

**MINISTRY OF EDUCATION**

**MINISTRY OF FINANCE**

**ACADEMY OF FINANCE**

**HOÀNG PHƯƠNG ANH**

**FINANCIAL POLICIES FOR FOREIGN DIRECT  
INVESTMENT ENTERPRISES IN VIETNAM**

Major: Banking and Finance  
Code: 09.34.02.01

**SUMMARY OF ECONOMIC DOCTORAL THESIS**

**Hanoi - 2021**

**The project is completed  
at the Academy of Finance**

**Research Supervisor    1. Assoc. Prof. PhD.Vũ Văn Ninh**

*Reviewer 1:* .....

*Reviewer 2:* .....

*Reviewer 3:* .....

**The thesis will be defended at the thesis defense meeting at  
Thesis Judging Committee  
Academy level, at Academy of Finance, at .... 2021**

**The thesis can be found at the National Library  
and the Academy of Finance Library**

## INTRODUCTION

### 1. The urgency of the topic of the Thesis

FDI enterprises play an extremely important role in the economies of developing countries. Because of that, countries are constantly implementing policy reforms, including financial policies, with an aim to attract investment from high-quality FDI enterprises, and Vietnam is not an exception.

In recent years, Vietnam has been constructing and refining the financial policy system for foreign direct investment enterprises, including many attractive financial incentives. While financial incentives will reduce revenue as well as burden the national budget, what are the impacts of these policies on investment decisions of FDI enterprises? This is yet a controversial question among researchers around the world.

The forementioned facts raise a need to research and clarify the relationship between financial policy on investment decisions and performance of foreign direct investment enterprises in Vietnam, thereby propose solutions to address the underlying problems in constructing financial policy for the development of FDI enterprises.

Accordingly, with the desire to contribute to explaining theoretical and practical issues, and to propose some solutions to improve financial policies for FDI enterprises in the near future, the author chooses the topic: "*Financial policy for Foreign Direct Investment enterprises in Vietnam*" for the doctoral thesis majoring in Banking and Finance.

### 2. Research Objectives and Responsibilities

The research objective of the thesis is to refine the financial policy for Foreign Direct Investment enterprises in Vietnam. To achieve this research objective, the thesis will address the basic research responsibilities as follows:

- Systematize theoretical issues about FDI enterprises and basic financial policies for FDI enterprises. Research the experiences of some countries in the world on financial policies for FDI enterprises, thereby drawing lessons for Vietnam.
- Conduct analysis on current situation of financial policies for FDI enterprises in Vietnam from 2000 to 2018, clearly showing the relationship between financial policies, investment decisions and

business performance of foreign direct investment enterprises in Vietnam. Assess the strengths and limitations that exist in the current financial policy for FDI enterprises when investing in Vietnam, specifying the causes of the limitations.

- Establish reviews on financial policies for FDI enterprises in Vietnam, making recommendations to improve financial policies for FDI enterprises in Vietnam in the coming time.

### **3. Object and scope of research**

- *Research object*: Financial policies for Foreign Direct Investment enterprises.

- *Research scope*:

+ *About the content*: focus on 3 financial policies for FDI enterprises are tax policy, budget expense policy and land finance policy.

+ *About time*: The topic focuses on studying financial policies for FDI enterprises in Vietnam in the period from 2000 to 2018.

+ *About space*: FDI enterprises sector in Vietnam

### **4. Research Methodology**

#### ***4.1. Methodology***

In order to achieve the goal, scope and research object of the topic, the researcher uses the methodology of dialectical materialism and historical materialism throughout the research process.

#### ***4.2. Research Methods***

The synthetic method is used to inherit the theory of loan portfolio management being applied in developed countries, thereby forming the theoretical basis for the thesis topic.

Quantitative method: The researcher uses reliability analysis tools, exploratory factor analysis (EFA), ordinary least square linear

regression (OLS) to clarify the impact of financial policies on FDI enterprises in Vietnam.

Deductive and inductive methods: mainly used in chapter 2 of the thesis, to analyze the current situation of financial policies for FDI enterprises in Vietnam.

### ***4.3. Data collecting methods***

The secondary data collected and analyzed are the overview data on financial policies for FDI enterprises in Vietnam and the status of FDI enterprises in Vietnam (annual report of Foreign Investment Department, Ministry of Planning and Investment, General Department of Taxation, Ministry of Finance,...).

## **5. New contributions of the thesis**

### **5.1. Theoretical aspects**

Firstly, the thesis has systematized and contributed to clarifying the underlying theoretical problems of financial policy for Foreign Direct Investment enterprises.

Secondly, the project has analysed the overview of foreign direct investment enterprise, thereby delves into the financial policy research for foreign direct investment enterprises.

Thirdly, the thesis focuses on considering financial policies and impacts of financial policies on foreign direct investment enterprises; At the same time, the thesis examines the factors affecting the financial policy of foreign direct investment enterprises.

Fourthly, the thesis has investigated the experience of using financial policies to foreign direct investment enterprises in other countries. On that basis, the thesis has drawn important lessons for Vietnam.

### **5.2. Practical aspects**

Firstly, from an overview of the development of foreign direct investment enterprises in Vietnam in recent years, the thesis has

investigated the current situation of financial policies for enterprises. having foreign direct investment capital in Vietnam. Next, the thesis examined the impact of financial policies on FDI enterprises in Vietnam.

Secondly, the thesis has evaluated the advantages and limitations of the policy, and thereby identified underlying causes of the limitations, including 4 objective reasons and 9 subjective reasons. .

