The Marketing Approach to FDI Attraction

NGUYỄN QUỐC NGHI* & NGUYỄN HỮU THUẬN**

ABSTRACT

In the period 2000-2010, the foreign sector witnessed a quantitative and qualitative rise, becoming a crucial part of Vietnam's economy. Foreign direct investment (FDI) accounts for around 20% to 30% of the gross investment. In past years, attention has been only paid to the number of FDI projects and their registered capital, instead of their quality. Moreover, together with shortcomings in the infrastructure, inconsistency in investment attraction policy and inefficient promotion and communication policies made Vietnam's business climate less attractive in the eyes of foreign investors. Therefore, from the marketing approach, the paper is to extend several measures to improve the FDI attraction in Vietnam, making it an ideal business environment for both local and foreign investors.

Keywords: FDI, investors, marketing approach

1. INTRODUCTION

From a starting point as a subsidized economy severely damaged by the US Embargo and poor productivity, Vietnam's economy, some 20 years after its economic reform was launched, has attained high growth rates, better living standards and improved infrastructure. Its average growth rate in 1990-2000 was 7.5% and its GDP doubled in this period and kept increasing. In 2001-2010, its growth rate was 7.25%, slightly lower than that of the previous period but rather stable. Vietnam's economic structure was improved positively, resources from all sectors were properly tapped and comparative advantages of all industries and provinces were developed with the result that the competitiveness of the economy was improved considerably.

These achievements proved that the policy on economic reform was right and the Government succeeded in making the best use of both external and internal resources, including the FDI as an important factor. There is no denying the fact that FDI has played a crucial role in Vietnam's economic growth in the past decades. Its spillover effect, however, is limited because its size is still small, its main operation is to carry out subcontracts for multinationals, and it produces mostly exports of low profits (Minh Anh, 2012).

In the second decade of the 21st century, Vietnam should take a more effective approach to FDI development, pay more attention to quality of development of the foreign sector, and give priority to sustainable development when devising policies on FDI.

* University of Cần Thơ

Email: quocnghi@ctu.edu.vn

** University of Cần Thơ

Email: nhthuan84@student.ctu.edu.vn

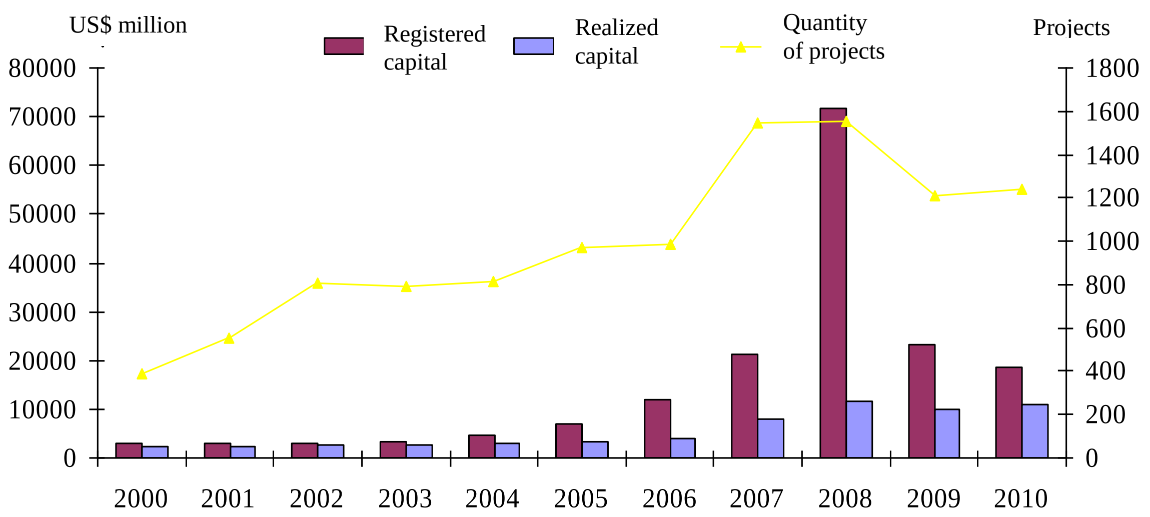
2. DATA AND METHODOLOGY

The research employs secondary data about FDI and competitiveness of Vietnam supplied by Foreign Investment Agency (FIA), Ministry of Planning and Investment (MPI), Vietnam Chamber of Commerce and Industry (VCCI), and World Bank. The market approach as introduced by Phillips Sidel (2002) and expert method are employed to analyze the development of FDI in Vietnam and shape measures to improve FDI attraction making Vietnam an ideal destination for foreign investors.

