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**THE IMPACT OF ASEAN ECONOMIC COMMUNITY  
ON ATTRACTING FOREIGN DIRECT INVESTMENT  
IN VIETNAM**

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**SUMMARY OF DOCTORAL DISSERTATION IN  
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## **PREFACE**

### **1. The Urgency of dissertation topic**

In the context that the ASEAN economic community (AEC) officially came into operation on December 31, 2015, FDI from AEC has been increasingly evaluated as an important financial resource that Vietnam needs to take advantage of to create a spillover momentum for the economic growth. Therefore, studying the movement of FDI in general and FDI's movement in the context of implementing commitments in the ASEAN Economic Community to Vietnam is a necessary requirement, from which, proposing solutions useful measures to enhance the attraction of quality FDI from partners inside and outside the ASEAN region.

Therefore, the author decided to select the topic "The impact of the ASEAN Economic Community on attracting foreign direct investment in Vietnam" as the content of the thesis for Economic Doctoral thesis. With this research direction, the author desires to develop a theoretical framework reflecting the characteristics of FDI movement in the AEC. On that basis, studying the impact of ASEAN economic community on activities of attracting foreign direct investment in Vietnam. These are important theoretical and practical basis to propose useful solutions related to increasing effective FDI attraction into Vietnam in the coming time.

### **2. Research objects**

- Assessing the Impact of the ASEAN Economic Community on attracting foreign direct investment in Vietnam when AEC officially came into operation in December 2015.

- Proposing some solutions related to factors affecting FDI attraction into Vietnam under the impact of AEC, in order

to attract FDI effectively in the context of implementation of AEC commitments.

### **3. Research subject and scope**

Research subjects: The impacts of the ASEAN Economic Community on factors affecting the attraction of foreign direct investment into Vietnam.

Research scope:

+ Time frame: from 2005 to 2018

+ Space limitation: Vietnam's FDI from countries inside and outside ASEAN.

### **4. Research methodology**

According to the method of collecting information, the thesis is conducted mainly by the method of studying documents to collect information related to published theoretical bases, relevant policies and statistics.

According to the method of data analysis, the thesis applied two methods: qualitative method and quantitative method.

- Qualitative analysis: identification of groups of factors affecting FDI attraction.

- Quantitative analysis: verifying the impact of the ASEAN Economic Community on attracting FDI into Vietnam by linear regression model. In which, dependent variable is the amount of FDI into Vietnam, explanatory variable are the quantifiable representatives that reflect the factors affecting FDI attraction into Vietnam.

### **5. Contributions of dissertation**

Systematize the theoretical content related to the impact of International Economic Linkage to attract FDI into a member country.

Analyze and assess the impact of AEC on FDI attraction into Vietnam through PESTLI theoretical model of groups of factors affecting FDI.

Propose some solutions to effectively attract FDI in the context of implementing commitments in the ASEAN Economic Community.

## **6. Theoretical and practical meaning of the dissertation**

Generalizing the theory of the impact of international economic linkage on FDI attraction into a country through the PESTLI theoretical model of groups of factors affecting FDI attraction into a country.

Identifying factors affecting FDI attraction in Vietnam under the impact of AEC, and analyze and evaluate the impacts created by AEC on FDI attraction in Vietnam

## **7. Dissertation structure**

In addition to the introduction and conclusions, references, appendices, the thesis is structured into 4 chapters:

Chapter 1: Literature review on research topic

Chapter 2: General theory of FDI attraction and the impact of international economic integration on FDI attraction.

Chapter 3: Impact of ASEAN economic community (AEC) on attracting foreign direct investment into Vietnam

Chapter 4: Solutions to enhance FDI attraction into Vietnam in the context of implementing AEC commitments.

## Chapter 1

### LITERATURE REVIEW ON RESEARCH TOPIC

#### 1.1. INTERNATIONAL AND VIETNAM LITERATURE REVIEW

##### 1.1.1. Research on FDI and attracting FDI

###### *a. Vietnamese literature review*

Studies on FDI in general and FDI attraction both recognize the need for FDI and FDI attraction activities for the host country. In addition to receiving investment capital, receiving countries can also receive other resources such as technological know-how, management experience, marketing, opportunities to participate in global production networks, etc. (Lall, 2000). Therefore, FDI is seen as an important motivation for receiving countries, especially developing countries with opportunities for economic growth (OECD, 2002). Effective policies to attract FDI depend on the specific characteristics of each country. A country that wants to attract foreign investors needs to create a favorable environment by minimizing the complex management costs.

Regarding the factors affecting FDI attraction, many studies in the world have pointed out the different factors and groups of factors as well that affecting the volume and distribution of FDI in developing countries in the world: political stability, preferential tax policies and supportive policies for investors, and a good business environment. In addition, other factors include the labor force, domestic investment, the level of trade openness, living standards, current accounts, foreign debt, institutions and the structure of

the economy. These are also factors that affect FDI into developing countries.