Third, combining theory and practical assessment, the thesis has proposed a system of solutions to complete financial policies for foreign-invested enterprises in Vietnam, including 3 broad categories of solutions as well as their corresponding conditions of implementation.

## **6. Structure of the thesis**

In addition to the Introduction, Conclusion, List of references and Appendices, the thesis is consisted of 3 chapters as follows:

Chapter 1: Theory of financial policy for foreign direct investment enterprises.

Chapter 2: Current situation of financial policies for foreign direct investment enterprises in Vietnam.

Chapter 3: Solutions to refine financial policies for foreign direct investment enterprises in Vietnam.

## **Chapter 1**

### **THEORY OF FINANCIAL POLICY FOR FOREIGN DIRECT INVESTMENT ENTERPRISES**

#### **1.1. Foreign direct investment enterprises:**

##### ***1.1.1. Definition and characteristics of foreign direct investment enterprises***

###### ***1.1.1.1. Definition***

From researching, the thesis states that *"Foreign direct investment enterprise is an enterprise which has foreign individuals or organizations invested in and directly involved in the management of production and business activities in the host country."*

***1.1.1.2. Characteristics of enterprises with foreign direct investment capital:***

FDI enterprise is a separate type of enterprises, therefore FDI enterprises have all the characteristics of enterprises in general. Specifically:

- *Firstly*, FDI enterprises have legality
- *Secondly*, FDI enterprises are organized
- *Thirdly*, FDI enterprises have frequent business or services activities

Besides the general characteristics of enterprises, FDI enterprises also have their own characteristics to distinguish them from other types of enterprises. Specifically:

- *Firstly*, it is required that there are foreign individuals or organizations involved as business owners.
- *Secondly*, it is required that the foreign investor directly participate in the management of investment activities of the enterprise.
- *Thirdly*, investment and production and business activities of FDI enterprises are affected by many different environments.

### ***1.1.2. Impact of FDI enterprises on the economy of the host country***

#### *1.1.2.1. Positive impact:*

Firstly, FDI enterprises are an important additional source of capital for the economy

Secondly, FDI enterprises are the bridge for technology transfer and technology development

Thirdly, FDI enterprises play an vital role in transforming the economic structure of developing countries towards industrialization.

Fourthly, FDI enterprises act as catalysts to promote import and export for the host country

Fifth, FDI enterprises contribute to the development of human resources for countries being invested.

#### *1.1.2.2. Negative effects:*

Firstly, overfocusing on the development of the FDI sector will cause significant economy dependence, leading to unsustainable development.

Secondly, the phenomenon of "transfer pricing" of FDI enterprises is becoming more and more sophisticated, causing damage to the state budget revenue of the host country.

Third, developing countries are facing the risk of becoming technology dumping grounds.

***1.1.3. Criteria to evaluate the results of attracting FDI enterprises and the performance of FDI enterprises:***

+ Growth rate in the number of FDI enterprises

$$T = \frac{D_1 - D_0}{D_0}$$

+ Growth rate of total business capital of FDI enterprises:

$$T_v = \frac{V_1 - V_0}{V_0}$$

+ Revenue growth rate =  $\frac{DT_1 - DT_0}{DT_0}$

+ Profit growth rate =  $\frac{LN_1 - LN_0}{LN_0}$

+ Return to working capital ratio (%) =  $\frac{\text{Profit before (after) tax}}{\text{Weighted average working capital}}$

+ Profit – to – sales ratio (%) =  $\frac{\text{Profit-to-sales ratio}}{\text{Sales}}$

**1.2. Financial policies for enterprises with foreign direct investment capital.**

***1.2.1. The concept of financial policy for enterprises with foreign direct investment..***

National financial policy is the State's policy on the expense of financial instruments, including a system of judgements, objectives,



guidelines and solutions on finance - currency of the State in accordance with the characteristics of the country in specific period in order to foster, exploit, seek and utilise diversified financial sources to effectively support the implementation of national socio-economic development plans and strategies in the corresponding period.

### ***1.2.2. Contents of financial policies for enterprises with foreign direct investment capital.***

#### *1.2.2.1. Tax policies:*

##### *a. Definition:*

Tax policy for FDI enterprises is the intervention and regulation of the Government on the activities of FDI enterprises through the use of tax tools. The effective and appropriate use of tax instruments in each different development stage of the economy will help foster the integration process and promote economic restructuring, specifically in attracting potential foreign investors.

##### *b. Contents of financial policies:*

- Taxes: The tax policy of a country always includes many different taxes, each of these taxes has a separate name, which represents the object or objective that policymakers want to aim for.
- Subjects of tax policy: Subjects of tax policy include taxpayers and taxable objects.
- Adjusted content of the policy: The adjusted content of the tax policy includes: tax base, tax rate, preferential regime, tax exemption and reduction, regulations on tax administration.
- Tax characteristics: Tax is mandatory; Tax has direct non-reimbursable nature; Tax is a highly legal financial instrument.
- Tax classification:

*Tax classification based on taxable subjects:* income tax, consumption tax, and property tax.

*Tax classification by nature:* direct tax group, indirect tax group.

*Tax classification by taxable activities:* tax on production and business activities, tax on products, tax on income, tax on property, tax on state-owned properties.

##### *c, Mechanism of impact of tax policy on FDI enterprises:*

*\* Direct impact:*

. Tax policies of countries will create tax burden for FDI enterprises and its impact is reflected directly in the amount of tax payable.