3. RESULTS AND DISCUSSION

a. FDI in Vietnam in 2000-2011:

Since the Foreign Investment Law 1987 came into effect, Vietnam has accomplished positive achievements in attracting FDI. As from 2000 to Dec.19, 2010, Vietnam has approved 10,860 FDI projects with a total registered capital of US$170,344.2 million. In the period 2004-2007, the inflow of FDI to Vietnam surged with the appearance of large-scale projects in manufacturing (i.e. steel, electronics, high-tech products, etc.) and service (i.e. seaports, real estate, IT, tourism and high-class services, etc.) sectors. Such achievements are due to improvements in the investment climate, amendments and modifications to the Foreign Investment Law. Moreover, Vietnam's government also allows indirect foreign investment in 35 fields, simultaneously opens several government monopolies (i.e. electric supply, insurance, banking, and telecommunication, etc.) to foreign investment, and permits the conversion of foreign-invested enterprises into joint stock companies.



Source: Ministry of Planning and Investment

Figure 1: Inflow of FDI to Vietnam in 2000-2010

The gross FDI in 2008 reached a record high of US$71.7bn. There were 11 FDI projects with the registered capital of more than US$1bn, and the average registered capital for each amounted to US$46m. However, in the gloomy context of the world economy, Vietnam, after overcoming several difficulties (such as huge trade deficit, high inflation, and depressed stock market) has to face the financial crisis that reduces the inflow of FDI. Economic recession certainly made investors more careful about their overseas investments. In 2009-2010, in spite of falls in both registered capital and the disbursed capital compared with the previous year, the inflow of FDI to Vietnam still increases in comparison with that of previous years.

According to the Department of Foreign Investment, within the first ten months of 2011, around 861 new projects were licensed with the gross registered capital of US$8.88bn, equaling 70% of the capital registered in the same period last year; and 264 projects registered a rise in capital which amounted to US$2.4bn and increased by 38% compared with the same period last year. Overall, in the first ten months of 2011, Vietnam's net inward FDI was US$11.27bn, equaling 78% of the volume registered in the same period last year; the disbursed capital was US$9.1bn, rising by 1% compared with the same period last year. Apparently, foreign investors continue to believe in Vietnam's recovery and long-term potentials.

Furthermore, import and export by the foreign sector is very encouraging. The total export turnover (including crude oil export) in the first ten months of 2011 expectedly reaches US$43.2bn, increasing by 38% compared with the same period last year. Yet without crude oil export, these figures would be US$37.08bn and 36%. The gross import turnover is US$38.29bn, rising by 29% in comparison with the same period last year. In sum, the trade surplus of the foreign sector is US$4.9bn if the turnover of crude oil export is included; and its trade deficit is US$1.2bn otherwise.

FDI by investors' nationality: In an effort to multilateralize and diversify its cooperation with foreign partners and make friend with all countries and territories, Vietnam has thus far welcomed investors from 94 countries and territories. Most of them are from South Korea, Taiwan, Singapore, and Japan, representing 58.5% of FDI projects and 45.3% of registered capital. FDI structure has experienced almost no change in recent years: Asian investors are the most important, accounting for 77.4% of FDI projects, and 68% of registered capital. The ASEAN investors hold 26% of the gross registered capital. European investors constitute 22.6% and 10% of which is from the EU. Investors from the American continent (excluding USA) represent 5%; and investments from the USA has soared in recent years, accounting for 5% of projects and 6.5% of registered capital, since Vietnam entered into the US-Vietnam Bilateral Trade Agreement in 2001.

At present, some 22 countries commit a registered capital of more than US$1bn in Vietnam, namely South Korea (US$28.9bn), Taiwan (US$23.8bn), Singapore (US$23.3bn), and Japan (US$22.3bn), etc. Yet, in terms of the capital realized, Japan ranked top with a disbursed capital of some US$5bn, followed by Singapore (US$3.8bn), and South Korea (US$2.7bn), etc.