***b. International literature review***

In Vietnam, researches on FDI and FDI attraction have been carried out and mainly focused on aspects such as general theoretical issues on FDI, on policy system of FDI attraction, FDI attraction experience. of other countries, the investment environment, the impact of FDI on the sides of the economy ... Besides qualitative studies, several quantitative studies have also been conducted in Vietnam. In addition to the general studies, FDI by partner, FDI by economic zone and FDI by sector are also topics of interest in Vietnam.

Based on an overview of FDI in Vietnam, domestic studies have shown the role of the FDI sector in the Vietnamese economy, FDI policy in Vietnam, the impact of FDI on growth through investment channels and spillover effects of FDI in Vietnam on labor productivity. The results of the study show that market size, infrastructure quality, labor quality, and corporate concentration have an impact on foreign direct investment and are spillover from local boundaries.

**1.1.2. Research on impacts of International economic integration on attracting FDI**

***a. International literature review***

Dunning's OLI model with capital ownership, investment location and localization, are emphasized as determinants of FDI capital movement. Some other authors are more interested in the model of gravity - thrust to explain the movement of FDI. In addition, some other studies focus on the movement of FDI under the influence of globalization of production factors or the impact of science and technology

effects from Multinational companies, international economic - financial institutions or macroeconomic policies to FDI.

***b. Vietnamese literature review***

Some domestic studies also mention the impact of economic integration trends on FDI, focusing on the following aspects: Contribution of integration into the country's socio-economic development; impact on improving the investment environment, great opportunities for Vietnam's investment sector.

**1.1.3. Research on impacts of AEC on attracting FDI**

***a. International literature review***

A number of international studies on the impact of the AEC are aimed at understanding the long-term challenges to foreign direct investment and trade (FDI) and the Association of Southeast Asian Nations ( ASEAN). The econometric evidence shows that (i) intra-regional trade and FDI have a mutually reinforcing effect, that is, the increase in trade flows stimulates FDI inward and vice versa; (ii) a large market attracts more FDI; (iii) FTAs tend to help stimulate foreign investment; and (iv) strong institutions, good facilities and low operating costs play a very important role in promoting FDI.

***b. Vietnamese literature review***

In general, studies on the impact of AEC on FDI in Vietnam focus primarily on assessing the opportunities and challenges of AEC on FDI inflows into Vietnam. The studies show typical opportunities and challenges for FDI attraction for Vietnam in general and for specific industries.

**1.2. GENERAL ASSESSMENT ON LITERATURE REVIEW**



### **1.2.1. Research gaps**

Firstly, the gaps in the scope of research for receiving countries: can expand the scope of research for Vietnam.

Secondly, the gap in the scope of research for international economic links: can expand the scope of research for international economic links of ASEAN, including the ASEAN Economic Community.

Thirdly, the gap in the research object is the impact of international economic links on FDI attraction.

Fourth, the gap on the impact of international economic links on the quantity and quality of FDI attraction in the host countries.

### **1.2.2. Research orientation**

- In terms of theory:

(i) systematize the theoretical issues of foreign direct investment, attract foreign direct investment,

(ii) factors affecting the attraction of foreign direct investment. and,

(iii) the impact of international economic links on the attraction of foreign direct investment.

- In terms of practice:

(i) Analyze and develop a framework to study the impact of AEC commitments on each group of factors affecting FDI attraction in Vietnam.

(ii) Assess the impact of AEC on FDI inflows in Vietnam.

(iii) Recommend a number of policy solutions to effectively increase FDI attraction in the context of implementing the commitments of the ASEAN Economic Community.

## Chapter 2

# OVERVIEW ON ATTRACTING FDI AND IMPACT OF INTERNATIONAL ECONOMIC INTEGRATION ON ATTRACTING FDI

## 2.1. OVERVIEW ON FDI AND ATTRACTING FDI

### 2.1.1. Definition, features and roles of FDI

Studying and inheriting the concepts of FDI: *Foreign direct investment means the transfer of resources by foreign investors (both tangible and intangible) to receiving countries for investment. production and business activities, aiming to maximize profits.*

Within the scope of the thesis, the researcher focuses on FDI research as the movement of cash resources (investment capital) of foreign investors, since the statistics on cash capital are relatively full in compared with the other figures related to intangible and other tangible assets

#### *Features of FDI*

Firstly, FDI is not merely the movement of capital sources, but also implies the process of transferring technology, management experience ... from the host country to the investee. Secondly, FDI is a long-term capital inflow. Thirdly, the organization and operation of FDI-formed enterprises are carried out on the basis of international practices and the laws of the host country. Fourthly, the regional distribution relationship is the settlement of the relationship of economic benefits between entities involved in production and business activities. Fifthly, the purpose of foreign investors is to maximize profits. Sixthly, FDI is under the simultaneous impact of the socio-economic situation involved countries.