*First, impact through the tax rate tool:*

- Indirect taxes will affect FDI enterprises in two aspects. For output products of enterprises, if the State regulates low tax rates to stimulate consumption demand, it will create conditions for enterprises to increase sales volume, increase revenue and profit, and vice versa.

- For businesses, the direct tax that has the biggest impact is corporate income tax (CIT). If the Government sets a reasonable corporate income tax rate, it will allow FDI enterprises to gain greater profit after tax, which not only helps enterprises improve their competitiveness, but also allow enterprises to have more internal financial resources to reinvest in production, and at the same time increase their prestige in the financial market when seeking external finance.

*Second, impact through tax incentives.*

Tax incentives are one of the most commonly used measures in the world, especially in developing countries, with the aim develop the FDI enterprise sector, and to encourage these enterprises to invest into key industries and fields or follow the direction of the Government.

*\* Indirect effects:*

Although tax administration factors such as declaration procedures, tax payment, tax refund... have no direct impact on the tax burden of FDI enterprises, they create indirect burdens for businesses through expenses incurred in the process of executing tax obligations.

*1.2.2.2. Financial policy on land:*

*a, Definition:*

Land financial policy is a system of judgements, guidelines, policies and solutions in terms of economic and financial relations between the State and land users, promulgated in a specific period and context,

thereby creating resources to promote economic and social development.

*b, Content:*

The contents of the land finance policy for FDI enterprises include:

- Policy on rental land: land rental price always has a vital role in the costs problem when investors are making decisions. The policy on rent includes regulations on the stability of the land rental price during the lease term, land rental price bracket, ground rent exemption and reduction, and regulations on lease term.

-Other policies on other land financial obligations.

*c, The impact of land finance policy on FDI enterprises:*

In terms of land finance policy: it can be witnessed that costs of renting real estate such as offices, factories, etc. often account for a large proportion of the total costs of the business, therefore investors are very interested in choosing an investment location with a reasonable property rental price and a long-term rental stability period, so that they can easily plan their investment activities. It can be said that the land finance policy of countries, specifically countries in which land is owned by the state, is also an important factor affecting investment decisions of enterprises.

*1.2.2.3. State budget expenditure policies*

*\* Definitions:*

Public spending policies for FDI enterprises is the summary of judgements, policies and solutions of the State towards FDI enterprises as stipulated in the system of legal documents on state budget expenditure.

*\* Content of State budget expenditure policies*

- Development investment expenses are expenses associated with infrastructure construction activities with an aim to create a favorable environment for enterprises to invest in production and business activities in necessary fields in accordance with specific economic objectives.

- Regular consumption expenditures are expenditures for social consumption associated with the social management function of the State

*\* Impact of state budget spending policy on FDI enterprises:*

Unlike tax policies and land finance policies, the budget expenditure policies do not directly affect the income of FDI enterprises. Instead, they have indirect effects through the public goods that enterprises enjoy such as infrastructure, quality of human resources, administrative procedures and investment promotion services...

#### ***1.2.4. Factors affecting financial policy for FDI enterprises:***

##### ***1.2.4.1. External factors***

- The global socio-economic context;
- Business strategy of multinational companies (TNCs).

##### ***1.2.4.2. Internal factors***

- Socio-economic conditions of countries being invested;
- Development strategies of FDI enterprises sector of countries;
- Effectiveness of performance of FDI enterprises in countries being invested.

### **1.3. Experience in using financial policies for FDI enterprises in countries around the world and lessons for Vietnam**

#### ***1.3.1. Chinese experience:***

China applies a uniform tax policy to all economic sectors, including both domestic enterprises and foreign-invested enterprises. At the same time, the Chinese Government has also reduced the corporate income tax rate in order to stimulate businesses to invest and increase production and business activities, along with many other attractive tax incentives.

#### ***1.3.2. Experience in Malaysia:***

The Malaysian government has applied incentives directly on the taxable income of businesses: If the business invests new capital after January 1988 and then expands its operations, a 40% deduction can be made on capital costs for extended reinvestment. In addition, Malaysia also focuses on investing in building infrastructure to satisfy the requirements and standards of modern industries. In order to create favorable conditions for the operation of FDI enterprises, Malaysia implements the management and receipt of FDI under the "one window" mechanism. Besides, the land rental price for foreign investors is also reasonably attractive.

#### ***3.3. Korean experience:***

The basis for calculating corporate income tax incentives in Korea is based on the percentage of foreign investment capital in that enterprise.

With the policy of attracting FDI enterprises in the field of high technology, along with the goal of promoting R&D activities, Korea has given special incentives for businesses in this sector. In addition, to make it easier for FDI enterprises to invest and operate in the country, the Korean Government has established the Korea Investment Service Center (KISC) which is a non-profit company sponsored by the state budget.

#### ***1.3.4. Lessons learned for Vietnam:***

- Policy of tax:

+ First, there should be a simple and fairly synchronous tax rate system between domestic enterprises and FDI enterprises.

+ Second, the development of separate financial policies for special zones should be carried out synchronously.

+ Third, there should be stronger incentives from tax incentives.

+ Fourth, it is necessary to consider adding tax incentives to promote reinvestment from FDI enterprises.

+ Fifth, there should be separate tax incentives for FDI enterprises using high technology or operating in the field of R&D.

- Budget spending policy:

+ Firstly, it is necessary to have reasonable policies for spending budget on infrastructure construction in a synchronous and modern manner.

+ Second, it is necessary to increase budget spending on human resource development.

+ Third, it is necessary to have appropriate budget spending policies for administrative procedure reform.

- Land finance policy should be adjusted towards transparency and long-term stability.

