of the Japan Business Support Office in Hai Duong, located in the Thăng Long II Industrial Park. This office focuses on promoting, attracting, and assisting Japanese investors in carrying out their investment activities in the province. The province's strategy emphasizes attracting large-scale FDI projects with high technological content and competitive products. As a result, most FDI projects in Hai Duong are concentrated in industries such as machinery production and assembly, mechanical engineering, electronics component manufacturing, information technology, textile and garment production, animal feed production, and infrastructure businesses.

Generally, these projects employ advanced and modern technologies, fostering cooperation, technology transfer, and knowledge sharing between domestic and foreign enterprises within the province. This includes modern technologies, advanced management skills, expertise, and work ethics and cultures.

However, despite the successes, there are still some challenges in attracting FDI to Hai Duong, specifically:

Firstly, the current state of foreign direct investment (FDI) attraction in the province is facing imbalances in both geographical distribution and sectors of investment. In reality, FDI capital is primarily concentrated in districts such as Văn Lâm, Mỹ Hào, and Yên Mỹ, while the remaining districts have only attracted a few small projects. Most of the FDI projects are focused on the industrial and commercial sectors, while the province's agricultural sector, which urgently needs investment to improve productivity, receives little attention.

Second, FDI projects still need to fully utilize local resources, resulting in a low localization rate, with most materials being imported. Additionally, environmental pollution issues such as air, soil, and water pollution in most industrial zones are becoming increasingly severe due to outdated and underfunded waste and wastewater treatment systems.

Third, regarding the management of industrial zones, it has been observed that most FDI enterprises in the province are concentrated in these zones. However, management still faces many inadequacies (delays in land clearance, most industrial zones not being implemented according to planning and requirements), negatively impacting the investment environment and hindering the investment activities of FDI enterprises in the province.

Fourth, some investors in Hai Duong province believe that many local workers do not meet job requirements due to limitations and inconsistencies in skills and qualifications.

In recent years, Hai Duong province has created favorable conditions for investors to pour capital into the province. However, compared to its potential, the amount of foreign direct investment (FDI) flowing into the province is still not commensurate with the potential and expectations set forth. The province's economic development needs from now until 2025 pose many issues that need immediate resolution. Therefore, researching and finding solutions to enhance FDI attraction for the province has become an urgent issue.

This article evaluates the current state of FDI attraction in Hai Duong and proposes several solutions to enhance FDI attraction to the locality in the coming time.

## **2. Current Situation of Foreign Direct Investment Attraction in Hai Duong Province**

Since the implementation of the policy to attract foreign investment until 2023, an increasing number of foreign investors have sought investment opportunities in Hai Duong province and decided to invest in the province. Each country has different characteristics and trends in overseas investment. Based on these characteristics and trends, the province needs to select countries and companies with appropriate technological levels for the province's development situation and potential to promote investment attraction. For example, projects in the information technology sector focusing on hardware and electronics mainly come from countries like Japan, South Korea, Taiwan, and the United States; Taiwanese projects often involve industries such as garment, agricultural product processing, export vegetables and fruits, animal feed, and electronic components. Japanese projects typically involve the production and business of various electrical and electronic components, parts, and details for devices; high-tech electronic equipment, parts, and components. South Korean projects often involve garments and electronic components.

Table 1. Statistics on Foreign Direct Investment (FDI) Projects in Industrial Zones in Hai Duong Province by Country/Territory as of the End of 2023

No.	Country/ Territory	Registered Capital (Million USD)	Percentage of Total FDI Capital (%)	Number of Registered Projects	Number of Active Projects
1	Japan	3,015.8	66.25%	137	129
2	South Korea	497.8	10.94%	50	43
3	China	256.2	5.63%	24	17
4	Hong Kong	186.9	4.11%	15	14
5	Singapore	132.1	2.90%	7	4
6	Switzerland	111.0	2.44%	1	1
7	Thailand	106.7	2.34%	3	3
8	Italy	71.2	1.56%	5	5
9	Taiwan	58.5	1.28%	4	1
10	Samoa	30.0	0.66%	1	0
11	Sri Lanka	18.6	0.41%	1	1
12	Indonesia	17.2	0.38%	1	1
13	United States	15.4	0.34%	1	1
14	United Kingdom	12.0	0.26%	1	1
15	Netherlands	9.4	0.21%	5	5
16	Germany	6.9	0.15%	2	2
17	Canada	3.9	0.09%	1	1
18	United Arab Emirates	2.2	0.05%	1	0
<b>Total</b>		<b>4,552</b>	<b>100%</b>	<b>260</b>	<b>229</b>