FDI by industry: FDI projects mainly concentrate in the manufacturing sector, which contributes a lot to industrialization of Vietnam's economy. The structure of FDI by industry, until October 2011, has shown that 64.5% of FDI projects went to the manufacturing sector, accounting for 56% of the gross registered capital. The FDI inflow in agricultural sector is very modest in terms of quantity, registered capital, and capital realized. More noticeably, while the FDI in 1990s flew to extractive and import-substitution industries, it is since 2000 that they have veered to the manufacturing and export-oriented industries, making Vietnam's export turnover soar. In recent years, there has been a massive influx of FDI into the service sector, specifically the realty trading and accommodations industry. Up to June 30, 2011, there have been 361 FDI projects capitalized at US$48.1 billion in realty market and 308 projects worth

US$11.7 billion in accommodations. Several other services also attracted FDI: 669 projects in telecommunication and information; 141 projects in education; and 75 projects in banking-finance and insurance. In the agriculture up to July 30, 2011, there have been 448 valid FDI projects accounting for 3.76% of total number of FDI projects and 1.56% of total registered capital.

FDI by zone: FDI has flown to all corners of Vietnam. Nonetheless, in past years, there have been few changes in the structure of FDI by zone. Most of them are gravitated towards big cities and industrial parks where infrastructure is rather good and sources of skilled labor are abundant. In 2010 alone, HCMC, Hà Nội, Bà Rịa – Vũng Tàu, Đồng Nai, and Bình Dương held 54.5% of the gross registered FDI capital and 72.2% of FDI projects of the whole country. Up to September 2011, HCMC was the favorite destination of FDI with 4,102 valid projects and a total registered capital of US$31.6 billion.

Recently, many provinces have actively improved the investment climate and gained certain achievements. This effort led to changes in the list of the most attractive destinations for FDI in 2010 in which Quảng Nam took the first place with US$4.2 billion of registered and additional capital, equaling 22.5% of total FDI in Vietnam. Quảng Ninh and Cà Mau also improved their places in 2010. Statistics also reveal that even though the government has offered incentives to investments in depressed zones, the flow of FDI to such provinces is very limited.

b. Some Shortcomings in FDI Attraction in Vietnam:

Overall, by attracting FDI projects, Vietnam has fulfilled its targets, that is, attracting capital, technology, and managerial skills of foreign investors, and tackling unemployment. Yet, in addition to achievements, there are also some drawbacks related to FDI attraction in Vietnam.

Firstly, it is necessary to refer to drawbacks of the business climate. Once a company would like to make an investment abroad, it may research the business climate of the entire region but not merely a target market. According to a report on the business climate in 2010 rendered by the World Bank and the International Financial Committee, Vietnam is ranked 90th out of 183 countries. Yet in 2011, Vietnam was again left farther behind when dropping to the 98th place and ranked fifth in ASEAN after Singapore, Thailand, Malaysia, and Brunei. While Malaysia and Brunei made good progress in improving their business climate, Vietnam suffered the most serious backsliding in the ASEAN bloc.

Additionally, the preferential tax policy on FDI projects is also a matter of concern to foreign investors. At present, while most FDI projects concentrate in the manufacturing sector, the Decree 124/2008/NĐ-CP concerning the execution of the Law on Corporate Income Tax prescribes that industrial parks and export processing zones shall not enjoy any tax incentives. This can hinder investors from pouring capital to Vietnam. German Bosch is a typical example. Bosch Vietnam has grown up quickly and become a manufacturing and R&D center of Bosch in Southeast Asia. Recently, Bosch has decided to raise its investment to US$132.6 million in 2015 from US$73 million; and this investment is for Malaysia instead of Vietnam for its more favorable policies.

Secondly, target customers are not specified, making FDI attraction policy inappropriate and quantity-weighted. This can generate unruly rises in investment projects, waste of natural and human resources, and even imbalance in the structure of industries. Actually, in the period 2007-2008, there is a sudden influx of FDI into Vietnam, which increases by some billion US dollars per month. In 2011, many FDI projects were revoked. Đà Nẵng Export Processing and Industrial Zones Authority (DIEPZA) has notified the Đà Nẵng Municipal People's Committee of nullifying 17 FDI projects and warning 15 others that are operational in six industrial parks in the city. HCMC People's Committee also revoked the license of Thủ Thiêm Software Park (whose registered capital is US$1.2 billion) for its tardy implementation, land-use liabilities, and late payment of interest.

In addition, development of the foreign sector in Vietnam much depends on the economic growth pace of the region because majority of foreign investors in Vietnam come from Asia. Japan, for example, has become the biggest ODA sponsor and the second largest investor in Vietnam. After the earthquake and tsunami in Japan in March 2011, there appeared worry that the Japan's FDI inflow in Vietnam would fall short of target when Japanese companies should mobilize capital to reconstruct their country.