Foreign direct investment (FDI) plays an important role in the development of the host country's economy. In addition to providing capital, FDI is also the means of receiving countries to: (i) acquire technology, knowledge, management skills and other important inputs; (ii) integrate into international distribution, marketing and production networks; and (iii) improve the international competitiveness of enterprises and the economic efficiency of the host country.

### **2.1.2. Factors affect on attracting FDI**

The PESTLI model is used to study the factors existing in the macro environment that are likely to affect production and business activities in general and activities to attract foreign direct investment. Analysis of the PESTLI model will show the advantages as well as the competitive disadvantages that exist in the macro environment of the host country. PESTLI model includes six elements, including:

Political factors (P): reflects the institutional-political stability, including stability in matters related to political and diplomatic conflicts of institutions laws in the country of investment.

Economic factors (E) The group of economic factors reflects the conditions inherent in the host country market that foreign investors seek.

Social factors (S) Besides culture, factors of social characteristics also make businesses interested in conducting market research. Social factors will divide the community into customer groups, each with different psychological characteristics, income ...

Technology factors (T) FDI investors will assess the technology level of the host country to have a solution to

select the appropriate level of technology to conduct production and business.

Legal factors (L). The FDI policy framework includes principles and regulations governing market entry, activities of foreign investors, and rules for dealing with foreign investors.

Integration factors (I). In the process of globalization, international financial and investment activities are promoted.

### **2.1.3. The criteria reflected the results of FDI attraction**

*In terms of quantity:* This indicator system allows direct assessment of FDI attraction results in the host country. This is a traditional group of criteria with criteria to assess the scale of FDI capital that an economy has received. Including: FDI's contribution to the total social investment; Registered capital scale; Scale of implemented capital; Scale of capital / project; FDI structure; Form of investment;

*In terms of quality:* the system of quality indicators attracts FDI to evaluate the results that FDI contributes to improve the competitiveness of the economy. The quantitative indicator group includes the following indicators: Contribution of FDI to economic growth; Contribution of FDI to the international balance of payments; Ability to create jobs; Technology transfer efficiency; The degree of association of the FDI sector with domestic enterprises; The impact of the FDI sector on the environment.

## **2.2. BASIC THEORY ON THE IMPACT OF INTERNATIONAL ECONOMIC INTEGRATION ON FDI ATTRACTION**

### **2.2.1. Theory on international economic integration**

International economic integration is considered as the process of linking a nation's economy and markets to the

world and regional economies and markets through measures of market liberalization and market opening at all levels. unilateral, bilateral and multilateral.

International economic integration is taking place as an indispensable trend of the world economy today as a result of the development of production forces and social labor division

### **2.2.2. Impact of international economic integration on FDI attraction**

The impact of regional-level international economic integration on FDI attraction is realized through the impact of commitments in economic integration, thereby influencing the groups of factors that influence the choice of choice. investment locations in the host country. These effects may vary according to the characteristics of each link and the characteristics of each economy receiving investment.

#### *a. Factors affecting the degree of impact of regional economic integration on FDI attraction in a specific country*

The first is the scope and depth of agreements in a regional economic link, thereby determining the degree of harmonization of policies and the changes that member countries must make in pursuit of the integration area.

Second, the reliability of regional economic links (expressed to the extent that the terms of this linkage is made) is another factor that determines the impact of regional economic integration on FDI attraction.

The third is the trade and investment relations of nations before the establishment of regional economic links.

Fourth, the unique advantages that the economy creates when it is a member of a Regional Economic Linkage.

*b. Mechanism of impact of regional international economic integration on attracting FDI into member states*

The impact of regional economic linkages on FDI attraction into a country is realized through the impact of commitments in regional linkages on groups of factors affecting FDI attraction, including: institutional - political (P), economic (E), social (S), technological - technical (T), policy - legal (L) and factor integration (I).

*c. Scope of influence of regional economic linkage on FDI.*

The impact of international economic links on the movement of FDI is formed by the effect of commitments in each international economic link. There are commitments that will help recipient countries to attract FDI from member countries (intra-regional FDI), while there are also commitments to create opportunities for receiving countries to attract more FDI from other outside-of-the-bloc countries.

Regional cooperation has led to an increase in investment diversification through investment restructuring within the area of cooperation. Regional integration activities often lead to increased FDI through the opening of investment sectors and adjustment of investor treatment policies.

FDI outside the regional economic bloc may increase as a result of increasing market size, which is particularly important for economic linkages of developing economies, or for significant alternative action in which regional economic integration creates barriers to trade outside the bloc.