Source: Hai Duong Province Industrial Zones Management Board

As of the end of 2023, 18 countries and territories have registered to implement investment projects in industrial zones in the province. Japan leads with 137 projects and a total registered investment capital of 3,015.8 million USD, accounting for 52.7% of the number of projects and 66.25% of total investment capital; South Korea ranks second with 50 projects and a total registered investment capital of 497.8 million USD, accounting for 19.2% of the number of projects and 10.94% of total investment capital; China ranks third with 24 projects and a total registered investment capital of 256.2 million USD, accounting for 9.2% of the number of projects and 5.63% of total investment capital; followed by Hong Kong with 15 projects and a total registered investment capital of 186.9 million USD, Singapore with 7 projects and a total registered investment capital of 132.1 million USD, etc.

The trend of FDI investment in Hai Duong in recent times has focused on the electronics, mechanics and chemicals industries, which require high technology and are the industries that this province prioritizes in its industrial development strategy and have the potential for long-term, sustainable development. FDI capital is mostly invested in the electronics, mechanics and chemicals industries, whose products are playing an important role in the industrial sector's GDP in particular and the whole province's GDP in general. This is a positive sign since the long-term industrialization process must rely mainly on these industries. By the end of 2018, FDI capital in the industrial sector of Hai Duong province reached 3.78 billion USD, accounting for 94.97% of the total investment capital of the whole province. The investment structure in Hai Duong in recent years has become increasingly

consistent with the socio-economic development goals of the country in general and the province in particular. It can be said that the overall structure of industries in attracting FDI reflects and properly implements the socio-economic development orientation of the province towards industrialization and modernization, aiming to exploit all potentials and advantages to build Hai Duong into an economic, industrial, commercial and service center of the Northern region.

Table 2. Licensed foreign direct investment by economic sector (Valid projects accumulated as of December 31, 2023)

Sector	Number of licensed projects	Total registered capital (Thousand USD)
Agriculture, forestry and fishery	1	8,000
Manufacturing, processing	414	4,362,071
Water supply, sewerage, waste management and remediation activities	2	16,288
Construction	7	17,404
Wholesale and retail trade, repair of motor vehicles and motorcycles	14	8,844
Transportation and storage	5	52,061
Accommodation and food service activities	2	3,621
Information and communication	1	1,244
Financial, banking and insurance activities	1	18,130
Real estate industry	9	158,092
Professional, scientific and technical activities	6	10,800
Education and training	2	55,000

Source: Hai Duong Province Statistical Yearbook

Table 3. FDI scale by 3 major industry groups

TT	Industry, field	Number of project	Total capital (Thousand USD)	Proportion (%)	
				Project	Capital
1	Agriculture, forestry and fishery	1	8,000	0.20	0.15
2	Industry and Construction	441	4,895,960	91.49	93.94
3	Services	40	307,792	8.29	5.90
<b>Total</b>		<b>482</b>	<b>5,211,752</b>	<b>100</b>	<b>100</b>

Source: Hai Duong Province Statistical Yearbook

The above summary table shows that FDI investment in Hai Duong in recent years has mainly focused on the industrial and services sectors. Agriculture has only one project for processing agricultural products and producing animal feed. Perhaps this is also an inevitable trend of foreign investors. In terms of business, they have a firm grasp of technology, capital, and management skills. Meanwhile, investing in Vietnam in general and Hai Duong in particular will take advantage of the opportunities including land prices, cheap labor prices, and policies on protecting domestic production. In particular, Vietnam imposes high taxes on imported cars and motorbikes; allows exemption from import tax, exemption from tax on components and spare parts for 5 years if imported to manufacture products for export; domestic enterprises are only allowed to import tax-free machinery, equipment, and means of

transport to create fixed assets that cannot be produced domestically, which also means creating conditions for FDI enterprises to consume products such as machinery, equipment, and means of transport. In the last few years, motorbike manufacturing enterprises have benefited the most from this protection policy for a long term, with the import tax on imported motorbikes reaching 100% and the import of cars, especially 4-9 seat cars, is prohibited by the government. However, it must be acknowledged that the number of FDI projects invested in Hai Duong recently has continuously increased, which is consistent with the planning and socio-economic development plan of the province .