### **SUB-CONCLUSION CHAPTER 1**

The content of chapter 1 involve discussing the basis of policy for FDI enterprises. Research and systematize systems of scientific arguments on policy content for FDI enterprises as well as owners and customers affecting policies. In addition, the thesis proposes lessons learned from some countries in the world on financial policies for FDI enterprises for reference for Vietnam.

## **CHAPTER 2**

## **CURRENT SITUATION OF FINANCIAL POLICIES FOR FOREIGN DIRECT INVESTMENT ENTERPRISES IN VIETNAM**

### **2.1 The current situation of enterprises with foreign direct investment in Vietnam in recent years**

#### ***2.1.1 The formation and development of foreign direct investment enterprises in Vietnam***

The promulgation of the Law on Foreign Investment marked a turning point for the official opening strategy to attract FDI enterprises into Vietnam, with the maximum capital contribution ratio being 100% instead of 49% like other countries in the region. Foreign investment policy in Vietnam is considered "quite attractive" compared to other countries in the region, thereby attract initial achievements in the early period 1988-2000.

The period from 2000 to 2006 witnessed a rapid increase in the number of FDI enterprises investing in Vietnam with an average growth rate of 19%/year. Since joining the WTO in 2007 to 2010, the number of FDI enterprises increased at an average rate of 14.5%/year. However, after the global economic crisis, the trend of FDI enterprises investing in Vietnam was stagnant.

From 2008 to 2018 the number of FDI enterprises continued to grow. In particular, the FDI sector generated 381.57 trillion VND, accounting for 42.6% of the total profit of the business sector across the country. In addition, FDI enterprises create jobs for a lot of workers. It can be seen that the FDI enterprise sector in Vietnam is developing rapidly and effectively, making positive contributions to the country's economic growth, attracting great amount of labour, contributing to hunger eradication, poverty reduction and sustainable development.

#### ***2.1.2 Characteristics of enterprises with foreign direct investment in Vietnam:***

##### ***2.1.2.1. Investment form:***

Currently, FDI enterprises operating in Vietnam mainly have two forms of capital ownership: 100% foreign investment capital and joint venture. The majority of FDI enterprises in Vietnam have the form. capital ownership being 100% foreign capital.

##### ***2.1.2.2. Enterprise size***

In general, current FDI enterprises in Vietnam mainly have the scale of between 10 billion and 200 billion. On the other hand, the increasing trend of small and even micro-sized FDI enterprises under 1 billion may

bring more negative impacts to the Vietnamese economy instead of positive ones.

#### *2.1.2.3. Structure of enterprises by investment industry:*

FDI enterprises in Vietnam now present in all industries and fields, in which the ones with the largest proportion of FDI enterprises investing in are industrial and constructional industry.

#### **2.1.3. Business performance and financial position of FDI enterprises in Vietnam**

##### *2.1.3.1. Asset size of FDI enterprises in Vietnam:*

The business capital of the FDI enterprise sector increased gradually in the period from 2000-2018. The proportion of capital in the FDI sector by 2018 only accounted for 18% of the total capital of the entire enterprise sector. Meanwhile, the FDI enterprises sector have a higher average size than non-state enterprises, in terms of both production and business capital.

##### *\* Revenue of on-going FDI enterprises with production and business results:*

The revenue scale of the FDI enterprise sector is quite high, although it only accounts for 28.8% of the total net revenue of the entire enterprise. However, the revenue growth rate in this sector is the highest with the average revenue growth of 23%/year in the whole period 2000-2018, indicating development potential as well as the importance of FDI enterprises in socio-economic development.

##### *\* Profits at FDI enterprises having business results in Vietnam:*

Among 16,878 FDI enterprises in Vietnam as of 2018, there were 326 break-even businesses, accounting for 1.9%; there were 7,863 enterprises incurring loss, accounting for 46.6%. The growth rate of investment scale and operation of FDI enterprises reporting losses and accumulated losses is higher than the growth rate of the number of these enterprises, which clearly illustrates the phenomenon of transfer pricing and tax evasion of the FDI enterprise sector.

##### *\*Return on Working Capital:*

Compared with state-owned enterprises and non-state enterprises, the FDI sector had the highest profit-to-capital ratio in the period 2000-2018. This again affirms that the FDI sector is the most effective sector.

## **2.2. The current situation of financial policies for enterprises with foreign direct investment in Vietnam in recent years.**

### **2.2.1. Regarding tax policy:**

*(i) Regarding corporate income tax policy:*

• *Corporate income tax rate:*

Through the stages of tax reform in Vietnam, the corporate income tax rate for FDI enterprises is increasingly simplified and shows a tendency to decrease, with the current income tax rate being 20%. This tax rate in Vietnam is currently fairly favorable compared to other countries in the region, which can be considered as a strong point for Vietnam to increase its attractiveness to FDI enterprises.

• *Tax incentives on corporate income tax:*

In addition to reduction the corporate income tax rate, the CIT incentive regulations are continuously adjusted over time, creating many positive impacts to FDI enterprises. These contribute to attracting investment, encourage business, create favorable conditions for businesses to increase accumulation, and thereby, have more resources to increase investment in the economy and promote growth. Tax incentives for FDI enterprises mainly have 5 forms: tax incentives, tax exemption and reduction for a limited time, tax exemption for some incomes, loss transfer and rapid depreciation. However, there are certain shortcomings such as: The regulations on tax incentives, tax exemptions and reductions are complicated with many preferential tax rates and the preferential enjoyment period is also at many levels of 10 years or 15 years. Many regulations related to eligibility for tax incentives are not sufficiently relevant.