### **2.3. OVERVIEW ABOUT ASEAN ECONOMIC COMMUNITY**

### **2.3.1. ASEAN Economic Community Establishment**

The ASEAN Economic Community (AEC) 2015 is the result of the process of regional economic integration among 10 ASEAN members since 1967 (for Vietnam, 20 years of participation since 1995). The vision for AEC development was set by ASEAN leaders at the 30th Anniversary of ASEAN Establishment in 1997 with the goal of developing ASEAN into a thriving economic region, through liberalization and facilitation. trade and investment in the region, at this time, ASEAN Vision 2020 is adopted. Figure 3.1 summarizes the main development steps towards the goal of establishing AEC 2015 and completing by 2025.

- AEC 2015 consists of four main pillars:
- A common market and production base
- A highly competitive economic area.
- An area of uniform economic development.
- The region fully integrates into the global economy.

### **2.3.2. Main commitments in AEC**

The ASEAN Investment Agreement (ACIA), the ASEAN Trade in Goods Agreement (ATIGA), the ASEAN Services Framework Agreement (AFAS) and the ASEAN Agreement on Movement of Natural Persons (MNP) are some of the key commitments. forming characteristics of regional-level economic linkages in the AEC.

Chapter 3:  
**IMPACTS OF ASEAN ECONOMIC COMMUNITY (AEC)  
ON ATTRACTING FOREIGN DIRECT INVESTMENT  
IN VIETNAM**

**3.1. FDI results in Vietnam in general**

**3.1.1. The indicators reflect the FDI quantity into Vietnam**

Survey of indicators reflecting the number shows some characteristics of FDI into Vietnam in the period of 2005-2017 as follows: (i) After a period of sharp decline in 2008-2009 due to the impact of the world economic downturn, the situation of FDI registered in Vietnam has been gradually restored; (ii) the ratio of implemented FDI to registration is about 50%; (iii) the proportion of FDI in the total social investment capital is more than 20%; (iv) the number of FDI projects tends to increase with the project size of about 6.9 million USD / project; (v) FDI in Vietnam has a high degree of concentration; (vi) FDI in Vietnam has a high level of industry concentration; and (vii) Investors from Asia account for up to 50% of total FDI in Vietnam.

**3.1.2. The indicators reflect the FDI quality into Vietnam**

Survey of indicators reflecting the quality shows that some characteristics of FDI into Vietnam in the period of 2005-2017 are as follows: (i) the FDI sector has contributed to GDP growth in Vietnam; (ii) contribute to job creation; (iii) the level of contribution to increasing national labor productivity is limited; (iv) a leading force in export activities; (v) The efficiency of technology transfer of the FDI sector remains relative low.

**3.2. INVESTMENT COMMITMENTS IN AEC AFFECTING**



## **FDI ATTRACTION INTO VIETNAM**

Currently, investment activities in ASEAN are governed by the ASEAN Comprehensive Investment Agreement (ACIA), effective March 29, 2012. ACIA is the successor and adjustment from the 1987 ASEAN Investment Promotion and Protection Agreement (AIGA) and the ASEAN Investment Area Framework Agreement (AIA) in 1998 to suit new conditions and integration needs. within ASEAN 2020 vision. ACIA includes 49 articles, 2 appendices and 1 reservation list.

Regarding investment-related obligations, ACIC adjusts the measures of Member States applicable to investors and current or future investments (from the time of ACIA's entry into force) of investors of member countries.

Regarding investment liberalization, ACIA only has commitments on investment liberalization in the fields of manufacturing, agriculture, fisheries, forestry, mining, ancillary services for the above industries and real estate. Any other areas if the members agree.

### *a. Rules in ACIA*

- Promote investment liberalization, protection, promotion and facilitation
- Bring benefits for both ASEAN investors and foreign investors investing in ASEAN.
- Continue to maintain the most favored nation treatment and preferential treatment among members.
- No retroactivity of commitments achieved in AIA and AIGA
- Providing special treatment to new member countries (CLMV group)

- Give flexibility to member countries on sensitive issues.
  - There is reciprocal treatment between member countries
  - Allow the Agreement to expand the scope of the subject to other sectors in the future.
- b. *Investment obligations in ACIA:*
- Non-discrimination obligations: National treatment (NT); Most favored nation treatment (MFN)
  - Performance requirements
  - Requirements for senior management and board of directors.
- c. *Investment guarantees in ACIA*
- ACIA includes a number of regulations to ensure the interests of foreign investors and their investments when investing in an ASEAN country.
  - ACIA introduces a State-foreign investor dispute settlement mechanism, which allows investors who have disputes with the host country to sue the country for an independent arbitration mechanism.

In general, the ACIA Agreement inherits the provisions of the IGA and AIA but has introduced many new points to improve the investment environment.

### **3.3. IMPACTS OF AEC ON ATTRACTING FDI INTO VIETNAM**

#### **3.3.1. Impact's mechanism**

Commitments in AEC will affect the "hexagon PESTLI" in the direction of expanding the hexagon, increasing favorable conditions to attract more capital flows from within the AEC and outside the AEC block to Vietnam.