Thirdly, the investment climate is not scientifically positioned. Although Vietnam's government has figured out ample factors to attract foreign investors, such as political stability, good macroeconomic management, ideal geographical location, young and qualified laborforce, competitive wage, market full of potentials based on increasing population and personal income, improved legal system, decreasing business cost, import duty exemption, corporate income tax reduction, multiple mode of investment allowed, deletion of forex control, and more industries open to foreign investment, etc., both authorities and individuals give much different answers when asked about two most attractive factors in the business climate.

Theoretically, in order to attract FDI, the government should meet the need of all foreign investors, which seems impossible in practice because their expected interests are much different. Hence, it is required that Vietnam needs to position its own investment climate to attract FDI of high quality.

Fourthly, activities to attract FDI have not been emphasized. Some drawbacks in Vietnam's FDI attraction include lack of a specific plan, list of industries behind the concern of foreign investors, bad promotion activities in foreign markets, inadequate supply of information, inefficient propagation, outdated online news, etc. Thus, any plan or program of FDI attraction should be based on the satisfaction of foreign investors' need.

Fifthly, the legal system and investment policies are not consistent, clear-cut, and predictable. Project appraisal, and output and input cost management have not been well performed, which adversely affects benefits of enterprises and the entire country as well. Inexact forecast of rises in FDI projects has led to excess of certain goods or services (i.e. automobile assembling, hotels, etc.) over demand. Consumer goods such as beer, beverage, soap, etc. from foreign-invested companies fiercely compete with those produced by domestic enterprises, causing the domestic consumption to go down and the market to contract. These shortcomings make business expenses shoots up, making Vietnam's investment climate less attractive in comparison with some other countries in the region, especially China.

According to the report on Provincial Competitive Index 2010 (PCI 2010) issued by Vietnam's Chamber of Commerce and Industries, some 18% of 1,155 FDI enterprises had to pay unofficial charges and commissions when carrying out the procedure of business registration. This can explain the great gap between the registered capital and the disbursed capital of FDI inflows in Vietnam.

c. Solutions to FDI Attraction from the Marketing Approach:

Through evaluating some drawbacks of Vietnam's FDI attraction, the author would like to extend several solutions to this issue in light of the marketing approach. As Phillips Sidel (2002) put it, when developing and analyzing a marketing plan, five variables are examined: (1) target audience, (2) product, (3) positioning, (4) scope of distribution, and (5) scope of communications. In the context of Vietnam, these five variables will be investigated as follows.

- Target Audience:

In FDI attraction, target audience means a specific group of target investors who are interested in benefits generated from the target investment climate. In order to opt for this group, Vietnam's government needs to thoroughly consider the socioeconomic development of each province, its economic structure, and human resources; and then define the demand of target investors and do the best to satisfy their demand better than other rivals. Different provinces should aim at different target groups depending on the local capacity, natural conditions, and attractiveness.

Experience from HCMC shows that as a driving force for southern provinces, HCMC has competitive advantages in telecommunications, information technology, oil prospecting, electricity, highway building, environmental project management and aviation, and therefore investors in such field are its target audience. At present, many Japanese and Singaporean investors in HCMC are doing business in fields where they hold advantages. Similarly, Eastern South with natural conditions favorable for various industrial crops (rubber and pepper, etc.) may attract investors specializing in agricultural production.

- Product:

This term refers to whatever can satisfy target audience by its own value. In FDI attraction, product may be construed as investment policies, interests offered by policies and investment climate. According to the "Japan-Vietnam Joint Initiative" launched in 2003, product is not FDI attraction policy but the investment climate.

Michael Porter, when analyzing decisive factors of national competitive advantages, states that a favorable investment climate is decided by four following endogenous factors:

(i) Production materials: human resources, natural resources, knowledge resources, infrastructure, and source of capital.

(ii) Domestic demand: a locality with high demand will attract more investors.

(iii) Competitive factors: Existing rivals are companies that have already controlled some market shares and potential rivals include those who are interested in the market. In the event that existing enterprises have controlled most of market segments and had more experience in the target market, foreign investors will certainly be reluctant to make an investment.

(iv) Support industries: Interrelated industries are the ones where companies can collaborate with each other or share activities in the value chain. They are also industries that produce closely-connected goods (computer and software, printers and ink, etc.)

At present, provinces in Vietnam can only attract FDI by offering their existing advantages. However, this is not a sustainable development trend due to the fact that these advantages may change over time and become inappropriate for investors' need. Therefore, the central and local governments should develop their comparative advantages to improve the investment climate and establish a sustainable competitive edge. For example, a province may relies on its abundant natural resources (minerals, oil, etc.) as competitive advantage to attract the FDI, but such resources will exhausted over time. Therefore, each province should develop its advantages based on a favorable business climate, especially the roles of administrative reform and support industries.