(ii) *Regarding import and export tax policy:*

The law on export tax and import tax was also continuously updated and revised in 2001, 2005 and 2016. It can be seen that import and export tax policies for FDI enterprises are gradually satisfying the requirements of association commitments, gradually improve to create a fair and attractive investment environment for enterprises in general and FDI enterprises in particular, with many attractive import and export tax exemptions and reductions.

(iii) *Other factors on tax law:*

Along with the reforms in corporate income tax and import-export tax for FDI enterprises, the administrative procedures on tax law in Vietnam are also gradually being completed in the direction of publicity, simplicity and transparency; modernize the tax management



system; reforming tax administrative procedures to improve the investment and business environment.

### ***2.2.2. Regarding land finance policy:***

Although the current land finance policies have not been completely completed, they have initially opened the door to create favorable conditions for FDI enterprises to have the motivation to invest more deeply in the Vietnamese market. In addition to a number of important changes to help resolve issues related to real estate related to land and land acquisition - the cause of disputes over the years, including: land allocation, land lease; land recovery; land price and land lease period, FDI enterprises who rent land with one-time payment before the effective date of the law can continue to use the land for the remaining lease period, or can change to the form of land allocation with payment. As a result, this allows the equality between domestic and foreign entrepreneurs to be strengthened.

### ***2.2.3. Regarding the budget spending policy:***

Budget spending policy indirectly affects production and business activities as well as investment decisions of FDI enterprises through budget spending for the following four expenditures: (i) infrastructure, (ii) training creating and improving labor quality, (iii) improving administrative procedures, (iv) promoting investment.

#### **(i) Budget expenditure for infrastructure:**

\* The Government's policy of spending budget on infrastructure construction has helped FDI enterprises to have positive assessments of the quality of Vietnam's infrastructure. According to the survey of the PCI 2018 report, the perception of FDI enterprises about three important infrastructure items: Road quality is always rated by FDI enterprises at a relatively good level of 3.5 (average) and 4 (good) since 2014, calculated on a 5-point scale. Regarding the level of port-highway and railway-high-speed connectivity, a high rating from FDI enterprises is recorded, especially in the sector of manufacturing enterprises. This high rate continuously increased with scores of 4.2 and 4.3 respectively in 2018. Regarding the quality of power supply: According to the assessment of the Bank's Business Environment report World: The score of Vietnam's electricity access index increased from 78.69/100 in

2017 to 87.94 in 2018. On the ranking among 190 countries and territories, Vietnam rose from the position 64 to 27.

However, spending on infrastructure development implies the problem of capital wasting. In certain circumstances, the actual performance of investment projects goes beyond the actual capacity, lacking sufficient resources, causing stagnance or inability to implement. This lead to the spread of investment and the lack of capital to invest in key items, causing the current infrastructure to lack synchronization, affecting investment and production and business activities of FDI enterprises.

*(i) Budget expenditure for training to improve labor quality:*

The policy of prioritizing budget spending on vocational education and training in Vietnam has gradually supported the improvement of the quality of human resources, which is the basis for FDI enterprises to be able to meet the requirements of management level and skills of the workforce, eliminating training costs and improving profits of enterprises. At the same time, Vietnam will also increase opportunities to access technology transfer from foreign-invested enterprises when the professional level of workers is increasingly enhanced. According to the PCI 2018 report, FDI enterprises rate the quality of labor in the locality where they operate as being able to satisfy (29%) or partially satisfy (67%) their needs. Only 4% of enterprises surveyed said that the quality of labor is not satisfactory. However, the current budget allocation norm for vocational training is low, training is not sufficiently relevant to practical objectives such as output efficiency. The budget allocated for vocational training only account for approximately 10% of the total state budget expenditure for education levels. The number of participants in the short-term vocational training system is completely uninvested by the budget. This shortcoming leads to the low investment in the vocational school system, low quality of vocational training, and failure to meet the requirements of enterprises. Besides the inadequacy of norms and allocation structure, the efficiency of using capital invested in vocational training activities is also particularly low, reflecting the fact that the training structure is not derived from the actual requirements of enterprises and the economy. This leads to 67%

of FDI enterprises considering employees only being able to partially meet their requirements.

*(ii) Budget expenditure to improve administrative procedures:*

It can be said that administrative procedures are one of the barriers posing many challenges for FDI enterprises when investing in Vietnam. For that reason, in the period from 2011 to 2018, the Government has always been focus on administrative reform to increase the attractiveness of Vietnam's investment environment. Particularly, the Government has launched a master program for state administrative reform within 10 years from 2011 with the funding for the program's implementation being allocated from the state budget according to the current state budget decentralization. Considering the evaluation of FDI enterprises on administrative procedures alone, administrative procedure reform in Vietnam is having significant positive changes. The percentage of businesses that have to spend more than 5% of their leaders' time on understanding and implementing administrative procedures decreased from about 70% in the years 2012-2016 to 66.2% in 2017 and 42.6% in 2018. This is a very impressive result.

*(iv) Budget expenditure on investment promotion activities:*

\*Due to budget spending policies to improve the quality of labor resources, budget spending on infrastructure enhancement, budget spending on investment promotion activities, budget spending to improve administrative procedures, Vietnam's business environment has been able to improve remarkably. According to the assessment of the World Bank Doing Business, Vietnam's business environment in 2018 increased to 21 places, ranked 69 out of 190 economies with a score of 68.36 points. As a result, Vietnam has become an attractive investment destination for FDI enterprises. However, apart from the positive effect brought by the budget spending policy, this is also an area that clearly reveals the situation of loss and waste of public investment capital, drowning the effectiveness of the policies, and at the same time cause loss and waste of state assets.