### *3.3.1.1. Political factors (P)*

Data on the political stability index (SPI) and FDI capital implemented in Vietnam in the 2006-2017 period shows the existence of a correlation between FDI and SPI, implying that, in Vietnam in the period 2005-2017, the factor of political institutional stability influences FDI investors' decisions.

The correlation between the political stability index and FDI made in Vietnam in the 1996-2006 period was calculated at -0.66, reflecting the non-positive relationship of the two data above. This can be explained by two reasons: First, political stability is not the only factor in investors' decision on FDI investment. Second, FDI investment decisions are influenced by the SPI, but have the effect of time lag (about 5 years).

### *3.3.1.2. Economic factors (E)*

Firstly, AEC supports market growth

The least square regression analysis results show that, before the AEC, the GDP variable was positively correlated with registered FDI and explained 15.8% of the fluctuation of FDI into Vietnam. Meanwhile, after the AEC, the GDP variable is positively correlated with registered FDI and only explains 0.7% of the fluctuation of registered FDI into Vietnam. NCS said that one of the reasons why GDP does not explain much for registered FDI is because when creating a common market, the market growth factor of an economy will no longer be the factor. decided to attract FDI.

Secondly, AEC supports the expansion of trade in goods and services - motivations for FDI investors to find

markets, not only Vietnamese market, but also AEC market and partner markets of AEC.

In the period before AEC (2005-2015), Vietnam witnessed a continuous increase in export value. Export value has an impact on the FDI situation in Vietnam, reflecting the investment objectives of FDI investors in Vietnam, mainly directed toward the production of exports. The least square regression results with 99% confidence indicate a positive correlation between export value and FDI made in Vietnam in the period before AEC (2005-2015), accordingly, the export value variable explain 65.39% of the change in implemented FDI. In addition, trade openness (ratio of import-export value to GDP) is also positively correlated with implemented FDI and explains 71.28% of the fluctuation of implemented FDI. Export value and registered FDI in Vietnam during the research period are not statistically significant.

#### *3.3.1.3. Social factors (S)*

The relationship between implemented FDI and the labor force is quite clear. With 99% confidence, the least squares univariate regression results in an adjusted R square of about 80%. Thus, it can be noticed that the labor force has a positive correlation with implemented FDI and is one of the important variables that explain about 80% of the fluctuation of FDI made in Vietnam in the previous period (2005-2015).

#### *3.3.1.4. Technology factors (T)*

Due to the limited number of observations, the PhD student could not confirm the relationship between the amount of FDI implemented in Vietnam and the spending on research and development. The remaining indicators include the innovation index and the export value of high-tech products,

although positively correlated with implemented FDI, but the level of explanation is low, about 33% and 40% respectively. This result is consistent with many conclusions about the goal of FDI in Vietnam to take advantage of policies, markets and labor rather than seek technological advantages in Vietnam.

The Global Innovation Index (GII) is a Worldbank annual index that reflects part of a country's long-term technological level. In 2017, Vietnam reached 38.3 points in this Index and ranked 3rd in the group of 8 members rated AEC.

#### *3.3.1.5. Legal factors (L)*

Firstly, it has put pressure on member states, including Vietnam, to implement reforms in the direction of investment liberalization to meet ACIA's provisions.

Secondly, ensuring the process of investment liberalization through commitments to protect the interests of investors is reflected in the FDI policy framework of member countries.

Thirdly, in the spirit of ACIA's freedom and facilitation of investment, member states are proactive in designing preferential policies and investment procedures.

Fourthly, the signing of AEC as an official and active member in ASEAN, Vietnam is considered as one of the proactive countries in the process of AEC integration in general and investment liberalization in particular. .

Fifthly, in addition to implementing commitments to liberalize investment, Vietnam has also implemented a series of other commitments, demonstrating the harmonization of policies between Vietnam and AEC in many respects.

#### *3.3.1.6. Integration factors (I)*

Firstly, in AEC Vietnam is one of the countries with the least developed economy, Vietnamese enterprises face 5 challenges: competition on goods, competition on services, competition on attraction. In the meantime, we have to face trade remedies and requirements with increasing quality of goods as well as business methods. The four countries of Cambodia, Laos, Myanmar and Vietnam still lack institutional capacity to keep pace with the economic linkages of former ASEAN-6 members.

Secondly, Vietnamese workers have the lowest productivity and labor discipline in the region. Lack of highly qualified and skilled labor, Vietnam's position in labor productivity ranks 6th in the region (period 2009 - 2012). In addition, at present, Laos, Cambodia, Myanmar and Vietnam are the four countries without a national standard occupational framework.