### **3. Solutions to Enhance Foreign Direct Investment Attraction in Hai Duong Province**

The province needs to adjust its planning and investment attraction plans to adapt to the actual situation, including strengthening on-site investment promotion. The province also needs to pay more attention to promoting and supporting FDI, especially applying diverse investment attraction policies, focusing on improving administrative procedures, making the investment and business environment transparent, and creating the most favorable conditions for foreign investors to research and implement projects in the area. The province also needs to supplement and complete sectoral planning and spatial planning for each district and town to create a reasonable spatial structure and product structure, synchronously develop economic zones and economic sectors of the province, and expand investment space in all districts. Planning work needs to be changed.

To implement the planning, appropriate investment is needed for a comprehensive survey and evaluation of FDI activities up to now, assessing the effectiveness in each industry, region, and with each partner based on different forms of investment to gain a holistic view of the effectiveness of FDI activities in the past. Consulting with scientists both domestically and internationally during the planning process is also necessary and should be done. Organizing delegations to visit and survey the successful and unsuccessful experiences of neighboring provinces is also very important.

The development of the FDI plan must incorporate the following viewpoints:

- (i) The FDI plan must be closely linked and an integral part of the socio-economic development strategy of the province in particular and the country in general, as well as aligned with regional and sectoral development plans, based on the balanced allocation of domestic and foreign resources.
- (ii) The FDI plan must ensure clarity and specificity while also being open, adaptable, and forward-looking.
- (iii) The FDI plan must closely align with the existing capabilities and conditions of the province, identifying the opportunities and challenges for the national economy in general and FDI activities in particular to realize the goals set out in the plan.
- (iv) The FDI plan must satisfy both scientific rigor and feasibility.

Based on the above viewpoints, the development of the plan needs to be organized and implemented according to the following process:

- (v) Conduct a comprehensive investigation of FDI activities and evaluate their effectiveness to identify both the strengths and weaknesses of this activity, pointing out the industries, districts, and towns that effectively attract and utilize FDI. To achieve this step, the most important thing is to establish a system of criteria and viewpoints for evaluating effectiveness.
- (vi) Research and survey the experiences of several countries and regions in planning.
- (vii) Draft a plan to attract and utilize FDI, identifying industries with advantages in attracting FDI, those that are less capable of attracting FDI, and sectors that need to attract FDI, especially high-tech industries, which require appropriate policies and measures.
- (viii) Organize consultations with scientists and experts both domestically and internationally.
- (ix) Finalize the plan and issue it.
- (x) Organize implementation and monitor the execution.
- (xi) Periodically summarize and evaluate, making necessary updates and amendments. The process of making amendments and updates should also follow the initial development process (depending on the content of the amendments or updates, appropriate roles and scopes should be selected).

The development of the plan requires appropriate attention and a certain budget. This funding, invested by the State and Hai Duong province, is the most reasonable approach, maximizing support from other sources such as collaborating with international organizations in surveying, investigating, evaluating, and building an effective system of viewpoints, as well as learning from foreign experiences.

A well-constructed plan serves both as a solution and a condition for the entire FDI activity, including management activities, to become effective.

Priority should be given to investing in industries that create products with high intellectual content and high-tech industries, such as machine tool and engine manufacturing, and the assembly of automobiles and motorcycles; as well as electronics. Gradually develop commercial centers, financial and banking markets, service markets, technical consulting, marketing, and hotel services. Establish a number of supermarkets and comprehensive service centers. Central ministries and sectors should closely coordinate with the province in developing the Hai Duong development plan, thereby creating investment promotion projects and announcing them to foreign investors to facilitate their selection of projects and effective investment locations.

Enhancing the quality of the overall planning, in general, and foreign investment planning, in particular, will prevent the situation of indiscriminate investment and investment driven by trends, which can waste resources, reduce the effectiveness of FDI projects, and diminish foreign investors' confidence.



### **Competing interests**

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

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No additional data are available.

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