## **2.3. Impact of financial policy on foreign direct investment enterprises in Vietnam.**

### ***2.3.1. Research models:***

Research hypotheses:

- Hypothesis T: Tax policy has a positive impact on investment decisions and performance of FDI enterprises in Vietnam.

- Urban infrastructure hypothesis: The policy of budget spending on infrastructure and human resource training has a positive impact on investment decisions and performance of FDI enterprises in Vietnam.
  - Hypothesis of CFCT: The policy of spending budget on investment promotion and administrative procedure reform has a positive impact on investment decisions and performance of FDI enterprises in Vietnam.
- Male.
- Hypothesis DD: Land finance policy has a positive impact on investment decisions and performance of FDI enterprises in Vietnam.

### **2.3.2. Research method and scale:**

The order of analysis is carried out as follows:

Cronbach's Alpha reliability test

+ EFA factor analysis

+ Multiple linear regression analysis

*Scale used for research*

**Table 2.5: Scale used for research**

Variable name	Description
Tax policy	
T1	The extent to which corporate income tax rates are appropriate
T2	The extent to which CIT exemption/reduction regulations are attractive
T3	The extent to which import tax exemption regulations are attractive
T4	The extent to which import and export tax rate is reasonable
T5	The extent to which tax policy is stable
T6	The extent to which tax compliance costs are low
Budget spending policy for infrastructure and human resource training	
CSHTDT1	The extent to which transportation system is convenient
CSHTDT2	The ability of the power supply system to meet demand
CSHTDT3	The extent to which access to contact information is convenient
CSHTDT4	The extent to which recruiting good local managers is easy
CSHTDT5	The extent to which the number of workers who have received local vocational training is high
Budget spending policy for investment promotion and administrative reform cách	
HCXTDT1	The extent to which the local destination has good reputation
HCXTDT2	The extent to which XTDT centers have good support for businesses in the production and business process
HCXTDT3	The extent to which administrative procedures are simple and transparent
HCXTDT4	The extent to which completion of administrative procedures is quick
HCXTDT5	The extent to which access to legal documents, land information and

	related resources is easy
Land finance policy	
DD1	The extent to which time for land rental price is appropriate
DD2	The extent to which land rent exemption/reduction regulations are attractive
DD3	The extent to which rental price is reasonable
DD4	The extent to which rental period is long
Investment decisions and performance of FDI enterprises in Vietnam	
HQ1	Sales revenue of the business reached the set plan
HQ2	Profits of the business grew as expected
HQ3	The willingness of the company to expand investment in Vietnam in the near future
HQ4	The willingness of the company to recommend Vietnam to other businesses

### 2.3.3. Research results:

#### 2.3.3.1. Research sample:

Based on a research sample of at least 120 observations, the author distributed 16,878 questionnaires to interview FDI enterprises across the country. In which: the number of votes collected: 208 votes, the number of valid votes: 206 votes. The survey sample is sufficiently representative of FDI enterprises operating in Vietnam.

#### 2.3.3.2. Cronbach's Alpha test:

#### 2.3.3.3. Exploratory factor analysis (EFA):

#### 2.3.3.4. Multiple linear regression analysis:

The results of the regression are as follows:

**Table 2.8. Multiple linear regression results**

Source	SS	df	MS
Model	69,3900529	6	11,56501
Residual	32,3587335	199	0,162607
Total	101,748786	205	0,496336

Number of obs	206
F(6, 199)	71,12
Prob > F	0,000
R-squared	0,682
Adj R-squared	0,6724
Root MSE	0,40325

hq	Coef.	Std. Err.	t	P> t	[95% Conf.Interval]	
t	0,281826	0,054243	5,2	0,000	0,174862	0,388791
cshtdt	0,267825	0,068641	3,9	0,000	0,132468	0,403183
hcxttdt	0,154579	0,063531	2,43	0,016	0,029299	0,27986
dd	0,222156	0,058929	3,77	0,000	0,105951	0,338361

a	0,267219	0,063799	4,19	0,000	0,14141	0,393028
y	0,22811	0,080368	2,84	0,005	0,069628	0,386592
_cons	0,17491	0,206828	0,85	0,399	-0,23295	0,582767

*Source: Researcher synthesizes from Stata results on the official sample*

Based on these results, it is possible to conclude:

- Firstly, investment decisions of foreign investors are affected by 04 factors according to the following level of impact: (1) Tax policy, (2) Budget spending policy for infrastructure and human resource training, (3) Land finance policy, (4) Budget spending policy for investment promotion and administrative procedure reform. Then, we can write the regression model estimated from the data sample by OLS method as follows:  $HQ_i = 0,17491 + 0,281826T_i + 0,267825 CSHTDT_i + 0,154579 HCXTDT_i + 0,222156 DD_i + 0,267219 a_i + 0,22811 y_i + \varepsilon_i$

- Secondly, the degree of influence of financial policies on investment decisions and performance of FDI enterprises in Vietnam is determined as follows: Tax policy is the most influential financial policy. The policy of spending budget for infrastructure and training of human resources has the second largest influence, the policy of land finance has the third biggest influence, the policy of spending budget on investment promotion and reform administrative procedures have the 4th biggest influence.