Thirdly, the preparation of Vietnam when entering the AEC has been happening but still slowly, many individuals and businesses have not been aware of integration pressures, many policies are still slow to be amended and issued. The interest, understanding and setting out appropriate steps of many enterprises on AEC are still ambiguous.

### **3.4. ASSESSMENT ABOUT IMPACTS OF AEC ON FDI ATTRACTION INTO VIETNAM**

#### **3.4.1. Qualitative evaluation**

PESTLI analysis is performed on a 5-point scale for each element in the PESTLI hexagon. In the case of Vietnam, although it has just officially operated since December 31, 2015, the AEC has created specific impacts on FDI attraction activities, reflected in the change of factors in the framework. PESTLI analysis after

AEC compared with before AEC.

By the end of 2018, in general, AEC has not made many changes in the attractive factors in Vietnam. The shape of PESTLI frame in Vietnam before and after the AEC almost has not changed much. The results of this study reaffirmed that the advantage of political stability (Factor P) remains an important advantage of Vietnam in the context of implementing commitments in the ASEAN Economic Community (AEC).

Although there have not been many breakthroughs in improving competitive advantage, in the context of implementing AEC's commitments, except for P, no other factors of PESTLI have been reduced. Economic factors, social factors, technical-technological factors, legal institutions and integration factors, although changing slowly, are all improving after the AEC. In which:

- Economic factor (E) is the least advantageous factor of Vietnam but it is the strongest improvement index.

- Getting a lot of improvements after AEC (after the Economic factor (E)) is the institutional - legal factors (L) and social factors (S). For L, Vietnam's score increased by 4.83% from 2.07 points to 2.17 points. For S, Vietnam's score increased by 4.48% from 0.647 points to 0.676 points.

- Technology - Technical is the second least advantageous factor (after E) in the PESTLI analysis framework. Before and after the AEC, T is also the least improving factor. Although PESTLI score of T in Vietnam has increased from 1,785 to 1,820 points, the increase is only 1,96%.

### **3.4.2. Quantitative evaluation**

To determine the influence of the ASEAN Economic Community on the amount of FDI inflows to Vietnam in recent years, the PhD student used a multivariate linear regression model to calculate the correlation of the factors in the PESTLI model to direction and impact of FDI inflows into Vietnam. The application model has the form:

$$FDI_i = f_i(P, E, S, T, L, I) \quad (1)$$

In particular,  $FDI_i$  is an independent variable, reflecting the amount of FDI implemented into Vietnam over the years of research. The variable  $FDI_i$  is explained by the linear regression function of 16 variables.

FDI data is gathered based on the General Statistics Office's annual socio-economic situation; The data of 11 explanatory variables is collected according to the WB data, updated to 2018, Particularly the GII data in 2010 is the average author's data for 2009-2010.

The linear regression analysis with 1% significance level for models (1), (2), (3), (4), (5), (6) and (7) brings the conclusions. main as follows:

- FDI is best explained by three groups of factors: S, T and P; In particular, the best explanation for FDI into Vietnam in the research period is the factors related to the labor force advantages and the upgrading of technical infrastructure and transportation capacity at. Political stability is still considered as an advantage in Vietnam's FDI attraction in the research period.
- About 89.55% of the change in registered FDI in Vietnam is explained by the model of changes in registered FDI from 4 main partners from AEC to Vietnam. In addition, the trend of increasing investment capital is evident in 3



partners: Singapore, Thailand and Malaysia; Past results indicate a trend of capital reduction in Brunei in Vietnam.

- AEC countries are interested in three areas of Vietnam, including mining, retail and real estate. The regression results of these three areas indicate a positive correlation and a good level of interpretation of the four AEC countries to the change in FDI by sector, respectively 95%, 80.6%, 78%.
- Regarding FDI by economic zoning, the regression results (6) show the statistically significant positive relationships of the four main AEC partners in Vietnam to the change in registered FDI in two economic regions. The North and South Central Coast and the Mekong Delta Economic Region, with explanations of 91.7% and 83.7%, respectively.

## Chapter 4

# **SOLUTIONS TO ENHANCE ATTRACTING FDI INTO VIETNAM IN THE CONTEXT OF AEC'S COMMITMENTS**

### **4.1. SIGNIFICANT TRENDS AFFECTING ON GLOBAL'S FDI AND ASEAN'S AND THE FDI DEMAND IN VIETNAM IN THE CONTEXT OF IMPLEMENTING THE COMMITMENTS OF AEC**

#### **4.1.1. Major trends affecting the movement of international and regional FDI in the context of implementing commitments in the AEC**

- The trend of trade liberalization - investment through free trade agreements.
- The trend of liberalizing resources and the production process will create an increasingly favorable international investment environment and promote the movement of FDI inflows.
- Asia will still be an attractive destination for FDI inflows.
- Trends in changing investment domains and modes of investment.
- Global economy in general and economy of each country affected by the industrial revolution 4.0.