- Positioning:

Ambiguous positioning is also a drawback to Vietnam's FDI attraction. Positioning has come to mean the process by which Vietnam tries to create an image or identity in the minds of their target investors for its investment climate. In order to make it work, it is necessary to attend to the followings:

(i) Who are the target investors? What is their need? What are their determinants when choosing an investment climate?

(ii) What are the local advantages? To which extent can the province satisfy the investor's need?

Thus far, Vietnam has tried its best to improve its investment climate in order to create a nice image in the mind of target investors for its investment climate. Yet, Vietnam should bear in mind that future market size and cheap labor force are two most attractive factors to Asian investors; and China has them both. Therefore, for competitive positioning, it is necessary to promote the effectiveness of FDI attraction. Mai Thế Cường (2005) extends three positioning solutions for the investment climate in Vietnam as follows:

(i) Vietnam would like to become a healthy investment climate, which can help foreign investors disperse risks from China and other ASEAN countries. In the electronics industry for example, Matsushita can diversify its business into Vietnam to reduce its risks though it has invested a lot in Malaysia. Cannon, in fact, has done that to reduce risks in China.

(ii) Vietnam commits itself to providing foreign investors with skilled and self-disciplined human resources.

(iii) Vietnam can connect South China and ASEAN, and become an ideal place to access these two big markets. For example, the North Vietnam with many universities and research institutes will attract high-quality FDI projects while the South Vietnam can join in the production network of ASEAN and China owing to its geographical advantages and 10% of Chinese-Vietnamese population.

Story of Intel investment in Vietnam is an example of positioning. From February to November 2006, Intel decided to increase its investment in the chip assembling and testing factory in Vietnam from US$300 million to one billion. This is not only the first semiconductor factory in Vietnam but also the Intel's biggest chip assembling and testing factory. This fact reflects a success in positioning of Vietnam and HCMC as well when Vietnam is less competitive than other countries in certain aspects: Vietnamese market is smaller than many others, such Chinese and Indian ones; while Intel can enlarge their facilities in other countries to save costs and make the best use of infrastructure. But it discovers other strong points in HCMC and Vietnam, such as a high and stable growth rate for years, social and political stability and a position in the world's most dynamic region. That is why Intel decided to invest in HCMC Hi-Tech Park.

Additionally, Vietnam as a market with well-trained labor can be also taken into account. Local laborers are trained according to demand by companies while readiness of overseas Vietnamese experts in high technology to return to and work in their home country also gives a good impression to foreign investors.

- Scope of Distribution:

In marketing sense, it means the process and location that customers can acquire products and other after-sale services; yet from the view of FDI attraction, it refers to the process and location that a foreign investor can register and run their business as well as seek for after-registration services. If after-registration services are good, they will enable investors to operate their investment projects. After-sale services in which investors are interested are supports related to land clearance, tax policy, reporting procedures, and customs.

Even though Vietnam has improved its activities of investment promotion and simplified the licensing procedure, many investors still believe that some policies lack stability and clarity. In sum, a complete policy framework from generic zoning to sectoral zoning and other supporting plans are imperative to foreign investors; and once investors' need is met, it is highly possible that they would diversify their business into Vietnam and recommend it to others as well.

- Scope of Communications:

These are the way and place at which the positioning message aims. After defining target audience, Vietnam needs to establish an appropriate propagation scheme to broadcast such message to target investors. It is also necessary to study and employ three techniques of investment promotion developed by Wells and Wint (1991), that is, image-creation technique, creation of sources for investment, and investment services. The techniques can be employed separately or combined together in propagation programs. Besides, it is important to fathom target investors as well as their needs in order to provide them with specific, adequate and transparent information about the FDI attraction policy of Vietnam instead of generic one.

Vietnam has an advantage of a young population that love new technologies and knowledge, so it is a potential market for PCs and laptops. Competition in this market is not too fierce while tax policy offers various incentives to producers and distributors of such products. In this case, access to major investors may encourage development of IT-related industries. After Intel decided to build its factory in HCMC, Nidec – a Japanese group specializing IT and electronics – also increased its investment in the HCMC high-tech park from US$500 million to one billion for the next 5-year period. This sum equals some two-fifths of total overseas investment by Nidec for the years 2006-2010■

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