In addition: When applying the same incentives and policy framework, the impact of the above financial policies on FDI enterprises will be different between large enterprises and small and medium-sized enterprises, between enterprises established for more than 10 years and those established for less than 10 years.

## **2.4. Evaluation of financial policies for FDI enterprises in Vietnam:**

### **2.4.1. Policy advantages:**

#### *2.4.1.1. Policy of tax:*

-Firstly, the tax reform has successfully created an attractive and favorable investment environment for FDI enterprises.

-Secondly, tax incentives for FDI enterprises have shown positive results towards sustainable and stable budget revenue.

-Thirdly, the tax policy is reformed step by step to help FDI enterprises reduce the cost of tax compliance.

#### *2.4.1.2. Land finance policy:*

- Firstly, the land finance policy is gradually improving in the direction of creating a fairer competing environment for FDI enterprises.
- Second, incentives on land finance have brought many positive effects to FDI enterprises.

#### *2.4.1.3. Budget policy:*

- Firstly, the budget expenditure for human resource training is increasingly focused not only providing FDI enterprises with quality labor sources but also helping Vietnam utilise opportunities for knowledge and technology transfer.
- Secondly, the budget spending policy has contributed to gradually perfecting the socio-economic infrastructure in a synchronous and modern direction, contributing to making investment and production and business activities of FDI enterprises more convenient.
- Thirdly, the policy of spending budget on administrative procedure reform helps FDI enterprises save time as well as legal compliance costs while increasing the attractiveness of the investment environment in Vietnam.
- Fourthly, the state budget spending policy helps to improve investment promotion activities, increasing the attractiveness of Vietnam to FDI enterprises.

#### **2.4.2. Financial policy restrictions:**

##### *2.4.2.1. Policy of tax:*

- Firstly, the current tax policy has not yet realized the goal of allocating investment resources of FDI enterprises in the fields and areas that are encouraged by the State.
- Secondly, the current tax policy has not yet created a spillover effect from the FDI sector to domestic enterprises.
- Thirdly, tax regulations for FDI enterprises are yet complicated, creating many loopholes for the transfer pricing activities of FDI enterprises.
- Fourthly, the current tax policy focuses significantly on incentives but has not been directed at cutting tax compliance costs for FDI enterprises.

##### *2.4.2.2. Land finance policy:*

- Firstly, the land rental price is not close to the market price, leading to loss of state budget revenue.

- Secondly, there is yet a lack of synchronization between legal documents on land finance policy and between regulations of ministries and agencies, causing difficulties for FDI enterprises in the process of operation.

- Thirdly, the actual land rental price list is not stable for a long time, causing difficulties for FDI enterprises in financial planning as well as stabilizing investment psychology.

#### *2.4.2.3. Budget expenditure policy:*

- Firstly, although the proportion of budget spending on vocational training is quite high, most of the laborers do not have enough capacity to access high technologies and techniques.

- Secondly, the topdown structure in Vietnam is lacking of synchrony, causing many difficulties for the production and storage of information of FDI enterprises.

-Thirdly, active XTĐT is yet lacking the width of the height and not brings many positive effects to FDI enterprises.

-Fourthly, administrative procedures have been improved in a more streamlined direction, however still cause many difficulties for FDI enterprises.

#### ***2.4.3. Causes of fiscal policy constraints:***

##### *- Objective reasons:*

Firstly, due to the influence of fluctuations in the political situation, the world economy, and the domestic economy.

Secondly, due to low development conditions, lack of knowledge and experience in formulating financial policies for FDI enterprises.

Thirdly, the changing economic and social conditions in the world make financial policies become outdated easier and lack of practicality.

Fourthly, the battle of introducing financial incentives to attract FDI enterprises has poses many challenges to Vietnam.

##### *- Subjective reasons:*

First, the total demand for infrastructure investment in Vietnam is very large, mainly from the state budget, while the state budget only meets about 50% of the total demand, making many upgrading projects infrastructure stagnant.

Second, the decentralization of management for FDI enterprises in Vietnam has not yet achieved high efficiency.



Third, a number of sectors and localities at lower levels have not been proactive in seeking diverse resources for infrastructure investment.

Fourth, seeking investment resources is challenging, causing lack of professional investment.

Fifth, the process of building policy institutions has not utilise consultation with the business community, therefore certain policies established are yet subjective, impractical and infeasible.

Sixth, the financial policy for FDI enterprises has been built with a lack of consistency between objectives and implementation measures.

Seventh, there is a lack of detailed reports summarizing and evaluating the results of the implementation of preferential policies to attract FDI.

Eighth, the control and management of state budget capital in the construction of infrastructure is yet untight, causing scattered, lost and inefficient investment.

## **SUB-CONCLUSION CHAPTER 2**

The main content of chapter 2 is to study the current situation of financial policy and the impact of financial policy on FDI enterprises in Vietnam, from which the thesis presents the results, limitations and causes of the limitations of financial policy for FDI enterprises in Vietnam.

### **Chapter 3:**

## **SOLUTIONS TO COMPLETE FINANCIAL POLICIES FOR FOREIGN DIRECT INVESTMENT ENTERPRISES IN VIETNAM**

### **3.1 Bối cảnh kinh tế - xã hội và xu hướng thu hút nguồn vốn đầu tư trực tiếp nước ngoài:**

#### **3.1 Socio-economic context and trends in attracting foreign direct investment capital:**

*3.1.1. Socio-economic context in the world:*

*3.1.2. Vietnam's socio-economic context and orientations to attract FDI in the coming period:*

3.2. Viewpoints and orientations to refine financial policies for FDI enterprises in Vietnam in the coming period (2021 - 2025):

*3.2.1. Perspectives on refining financial policies for FDI enterprises in Vietnam*

*3.2.2. Orientation to improve financial policies for FDI enterprises in Vietnam*

3.3. Refining financial policies for FDI enterprises in Vietnam

*3.3.1. Refining tax policy for FDI enterprises in Vietnam.*

Firstly, the common corporate income tax rate should not be reduced, and it is essential to set up new taxes in line with current trends.