#### **4.1.2. Main trends in attracting FDI of ASEAN**

- ASEAN is still an important destination for world FDI.
- Continue to set up chains and clusters.
- FDI trends are concentrated by industry.
- The trend of increasing complexity and sophistication

in modern production.

#### **4.1.3. Vietnam's FDI demand for socio-economic development goals for the period to 2020, with a vision to 2030**

In particular, FDI is considered as an important part, contributing to macroeconomic stability, curbing inflation, renewing growth model, restructuring the economy and improving competitiveness.

In order to ensure that investment capital will grow at a high and sustainable rate and improve the efficiency of international economic integration and to reach the target of GDP per capita of 3,200-3,500 USD by 2020, FDI must be mobilized. Dynamic and more efficient use.

On average, each year, it will have to mobilize about US \$ 23-25 billion per year of foreign capital, of which US \$ 17-18 billion per year of FDI. It is expected that the rate of FDI in social investment capital will be 27-28% in 2020.

Average realized FDI capital in the period of 2013-2020 is expected to be 18 billion USD.

The demand for FDI in the future will increase, and at the same time, this area will be expected to increase its contribution to the Vietnamese economy.

The threshold effect on FDI growth - reflects the maximum percentage of FDI on GDP so that FDI can bring positive effects on economic growth, indicating that the highest FDI threshold value can be maintained. is 8.96% of GDP.

Currently, FDI scale in 2015 is at 6.1% of GDP (Nguyen Thi Quynh Tho, 2017), and in 2016 it is at 7%. Thus, with the current absorption capacity of the economy, Vietnam only has approximately 2% of room to attract more FDI to

ensure the impact of FDI on economic growth is still within the optimal limit. This implies that Vietnam needs to have careful and selective attraction policies to effectively attract the remaining 2% of the land (about 19 billion USD)

## **4.2. VIEWPOINTS AND OBJECTIVES TO ATTRACT FDI IN THE CONTEXT OF IMPLEMENTING AEC'S COMMITMENTS.**

### **4.2.1. Viewpoints on FDI attraction in the context of implementing commitments of the ASEAN Economic Community**

Policies to attract FDI must be in line with socio-economic development programs in each specific period.

The policy of attracting FDI in the context of implementing the commitments in the AEC is both to play a supporting role in attracting more capital and improving the absorption of capital of the economy on the basis of making the best use of advantages. existing competition, at the same time, orienting to build new competitive advantages for Vietnam.

FDI attraction policy aims to selectively attract capital but does not violate commitments in AEC and other agreements and agreements to which Vietnam is a party.

Policies to attract FDI should encourage the attraction of quality capital inside and outside the AEC region, ensuring sustainable economic growth.

### **4.2.2. Objectives of attracting FDI in the context of the ASEAN Economic Community**

- Continue to improve the legal framework on FDI and improve the effectiveness of policy implementation to support intra-regional FDI, and at the same time, facilitate the flow of FDI

outside the AEC.

- Create a business environment 4.0 commensurate with the demand to attract FDI for a modern production industry, in order to attract FDI of ASEAN 6.

- Enhancing the added value from FDI projects from AEC to Vietnam; Improve the production connection between AEC's FDI and domestic enterprises.

To achieve the aforementioned targets, first of all, Vietnam needs a list of short-term and medium-term priority industries to promote investment and actively attract high-value-added FDI projects; It is necessary to increase the value added and local competitiveness in the branches; Create a favorable environment for businesses to apply 4.0 in production - business; There is a strong need to focus on manufacturing technology and high quality tourism services to create short-term competitive advantages; Policies must aim to open markets and develop skills.

### **4.3. SOLUTIONS TO ATTRACT FDI IN THE CONTEXT OF AEC**

#### **4.3.1. Solutions for political stability and policy institutions**

- Solutions to political stability: In order to increase investors' confidence in a sustainable ASEAN Economic Community and a safe Vietnam for investment, Vietnam needs to seriously implement its commitments. integration in ASEAN integration, especially commitments in ASEAN Economic Community.

- Policy-related solutions related to FDI to make a strategic change in policies to maintain competitiveness in ASEAN, ensure the sustainability of FDI inflows and receive FDI Higher added value to achieve development goals.

#### **4.3.2. Group of economic solutions to create a stable and**

### **effective investment environment.**

- Firstly, to implement the planning of prioritizing FDI attraction by industry, in association with the development planning of each industry, each locality, existing economic zones, industrial parks, special economic zones ... and appropriate. with the content of the Planning Law when this Law is passed by the National Assembly soon.

- Secondly, implement the commitments in the AEC to realize the free flow of goods and services in the Community.

- Thirdly, to promote linking domestic enterprises with foreign enterprises, deeply participating in ASEAN production chains.

- Fourthly, to develop industrial linkages oriented to participate in global and ASEAN value chains.

### **4.3.3. Solutions for social factors**

- Human resource advantage is a key advantage of Vietnam's social factors in the context of international economic integration in general and ASEAN integration in particular. Solutions include:

- Innovating educational programs. Rapidly deploying the use of English as a second language, becoming the language of learning and teaching at the official and tertiary levels.

- Along with professional training, it is necessary to strengthen education activities on skills (labor skills, communication skills, problem solving skills, life skills ...),

- Strengthen population forecasting and human resource demand forecasting in all sectors and fields.

- It is necessary to focus on training the contingent of

creative workers (design, composition, quality management, etc.) so that Vietnamese workers can participate deeply in the value chain of FDI enterprises.

- For FDI enterprises, there should be regulations that require FDI enterprises to commit to implement joint training programs for workers.

- Strengthen supervision and supervision of FDI enterprises to ensure fairness for workers working in the FDI sector.

#### **4.3.4. solutions for science, technology and infrastructure**

- Firstly, developing business incubator model, creating ecosystem for production 4.0

- Second, upgrading infrastructure to enhance FDI attraction

- Third, improving labor productivity through innovation, research, development and technology transfer

#### **4.3.5. Solutions for integration**

- Firstly, strengthening research and forecasting issues on international economic integration

- Secondly, organizing the effective implementation of commitments on international economic integration

- Third, setting up international cooperation to expand markets for Vietnamese goods and services.

## CONCLUSION

International economic integration in general and the unification of the ASEAN economic region in particular are taking place quickly and have impacts on many aspects of the economy, including FDI attraction activities. Therefore, clarifying the mechanism of impact of international economic links in general and regional level economic links in particular (AEC) is an urgent requirement for the current case of Vietnam.

In addition to clarifying the basic theoretical issues about FDI, FDI attraction and the impact of international economic links on FDI attraction, the dissertation also examined the basic contents of commitments in AEC. In particular, a commitment to liberalize investment in the region (ACIA). Based on the application of the macro-environment analysis model (PESTLI), the author has in turn evaluated the impacts of AEC on each factor that may affect the capital movement into a member state and apply use case for Vietnam. These analyzes have pointed out some key aspects of the mechanism of AEC's effect on FDI attraction into Vietnam. In addition, quantitative analyzes were conducted to more accurately assess the impact of AEC on FDI attraction into Vietnam in the period before and after the AEC.

Due to limited time and research capacity, the thesis content still has many shortcomings. In the spirit of marketing, PhD students wish to receive constructive comments and feedback from interested researchers and scholars so that the thesis and thesis summary will continue to be corrected, completed and opening new and effective research directions in the future./.



## PhD CANDIDATE's PUBLICATIONS

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### **Scientific journal:**

1. Cao Phuong Thao (2018), “*Solutions to attract FDI into Vietnam in the context of ASEAN Economic Community (AEC)*”, Journal of Finance and Accounting research, No. 07 (180) 2018, page 54 - 60, ISSN 1859-4093.
2. Cao Phuong Thao (2018), “*ASEAN comprehensive investment agreement (ACIA) and FDI policy in Vietnam*”, Journal of Finance and Accounting research, No. 05 (178) 2018, page 62 - 65, ISSN 1859-4093.
3. Cao Phuong Thao (2017), “*Foreign direct investment into Vietnam in the context of Trans-Pacific Partnership*”, Journal of Finance and Accounting research, No. 02 (163) 2017, page 64 - 66, ISSN 1859-4093.
4. Cao Phuong Thao (2015), “*Spill-over effect of FDI in Vietnam*”, Journal of Finance and Accounting research, No. 07 (144) 2015, page 48 - 551, ISSN 1859-4093.

### **International Conference Proceeding:**

1. Cao Phuong Thao (2018), “*PESTLE – A framework for FDI environment analysis in developing country and the case of Vietnam in ASEAN Economic Community context*”, International Conference Proceeding\_APMRC: “*The 2nd Asia Pacific Management Research Conference: Innovation and Strategic Alliance for Sustainable Development*”, Bachkhoa Publishing House, trang 85-94, ISBN: 978-604-95-0644-4, Hanoi, November 2018.
2. Cao Phuong Thao, Hoang Thi Phuong Lan (2018), “*FDI Threshold – an indicator in FDI attracting toward sustainable development*”, International Conference Proceeding\_SEDBM: “*Sustainable economic development and business management in the context of globalization*”, page 569-574, ISBN: 978-090-08-2207-0. International Conference Proceeding\_2018.
3. Hoang Thi Phuong Lan, Cao Phuong Thao(2017), “*Spillover effect of FDI on domestic firms: The case of Vietnam*”, International Conference Proceeding\_ICECH: “*The 6<sup>th</sup> international conference on emerging challenges: Strategic integration ICECH 2017*”, page 24-32, ISBN: 978-604-95-0358-0, Hanoi, November 2017.