Secondly, it is important to continue to accelerate the reform of the tax system to be in line with international practices

Thirdly, Tax policy should aim for a good tax system with low compliance costs for taxpayers (both formal and informal) rather than focusing on tax incentives.

Fourthly, it is essential to narrow the scope of tax incentives, especially corporate income tax incentives for FDI enterprises.

Fifthly, tax incentives should be directed to forms of long-term investment incentives.

***3.3.2. Completing the land finance policy for FDI enterprises in Vietnam:***

Firstly, adjust the regulations on land rent and production and business premises close to the market price in each locality

Secondly, adjust policies towards stabilizing land rental prices in order to stabilize investment psychology for FDI enterprises.

Thirdly, there should be practical support policies in addition to land financial incentives for FDI enterprises when investing in Vietnam in order to maximize the effectiveness of preferential policies.

### ***3.3.3. Completing the budget expenditure policy for FDI enterprises in Vietnam***

#### ***3.3.3.1. Budget expenditure policy on human resource training:***

Firstly, expanding investment resources in human resource training activities.

Second, it is essential to have a specific budget expenditure policy to train and attract talents to work at state agencies related to investment fields.

Thirdly, maintain the priority of spending on human resource training in the total state budget expenditure.

Fourthly, planning human resource needs properly in order to the needs of the labor market for FDI enterprises.

Fifthly, readjust the budget expenditure structure for human resource training.

#### ***3.3.3.2. Policy on spending budget on infrastructure investment:***

Firstly, strengthen the promotion of public-private partnership (PPP) in infrastructure development helps reduce the burden on the state budget.

Secondly, continue to accelerate the disbursement of infrastructure investment capital.

Thirdly, further strengthen the control and management of state budget capital in the construction of infrastructure.

#### ***3.3.3.3. Budget expenditure policy for investment promotion:***

Firstly, the investment promotion budget expenditure has objectives, focus, focus and associated with investment cooperation criteria.

Secondly, it is necessary to build an investment promotion system that is synchronous, organized, coordinated and closely linked locally and at the central level, and among ministries and sectors across the country.

Thirdly, strengthen the "three-house" cooperation model in investment promotion activities

#### *3.3.3.4. Budget spending policy on administrative procedure reform:*

Firstly, continue to spend budget to promote e-Government construction, shortening time and cost for FDI enterprises.

Secondly, it is essential to continue spending the budget to create strong changes in administrative procedure reform under the model of “one windows”

Thirdly, have a practical budget policy to train and build a contingent of civil servants and public employees.

### **3.4. Conditions for implementing the solution:**

#### **SUB-CONCLUSION CHAPTER 3**

On the basis of the orientations to improve financial policies for FDI enterprises in Vietnam in the coming period (2021 - 2025), in the content of chapter 3, the thesis author has boldly proposed a number of solutions to complete the problem. improve tax policy, budget expenditure policy, land finance policy and group of solutions on implementation conditions to better support the development of the FDI enterprise sector in Vietnam in the future.

#### **CONCLUSION**

After completing the research on the thesis topic "Financial policy for foreign-invested enterprises in Vietnam". The author has performed the following main tasks:

(1) Systematize and contribute to clarifying the theoretical issues of financial policy for foreign direct investment enterprises. The thesis focuses on examining the impact of financial policies on foreign direct investment enterprises; at the same time point out the factors affecting those policies. Researching the experience of using financial policies to FDI enterprises in some countries and drawing lessons for Vietnam on the use of financial policies to FDI enterprises.

(2) From considering the current situation of financial policies for FDI enterprises in Vietnam, including the current situation of tax policy, budget expenditure policy, and land finance policy. Next, the thesis examined the impact of financial policy on FDI enterprises in Vietnam. On the basis of analysis, the thesis has evaluated the advantages and limitations of the policy, and at the same time, the thesis has identified the causes of the limitations.

(3) On the basis of considering the socio-economic context of the world and Vietnam, the thesis sets out the views for FDI enterprises in Vietnam, and financial policy orientation for FDI enterprises. On the other hand, combining theory and practical assessment, the thesis has proposed a system of solutions to complete financial policies for foreign-invested enterprises in Vietnam and the conditions for implementing these solutions. .

The content mentioned in the thesis aims to achieve the research objectives set out. Although the author has made many efforts to complete the thesis, it is inevitable that there will be shortcomings. The author hopes to receive the guidance and suggestions of scientists, experts and people interested in the research topic of the thesis.

## **LIST OF PUBLICATIONS RELATED TO THE DOCTORAL THESIS**

1. Hoang Phuong Anh (2018), Attracting Foreign Direct investment with investment environment in Vietnam, Journal of Finance & Accounting Research, no7 (180) – 2018, 9-12.
2. Hoang Phuong Anh (2021), Tax policy for FDI enterprises in Vietnam, Journal of Finance & Accounting Research, no 1 (210) – 2021, 82-87.
3. Hoang Phuong Anh (2021), FDI and the tax incentives race: Should Vietnam stay in or out?, Journal of Finance & Accounting Research, No. 02 (10) – 2021, 101-107.